

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, 1997

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 .

As of July 31, 1997, the Corporation had 769,446,683 common shares  
without par value outstanding.

PART I FINANCIAL INFORMATION  
ABBOTT LABORATORIES AND SUBSIDIARIES  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

ABBOTT LABORATORIES AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
(UNAUDITED)

(Dollars in thousands except per share data)

|  | THREE MONTHS ENDED<br>JUNE 30 |             | SIX MONTHS ENDED<br>JUNE 30 |             |
|--|-------------------------------|-------------|-----------------------------|-------------|
|  | 1997                          | 1996        | 1997                        | 1996        |
| Net Sales.....                                   | \$2,900,408                   | \$2,699,240 | \$5,900,222                 | \$5,371,417 |
| Cost of products sold.....                       | 1,217,043                     | 1,143,947   | 2,544,374                   | 2,300,164   |
| Research and development.....                    | 320,148                       | 304,846     | 600,222                     | 573,462     |
| Selling, general and administrative...           | 651,005                       | 598,866     | 1,307,601                   | 1,171,212   |
| Total Operating Cost and Expenses...             | 2,188,196                     | 2,047,659   | 4,452,197                   | 4,044,838   |
| Operating Earnings.....                          | 712,212                       | 651,581     | 1,448,025                   | 1,326,579   |
| Interest expense.....                            | 31,388                        | 22,228      | 64,142                      | 39,835      |
| Interest income.....                             | (11,668)                      | (10,186)    | (23,391)                    | (20,676)    |
| Other (income) expense, net.....                 | (47,266)                      | (27,728)    | (91,102)                    | (40,852)    |
| Earnings Before Taxes.....                       | 739,758                       | 667,267     | 1,498,376                   | 1,348,272   |
| Taxes on Earnings.....                           | 218,229                       | 196,844     | 442,021                     | 397,740     |
| Net Earnings.....                                | \$ 521,529                    | \$ 470,423  | \$1,056,355                 | \$ 950,532  |
| Net Earnings Per Common Share.....               | \$.68                         | \$.60       | \$1.37                      | \$1.21      |
| Cash Dividends Declared<br>Per Common Share..... | \$.27                         | \$.24       | \$.54                       | \$.48       |

