

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 1996

OR

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

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

Commission File No. 1-2189

ABBOTT LABORATORIES

An Illinois Corporation

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

100 Abbott Park Road  
Abbott Park, Illinois 60064-3500

Telephone: (847) 937-6100

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

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As of July 31, 1996, the Corporation had 780,545,080 common shares without par value outstanding.

PART 1 FINANCIAL INFORMATION

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ABBOTT LABORATORIES AND SUBSIDIARIES  
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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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(UNAUDITED)  
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ABBOTT LABORATORIES AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
(UNAUDITED)  
(Dollars in thousands except per share data)

	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1996	1995	1996	1995
Net sales.....	\$2,699,240	\$2,500,310	\$5,371,417	\$5,024,707
Cost of products sold.....	1,143,947	1,086,023	2,300,164	2,174,934
Research and development.....	304,846	287,360	573,462	534,535
Selling, general and administrative...	598,866	532,277	1,171,212	1,131,109
Total Operating Cost and Expenses...	2,047,659	1,905,660	4,044,838	3,840,578
Operating Earnings.....	651,581	594,650	1,326,579	1,184,129
Interest expense.....	22,228	17,852	39,835	31,804
Interest income.....	(10,186)	(13,202)	(20,676)	(24,212)
Other (income) expense, net.....	(27,728)	(11,461)	(40,852)	(16,774)
Earnings Before Taxes.....	667,267	601,461	1,348,272	1,193,311
Taxes on Earnings.....	196,844	177,431	397,740	352,027
Net Earnings.....	\$ 470,423	\$ 424,030	\$ 950,532	\$ 841,284
Net Earnings Per Common Share.....	\$.60	\$.53	\$1.21	\$1.05
Cash Dividends Declared Per Common Share.....	\$.24	\$.21	\$.48	\$.42

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

ABBOTT LABORATORIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Dollars in Thousands)

	JUNE 30	DECEMBER 31
	1996	1995
	(UNAUDITED)	
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 111,482	\$ 281,197
Investment securities.....	66,189	34,500
Trade Receivables, less allowances of \$147,550 in 1996 and \$157,990 in 1995.....	1,643,909	1,563,038
Inventories:		
Finished products.....	617,820	560,637
Work in process.....	269,727	238,943
Materials.....	307,695	311,361
Total inventories.....	1,195,242	1,110,941
Prepaid income taxes.....	647,876	651,436
Other prepaid expenses and receivables.....	661,707	585,599
Total Current Assets.....	4,326,405	4,226,711
Investment Securities Maturing after One Year.....	468,219	422,547
Property and Equipment, at Cost.....	8,044,533	7,762,442
Less: accumulated depreciation and amortization.....	3,709,198	3,512,904
Net Property and Equipment.....	4,335,335	4,249,538
Deferred Charges, Goodwill and Other Assets.....	1,423,915	513,784
	\$10,553,874	\$ 9,412,580
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt.....	\$ 1,670,537	\$ 1,049,863
Trade accounts payable.....	806,290	755,921
Salaries, income taxes, dividends payable, and other accruals.....	2,049,997	1,984,530
Total Current Liabilities.....	4,526,824	3,790,314
Long-Term Debt.....	433,437	435,198
Other Liabilities and Deferrals:		
Deferred Income Taxes.....	176,557	67,993
Other .....	776,560	722,228
Total Other Liabilities and Deferrals .....	953,117	790,221
Shareholders' Investment:		
Preferred shares, \$1 par value		
Authorized - 1,000,000 shares, none issued	-	-
Common shares, without par value		

Authorized - 1,200,000,000 shares		
Issued at stated capital amount -		
1996: 791,001,929 shares; 1995: 797,021,211 shares.....	628,216	581,562
Earnings employed in the business.....	4,158,481	3,926,917
Cumulative Translation Adjustments.....	(89,379)	(55,646)
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	4,697,318	4,452,833
Less:		
Common shares held in treasury, at cost -		
1996: 9,661,672 shares; 1995: 9,714,379 shares.....	50,990	51,268
Unearned compensation - restricted stock awards.....	5,832	4,718
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Total Shareholders' Investment.....	4,640,496	4,396,847
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	\$10,553,874	\$ 9,412,580
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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)

	SIX MONTHS ENDED JUNE 30	
	1996	1995
Cash Flow From (Used in) Operating Activities:		
Net earnings.....	\$ 950,532	\$ 841,284
Adjustments to reconcile net earnings to Net cash from operating activities -		
Depreciation and amortization.....	319,262	260,286
Trade receivables.....	(88,477)	3,604
Inventories.....	(83,521)	(8,656)
Other, net.....	81,214	(61,303)
	1,179,010	1,035,215
Cash Flow From (Used in) Investing Activities:		
Acquisitions of property and equipment.....	(460,908)	(485,627)
Acquisition of MediSense, net of cash acquired.....	(806,738)	-
Investment securities transactions.....	(50,757)	(104,105)
Other.....	13,787	11,092
	(1,304,616)	(578,640)
Cash Flow From (Used in) Financing Activities:		
Borrowing transactions.....	620,517	184,038
Common share transactions.....	(305,876)	(355,741)
Dividends paid.....	(353,899)	(320,432)
	(39,258)	(492,135)
Effect of exchange rate changes on cash and cash equivalents.....	(4,851)	(317)
Net (Decrease) in Cash and Cash Equivalents.....	(169,715)	(35,877)
Cash and Cash Equivalents, Beginning of Year.....	281,197	290,272
Cash and Cash Equivalents, End of Period.....	\$ 111,482	\$ 254,395

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

ABBOTT LABORATORIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1996

(UNAUDITED)

NOTE 1 - BASIS OF PREPARATION:

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 financial position, cash flows, and results of operations have been made. It is suggested that these statements be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

NOTE 2 - EARNINGS PER COMMON SHARE:

Earnings per common share amounts are computed by using the weighted average number of common shares outstanding. These shares averaged 784,547,000 for the six months ended June 30, 1996 and 799,246,000 for the same period in 1995.

NOTE 3 - TAXES ON EARNINGS:

Taxes on earnings reflect the estimated annual effective tax rates. The effective tax rates are less than the statutory U.S. Federal Income tax rate principally due to tax incentive grants related to subsidiaries operating in Puerto Rico, the Dominican Republic, Italy, Ireland, and the Netherlands.

NOTE 4 - LITIGATION AND ENVIRONMENTAL MATTERS:

The Company is involved in various claims and legal proceedings including numerous antitrust suits and investigations in connection with the sale and marketing of infant formula products and the pricing of prescription pharmaceuticals.

In addition, the Company 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 remediation laws and is voluntarily investigating potential contamination at a number of Company-owned locations.

The matters above are discussed more fully in Item 1, Business - Environmental Matters, and Item 3, Legal Proceedings, in the Annual Report on Form 10-K, which is available upon request, and in Part II, Item 1, Legal Proceedings, in this Form.

The Company expects that within the next year, progress in the legal proceedings described above may cause a change in the estimated reserves recorded by the Company. While it is not feasible to predict the outcome of such pending claims, proceedings, investigations and remediation activities with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on the Company's financial position, cash flows, or results of operations.

NOTE 5 - ACQUISITION OF MEDISENSE:

In May 1996, the Company acquired, for cash, substantially all of the outstanding shares of MediSense, Inc. (MediSense), a manufacturer of blood glucose self-testing products. The Company is finalizing the appraisal to determine the purchase price allocation. However, a substantial portion of the purchase price is expected to be allocated to intangible assets, including goodwill, which will be amortized on a straight-line basis over up to 40 years. In addition, \$35.2 million was charged against earnings for in-process research and development. Had this acquisition occurred on January 1, 1995, consolidated sales and net income would not have been significantly different from reported amounts.



## FINANCIAL REVIEW

### RESULTS OF OPERATIONS - SECOND QUARTER AND FIRST SIX MONTHS 1996 COMPARED WITH SAME PERIODS IN 1995

Worldwide sales for the second quarter and first six months increased 8.0 percent and 6.9 percent, respectively, over the comparable 1995 periods. Net earnings increased 10.9 percent and 13.0 percent, respectively, in the second quarter and first six months 1996. Earnings per share increased 13.2 percent and 15.2 percent, respectively, over the prior year periods.

Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 57.6 percent for the 1996 second quarter, compared to 56.6 percent for the 1995 second quarter. First half gross margin was 57.2 percent, compared to 56.7 percent a year earlier. These increases are due primarily to favorable product mix, especially higher sales of pharmaceuticals, and productivity improvements; partially offset by higher project expenses for new products and the effects of inflation.

Research and development expenses were \$304.8 million and \$573.5 million for the second quarter and first six months 1996, respectively, including \$35.2 million of acquired research and development related to the purchase of MediSense. The second quarter and six month 1995 results included a similar charge for the acquisition of certain technologies. Research and development represented 11.3 percent and 10.7 percent of net sales, compared to 11.5 percent and 10.6 percent in 1995. The majority of research and development expenditures continues to be concentrated on pharmaceutical and diagnostic products.

Selling, general and administrative expenses for the second quarter and first six months 1996 increased 12.5 percent and 3.5 percent, respectively, over the comparable prior year periods, net of the favorable effect of the relatively stronger U.S. dollar of 2.4 percent and 1.1 percent, respectively. The net increases reflect additional selling and marketing support for new and existing products, primarily for pharmaceutical and nutritional products, partially offset for the six months 1996 by lower litigation expenses and because no contributions were made to the Company's charitable foundation in 1996.

Other (income) expense, net, includes net foreign exchange losses of \$3.8 million and \$13.2 million, respectively, for the second quarter and first six months 1996 compared with net foreign exchange losses of \$7.1 million and \$15.5 million for the corresponding prior year periods.

FINANCIAL REVIEW  
(Continued)

INDUSTRY SEGMENTS

Industry segment sales for the second quarter and first six months 1996 and the related change from the comparable 1995 periods are shown in the table below. The Pharmaceutical and Nutritional Products segment includes a broad line of adult and pediatric pharmaceuticals and nutritionals, which are sold primarily on the prescription or recommendation of physicians or other health care professionals; consumer products; agricultural and chemical products; and bulk pharmaceuticals. The Hospital and Laboratory Products segment includes diagnostic systems for blood banks, hospitals, commercial laboratories and alternate-care testing sites, and consumers; intravenous and irrigation fluids and related administration equipment; drugs and drug delivery systems; anesthetics; critical care products; and other medical specialty products for hospitals and alternate-care sites.

Domestic and international sales for the second quarter and first six months 1996 primarily reflect unit growth. International sales were unfavorably affected 5.3 percent by the relatively stronger dollar in the second quarter. On a year-to-date basis, international sales were unfavorably affected 2.8 percent by the relatively stronger U.S. dollar.

SEGMENT SALES (In millions of dollars)	Second Quarter		Six Months	
	1996 Sales	Percent Increase	1996 Sales	Percent Increase
Pharmaceutical and Nutritional Products:				
Domestic	\$ 995.3	11.2	\$2,035.8	8.6
International	535.7	7.6	1,094.9	10.2
	1,531.0	9.9	3,130.7	9.1
Hospital and Laboratory Products:				
Domestic	620.1	5.2	1,195.2	2.7
International	548.1	5.9	1,045.5	5.4
	1,168.2	5.5	2,240.7	3.9
Total All Segments:				
Domestic	1,615.4	8.8	3,231.0	6.3
International	1,083.8	6.7	2,140.4	7.8
	\$2,699.2	8.0	\$5,371.4	6.9

FINANCIAL REVIEW  
(Continued)

LIQUIDITY AND CAPITAL RESOURCES AT JUNE 30, 1996  
COMPARED WITH DECEMBER 31, 1995

Net cash from operating activities for the first six months 1996 totaled \$1.179 billion. The Company expects annual cash flow from operating activities to continue to approximate or exceed the company's capital expenditures and cash dividends. The Company funded the acquisition of MediSense through commercial paper borrowings.