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<br>1997<br>-----<br>(unaudited) | DECEMBER 31<br>1996<br>----- |
|---|---|------------------------------|
| ASSETS  |   |                              |
| Current Assets:   |   |                              |
| Cash and cash equivalents.....  | \$ 126,521                              | \$ 110,209                   |
| Investment securities.....  | 18,669                                  | 12,875                       |
| Trade Receivables, less allowances of \$163,245 in 1997<br>and \$153,424 in 1996..... | 1,728,669                               | 1,708,807                    |
| Inventories:  |   |                              |
| Finished products.....  | 622,712                                 | 627,449                      |
| Work in process.....  | 282,346                                 | 269,443                      |
| Materials.....  | 358,928                                 | 341,313                      |
|   | -----                                   | -----                        |
| Total Inventories.....  | 1,263,986                               | 1,238,205                    |
| Prepaid expenses, income taxes, and other receivables                                 | 1,450,087                               | 1,410,806                    |
|   | -----                                   | -----                        |
| Total Current Assets.....   | 4,587,932                               | 4,480,902                    |
|   | -----                                   | -----                        |
| Investment Securities Maturing after One Year.....                                    | 640,454                                 | 665,553                      |
|   | -----                                   | -----                        |
| Property and Equipment, at Cost.....  | 8,568,669                               | 8,370,283                    |
| Less: accumulated depreciation and amortization.....                                  | 4,067,168                               | 3,908,740                    |
|   | -----                                   | -----                        |
| Net Property and Equipment.....   | 4,501,501                               | 4,461,543                    |
| Deferred Charges, Intangible and Other Assets   | 1,703,639                               | 1,517,602                    |
|   | -----                                   | -----                        |
|   | \$11,433,526                            | \$11,125,600                 |
|   | -----                                   | -----                        |
|   | -----                                   | -----                        |
| LIABILITIES AND SHAREHOLDERS' INVESTMENT  |   |                              |
| Current Liabilities:  |   |                              |
| Short-term borrowings and current portion of long-term debt                           | \$ 1,462,764                            | \$ 1,383,727                 |
| Trade accounts payable.....   | 911,436                                 | 923,018                      |
| Salaries, income taxes, dividends payable, and other accruals                         | 2,139,558                               | 2,036,972                    |
|   | -----                                   | -----                        |
| Total Current Liabilities.....  | 4,513,758                               | 4,343,717                    |
|   | -----                                   | -----                        |
| Long-Term Debt.....   | 931,055                                 | 932,898                      |
|   | -----                                   | -----                        |
| Other Liabilities and Deferrals.....  | 1,051,543                               | 1,028,803                    |
|   | -----                                   | -----                        |
| 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 -   |   |                              |
| Shares: 1997: 779,555,941; 1996: 784,037,858.....                                     | 783,063                                 | 694,380                      |
| Earnings employed in the business.....  | 4,418,199                               | 4,262,804                    |
| Cumulative translation adjustments.....   | (186,866)                               | (78,770)                     |
|   | -----                                   | -----                        |
|   | 5,014,396                               | 4,878,414                    |
| Less:   |   |                              |
| Common shares held in treasury, at cost -   |   |                              |
| Shares: 1997: 9,150,902; 1996: 9,588,632.....   | 48,295                                  | 50,605                       |
| Unearned compensation - restricted stock awards.....                                  | 28,931                                  | 7,627                        |
|   | -----                                   | -----                        |
| Total Shareholders' Investment.....   | 4,937,170                               | 4,820,182                    |
|   | -----                                   | -----                        |
|   | \$11,433,526                            | \$11,125,600                 |
|   | -----                                   | -----                        |
|   | -----                                   | -----                        |

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 |             |
|--|--------------------------|-------------|
|  | 1997                     | 1996        |
| Cash Flow From (Used in) Operating Activities:   |                          |             |
| Net earnings.....  | \$1,056,355              | \$ 950,532  |
| Adjustments to reconcile net earnings to<br>net cash from operating activities -                                       |                          |             |
| Depreciation and amortization.....   | 348,436                  | 319,262     |
| Trade receivables.....   | (95,310)                 | (88,477)    |
| Inventories.....   | (43,568)                 | (83,521)    |
| Other, net.....  | 97,993                   | 81,214      |
| Net Cash From Operating Activities.....  | 1,363,906                | 1,179,010   |
| Cash Flow From (Used in) Investing Activities:   |                          |             |
| Acquisition of Sanofi's parenteral products<br>businesses in 1997, and MediSense in 1996,<br>net of cash acquired..... | (200,394)                | (806,738)   |
| Acquisitions of property and equipment .....   | (436,325)                | (460,908)   |
| Investment securities transactions.....  | 19,380                   | (50,757)    |
| Other.....   | 11,363                   | 13,787      |
| Net Cash (Used in) Investing Activities.....   | (605,976)                | (1,304,616) |
| Cash Flow From (Used in) Financing Activities:   |                          |             |
| Borrowing transactions.....  | 84,886                   | 620,517     |
| Common share transactions.....   | (421,409)                | (305,876)   |
| Dividends paid.....  | (394,671)                | (353,899)   |
| Net Cash (Used in) Financing Activities.....   | (731,194)                | (39,258)    |
| Effect of exchange rate changes on cash and<br>cash equivalents.....   | (10,424)                 | (4,851)     |
| Net Increase/(Decrease) in Cash and Cash Equivalents.....  | 16,312                   | (169,715)   |
| Cash and Cash Equivalents, Beginning of Year.....  | 110,209                  | 281,197     |
| Cash and Cash Equivalents, End of Period.....  | \$ 126,521               | \$ 111,482  |

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, 1997

(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, 1996.