The Company has maintained its favorable bond ratings (AAA by Standard & Poor's Corporation and Aa1 by Moody's Investors Service) and continues to have readily available financial resources, including unused domestic lines of credit of \$1.5 billion at June 30, 1996. These lines of credit back up domestic commercial paper borrowing arrangements.

During the first six months 1996, the Company continued its program to purchase its common shares. The Company purchased and retired 8,415,000 shares during this period at a cost of \$351 million. As of June 30, 1996, an additional 4,955,000 shares may be purchased in future periods under authorization granted by the Board of Directors in September 1995.

In June 1996, the Company filed a registration statement with the Securities and Exchange Commission. The Company may issue up to \$650 million of debt securities in the future under this registration statement.

LEGISLATIVE ISSUES

The Company's primary markets are highly competitive and subject to substantial government regulation. The Company expects debate to continue at both the federal and the state levels over the availability, method of delivery, and payment for health care products and services. The Company believes that if legislation is enacted, it could have the effect of reducing prices, or reducing the rate of price increases for medical products and services. International operations are also subject to a significant degree of government regulation. It is not possible to predict the extent to which the Company or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, in the Annual Report on Form 10-K, which is available upon request.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company's 10-Q for the fiscal quarter ended March 31, 1996 described 23 antitrust suits, one shareholder derivative suit, and 5 investigations that had been brought in connection with the Company's marketing and sale of infant formula products. It also reported that the Company had entered into an agreement to settle 20 of these 23 antitrust suits; that one of the 20 cases covered by the agreement had been finally settled; and that the settlement of each of the remaining 19 cases would only become final when it had been approved by the court in the state where it was pending. On June 7, 1996 the court in Wisconsin gave its final approval to the settlement of the two cases that were pending in that state. The settlements of the 17 remaining cases have not yet been finalized. On June 11, 1996 the Illinois Court of Appeals (First District) dismissed plaintiff's appeal of the previous dismissal of the one shareholder derivative suit that had been pending before it. As of June 30, 1996, a total of 20 antitrust suits and 5 investigations are pending in connection with the Company's marketing and sale of infant formula products.

The Company's 10-Q for the fiscal quarter ending March 31, 1996 reported that the Company had entered into a settlement agreement for the class action portion of litigation that is pending in federal court in Chicago, Illinois and is known as IN RE: BRAND NAME PRESCRIPTION DRUG ANTITRUST LITIGATION, MDL 997; that the settlement agreement had to be approved by the federal court before it became final and effective; that on April 4, 1996, the federal court disapproved the settlement agreement; and that the Company had filed a request for permission to seek an interlocutory appeal of the denial of the settlement agreement to the Federal Court of Appeals for the Seventh Circuit. On May 16, 1996 the court denied this request. As of June 30, 1996, 139 cases and one Federal Trade Commission investigation are pending in connection with the Company's pricing of brand name prescription pharmaceuticals.

The Company's 10-Q for the fiscal quarter ending March 31, 1996 reported that on March 15, 1996, the North Carolina Department of Environment, Health, and Natural Resources ("DEHNR") issued a Notice of Initiation of Enforcement Action to the Company alleging that during the period between 1987 and 1993 the Company violated certain air quality regulations in North Carolina. On July 1, 1996 the Company received a civil penalty assessment from the DEHNR for \$968,763.58 in connection with this enforcement action. The Company is contesting the assessment.

While it is not feasible to predict the outcome of such pending claims, proceedings, and investigations with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on the Company's financial position, cash flows, or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Abbott Laboratories 1996 Incentive Stock Program\* - attached hereto.
- 10.2 Amended Abbott Laboratories Supplemental Pension Plan\* - attached hereto.
- 11. Statement re: computation of per share earnings - attached hereto.
- 12. Statement re: computation of ratio of earnings to fixed charges - attached hereto.
- 27. Financial Data Schedule - attached hereto.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended June 30, 1996.

\* denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit hereto.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABBOTT LABORATORIES

Dated: August 13, 1996

/s/ Theodore A. Olson

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Theodore A. Olson, Vice President  
and Controller (Principal  
Accounting Officer)

1. PURPOSE. The purpose of the Abbott Laboratories 1996 Incentive Stock Program (the "Program") is to attract and retain outstanding directors, officers and other employees of Abbott Laboratories (the "Company") and its subsidiaries, and to furnish incentives to such persons by providing opportunities to acquire common shares of the Company, or monetary payments based on the value of such shares or the financial performance of the Company, or both, on advantageous terms as herein provided and to further align such persons' interests with those of the Company's other shareholders through compensation that is based on the value of the Company's common shares.

2. ADMINISTRATION. The Program will be administered by a committee (the "Committee") of at least two persons which shall be either the Compensation Committee of the Board of Directors of the Company or such other committee comprised entirely of persons who are both: (i) "disinterested persons" as defined in Rule 16b-3 of the Securities and Exchange Commission; and (ii) "outside directors" as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended; or any successor provision, as the Board of Directors may from time to time designate. The Committee shall interpret the Program, prescribe, amend and rescind rules and regulations relating thereto and make all other determinations necessary or advisable for the administration of the Program. A majority of the members of the Committee shall constitute a quorum and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Program may be made without notice of meeting of the Committee by a writing signed by all of the Committee members. The Committee may, from time to time, delegate any or all of its duties, powers and authority to any officer or officers of the Company, except to the extent such delegation would be inconsistent with Rule 16b-3 of the Securities and Exchange Commission or other applicable law, rule or regulation. The Chief Executive Officer of the Company may, on behalf of the Committee, grant stock options and restricted stock awards under the Program, other than to persons subject to Section 16 of the Securities Exchange Act of 1934. All such grants by the Chief Executive Officer must be reported to, and ratified by, the Committee within twelve months of the grant date but, if ratified, shall be effective as of the grant date.

3. PARTICIPANTS. Participants in the Program will consist of such officers and other employees of the Company and its subsidiaries as the Committee in its sole discretion may designate from time to time to receive Benefits hereunder. The Committee's designation of a participant in any year shall not require the Committee to designate such person to receive a Benefit in any other year. The Committee shall consider such factors as it deems pertinent in selecting participants and in determining the type and amount of their respective Benefits, including without limitation (i) the financial condition of the Company; (ii) anticipated profits for the current or future years; (iii) contributions of participants to the profitability and development of the Company; (iv) prior awards to participants; and (v) other compensation provided to participants. Non-Employee Directors shall also be participants in the Program solely for purposes of receiving Restricted Stock Awards under paragraph 13 and Non-qualified Stock Options under paragraph 14. The term "Non-Employee Director" shall mean a member of the Board of Directors who is not a full-time employee of the Company or any of its subsidiaries.

4. TYPES OF BENEFITS. Benefits under the Program may be granted in any one or a combination of (a) Incentive Stock Options; (b) Non-qualified Stock Options; (c) Stock Appreciation Rights; (d) Limited Stock Appreciation Rights; (e) Restricted Stock Awards; (f) Performance Awards; and (g) Foreign Qualified Benefits, all as described below.

5. SHARES RESERVED UNDER THE PROGRAM. There is hereby reserved for issuance under the Program: (i) an aggregate of Five Million (5,000,000) common shares; plus (ii) an authorization for each calendar year (the "Annual Authorization") from and including 1996, of seven-tenths of one percent (0.7%) of the total common shares of the Company issued and outstanding as of the first day of such calendar year; which may be newly issued or treasury shares. The shares hereby reserved are in addition to the shares previously reserved under the Company's 1981 Incentive Stock Program, 1986 Incentive Stock Program and 1991 Incentive Stock Program (the "Prior Programs"). Any common shares reserved for issuance under the Prior Programs in excess of the number of shares as to which options or other Benefits have been awarded on the date of shareholder approval of this Program, plus any such shares as to which options or other Benefits granted under the Prior Programs may lapse, expire, terminate or be canceled after such date, shall also be reserved and available for issuance in connection with Benefits under this Program. Any common shares reserved under the Program for any calendar year under an Annual Authorization as to which options or other Benefits have not been awarded as of the end of such calendar year shall be available for issuance in connection with Benefits granted in subsequent years.

If there is a lapse, expiration, termination or cancellation of any Benefit

granted hereunder without the issuance of shares or payment of cash thereunder, or if shares are issued under any Benefit and thereafter are reacquired by the Company pursuant to rights reserved upon the issuance thereof, or shares are reacquired pursuant to the payment of the purchase price of shares under stock options by delivery of other common shares of the Company, the shares subject to or reserved for such Benefit, or so reacquired, may again be used for new options, rights or awards of any sort authorized under this Program; provided, however, that in no event may the number of common shares issued under this Program, and not

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reacquired by the Company pursuant to rights reserved upon the issuance thereof or pursuant to the payment of the purchase price of shares under stock options by delivery of other common shares of the Company, exceed the total number of shares reserved for issuance hereunder.

6. INCENTIVE STOCK OPTIONS. Incentive Stock Options will consist of options to purchase common shares at purchase prices not less than One Hundred percent (100%) of the Fair Market Value of such common shares on the date of grant. An Incentive Stock Option will not be exercisable after the expiration of ten (10) years from the date such option is granted. In the event of termination of employment for any reason other than retirement, disability or death, the right of the optionee to exercise an Incentive Stock Option shall terminate upon the earlier of the end of the original term of the option or three (3) months after the optionee's last day of work for the Company and its subsidiaries. In the event of termination of employment due to retirement or disability, or if the optionee should die while employed, the right of the optionee or his or her successor in interest to exercise an Incentive Stock Option shall terminate upon the end of the original term of the option. If the optionee should die within three (3) months after termination of employment for any reason other than retirement or disability, the right of his or her successor in interest to exercise an Incentive Stock Option shall terminate upon the earlier of the end of the original term of the option or three (3) months after the date of such death. To the extent the aggregate fair market value (determined as of the time the Option is granted) of the common shares with respect to which any Incentive Stock Option is exercisable for the first time by any individual during any calendar year (under all option plans of the Company and its subsidiary corporations) exceeds \$100,000, the excess shall be treated as a Non-qualified Stock Option. An Incentive Stock Option shall be exercisable as determined by the Committee, but in no event earlier than six (6) months from its grant date.

7. NON-QUALIFIED STOCK OPTIONS. Non-qualified Stock Options will consist of options to purchase common shares at purchase prices not less than One Hundred percent (100%) of the Fair Market Value of such common shares on the date of grant. A Non-qualified Stock Option will not be exercisable after the expiration of ten (10) years from the date such option is granted. In the event of termination of employment for any reason other than retirement, disability or death, the right of the optionee to exercise a Non-qualified Stock Option shall terminate upon the earlier of the end of the original term of the option or three (3) months after the optionee's last day of work for the Company and its subsidiaries. In the event of termination of employment due to retirement or disability, or if the optionee should die while employed, the right of the optionee or his or her successor in interest to exercise a Non-qualified Stock Option shall terminate upon the end of the original term of the option. If the optionee should die within three (3) months after termination of employment for any reason other than retirement or disability, the right of his or her successor in interest to exercise a Non-qualified Stock Option shall terminate upon the earlier of the end of the original term of the option or three (3) months after the date of such death. A Non-qualified Stock Option shall be exercisable as determined by the Committee, but in no event earlier than six (6) months from its grant date.

8. STOCK APPRECIATION RIGHTS. The Committee may, in its discretion, grant a Stock Appreciation Right to the holder of any stock option granted hereunder or under the Prior Programs. Such Stock Appreciation Rights shall be subject to such terms and conditions consistent with the Program as the Committee shall impose from time to time, including the following:

(a) A Stock Appreciation Right may be granted with respect to a stock option at the time of its grant or at any time thereafter up to six (6) months prior to its expiration.

(b) Stock Appreciation Rights will permit the holder to surrender any related stock option or portion thereof which is then exercisable and to elect to receive in exchange therefor cash in an amount equal to:

(i) The excess of the Fair Market Value on the date of such election of one common share over the option price multiplied by

(ii) The number of shares covered by such option or portion thereof which is so surrendered.

(c) A Stock Appreciation Right granted to a participant who is subject to Section 16 of the Securities Exchange Act of 1934, as amended, may be exercised only after six (6) months from its grant date (unless such exercise would not affect the exemption under Rule 16b-3 of the Securities and Exchange Commission).

(d) A Stock Appreciation Right may be granted to a participant regardless of whether such participant has been granted a Limited Stock Appreciation Right



with respect to the same stock option. However, a Stock Appreciation Right may not be exercised during any period that a Limited Stock Appreciation Right with respect to the same stock option may be exercised.

(e) In the event of the exercise of a Stock Appreciation Right, the number of shares reserved for issuance hereunder shall be reduced by the number of shares covered by the stock option or portion thereof surrendered.

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9. LIMITED STOCK APPRECIATION RIGHTS. The Committee may, in its discretion, grant a Limited Stock Appreciation Right to the holder of any stock option granted hereunder or under the Prior Programs. Such Limited Stock Appreciation Rights shall be subject to such terms and conditions consistent with the Program as the Committee shall impose from time to time, including the following:

(a) A Limited Stock Appreciation Right may be granted with respect to a stock option at the time of its grant or at any time thereafter up to six (6) months prior to its expiration.

(b) A Limited Stock Appreciation Right will permit the holder to surrender any related stock option or portion thereof which is then exercisable and to receive in exchange therefor cash in an amount equal to:

(i) The excess of the Fair Market Value on the date of such election of one common share over the option price multiplied by

(ii) The number of shares covered by such option or portion thereof which is so surrendered.

(c) A Limited Stock Appreciation Right granted to a participant who is subject to Section 16 of the Securities Exchange Act of 1934, as amended, may be exercised only after six (6) months from its grant date (unless such exercise would not affect the exemption under Rule 16b-3 of the Securities and Exchange Commission) and only during the sixty (60) day period commencing on the later of: (i) the day following the date of a Change in Control; or (ii) the first date on which such exercise would be exempt under Rule 16b-3 of the Securities and Exchange Commission.

(d) A Limited Stock Appreciation Right may be granted to a participant regardless of whether such participant has been granted a Stock Appreciation Right with respect to the same stock option.

(e) In the event of the exercise of a Limited Stock Appreciation Right, the number of shares reserved for issuance hereunder shall be reduced by the number of shares covered by the stock option or portion thereof surrendered.

10. RESTRICTED STOCK AWARDS. Restricted Stock Awards will consist of common shares transferred to participants without other payment therefor as additional compensation for their services to the Company or any of its subsidiaries. Restricted Stock Awards granted under this paragraph 10 shall be satisfied from the Company's available treasury shares. Restricted Stock Awards shall be subject to such terms and conditions as the Committee determines appropriate, including, without limitation, restrictions on the sale or other disposition of such shares and rights of the Company to reacquire such shares upon termination of the participant's employment within specified periods. Subject to such other restrictions as are imposed by the Committee, the common shares covered by a Restricted Stock Award granted to a participant who is subject to Section 16 of the Securities Exchange Act of 1934, as amended, may be sold or otherwise disposed of only after six (6) months from the grant date of the award (unless such sale would not affect the exemption under Rule 16b-3 of the Securities and Exchange Commission). No more than ten percent (10%) of the total number of shares available for grant in any calendar year may be issued as Restricted Stock Awards under paragraphs 10 and 13 in that year.

11. PERFORMANCE AWARDS. Performance Awards in the form of Performance Units or Performance Shares may be granted to any participant in the Program. Performance Units shall consist of monetary awards which may be earned in whole or in part if the Company achieves certain goals established by the Committee over a designated period of time. Performance Shares shall consist of common shares or awards denominated in common shares which may be earned in whole or in part if the Company achieves certain goals established by the Committee over a designated period of time. The goals established by the Committee shall be based on any one, or combination of, earnings per share, return on equity, return on assets, total shareholder return, net operating income, cash flow, increase in revenue, economic value added, increase in share price or cash flow return on investment. Partial achievement of the goal(s) may result in a payment or vesting corresponding to the degree of achievement. Payment of an award earned may be in cash or in common shares or in a combination of both, and may be made when earned, or may be vested and deferred, as the Committee in its sole discretion determines. The maximum amount which may be granted under all Performance Awards for any one year for any one participant shall be Five Million Dollars (\$5,000,000). This limit shall be applied to Performance Shares by multiplying the number of Performance Shares granted by the fair market value of one common share on the date of the award. This paragraph 11 is intended to comply with the performance-based compensation requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, and shall be interpreted in accordance with the rules and regulations thereunder.

12. FOREIGN QUALIFIED BENEFITS. Benefits under the Program may be granted to such employees of the Company and its subsidiaries who are residing in foreign jurisdictions as the Committee in its sole discretion may determine from time to time. The Committee may adopt such supplements to the Program as may be necessary to comply with the applicable laws of such foreign jurisdictions and to afford participants favorable treatment under such laws; provided, however, that no Benefit shall be granted under any such supplement with terms or conditions which are inconsistent with the provisions as set forth under the Program.

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13. RESTRICTED STOCK AWARDS FOR NON-EMPLOYEE DIRECTORS.

(a) Each person elected a Non-Employee Director at an annual shareholders meeting in any of the years 1996 through 2005 shall receive a Restricted Stock Award on the dates of their election covering a number of common shares with a fair market value on the date of the award closest to, but not in excess of, Twenty-Two Thousand Dollars (\$22,000) for awards made in years 1996 through 2000 and Twenty-Five Thousand Dollars (\$25,000) for awards made in years 2001 through 2005.

(b) ISSUANCE OF CERTIFICATES. As soon as practicable following the date of the award the Company shall issue certificates ("Certificates") to the Non-Employee Director receiving the award, representing the number of common shares covered by the award. Each Certificate shall bear a legend describing the restrictions on such shares imposed by this paragraph 13.

(c) RIGHTS. Upon issuance of the Certificates, the directors in whose names they are registered shall, subject to the restrictions of this paragraph 13, have all of the rights of a shareholder with respect to the shares represented by the Certificates, including the right to vote such shares and receive cash dividends and other distributions thereon.

(d) RESTRICTED PERIOD. The shares covered by awards granted under this paragraph 13 may not be sold or otherwise disposed of within six (6) months following their grant date (unless such sale would not affect the exemption under Rule 16b-3 of the Securities and Exchange Commission) and in addition shall be subject to the restrictions of this paragraph 13 for a period (the "Restricted Period") commencing with the date of the award and ending on the earliest of the following events:

(i) The date the director terminates or retires from the Board;

(ii) The date the director dies; or

(iii) The date of occurrence of a Change in Control (as defined in paragraph 21(c)).

(e) RESTRICTIONS. All shares covered by awards granted under this paragraph 13 shall be subject to the following restrictions during the Restricted Period:

(i) The shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of.

(ii) Any additional common shares of the Company or other securities or property issued with respect to shares covered by awards granted under this paragraph 13 as a result of any stock dividend, stock split or reorganization, shall be subject to the restrictions and other provisions of this paragraph 13.

(iii) A director shall not be entitled to receive any shares prior to completion of all actions deemed appropriate by the Company to comply with federal or state securities laws and stock exchange requirements.

(f) Except in the event of conflict, all provisions of the Program shall apply to this paragraph 13. In the event of any conflict between the provisions of the Program and this paragraph 13, this paragraph 13 shall control. Those provisions of paragraph 17 which authorize the Committee to declare outstanding restricted stock awards to be vested and to amend or modify the terms of Benefits shall not apply to awards granted under this paragraph 13. Restricted Stock Awards granted under this paragraph 13 shall be satisfied from the Company's available treasury shares.

14. NON-QUALIFIED STOCK OPTIONS FOR NON-EMPLOYEE DIRECTORS.

(a) Each Non-Employee Director may elect to receive any or all of his or her fees earned during the second half of 1996 and each subsequent calendar year under Section 3 of the Abbott Laboratories Non-Employee Directors' Fee Plan (the "Directors' Fee Plan") in the form of Non-qualified Stock Options under this Section 14. Each such election shall be irrevocable, and must be made in writing and filed with the Secretary of the Company by December 31, 1995 (for fees earned in the second half of 1996) and (for fees earned in subsequent calendar years) by June 30 of the calendar year preceding the calendar year in which such fees are earned (or such later date as may be permissible under Rule 16b-3 of the Securities and Exchange Commission, but in no event later than December 31 of such preceding calendar year).

(b) A Non-Employee Director may file a new election each calendar year applicable to fees earned in the immediately succeeding calendar year. If no

new election or revocation of a prior election is received by June 30 of any calendar year (or such later date as may be permissible under paragraph (a)), the election, if any, in effect for such calendar year shall continue in effect for the immediately succeeding calendar year. Any election made under this Section 14 shall take precedence over any election made by the director for the same period, under the Directors' Fee Plan, to the extent necessary to resolve any conflict between such elections. If a director does not elect to receive his or her fees in the form of Non-qualified Stock Options, the fees due such director shall be paid or deferred as provided in the Directors' Fee Plan and any applicable election thereunder by the director.

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(c) The number of common shares covered by each Non-qualified Stock Option granted in any year under this Section 14 shall be determined based on an independent appraisal for such year of the intrinsic value of options granted hereunder and the amount of fees covered by the director's election for such year. The number of common shares covered by options granted in 1996 (as determined under this procedure) shall be the number of whole shares equal to (i) the product of three (3) times the amount of fees which the director has elected under paragraph (a) to receive in the form of Non-qualified Stock Options, divided by (ii) One Hundred percent (100%) of the Fair Market Value of one common share on the grant date. Any fraction of a share shall be disregarded, and the remaining amount of the fees corresponding to such option shall be paid as provided in the Directors' Fee Plan and any applicable election thereunder by the director.

(d) Each Non-qualified Stock Option due a director under this Section 14 shall be issued as of the date the corresponding fees otherwise due the director would have been paid under the Directors' Fee Plan and at a purchase price equal to One Hundred percent (100%) of the Fair Market Value of the common shares covered by such option on the grant date. Each such option shall be fully exercisable after six (6) months from the grant date, and shall not be exercisable after the expiration of ten (10) years from the grant date. Each such option shall contain provisions allowing payment of the purchase price, and any taxes due on the exercise, by delivery of other common shares of the Company (or, in the case of payment of taxes, by withholding of shares).