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 773,105,000 for the six months ended June 30, 1997 and 784,547,000 for the same period in 1996. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" in February 1997. The Company will adopt the Standard beginning with the year ended 1997. The adoption of this standard will not have a material effect on the Company's reported earnings per share.

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 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 - ACQUISITIONS:

On April 29, 1997, the Company acquired certain parenteral products businesses of Sanofi Pharmaceuticals, Inc., for approximately \$200 million. A substantial portion of the purchase price was allocated to intangible assets, including goodwill, which will be amortized on a straight-line basis over 15 years. Had this acquisition taken place on January 1, 1996, consolidated sales and net income would not have been significantly different from reported amounts.

In May 1996, the Company acquired all of the outstanding shares of MediSense, Inc., a manufacturer of blood glucose self-testing products, for approximately \$867 million in cash. A substantial portion of the purchase price was allocated to intangible assets which are being amortized over 25 to 40 years.



## FINANCIAL REVIEW

### RESULTS OF OPERATIONS - SECOND QUARTER AND FIRST SIX MONTHS 1997 COMPARED WITH SAME PERIODS IN 1996

Worldwide sales for the second quarter and first six months increased 7.5 percent and 9.8 percent, respectively, over the comparable 1996 periods. Net earnings increased 10.9 percent and 11.1 percent, respectively, in the second quarter and first six months 1997. Earnings per share increased 13.3 percent and 13.2 percent, respectively, over the prior year periods.

Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 58.0 percent for the 1997 second quarter, compared to 57.6 percent for the 1996 second quarter. This increase is due primarily to productivity and cost improvements. First half gross margin was 56.9 percent, compared to 57.2 percent a year earlier. Higher royalties, project expense, and the effect of the relatively stronger U. S. dollar had a negative effect on gross profit margins for both periods.

Research and development expenses were \$320.1 million and \$600.2 million for the second quarter and first six months 1997, respectively. Research and development represented 11.0 percent and 10.2 percent of net sales, compared to 11.3 percent and 10.7 percent in 1996. 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 1997 increased 8.7 percent and 11.6 percent, respectively, over the comparable prior year periods. The increases reflect additional selling and marketing support for new and existing products, primarily for pharmaceutical and nutritional products, and due to the acquisition of MediSense in the second quarter of 1996.

Other (income) expense, net, includes a net foreign exchange loss of \$4.0 million for the second quarter and gain of \$6.8 million for the first six months 1997 compared with net foreign exchange losses of \$3.8 million and \$13.2 million for the corresponding prior year periods.

FINANCIAL REVIEW  
(Continued)

INDUSTRY SEGMENTS

Industry segment sales for the second quarter and first six months 1997 and the related change from the comparable 1996 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 consumers, blood banks, hospitals, commercial laboratories and alternate-care testing sites; 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 1997 primarily reflect unit growth. International sales were unfavorably affected 7.2 percent by the relatively stronger dollar in the second quarter. On a year-to-date basis, international sales were unfavorably affected 6.4 percent by the relatively stronger U.S. dollar.

|   | Second Quarter |                   | Six Months    |                   |
|---|----------------|-------------------|---------------|-------------------|
| SEGMENT SALES<br>(in millions of dollars) | 1997<br>Sales  | Percent<br>Change | 1997<br>Sales | Percent<br>Change |
| Pharmaceutical and Nutritional Products:  |                |                   |               |                   |
| Domestic                                  | \$1,088.7      | 9.4               | \$2,288.2     | 12.4              |
| International                             | 586.8          | 9.5               | 1,213.6       | 10.8              |
|   | 1,675.5        | 9.4               | 3,501.8       | 11.9              |
| Hospital and Laboratory Products:         |                |                   |               |                   |
| Domestic                                  | 680.8          | 9.8               | 1,332.5       | 11.5              |
| International                             | 544.1          | (0.7)             | 1,065.9       | 1.9               |
|   | 1,224.9        | 4.9               | 2,398.4       | 7.0               |
| Total All Segments:                       |                |                   |               |                   |
| Domestic                                  | 1,769.5        | 9.5               | 3,620.7       | 12.1              |
| International                             | 1,130.9        | 4.3               | 2,279.5       | 6.5               |
|   | \$2,900.4      | 7.5               | \$5,900.2     | 9.8               |

FINANCIAL REVIEW  
(continued)

LIQUIDITY AND CAPITAL RESOURCES AT JUNE 30, 1997  
COMPARED WITH DECEMBER 31, 1996  
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Net cash from operating activities for the first six months 1997 totaled \$1.364 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 Sanofi 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, 1997. These lines of credit back up domestic commercial paper borrowing arrangements.

During the first six months 1997, the Company continued its program to purchase its common shares. The Company purchased and retired 8,027,000 shares during this period at a cost of \$489 million. As of June 30, 1997, an additional 7,638,000 shares may be purchased in future periods under authorization granted by the Board of Directors in October 1996.

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, 1997, described 5 antitrust suits and 5 investigations (as of April 29, 1997) that had been brought in connection with the Company's marketing and sale of infant formula products. The Company has previously reported that it has entered into a settlement agreement with plaintiffs involving the 3 cases pending in Alabama, Louisiana and Nevada and that the settlement was subject to approval by the individual state courts. On May 30, 1997, the Nevada Court gave its final approval. The Alabama court has not yet given its final approval. The Louisiana court has denied final approval and that case will proceed. An infant formula case is also pending in state court in St. Louis, Missouri. It purports to be a statewide consumer class action. The case seeks treble damages, civil penalties, injunctive and other relief. Another infant formula antitrust case is pending in U.S. District Court in Massachusetts. It also purports to be a statewide consumer class action. An agreement has been reached to resolve this case for \$1.5 million. This agreement is subject to court approval. As of June 30, 1997, 4 antitrust suits and 5 investigations are pending in connection with the Company's sale and marketing of infant formula products.

The Company's 10-Q for the fiscal quarter ended March 31, 1997, described 144 antitrust suits and two investigations (as of March 31, 1997) in connection with the Company's pricing of prescription pharmaceuticals. Two additional cases have been filed. One case was filed on March 14, 1997, in state court in Prentiss County, Mississippi. The Company was notified of its filing in June, 1997. The other was filed on June 27, 1997, in state court in Mecklenburg County, North Carolina. In addition, the case pending in Davidson County, Tennessee was removed to the U.S. District Court. As of July 28, 1997, 122 prescription pharmaceutical pricing antitrust cases were pending in federal court, 23 were pending in various state courts, and 1 was pending in a District of Columbia court. The prescription pharmaceutical pricing antitrust suits allege that various pharmaceutical manufacturers have conspired to fix prices for prescription pharmaceuticals and/or to discriminate in pricing to retail pharmacies by providing discounts to mail-order pharmacies, institutional pharmacies and HMOs in violation of state and federal antitrust laws. The suits have been brought on behalf of individuals and retail pharmacies and name both the Company and certain other pharmaceutical manufacturers and pharmaceutical wholesalers and at least one mail-order pharmacy company as defendants. The cases seek treble damages, civil penalties, injunctive and other relief. The Company has filed or intends to file a response to each of the complaints denying all substantive allegations. The federal cases are pending in the United States District Court for the Northern District of Illinois under the Multidistrict Litigation Rules as IN RE: BRAND NAME PRESCRIPTION DRUG ANTITRUST LITIGATION, MDL 997. One of the cases pending in the MDL 997 litigation has been certified as a class action on behalf of certain retail pharmacies. The cases pending in California and the District of Columbia have also been certified as class actions. A number of appeals to the Seventh Circuit Court of Appeals have been filed arising out of the MDL 997 litigation. All litigation in the U.S. District Court for the Northern District of Illinois is stayed pending the resolution of these appeals.