15. NONTRANSFERABILITY. Except as provided by the Committee, each stock option and stock appreciation right granted under this Program shall not be transferable other than by will or the laws of descent and distribution, and shall be exercisable, during the participant's lifetime, only by the participant or the participant's guardian or legal representative.

16. OTHER PROVISIONS. The award of any Benefit under the Program may also be subject to other provisions (whether or not applicable to the Benefit awarded to any other participant) as the Committee determines appropriate, including, without limitation, provisions for the purchase of common shares under stock options in installments, provisions for the payment of the purchase price of shares under stock options by delivery of other common shares of the Company having a then market value equal to the purchase price of such shares, restrictions on resale or other disposition, such provisions as may be appropriate to comply with federal or state securities laws and stock exchange requirements and understandings or conditions as to the participant's employment in addition to those specifically provided for under the Program.

In the case of a participant who is subject to Section 16(a) and 16(b) of the Securities Exchange Act of 1934, the Committee may, at any time, add such conditions and limitations to any Benefit granted to such participant, or any feature of any such Benefit, as the Committee, in its sole discretion, deems necessary or desirable to comply with Section 16(a) or 16(b) and the rules and regulations thereunder or to obtain any exemption therefrom.

A participant may pay the purchase price of shares under stock options by delivery of a properly executed exercise notice together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds to pay the purchase price. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

The Committee may, in its discretion and subject to such rules as it may adopt, permit or require a participant to pay all or a portion of the federal, state and local taxes, including FICA and medicare withholding tax, arising in connection with the following transactions: (a) the exercise of a Non-qualified Stock Option; (b) the lapse of restrictions on common shares received as a Restricted Stock Award; or (c) the receipt or exercise of any other Benefit; by (i) having the Company withhold common shares, (ii) tendering back common shares received in connection with such Benefit or (iii) delivering other previously acquired common shares of the Company having a fair market value approximately equal to the amount to be withheld.

The Committee may grant stock options under the Program (and, for stock options granted prior to shareholder approval of this Program, under the Company's 1991 Incentive Stock Program) that provide for the grant of replacement stock options if all or any portion of the purchase price or taxes incurred in connection with the exercise, are paid by delivery (or, in the case of payment of taxes, by withholding of shares) of other common shares of the Company. The replacement stock option shall cover the number of common shares surrendered to pay the purchase price, plus the number of shares surrendered or withheld to satisfy the participant's tax liability, shall have an exercise

price equal to One Hundred percent (100%) of the Fair Market Value of such common shares on the date such replacement stock option is granted, shall first be exercisable six months from the date of grant of the replacement stock option and shall have an expiration date equal to the expiration date of the original stock option.

17. TERM OF PROGRAM AND AMENDMENT, MODIFICATION, CANCELLATION OR ACCELERATION OF BENEFITS. The Program shall continue in effect until terminated by the Board of Directors of the Company, except that no Incentive Stock Option shall be granted more than ten (10) years after the date of adoption of this Program. The terms and conditions applicable to any

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Benefits may at any time be amended, modified or canceled by mutual agreement between the Committee and the participant or such other persons as may then have an interest therein, so long as any amendment or modification does not increase the number of common shares issuable under this Program; and provided further, that the Committee may, at any time and in its sole discretion, declare any or all stock options and stock appreciation rights then outstanding under this Program or the Prior Programs to be exercisable and any or all then outstanding Restricted Stock Awards to be vested, whether or not such options, rights or awards are then otherwise exercisable or vested.

18. AMENDMENT TO PRIOR PROGRAMS. No options or other Benefits shall be granted under the Prior Programs on or after the date of shareholder approval of this Program.

19. INDIVIDUAL LIMIT ON OPTIONS AND STOCK APPRECIATION RIGHTS; AGGREGATE LIMIT ON INCENTIVE STOCK OPTIONS. The maximum number of shares with respect to which Incentive Stock Options, Non-qualified Stock Options, Stock Appreciation Rights and Limited Stock Appreciation Rights may be granted to any one participant, in aggregate in any one calendar year, shall be One Million (1,000,000) shares. Incentive Stock Options with respect to no more than the lesser of (i) Seventy-Five Million (75,000,000) shares (plus any shares acquired by the Company pursuant to payment of the purchase price of shares under incentive stock options by delivery of other common shares of the Company), or (ii) the total number of shares reserved under paragraph 5 may be issued under the Plan.

20. TAXES. The Company shall be entitled to withhold the amount of any tax attributable to any amount payable or shares deliverable under the Program after giving the person entitled to receive such amount or shares notice as far in advance as practicable, and the Company may defer making payment or delivery if any such tax may be pending unless and until indemnified to its satisfaction.

#### 21. DEFINITIONS.

(a) FAIR MARKET VALUE. The Fair Market Value of the Company's common shares shall be the average of the highest and lowest sales prices of such shares as reported on the New York Stock Exchange Composite Reporting System for the date as of which the determination is to be made or in the absence of reported sales on that date, the average of such reported highest and lowest sales prices for the next preceding date on which reported sales occurred; provided that, in the case of any Limited Stock Appreciation Right (other than a right related to an Incentive Stock Option), the Fair Market Value shall be the higher of:

(i) The highest daily closing price of the Company's common shares during the sixty (60) day period following the Change in Control; or

(ii) The highest gross price paid or to be paid for the Company's common shares in any of the transactions described in paragraphs 21(c)(i) and 21(c)(ii).

(b) SUBSIDIARY. The term "subsidiary" for all purposes other than the Incentive Stock Option provisions in paragraph 6, shall mean any corporation, partnership, joint venture or business trust, fifty percent (50%) or more of the control of which is owned, directly or indirectly, by the Company. For Incentive Stock Option purposes the term "subsidiary" shall be defined as provided in Internal Revenue Code Section 424(f).

(c) CHANGE IN CONTROL. A "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

(i) The date any entity or person (including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act")) shall have become the beneficial owner of, or shall have obtained voting control over, thirty percent (30%) or more of the outstanding common shares of the Company;

(ii) The date the shareholders of the Company approve a definitive agreement (A) to merge or consolidate the Company with or into another corporation, or to merge another corporation into the Company, in which the Company is not the continuing or surviving corporation or pursuant to which any common shares of the Company would be converted into cash, securities of another corporation, or other property, other than a merger or consolidation of the Company in which holders of common shares immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation or its parent corporation immediately after the merger as immediately before, or (B) to sell or otherwise dispose of substantially all the assets of the Company; or

(iii) The date there shall have been a change in a majority of the Board of Directors of the Company within a twelve (12) month period unless the



nomination for election by the Company's shareholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the twelve (12) month period.

(d) DISABILITY. The term "disability" for all purposes of the Program shall mean the participant's disability as defined in subsection 4.1(a) of the Abbott Laboratories Extended Disability Plan for twelve (12) consecutive months.

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22. ADJUSTMENT PROVISIONS.

(a) If the Company shall at any time change the number of issued common shares without new consideration to the Company (such as by stock dividends or stock splits), the total number of shares reserved for issuance under this Program, the individual and aggregate limits described in paragraph 19, and the number of shares covered by each outstanding Benefit shall be adjusted so that the aggregate consideration payable to the Company and the value of each such Benefit shall not be changed. The Committee shall also have the right to provide for the continuation of Benefits or for other equitable adjustments after changes in the Company or in the common shares resulting from reorganization, sale, merger, consolidation, spin-off or similar occurrence.

(b) Notwithstanding any other provision of this Program, and without affecting the number of shares otherwise reserved or available hereunder, the Committee may authorize the issuance or assumption of Benefits in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

(c) Subject to the six month holding requirements of paragraphs 6, 7, 8(c), 9(c), 10 and 13(d) but notwithstanding any other provision of this Program or the Prior Programs, upon the occurrence of a Change in Control:

(i) All stock options then outstanding under this Program or the Prior Programs shall become fully exercisable as of the date of the Change in Control, whether or not then otherwise exercisable;

(ii) All Stock Appreciation Rights and Limited Stock Appreciation Rights then outstanding shall become fully exercisable as of the date of the Change in Control, whether or not then otherwise exercisable;

(iii) All terms and conditions of all Restricted Stock Awards then outstanding shall be deemed satisfied as of the date of the Change in Control; and

(iv) All Performance Awards then outstanding shall be deemed to have been fully earned and to be immediately payable, in cash, as of the date of the Change in Control.

23. AMENDMENT AND TERMINATION OF PROGRAM. The Board of Directors of the Company may amend the Program from time to time or terminate the Program at any time, but no such action shall reduce the then existing amount of any participant's Benefit or adversely change the terms and conditions thereof without the participant's consent. To the extent required for compliance with Rule 16b-3 of the Securities and Exchange Commission, paragraph 13 of the Program may not be amended more frequently than once every six months other than to comport with changes in the Internal Revenue Code of 1986, as amended, or the rules thereunder, and no amendment of the Program shall result in any Committee member losing his or her status as a "disinterested person" as defined in Rule 16b-3 of the Securities and Exchange Commission with respect to any employee benefit plan of the Company or result in the Program or awards thereunder losing their exempt status under said Rule 16b-3.

24. SHAREHOLDER APPROVAL. The Program was adopted by the Board of Directors of the Company on October 13, 1995. The Program and any Benefit granted thereunder shall be null and void if shareholder approval is not obtained by October 12, 1996.

Adopted by Board of Directors 12/13/85. Amended by Board of Review 3/13/86, 12/11/86, 3/11/87, 3/4/88, 12/9/88, 3/9/89, 10/1/89, 12/21/90, 6/1/92, 9/30/93, 9/1/95 and 6/1/96.

ABBOTT LABORATORIES SUPPLEMENTAL PENSION PLAN

SECTION 1  
INTRODUCTION

1-1. On September 9, 1977, December 14, 1979 and February 10, 1984 the Board of Directors of Abbott Laboratories ("Abbott") adopted certain resolutions providing for payment of (i) pension benefits calculated under the Abbott Laboratories Annuity Retirement Plan ("Annuity Plan") in excess of those which may be paid under that plan under the limits imposed by Section 415 of the U.S. Internal Revenue Code, as amended, and the Employee Retirement Income Security Act ("ERISA") and (ii) the additional pension benefits that would be payable under the Annuity Plan if deferred awards under the Abbott Laboratories Management Incentive Plan were included in "final earnings" as defined in the Annuity Plan.

The purpose of this ABBOTT LABORATORIES SUPPLEMENTAL PENSION PLAN (the "Supplemental Plan") is to clarify, restate and supersede the prior resolutions.

1-2. The Supplemental Plan shall apply to employees of Abbott and its subsidiaries and affiliates existing as of the date of adoption of the Supplemental Plan or thereafter created or acquired. (Abbott and each of such subsidiaries and affiliates are hereinafter referred to as an "employer" and collectively as the "employers").

1-3. All benefits provided under the Supplemental Plan shall be provided from the general assets of the employers and not from any trust fund or other

designated asset. All participants in the Supplemental Plan shall be general creditors of the employers with no priority over other creditors.