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 1986 Management Incentive Plan amended April 25, 1997 - 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

None

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

Date: August 12, 1997

/s/ Theodore A. Olson

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

1986  
ABBOTT LABORATORIES  
MANAGEMENT INCENTIVE PLAN

SECTION 1  
INTRODUCTION

1.1 BACKGROUND AND PURPOSES. This 1986 ABBOTT LABORATORIES MANAGEMENT INCENTIVE PLAN (the "Plan") is a successor Plan to the 1961, 1971 and 1981 Management Incentive Plans (the "Predecessor Plans"). This Plan is being established by ABBOTT LABORATORIES ("Abbott") for the following purposes:

- (a) To provide greater incentive for participants in the Plan to attain and maintain the highest standards of managerial performance by rewarding them for services rendered with compensation, in addition to their base salaries, in proportion to the success of Abbott and to the participants' respective contribution to such success; and
- (b) To attract and retain in the employ of Abbott and its subsidiaries persons of outstanding competence.

1.2 EFFECTIVE DATE AND FISCAL YEAR. The Plan shall be effective as of January 1, 1986. The term "fiscal year," as used in this Plan, means the fiscal period from time to time employed by Abbott for the purpose of reporting earnings to shareholders.

1.3 ADMINISTRATION. The Plan will be administered by the Compensation Committee (the "Committee") appointed by the Board of Directors of Abbott.

SECTION 2  
ELIGIBILITY AND PARTICIPATION

2.1 PERSONS ELIGIBLE FOR PARTICIPATION. Participation in the Plan will be limited to those Officers and managerial employees of Abbott and its subsidiaries who, from time to time, shall be selected as participants by the Committee.

2.2 PARTICIPANTS. The term "participant," as used in the Plan, shall include both active participants and inactive participants.

2.3 ACTIVE PARTICIPANTS. For each fiscal year, there shall be a group of active participants which, except as provided below, shall not exceed forty-five persons and shall consist of those persons eligible for participation who shall have been designated as active participants and notified of that fact by the Committee at any time before or during the fiscal year. If, as a result of the growth of Abbott and its subsidiaries or changes in Abbott's organization, the Board of Directors deems it appropriate, the Board of Directors may, in its discretion, from time to time, increase the number of persons who may be designated as active participants for any fiscal year beyond the limit of forty-five persons provided for above. Selection as an active participant for any fiscal year shall not confer upon any person a right to be an active participant in any subsequent fiscal year, nor shall it confer upon him the right to receive any allocation under the Plan, other than amounts allocated to him by the Committee pursuant to the Plan, and all such allocations shall be subject to all of the terms and conditions of the Plan.

2.4 INACTIVE PARTICIPANTS. Inactive participants shall consist of those persons, including beneficiaries of deceased participants, if any, for whom an allocation shall have been made for a prior fiscal year under this Plan or a Predecessor Plan, the payment of which was deferred and remains unpaid. Status as an inactive participant shall not preclude a person from also being an active participant during any fiscal year.

### SECTION 3 MANAGEMENT INCENTIVE PLAN FUND

3.1 BASE FOR MANAGEMENT INCENTIVE PLAN FUND. The "base earnings" for determining whether any portion of consolidated net income for any fiscal year may be allocated to the Management Incentive Plan Fund for such year shall be that amount of consolidated net income (as defined in subsection 3.2) which is equal to 15 percent of the

Abbott Common Shareholder's Equity for such fiscal year. For this purpose, "Abbott Common Shareholders' Equity" for any fiscal year shall mean the Shareholders' Investment, as reflected in the consolidated balance sheet of Abbott as of the close of the next preceding fiscal year, plus or minus such adjustments thereof as may be determined by the Committee in order to reflect:

- (a) The existence, issuance, sale, exchange, conversion or retirement of any securities, other than common shares, of Abbott (whether involving preferred stock, debt, convertible preferred stock or convertible debt securities); and
- (b) The issuance or retirement of any common shares or any changes in accounting methods or period adopted by Abbott since the close of such next preceding fiscal year.

Any adjustments to be made in accordance with (a) and (b) above in determining Abbott Common Shareholders' Equity for any fiscal year shall be determined by the Committee after consultation with Abbott's independent auditors, and any determination made by the Committee after such consultation shall be conclusive upon all persons.

3.2 CONSOLIDATED NET INCOME. For the purposes of this Plan, for any fiscal year or period, the "consolidated net income" shall be the consolidated net income of Abbott and its subsidiaries, prepared in accordance with generally accepted accounting principles, consistently applied, after provision for any interest accrued with respect to such period on account of deferred payments under this Plan or a Predecessor Plan, but before allowances for any amount to be allocated to the Management Incentive Plan Fund, both net of applicable income taxes, and after such adjustments for the following, as may be determined by the Committee after consultation with Abbott's independent auditors (all net of applicable income taxes):

- (a) The exclusion of any charges for amortization of goodwill arising out of acquisitions made for securities which, as a result of adjustments made in determining Abbott Common Shareholders' Equity pursuant to subsection 3.1, are treated as common share equivalents; and



- (b) The exclusion of any interest on debt securities which are convertible into common shares of Abbott and which shall have been considered as common share equivalents in determining Abbott Common Shareholders' Equity pursuant to subsection 3.1 hereof; and
- (c) The deduction of any dividend requirement for preferred shares which has not been considered as common share equivalents in determining Common Shareholders' Equity pursuant to subsection 3.1 hereof.

In the sole discretion of the Committee there shall also be excluded in the calculation of "consolidated net income" unusual gains and losses and the tax effects thereof, changes in generally accepted accounting principles and the tax effects thereof and extraordinary gains and losses.

3.3 DETERMINATION OF MANAGEMENT INCENTIVE PLAN AMOUNT FOR ANY YEAR. For each fiscal year that consolidated net income exceeds base earnings, and as soon as practicable after ascertainment of that fact, the Committee shall determine a tentative amount as the Management Incentive Plan Amount for that year, which tentative amount shall not exceed the lesser of:

- (a) an amount which, when treated as an expense currently deductible for income tax purposes in such year, would cause a 5 percent reduction in such year's excess of consolidated net income over the base earnings for such year; and
- (b) an amount which, when treated as an expense currently deductible for income tax purposes in such year, would cause a 1-1/2 percent reduction in such year's consolidated net income; and
- (c) an amount which equals 200 percent of the aggregate base salaries of all active participants for such year.

For purposes of the Plan "base salary" means the amount of salary paid to each active participant by Abbott and its subsidiaries for such year plus the includible portion (as described below) of any "Eligible Restricted Stock Award," as defined in Section 5-2 of the Abbott Laboratories Supplemental Pension Plan and does not include bonuses, other awards or any other compensation of any kind. The includible portion of a participant's Eligible Restricted Stock Award shall be the portion of the participant's Eligible Restricted

Stock Award that is included in the participant's final earnings under the Abbott Laboratories Supplemental Pension Plan for such year. Following determination of such tentative Management Incentive Plan Amount, the Committee shall report in writing the amount of such tentative amount to the Board of Directors. At the meeting of the Board of Directors coincident with or next following receipt by it of the Committee's determination, the Board of Directors shall have the power to approve or reduce, but not to increase, the tentative amount reported to it by the Committee. The amount approved by the Board of Directors shall be the Management Incentive Plan Amount for such year.