1-4. The Supplemental Plan shall be administered by the Abbott Laboratories Employee Benefit Board of Review appointed and acting under the Annuity Plan ("Board of Review"). Except as stated below, the Board of Review shall perform all powers and duties with respect to the Supplemental Plan, including the power to direct payment of benefits, allocate costs among employers, adopt amendments and determine questions of interpretation. The Board of Directors of Abbott shall have the sole authority to terminate the Supplemental Plan.

SECTION 2  
ERISA ANNUITY PLAN SUPPLEMENTAL BENEFIT

2-1. The benefits described in this Section 2 shall apply to all participants in the Annuity Plan who retire, or terminate with a vested pension under that plan, on or after September 9, 1977.

2-2. Each Annuity Plan participant whose retirement or vested pension under that plan would otherwise be limited by Section 415, Internal Revenue Code, shall receive a supplemental pension under this Supplemental Plan in an amount, which, when added to his or her Annuity Plan pension, will equal the amount the participant would be entitled to under the Annuity Plan as in effect from time to time, based on the particular option selected by the participant, without regard to the limitations imposed by Section 415, Internal Revenue Code.

SECTION 3  
1986 TAX REFORM ACT SUPPLEMENTAL BENEFIT

3-1. The benefits described in this Section 3 shall apply to all participants in the Annuity Plan who retire, or terminate with a vested pension under that plan, after December 31, 1988.

3-2. Each Annuity Plan participant shall receive a supplemental pension under this Supplemental Plan in an amount determined as follows:

- (a) The supplemental pension shall be the difference, if any, between:
  - (i) The monthly benefit payable under the Annuity Plan plus any supplement provided by Section 2; and
  - (ii) The monthly benefit which would have been payable under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) if the participant's "final earnings", as defined in the Annuity Plan had included compensation in excess of the limits imposed by Section 401(a)(17), Internal Revenue Code, and any "pre-tax contributions" made by the participant under the Abbott Laboratories Supplemental 401(k) Plan.

SECTION 4  
DEFERRED MIP ANNUITY PLAN SUPPLEMENTAL BENEFIT

4-1. The benefits described in this Section 4 shall apply to all participants in the Annuity Plan who retire, or terminate with a vested pension, under that plan, on or after December 14, 1979 and who were awarded Management Incentive Plan awards for any calendar year during the ten consecutive calendar years ending with the year of retirement or termination of employment.

4-2. Each Annuity Plan participant shall receive a supplemental pension under this Supplemental Plan in an amount determined as follows:

- (a) The supplemental pension shall be the difference, if any, between:
  - (i) The monthly benefit payable under the Annuity Plan plus any supplement provided by Section 2 and Section 3; and
  - (ii) the monthly benefit which would have been payable under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) if the participant's "final earnings", as defined in the Annuity Plan, were one-sixtieth of the sum of:
    - (A) the participant's total "basic earnings" (excluding any payments under the Management Incentive Plan or any Division Incentive Plan) received in the sixty consecutive calendar months for which his basic earnings (excluding

any payments under the Management Incentive Plan or any Division Incentive Plan) were highest within the last one hundred twenty consecutive calendar months immediately preceding his retirement or termination of employment; and

- (B) the amount of the participant's total awards under the Management Incentive Plan and any Division Incentive Plan (whether paid immediately or deferred) made for the five consecutive calendar years during the ten consecutive calendar years ending with the year of retirement or termination for which such amount is the greatest and (for participants granted Management Incentive Plan awards for less than five consecutive calendar years during such ten year period) which include all Management Incentive Plan awards granted for consecutive calendar years within such ten year period.
- (b) That portion of any Management Incentive Plan award which the Compensation Committee has determined shall be excluded from the participant's "basic earnings" shall be excluded from the calculation of "final earnings" for purposes of this subsection 4-2. "Final earnings" for purposes of this subsection 4-2 shall include any compensation in excess of the limits imposed by Section 401(a)(17), Internal Revenue Code.
- (c) In the event the period described in subsection 4-2(a)(ii)(B) is the final five calendar years of employment and a Management Incentive Plan award is made to the participant subsequent to retirement for the participant's final calendar year of employment, the supplemental pension shall be adjusted by adding such new award and subtracting a portion of the earliest Management Incentive Plan award included in the calculation, from the amount determined under subsection 4-2(a)(ii)(B). The portion subtracted shall be equal to that portion of the participant's final calendar year of employment during which the participant was employed by Abbott. If such adjustment results in a greater supplemental pension, the greater pension shall be paid beginning the first month following the date of such new award.

SECTION 5  
RESTRICTED STOCK AWARD SUPPLEMENTAL BENEFIT

5-1. The benefits described in this Section 5 shall apply to all participants in the Annuity Plan who retire or terminate with a vested pension, under that plan, after September 1, 1995.

5-2. For purposes of this Supplemental Plan, the phrase "Eligible Restricted Stock Award" shall mean a restricted stock award granted under the Abbott Laboratories 1991 Incentive Stock Program, or any successor plan or program, (the "Incentive Stock Program"), which is designated by the Compensation Committee of the Board of Directors of Abbott, at any time prior to retirement or termination of the participant, as includable in "final earnings" for purposes of this Supplemental Plan.

5-3. Each Annuity Plan participant shall receive a supplemental pension under this Supplemental Plan in an amount determined as follows:

- (a) The supplemental pension shall be the difference, if any, between:
  - (i) The monthly benefit payable under the Annuity Plan plus any supplement provided by Sections 2, 3 and 4; and
  - (ii) The monthly benefit which would have been payable under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) if the participant's "final earnings", as defined in the Annuity Plan, were one-sixtieth of the sum of:
    - (A) the participant's earnings described in subsection 4-2(a)(ii)(A);
    - (B) the participant's awards described in subsection 4-2(a)(ii)(B) (adjusted as provided in subsections 4-2(b) and (c)); and
    - (C) the total value of those installments of Eligible Restricted Stock Awards granted the participant which become non-forfeitable during the sixty consecutive calendar months for which his basic earnings (as defined in subsection 4-2(a)(ii)(A)) are highest within the last one hundred twenty consecutive calendar months immediately preceding his retirement or termination of employment.
- (b) For purposes of this subsection 5-3:
  - (i) The value of an Eligible Restricted Stock Award shall be the fair market value of such award (as determined under the Incentive Stock Program) on the date the award is granted;

(ii) No more than five installments of Eligible Restricted Stock Awards shall be included in the amount calculated under subsection 5-3(a)(ii)(C); and

(iii) "Final earnings" shall include compensation in excess of the limits imposed by Section 401(a)(17), Internal Revenue Code."

In the event the limitation described in subsection 5-3(b)(ii) would be exceeded for a participant, those installments in excess of five with the lowest fair market value (as defined in subsection 5-3(b)(i)) shall be disregarded in calculating the benefit due under this Section 5.

SECTION 6  
CORPORATE OFFICER ANNUITY PLAN SUPPLEMENTAL BENEFIT

6-1. The benefits described in this Section 6 shall apply to all participants in the Annuity Plan who are corporate officers of Abbott as of September 30, 1993 or who become corporate officers thereafter, and who retire, or terminate with a vested pension under that plan on or after September 30, 1993. The term "corporate officer" for purposes of this Supplemental Plan shall mean an individual elected an officer of Abbott by its Board of Directors (or designated as such for purposes of this Section 6 by the Compensation Committee of the Board of Directors of Abbott), but shall not include assistant officers.

6-2. Subject to the limitations and adjustments described below, each participant described in subsection 6-1 shall receive a monthly supplemental pension under this Supplemental Plan commencing on the participant's normal retirement date under the Annuity Plan and payable as a life annuity, equal to 6/10 of 1 percent (.006) of the participant's final earnings (as that phrase is used in subsection 5-3(a)(ii), adjusted as provided in subsections 5-3(b)(ii) and (iii)) for each of the first twenty years



of the participant's benefit service (as defined in the Annuity Plan) occurring after the participant's attainment of age 35.

6-3. In no event shall the sum of (a) the participant's aggregate percentage of final earnings calculated under subsection 6-2 and (b) the participant's aggregate percentage of final earnings calculated under subsection 5-1(b)(i) of the Annuity Plan, exceed the maximum aggregate percentage of final earnings allowed under subsection 5-1(b)(i) of the Annuity Plan (without regard to any limits imposed by the Internal Revenue Code), as in effect on the date of the participant's retirement or termination. In the event the limitation described in this subsection 6-3 would be exceeded for any participant, the participant's aggregate percentage calculated under subsection 6-2 shall be reduced until the limit is not exceeded.

6-4. Benefit service occurring between the date a participant ceases to be a corporate officer of Abbott and the date the participant again becomes a corporate officer of Abbott shall be disregarded in calculating the participant's aggregate percentage under subsection 6-2.

6-5. Any supplemental pension otherwise due a participant under this Section 6 shall be reduced by the amount (if any) by which:

- (a) the sum of (i) the benefits due such participant under the Annuity Plan and this Supplemental Plan, plus (ii) the actuarially equivalent value of the employer-paid portion of all benefits due such participant under the primary retirement plans of all non-Abbott employers of such participant; exceeds
- (b) the maximum benefit that would be due under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) based on the participant's final earnings (as that phrase is used in subsection 5-3(a)(ii), adjusted as provided in subsections 5-3(b)(ii) and (iii), if the participant had accrued the maximum benefit service recognized by the Annuity Plan.

The term "primary retirement plan" shall mean any pension benefit plan as defined in ERISA, whether or not qualified under the Internal Revenue Code, which is determined by the Board of Review to be the primary pension plan of its sponsoring employer. The term "non-Abbott employer" shall mean any employer other than Abbott or a subsidiary or affiliate of Abbott. A retirement plan maintained by an employer prior to such employer's acquisition by Abbott shall be deemed a retirement plan maintained by a non-Abbott employer for purposes of this subsection 6-5.

6-6. Any supplemental pension due a participant under this Section 6 shall be actuarially adjusted as provided in the Annuity Plan to reflect the pension form selected by the participant and the participant's age at commencement of the pension, and shall be paid as provided in subsection 7-2.

SECTION 7  
CORPORATE OFFICER ANNUITY PLAN  
SUPPLEMENTAL EARLY RETIREMENT BENEFIT

7-1. The benefits described in this Section 7 shall apply to all persons described in subsection 6-1.

7-2. The supplemental pension due under Sections 2, 3, 4, 5 and 6 to each participant described in subsection 7-1 shall be reduced as provided in subsections 5-3 and 5-6 of the Annuity Plan for each month by which its commencement date precedes the last day of the month in which the participant will attain age 60. No reduction will be made for the period between the last day of the months the participant will attain age 60 and age 62.

7-3. Each participant described in subsection 7-1 shall receive a monthly supplemental pension under this Supplemental Plan equal to any reduction made in such participant's Annuity Plan pension under subsections 5-3 or 5-6 of the Annuity

Plan for the period between the last day of the months the participant will attain age 60 and age 62.

SECTION 8  
MISCELLANEOUS

8-1. For purposes of this Supplemental Plan, the term "Management Incentive Plan" shall mean the Abbott Laboratories 1971 Management Incentive Plan, the Abbott Laboratories 1981 Management Incentive Plan and all successor plans to those plans.