3.4 THE MANAGEMENT INCENTIVE PLAN FUND. The Management Incentive Plan Fund at any time shall consist of an amount equal to the aggregate of the Management Incentive Plan Amounts established pursuant to subsection 3.3 of this Plan for all fiscal years during which this Plan shall have been operative, plus the amounts established as Management Incentive Plan Amounts for any prior fiscal year pursuant to a Predecessor Plan, reduced by an amount equal to the aggregate of the amounts of awards which shall have been allocated to participants in accordance with this Plan or a Predecessor Plan, and awards, or any other compensation of any kind. Following determination of such tentative Management Incentive Plan Amount, the Committee shall report in writing the amount of such tentative amount to the Board of Directors. At the meeting of the Board of Directors coincident with or next following receipt by it of the Committee's determination, the Board of Directors shall have the power to approve or reduce, but not to increase, the tentative amount reported to it by the Committee. The amount approved by the Board of Directors shall be the Management Incentive Plan Amount for such year.

SECTION 4  
ALLOCATION OF MANAGEMENT INCENTIVE FUND

4.1 ANNUAL ALLOCATION OF MANAGEMENT INCENTIVE FUND. As soon as practicable after the close of each fiscal year, part or all of the amount then in the Management Incentive Plan Fund (including the Management Incentive Plan Amount for such fiscal year) will be allocated by the Committee among active participants in the Plan for such fiscal year, having due regard for the purposes for which the Plan was established, in the following manner and order:

- (a) First, if the Chairman of the Board of Abbott shall be an active participant for such year, the members of the Committee, other than the Chairman of the Board, shall determine the amount, if any, to be allocated to the Chairman of the Board from such Fund for such year; and
- (b) Next, all or a part of the balance of such Fund may be allocated among the active participants (other than the Chairman of the Board) for such year, in such amounts and proportions as the Committee shall determine

provided, however, that the amount allocated to any active participant for any year shall not exceed 200 percent of such participant's base salary for that year.

4.2 COMMITTEE'S DISCRETION IN ALLOCATIONS. In making any allocations in accordance with subsection 4.1 for any year, the discretion of the Committee shall be absolute, and no active participants for any year, by reason of their designation as such, shall be entitled to any particular amounts or any amount whatsoever.

SECTION 5  
PAYMENT OF AMOUNTS ALLOCATED TO PARTICIPANTS

5.1 TIME OF PAYMENT. For fiscal years beginning after December 31, 1988, a participant shall direct the payment or deferral of an allocation made to him pursuant to subsection 4.1 (subject to such conditions relating to the right of the participant to receive Payment of such amount as established by the Committee) by one or more of the following methods:

- (a) current payment in cash to the participant;
- (b) current payment of a portion of the allocation in cash for the participant directly to a "Grantor Trust" established by the participant, provided such trust is in a form which the Committee determines is substantially similar to the trust attached to this Plan as Exhibit A; and current payment of the balance of the allocation 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 (determined in accordance with subsection 6.7) attributable to the allocation paid pursuant to this paragraph (b); or
- (c) deferral of payment until such time and in such manner as determined in accordance with subsection 5.11.

A participant shall make the preceding direction within 30 days of the date he is notified of his eligibility to participate in the Plan. A participant may change such direction with respect to any future allocation, provided that the change is made prior to the beginning of the fiscal year to which such allocation relates. Payment of a participant's allocation for the 1988 fiscal year and of any allocations deferred under the Plan prior to such year shall be made in accordance with the provisions of either or both of paragraphs (a) and (b) above. The Committee shall establish and maintain a Trust Account in accordance with subsection 5.2 and for purposes of subsection 5.4, shall treat such payment as if it were an allocation made for that fiscal year.

5.2 SEPARATE ACCOUNTS. The Committee will maintain two separate Accounts, a "Deferred Account" and a "Trust Account," in the name of each participant. The Deferred Account shall be comprised of any allocations the payment of which is deferred pursuant to subsection 5.1(c) and any adjustments made pursuant to subsection 5.3. The Trust Account shall be comprised of any allocations paid in cash to a participant (including amounts paid to a participant's Grantor Trust) pursuant to subsection 5.1(b) and any adjustments made pursuant to subsection 5.4.