8-2. The supplemental pension described in Sections 2, 3, 4, 5, 6 and 7 shall be paid to the participant or his or her beneficiary based on the particular pension option elected by the participant, in the same manner, at the same time, for the same period and on the same terms and conditions as the pension payable to the participant or his beneficiary under the Annuity Plan. In the event a participant is paid his or her pension under the Annuity Plan in a lump sum, any supplemental pension due under Sections 2, 3, 4, 5, 6 or 7 shall likewise be paid in a lump sum. Notwithstanding the foregoing provision of this subsection 8-2: (a) if the present value of the vested supplemental pensions described in Sections 2, 3, 4, 5, 6 and 7 of a participant who is actively employed by Abbott as a corporate officer exceeds \$100,000, then payment of such pensions shall be made to the participant under Section 9 below; and (b) if the monthly vested supplemental pensions, expressed as a straight life annuity, due a participant or his or her beneficiary under Sections 2, 3, 4, 5, 6 and 7 do not exceed an aggregate of One Hundred Fifty Dollars (\$150.00) as of the commencement date of the pension payable such participant or his or her beneficiary under the Annuity Plan, and payment of such supplemental pension has not previously been made under Section

9, the present value of such supplemental pensions shall be paid such participant or beneficiary in a lump-sum.

8-3. Notwithstanding any other provisions of this Supplemental Plan, if employment of any participant with Abbott and its subsidiaries and affiliates should terminate for any reason within five (5) years after the date of a Change in Control:

- (a) The present value of any supplemental pension due the participant under Section 2 (whether or not then payable) shall be paid to the participant in a lump sum within thirty (30) days following such termination; and
- (b) The present value of any supplemental pension due the participant under Sections 3 or 4 (whether or not then payable) shall be paid to the participant in a lump sum within thirty (30) days following such termination.

The supplemental pension described in paragraph (a) shall be computed using as the applicable limit under Section 415, Internal Revenue Code, such limit as is in effect on the termination date and based on the assumption that the participant will receive his or her Annuity Plan pension in the form of a straight life annuity with no ancillary benefits. The present values of the supplemental pensions described in paragraphs (a) and (b) shall be computed as of the date of payment by using an interest rate equal to the Pension Benefit Guaranty Corporation interest rate applicable to an immediate annuity, as in effect on the date of payment.

8-4. For purposes of subsection 8-3, a "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

- (a) The date any entity or person (including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act")) shall have become the beneficial owner of, or shall have obtained voting control over thirty percent (30%) or more of the outstanding common shares of the Company;

- (b) The date the shareholders of the Company approve a definitive agreement (A) to merge or consolidate the Company with or into another corporation, in which the Company is not the continuing or surviving corporation or pursuant to which any common shares of the Company would be converted into cash, securities or other property of another corporation, other than a merger of the Company in which holders of common shares immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before, or (B) to sell or otherwise dispose of substantially all the assets of the Company; or
- (c) The date there shall have been a change in a majority of the Board of Directors of the Company within a twelve (12) month period unless the nomination for election by the Company's shareholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the twelve (12) month period.

8-5. The provisions of subsections 8-3, 8-4 and this subsection 8-5 may not be amended or deleted, nor superseded by any other provision of this Supplemental Plan, during the period beginning on the date of a Change in Control and ending on the date five years following such Change in Control.

8-6. All benefits due under this Supplement Plan shall be paid by Abbott and Abbott shall be reimbursed for such payments by the employee's employer. In the event the employee is employed by more than one employer, each employer shall reimburse Abbott in proportion to the period of time the employee was employed by such employer, as determined by the Board of Review in its sole discretion.

8-7. The benefits under the Supplemental Plan are not in any way subject to the debts or other obligations of the persons entitled to benefits and may not be voluntarily or involuntarily sold, transferred to assigned.

8-8. Nothing contained in this Supplemental Plan shall confer on any employee the right to be retained in the employ of Abbott or any of its subsidiaries or affiliates.

8-9. Upon adoption of this Supplemental Plan, the prior resolutions shall be deemed rescinded.

SECTION 9  
ALTERNATE PAYMENT OF SUPPLEMENTAL PENSIONS

9-1. If, as of December 31, 1995 or any subsequent December 31, the present value of the supplemental pension described in Sections 2, 3, 4, 5, 6 and 7 of a participant, who is actively employed by Abbott as a corporate officer, exceeds \$100,000, then payment of such present value shall be made, at the direction of the participant, by either of the following methods: (a) current payment in cash directly to the participant, or (b) current payment of a portion of such present value (determined as of that December 31) in cash for the participant directly to a Grantor Trust established by the participant, and current payment of the balance of such present value in cash directly to the participant, provided that the payment made directly to the participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 9-1(b) (as determined pursuant to the tax rates set forth in subsection 9-14).

9-2. If the present value of a participant's supplemental pension has been paid to the participant (including amounts paid to the participant's Grantor Trust) pursuant to subsection 9-1 (either as in effect prior to June 1, 1996 that applied to any participant with a supplemental pension with a present value in excess of \$100,000 or as currently in effect that requires the participant to have a supplemental pension with a present value in excess of \$100,000 and to be a corporate officer), then as of each

subsequent December 31, such participant shall be entitled to a payment in an amount equal to: (i) the present value (as of that December 31) of the participant's supplemental pension described in Sections 2, 3, 4, 5, 6 and 7, less (ii) the current value (as of that December 31) of the payments previously made to the participant under subsections 9-1 and 9-2. Payments under this subsection 9-2 shall be made, at the direction of the participant, by either of the following methods: (a) current payment in cash directly to the participant, or (b) current payment of a portion of such amount in cash for the participant directly to the Grantor Trust established by the participant; and current payment of the balance of such amount in cash directly to the participant, provided that the payment made directly to the participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 9-2(b) (as determined pursuant to the tax rates set forth in subsection 9-14). No payments shall be made under this subsection 9-2 as of any December 31 after the calendar year in which the participant retires or otherwise terminates employment with Abbott.

9-3. Present values for the purposes of subsections 9-1, 9-2, 9-4 and 9-5 shall be determined using reasonable actuarial assumptions specified for this purpose by Abbott and consistently applied. The "current value" of the payments previously made to a participant under subsections 9-1 and 9-2 means the aggregate amount of such payments, with interest thereon (at the rate specified for this purpose by Abbott). For purposes of subsections 9-4 and 9-5, "Projected Taxes" with respect to any payment of supplemental pension benefits under subsections 9-1 or 9-2, shall mean the taxes which Abbott projects will be incurred by the participant on the income earned (i) on the payment (net of taxes) that is made pursuant to subsections 9-1 or 9-2, (ii) on the

corresponding payment(s) for Projected Taxes that are made pursuant to subsection 9-4 and, if applicable, 9-5 and (iii) on the accumulated income earned on any of the payments covered by parts (i) and (ii) hereof, during the life of such participant's Grantor Trust (or during the period that such Grantor Trust would have been in existence if the participant had elected to receive all of the payments under subsections 9-1 and 9-2 in cash). In calculating such Projected Taxes, Abbott shall use the aggregate of the current federal, state and local tax rates specified by subsection 9-14.

9-4. Effective as of December 31, 1995, or any subsequent December 31, as a result of any payment made to a Qualified Participant for any calendar year pursuant to subsection 9-1 or 9-2, Abbott shall also make a corresponding payment to such Qualified Participant in the amount of the present value of the Projected Taxes. A "Qualified Participant" is either (i) a participant who as of December 31, 1995 was actively employed by Abbott and who had previously received, or as of such date was qualified to receive, a payment under subsection 9-1; or (ii) a participant who as of any subsequent December 31 qualifies to receive a payment pursuant to subsection 9-1. The payment for Projected Taxes under this subsection 9-4 shall be made to the Qualified Participant in the identical manner that the payment under subsection 9-1 or 9-2 was made. For example, (a) if the Qualified Participant elected to receive the payment under subsection 9-1 directly in cash, then Abbott shall also pay the present value of the Projected Taxes on such payment in cash directly to the Qualified Participant, and (b) if the Qualified Participant elected to receive the payment under subsection 9-1 into a Grantor Trust established by the Qualified Participant, then Abbott shall pay the present value of the Projected Taxes on such payment as follows:



current payment of a portion of such present value (determined as of that December 31) in cash for such Qualified Participant directly to a Grantor Trust established by such participant, and current payment of the balance of such present value in cash directly to such Qualified Participant, provided that the payment made directly to such participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 9-4(b) (as determined pursuant to the tax rates set forth in subsection 9-14). No payments shall be made under this subsection 9-4 as of any December 31 after the calendar year in which the participant retires or otherwise terminates employment with Abbott.

9-5. In the event that Abbott has made any payment for Projected Taxes under subsection 9-4 in cash directly to the Qualified Participant and there is a subsequent increase in the tax rates for such Qualified Participant, Abbott shall make a further cash payment to such Qualified Participant in the amount of (a) the present value of the Projected Taxes on the payments that were made under subsections 9-1 and 9-2 in cash directly to such Qualified Participant using the actual tax rates for previous years and the new tax rates (determined in accordance with subsection 9-14) for the current and subsequent years, less (b) the amount that would have been in the Qualified Participant's Tax Payment Account with respect to the payments made under subsections 9-1 and 9-2 in cash directly to the Participant, if such payments had instead been made to the Qualified Participant's Grantor Trust. Such amount shall be paid by Abbott directly to the Qualified Participant in cash. In the event that Abbott has made any payment for Projected Taxes under subsection 9-4 to the Qualified Participant's Grantor Trust, then Abbott shall as of December 31 of each year, make a further payment to the Qualified Participant in the amount of (a) the present value (as

of that December 31) of the Projected Taxes on the payments that were made under subsections 9-1 and 9-2 into the Qualified Participant's Grantor Trust less (b) the balance of such Qualified Participant's Tax Payment Account (as described in subsection 9-8). Such payment shall be paid by Abbott as follows: the current payment of a portion of such amount in cash directly to the Qualified Participant's Grantor Trust and the current payment of the balance of such amount in cash directly to such Qualified Participant; provided, that the payments made directly to such Qualified Participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subsection 9-5. No payments shall be made under this subsection 9-5 for any year following the participant's death. In the event that the calculation required by this subsection 9-5 for a Grantor Trust demonstrates that there has been an overpayment of projected taxes, such overpayment shall be held within the Grantor Trust in an Excess Tax Account and may be used by Abbott as a credit against any payments due hereunder or as specified in subsection 9-12.

9-6. For each Qualified Participant whose Grantor Trust has received a payment pursuant to subsection 9-4, Abbott, as the administrator of such Grantor Trust, shall direct the trustee to distribute to the participant from the income of such Grantor Trust, a sum of money sufficient to pay the taxes on trust earnings for such year. The taxes shall be calculated by multiplying the income of the Grantor Trust by the aggregate of the federal, state, and local tax rates (determined in accordance with subsection 9-14).

9-7. A participant shall be deemed to have irrevocably waived and shall be foreclosed from any right to receive any supplemental pension benefits on that portion

of the supplemental pension that the participant elects to be paid in cash under subsection 9-1 or 9-2. A participant, who has elected to receive a payment under subsection 9-1 or 9-2 to a Grantor Trust, must establish such trust in a form which Abbott determines to be substantially similar to the trust attached to this Supplemental Plan as Exhibit A. If a participant fails to make an election under subsection 9-1 or 9-2, or if a participant makes an election under subsection 9-1 or 9-2 to receive payment in a Grantor Trust but fails to establish a Grantor Trust, then payment shall be made in cash directly to the participant. Each payment required under subsections 9-1, 9-2, 9-4 and 9-5 shall be made as soon as practicable after the amount thereof can be ascertained by Abbott, but in no event later than the last day of the calendar year following the December 31 as of which such payment becomes due.

9-8. Abbott will establish and maintain a separate Supplemental Pension Account in the name of each participant, a separate After-Tax Supplemental Pension Account in the name of each participant, and a separate Tax Payment Account in the name of each participant. The Supplemental Pension Account shall reflect any amounts: (i) paid to a participant (including amounts paid to a participant's Grantor Trust) pursuant to subsections 9-1, and 9-2; (ii) credited to such Account pursuant to subsection 9-9; and (iii) disbursed to a participant for supplemental pension benefits (or which would have been disbursed to a participant if the participant had not elected to receive a cash disbursement pursuant to subsections 9-1 and 9-2). The After-Tax Supplemental Pension Account shall also reflect such amounts but shall be maintained on an after-tax basis. The Tax Payment Account shall reflect any amounts (i) paid to a Qualified Participant (net of taxes) pursuant to subsections 9-4 and 9-5 and (ii) disbursed to a participant for the payment of taxes pursuant to subsection 9-6.

The accounts established pursuant to this subsection 9-8 are for the convenience of the administration of the Plan and no trust relationship with respect to such accounts is intended or should be implied.

9-9. As of the end of each calendar year, a participant's Supplemental Pension Account shall be credited with interest calculated at a reasonable rate of interest specified for this purpose by Abbott and consistently applied. Any amount so credited shall be referred to as a participant's "Interest Accrual". The calculation of the Interest Accrual shall be based on the balance of the payments made pursuant to subsections 9-1 and 9-2 and any Interest Accrual thereon from previous years. As of the end of each calendar year a participant's After-Tax Supplemental Pension Account shall be credited with interest which shall be referred to as the After-Tax Interest Accrual. The "After-Tax Interest Accrual" shall be an amount equal to (a) the Interest Accrual credit to the participant's Supplemental Pension Account for such year less (b) the product of (i) the amount of such Interest Accrual multiplied by (ii) the aggregate of the federal, state and local income tax rates (determined in accordance with subsection 9-14). The Excess Interest Account shall be the cumulative amount, if any, by which the net income earned by the Grantor Trust on the payments made pursuant to Sections 9-1, 9-2, 9-4, 9-5 and 9-10 (and interest earned thereon) for all years that the Grantor Trust has been in existence exceeds the After-Tax Interest Accrual for such years.

9-10. In addition to any payment made to a participant for any calendar year pursuant to subsections 9-1, 9-2, 9-4 and 9-5, Abbott shall also make a payment to a participant's Grantor Trust (a "Guaranteed Rate Payment"), for any year in which the net income of such trust does not equal or exceed the participant's After-Tax Interest Accrual for that year. The Guaranteed Rate Payment shall equal the difference

between the participant's After-Tax Interest Accrual and such net income of the participant's Grantor Trust for the year, and shall be paid within 180 days of the end of that year. Any funds in a participant's Excess Interest Account may be used by Abbott as a credit against any Guaranteed Rate Payment due to the participant under this subsection 9-10 or as specified in subsection 9-12. No payments shall be made under this subsection 9-10 for any year following the year of the participant's death.

9-11. If at any time after a participant's retirement or other termination of employment with Abbott, there is no longer a balance in his or her Grantor Trust, then such participant (or his or her surviving spouse if such spouse is entitled to periodic payments from the Grantor Trust) shall be entitled to a "Continuation Payment" under this subsection 9-11. The amount of the Continuation Payment shall be equal to the amount of the supplemental pension that would have been payable to the participant (or surviving spouse) had no payments been made to or for the participant's Grantor Trust under subsections 9-1 and 9-2. Continuation Payments shall be made monthly, beginning with the month in which there is no longer a sufficient balance in the participant's Grantor Trust and ending with the month of the participant's (or surviving spouse's) death. Payments under this subsection 9-11 shall be made by the employers (in such proportions as Abbott shall designate) directly from their general corporate assets. Appropriate adjustments to the Continuation Payments shall be made in the event distributions have been made from a participant's Grantor Trust for reasons other than benefit payments to the participant or surviving spouse.

9-12. To the extent that Abbott is obligated to make a payment to a participant under subsections 9-1, 9-2, 9-4, 9-5 or 9-10, Abbott shall have the right to offset such payment with any funds in the participant's Excess Interest Account or Excess Tax

Account. In addition, any funds in a participant's Excess Tax Account may be used by Abbott as a credit against any future Guaranteed Rate Payment due to the participant under subsection 9-10.

9-13. For participants who are not Qualified Participants that received any payment pursuant to subsection 9-4, in addition to the payments provided under subsections 9-1 and 9-2, each participant shall also be entitled to a Tax Gross Up payment for each year there is a balance in his or her Supplemental Pension Account. The "Tax Gross Up" shall approximate: (a) the product of (i) the participant's After-Tax Interest Accrual for the year (calculated using the greater of the rate of return of the Grantor Trusts or the rate specified in subsection 9-9), multiplied by (ii) the aggregate of the federal, state and local tax rates (determined in accordance with subsection 9-14) plus (b) an amount equal to the product of (i) any payment made pursuant to this subsection 9-13, multiplied by (ii) the aggregate tax rate determined under subparagraph 9-13(a)(ii) above, such that the participant is fully compensated for taxes on payments made hereunder. Payment of the Tax Gross Up shall be made by the employers (in such proportions as Abbott shall designate) directly from their general corporate assets. The Tax Gross Up for a year shall be paid to the participant as soon as practicable after the amount of the Tax Gross Up can be ascertained by Abbott, but in no event later than the last day of the calendar year following the calendar year to which the Tax Gross Up relates. No payments shall be made under this subsection 9-13 for any year following the year of the participant's death.

9-14. For purposes of this Supplemental Plan, a participant's federal income tax rate shall be deemed to be the highest marginal rate of federal individual income tax in effect in the calendar year in which a calculation under this Supplemental Plan

is to be made, and state and local tax rates shall be deemed to be the highest marginal rates of individual income tax in effect in the state and locality of the participant's residence in the calendar year for which such a calculation is to be made, net of any federal tax benefits.

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SUPPLEMENTAL BENEFIT  
GRANTOR TRUST

THIS AGREEMENT, made this \_\_\_\_\_ day of \_\_\_\_\_,  
19\_\_\_\_, by and between \_\_\_\_\_,  
-----  
(the "grantor"), and The Northern Trust Company, located at Chicago, Illinois,  
as trustee (the "trustee"),

WITNESSETH THAT:

WHEREAS, the grantor desires to establish and maintain a trust to hold  
certain benefits received by the grantor under the Abbott Laboratories  
Supplemental Pension Plan, as it may be amended from time to time;

NOW, THEREFORE, IT IS AGREED as follows:

ARTICLE I  
INTRODUCTION

I-1. NAME. This agreement and the trust hereby evidenced (the "trust")  
may be referred to as the "  
-----  
Supplemental Benefit Grantor Trust."

I-2. THE TRUST FUND. The "trust fund" as at any date means all property  
then held by the trustee under this agreement.

I-3. STATUS OF THE TRUST. The trust shall be irrevocable. The trust is  
intended to constitute a grantor trust under Sections 671-678 of the Internal  
Revenue Code, as amended, and shall be construed accordingly.

I-4. THE ADMINISTRATOR. Abbott Laboratories ("Abbott") shall act as the  
"administrator" of the trust, and as such shall have certain powers, rights and  
duties under this agreement as described below. Abbott will certify to the  
trustee from time to time the person or persons authorized to act on behalf of  
Abbott as the administrator. The trustee may rely on the latest certificate  
received without further inquiry or verification.

I-5. ACCEPTANCE. The trustee accepts the duties and obligations of the  
"trustee" hereunder, agrees to accept funds delivered to it by the grantor or  
the administrator, and agrees to hold such funds (and any proceeds from the  
investment of such funds) in trust in accordance with this agreement.



ARTICLE II  
DISTRIBUTION OF THE TRUST FUND

II-1. SUPPLEMENTAL PENSION ACCOUNT. The administrator shall maintain a "supplemental pension account" under the trust. As of the end of each calendar year, the administrator shall charge the account with all distributions made from the account during that year; and credit the account with its share of trust income and realized gains and charge the account with its share of trust expenses and realized losses for the year.

II-2. DISTRIBUTIONS PRIOR TO THE GRANTOR'S DEATH. Principal and accumulated income shall not be distributed from the trust prior to the grantor's retirement or other termination of employment with Abbott or a subsidiary of Abbott (the grantor's "settlement date"); provided that, each year the administrator may direct the trustee to distribute to the grantor a portion of the income of the trust fund for that year, with the balance of such income to be accumulated in the trust. The administrator shall inform the trustee of the grantor's settlement date. Thereafter, the trustee shall distribute the amounts from time to time credited to the supplemental pension account to the grantor, if then living, in the same manner, at the same time and over the same period as the pension payable to the grantor under Abbott Laboratories Annuity Retirement Plan.

II-3. DISTRIBUTIONS AFTER THE GRANTOR'S DEATH. The grantor, from time to time may name any person or persons (who may be named contingently or successively and who may be natural persons or fiduciaries) to whom the principal of the trust fund and all accrued or undistributed income thereof shall be distributed upon the grantor's death. The grantor may direct that such amounts be distributed in a lump-sum or, if the beneficiary is the grantor's spouse (or a trust for which the grantor's spouse is the sole income beneficiary), in the same manner, at the same time and over the same period as the pension payable to the grantor's surviving spouse under the Abbott Laboratories Annuity Retirement Plan. If the grantor directs the same method of distribution as the pension payable to the surviving spouse under the Abbott Laboratories Annuity Retirement Plan, any amounts remaining at the death of the spouse beneficiary shall be distributed in a lump sum to the executor or administrator of the spouse beneficiary's estate. Each designation shall revoke all prior designations, shall be in writing and shall be effective only when filed by the grantor with the administrator during the grantor's lifetime. If the grantor fails to direct a method of distribution, the distribution shall be made in a lump sum. If the grantor fails to designate a beneficiary as provided above, then on the grantor's death, the trustee shall distribute the balance of the trust fund in a lump sum to the executor or administrator of the grantor's estate.

II-4. FACILITY OF PAYMENT. When a person entitled to a distribution hereunder is under legal disability, or, in the trustee's opinion, is in any way incapacitated so as to be unable to manage his or her financial affairs, the trustee may make such distribution to such person's legal representative, or to a relative or friend of such person for such person's benefit. Any distribution made in accordance with the

preceding sentence shall be a full and complete discharge of any liability for such distribution hereunder.

II-5. PERPETUITIES. Notwithstanding any other provisions of this agreement, on the day next preceding the end of 21 years after the death of the last to die of the grantor and the grantor's descendants living on the date of this instrument, the trustee shall immediately distribute any remaining balance in the trust to the beneficiaries then entitled to distributions hereunder.

ARTICLE III  
MANAGEMENT OF THE TRUST FUND

III-1. GENERAL POWERS. The trustee shall, with respect to the trust fund, have the following powers, rights and duties in addition to those provided elsewhere in this agreement or by law:

- (a) Subject to the limitations of subparagraph (b) next below, to sell, contract to sell, purchase, grant or exercise options to purchase, and otherwise deal with all assets of the trust fund, in such way, for such considerations, and on such terms and conditions as the trustee decides.
- (b) To invest and reinvest the trust fund, without distinction between principal and income, in obligations of the United States Government and its agencies or which are backed by the full faith and credit of the United States Government and in any mutual funds, common trust funds or collective investment funds which invest solely in such obligations, provided that to the extent practicable no more than Ten Thousand Dollars (\$10,000) shall be invested in such mutual funds, common trust funds or collective investment funds at any time; and any such investment made or retained by the trustee in good faith shall be proper despite any resulting risk or lack of diversification or marketability.
- (c) To deposit cash in any depository (including the banking department of the bank acting as trustee) without liability for interest, in amounts not in excess of those reasonably necessary to make distributions from the trust.
- (d) To borrow from anyone, with the administrator's approval, such sum or sums from time to time as the trustee considers desirable to carry out this trust, and to mortgage or pledge all or part of the trust fund as security.
- (e) To retain any funds or property subject to any dispute without liability for interest and to decline to make payment or delivery

thereof until final adjudication by a court of competent jurisdiction or until an appropriate release is obtained.

- (f) To begin, maintain or defend any litigation necessary in connection with the administration of this trust, except that the trustee shall not be obliged or required to do so unless indemnified to the trustee's satisfaction.
- (g) To compromise, contest, settle or abandon claims or demands.
- (h) To give proxies to vote stocks and other voting securities, to join in or oppose (alone or jointly with others) voting trusts, mergers, consolidations, foreclosures, reorganizations, liquidations, or other changes in the financial structure of any corporation, and to exercise or sell stock subscription or conversion rights.
- (i) To hold securities or other property in the name of a nominee, in a depository, or in any other way, with or without disclosing the trust relationship.
- (j) To divide or distribute the trust fund in undivided interests or wholly or partly in kind.
- (k) To pay any tax imposed on or with respect to the trust; to defer making payment of any such tax if it is indemnified to its satisfaction in the premises; and to require before making any payment such release or other document from any lawful taxing authority and such indemnity from the intended payee as the trustee considers necessary for its protection.
- (l) To deal without restriction with the legal representative of the grantor's estate or the trustee or other legal representative of any trust created by the grantor or a trust or estate in which a beneficiary has an interest, even though the trustee, individually, shall be acting in such other capacity, without liability for any loss that may result.
- (m) Upon the prior written consent of the administrator, to appoint or remove by written instrument any bank or corporation qualified to act as successor trustee, wherever located, as special trustee as to part or all of the trust fund, including property as to which the trustee does not act, and such special trustee, except as specifically limited or provided by this or the appointing instrument, shall have all of the rights, titles, powers, duties, discretions and immunities of the trustee, without liability for any action taken or omitted to be taken under this or the appointing instrument.

- (n) To appoint or remove by written instrument any bank, wherever located, as custodian of part or all of the trust fund, and each such custodian shall have such rights, powers, duties and discretions as are delegated to it by the trustee.
- (o) To employ agents, attorneys, accountants or other persons, and to delegate to them such powers as the trustee considers desirable, and the trustee shall be protected in acting or refraining from acting on the advice of persons so employed without court action.
- (p) To perform any and all other acts which in the trustee's judgment are appropriate for the proper management, investment and distribution of the trust fund.

III-2. PRINCIPAL AND INCOME. Any income earned on the trust fund which is not distributed as provided in Article II shall be accumulated and from time to time added to the principal of the trust. The grantor's interest in the trust shall include all assets or other property held by the trustee hereunder, including principal and accumulated income.

III-3. STATEMENTS. The trustee shall prepare and deliver monthly to the administrator and annually to the grantor, if then living, otherwise to each beneficiary then entitled to distributions under this agreement, a statement (or series of statements) setting forth (or which taken together set forth) all investments, receipts, disbursements and other transactions effected by the trustee during the reporting period; and showing the trust fund and the value thereof at the end of such period.

III-4. COMPENSATION AND EXPENSES. All reasonable costs, charges and expenses incurred in the administration of this trust, including compensation to the trustee, any compensation to agents, attorneys, accountants and other persons employed by the trustee, and expenses incurred in connection with the sale, investment and reinvestment of the trust fund shall be paid from the trust fund.

#### ARTICLE IV GENERAL PROVISIONS

IV-1. INTERESTS NOT TRANSFERABLE. The interests of the grantor or other persons entitled to distributions hereunder are not subject to their debts or other obligations and may not be voluntarily or involuntarily sold, transferred, alienated, assigned or encumbered.

IV-2. DISAGREEMENT AS TO ACTS. If there is a disagreement between the trustee and anyone as to any act or transaction reported in any accounting, the trustee shall have the right to a settlement of its account by any proper court.

IV-3. TRUSTEE'S OBLIGATIONS. No power, duty or responsibility is imposed on the trustee except as set forth in this agreement. The trustee is not obliged to determine whether funds delivered to or distributions from the trust are proper under the trust, or whether any tax is due or payable as a result of any such delivery or distribution. The trustee shall be protected in making any distribution from the trust as directed pursuant to Article II without inquiring as to whether the distributee is entitled thereto; the trustee shall not be liable for any distribution made in good faith without written notice or knowledge that the distribution is not proper under the terms of this agreement; and the trustee shall not be liable for any action taken because of the specific direction of the administrator.

IV-4. GOOD FAITH ACTIONS. The trustee's exercise or non-exercise of its powers and discretions in good faith shall be conclusive on all persons. No one shall be obliged to see to the application of any money paid or property delivered to the trustee. The certificate of the trustee that it is acting according to this agreement will fully protect all persons dealing with the trustee.

IV-5. WAIVER OF NOTICE. Any notice required under this agreement may be waived by the person entitled to such notice.

IV-6. CONTROLLING LAW. The laws of the State of Illinois shall govern the interpretation and validity of the provisions of this agreement and all questions relating to the management, administration, investment and distribution of the trust hereby created.

IV-7. SUCCESSORS. This agreement shall be binding on all persons entitled to distributions hereunder and their respective heirs and legal representatives, and on the trustee and its successors.

#### ARTICLE V CHANGES IN TRUSTEE

V-1. RESIGNATION OR REMOVAL OF TRUSTEE. The trustee may resign at any time by giving thirty days' advance written notice to the administrator and the grantor. The administrator may remove a trustee by written notice to the trustee and the grantor.

V-2. APPOINTMENT OF SUCCESSOR TRUSTEE. The administrator shall fill any vacancy in the office of trustee as soon as practicable by written notice to the successor trustee; and shall give prompt written notice thereof to the grantor, if then living, otherwise to each beneficiary then entitled to payments or distributions under this agreement. A successor trustee shall be a bank (as defined in Section 581 of the Internal Revenue Code, as amended).

V-3. DUTIES OF RESIGNING OR REMOVED TRUSTEE AND OF SUCCESSOR TRUSTEE. A trustee that resigns or is removed shall furnish promptly to the administrator and the successor trustee an account of its administration of the trust from the date of its last account. Each successor trustee shall succeed to the title to the trust fund vested in its predecessor without the signing or filing of any instrument, but each predecessor trustee shall execute all documents and do all acts necessary to vest such title of record in the successor trustee. Each successor trustee shall have all the powers conferred by this agreement as if originally named trustee. No successor trustee shall be personally liable for any act or failure to act of a predecessor trustee. With the approval of the administrator, a successor trustee may accept the account furnished and the property delivered by a predecessor trustee without incurring any liability for so doing, and such acceptance will be complete discharge to the predecessor trustee.

ARTICLE VI  
AMENDMENT AND TERMINATION

VI-1. AMENDMENT. With the consent of the administrator, this trust may be amended from time to time by the grantor, if then living, otherwise by a majority of the beneficiaries then entitled to payments or distributions hereunder, except as follows:

- (a) The duties and liabilities of the trustee cannot be changed substantially without its consent.
- (b) This trust may not be amended so as to make the trust revocable.

VI-2. TERMINATION. This trust shall not terminate, and all rights, titles, powers, duties, discretions and immunities imposed on or reserved to the trustee, the administrator, the grantor and the beneficiaries shall continue in effect, until all assets of the trust have been distributed by the trustee as provided in Article II.

\* \* \*

IN WITNESS WHEREOF, the grantor and the trustee have executed this agreement as of the day and year first above written.

-----  
Grantor

The Northern Trust Company, as Trustee

By -----

Its -----

ABBOTT LABORATORIES AND SUBSIDIARIES  
-----

CALCULATION OF FULLY DILUTED EARNINGS PER SHARE  
-----

(Dollars and Shares in Millions Except Per Share Amounts)

	SIX MONTHS ENDED JUNE 30	
	1996	1995
	-----	-----
1. Net earnings	\$ 950.5	\$ 841.3
	-----	-----
2. Average number of shares outstanding	784.5	799.2
	-----	-----
3. Earnings per share based upon average outstanding shares (1 divided by 2)	\$ 1.21	\$ 1.05
	-----	-----
	-----	-----
4. Fully diluted earnings per share:		
a. Stock options granted and outstanding for which the market price at quarter-end exceeds the option price	26.9	31.1
	-----	-----
	-----	-----
b. Aggregate proceeds to the Company from the exercise of options in 4.a.	\$ 771.7	\$ 847.9
	-----	-----
	-----	-----
c. Market price of the Company's common stock at quarter-end	\$ 43.50	\$ 40.50
	-----	-----
	-----	-----
d. Shares which could be repurchased under the treasury stock method (4.b. divided by 4.c.)	17.7	20.9
	-----	-----
	-----	-----
e. Addition to average outstanding shares (4.a. - 4.d.)	9.2	10.2
	-----	-----
	-----	-----
f. Shares for fully diluted earnings per share calculation (2. + 4.e.)	793.7	809.4
	-----	-----
	-----	-----
g. Fully diluted earnings per share (1. divided by 4.f.)	\$ 1.20	\$ 1.04
	-----	-----
	-----	-----

## ABBOTT LABORATORIES

## CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Unaudited)

(Millions of Dollars)

	SIX MONTHS ENDED JUNE 30, 1996 -----
Net Earnings	\$ 951
Add (deduct):	
Income taxes	398
Minority interest	8
	-----
Net earnings as adjusted	\$ 1,357
	-----
Fixed Charges:	
Interest on long-term and short-term debt	40
Capitalized interest cost	6
Rental expense representative of an interest factor	13
	-----
Total Fixed Charges	59
	-----
Total adjusted earnings available for payment of fixed charges	\$ 1,416
	-----
	-----
Ratio of earnings to fixed charges	24.0
	-----
	-----

NOTE: For the purpose of calculating this ratio, (i) earnings have been calculated by adjusting net earnings for taxes on earnings; interest expense; capitalized interest cost, net of amortization; minority interest; and the portion of rentals representative of the interest factor, (ii) the Company considers one-third of rental expense to be the amount representing return on capital, and (iii) fixed charges comprise total interest expense, including capitalized interest and such portion of rentals.





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1,000

6-MOS

JUN-30-1996

JUN-30-1996

111,482

66,189

1,791,459

147,550

1,195,242

4,326,405

8,044,533

3,709,198

10,553,874

4,526,824

433,437

0

0

628,216

4,012,280

10,533,874

5,371,417

5,371,417

2,300,164

2,300,164

573,462

4,465

39,835

1,348,272

397,740

950,532

0

0

0

950,532

1.21

1.20