5.3 ADJUSTMENT OF DEFERRED ACCOUNTS. As of the end of each fiscal year, the Committee shall adjust each participant's Deferred Account as follows:

- (a) FIRST, charge an amount equal to any payments made to the participant during that year pursuant to subsections 5.11 or 5.12;
- (b) NEXT, credit an amount equal to the allocation for that year that is deferred pursuant to subsection 5.1(c); and
- (c) FINALLY, credit an amount equal to the Interest Accrual earned for that year pursuant to subsection 5.5.

5.4 ADJUSTMENT OF TRUST ACCOUNTS. As of the end of each fiscal year, the Committee shall adjust each participant's Trust Account as follows:

- (a) FIRST, charge an amount equal to the product of: (i) any payments made to the participant during that year from the participant's Grantor Trust (other than distributions of trust earnings in excess of the Net Interest Accrual authorized by the administrator of the trust to provide for the Tax Gross Up under subsection 6.6); multiplied by (ii) a fraction, the numerator of which is the balance in the participant's Trust Account as of the end of the prior fiscal year and the denominator of which is the balance of the participant's Grantor Trust (as determined by the administrator of the trust) as of that same date;
- (b) NEXT, credit an amount equal to the allocation for that year that is paid to the Participant (including the amount paid to the participant's Grantor Trust) pursuant to subsection 5.1(b); and
- (c) FINALLY, credit an amount equal to the Interest Accrual earned for that Year pursuant to subsection 5.5.

5.5 INTEREST ACCRUALS ON ACCOUNTS. As of the end of each fiscal year, a participant's Deferred Account and Trust Account shall be credited with interest equal to: (a) the average of the prime rates of interest charged by the two largest banks located in the City of Chicago on loans made by them as of January 1 and the end of each month of the fiscal year; plus (b) two hundred twenty-five (225) basis points. Such interest shall be credited on the conditions established by the Committee, provided that any allocation of an award from the Management Incentive Plan Fund shall be considered to have been made and credited to a participant's Deferred Account and Trust Account as of the first day of the fiscal year in which such award is made regardless of the date upon which the Committee actually makes the determination to award such allocation.

5.6 GUARANTEED RATE PAYMENTS. In addition to any allocation made to a participant for any fiscal year pursuant to subsection 4.1 which is paid or deferred pursuant to subsection 5.1, Abbott shall also make a payment to a participant's Grantor Trust (a "Guaranteed Rate Payment") for any year in which the net earnings of such trust do not equal or exceed the participant's Net Interest Accrual for that year. A participant's "Net Interest Accrual" for a year is an amount equal to: (a) the Interest Accrual credited to the participant's Trust Account for that year; less (b) the product of (i) the amount of such Interest Accrual, multiplied by (ii) the aggregate of the federal, state and local individual income tax rates (determined in accordance with subsection 6.7). The Guaranteed Rate Payment shall equal the difference between the participant's Net Interest Accrual and the net earnings of the participant's Grantor Trust for the year, and shall be paid within 90 days of the end of the fiscal year.

5.7 DESIGNATION OF BENEFICIARIES. Subject to the conditions and limitations set forth below, each participant, and after a participant's death, each primary beneficiary designated by a participant in accordance with the provisions of this subsection 5.7, shall have the right from time to time to designate a primary beneficiary or beneficiaries and, successive or contingent beneficiary or beneficiaries to receive unpaid amounts from the participant's Deferred Account under the Plan and the Predecessor Plans. Beneficiaries may be a natural person or persons or a fiduciary, such as a trustee of a trust or the legal representative of an estate. Any such designation shall take effect upon the death of the participant or such beneficiary, as the case may be, or in the case of any fiduciary beneficiary, upon the termination of all of its duties (other than the duty to dispose of the right to receive amounts remaining to be paid under the Plan or a Predecessor Plan). The conditions and limitations relating to the designation of beneficiaries are as follows:

- (a) A nonfiduciary beneficiary shall have the right to designate a further beneficiary or beneficiaries only if the original participant or the next preceding primary beneficiary, as the case may be, shall have expressly so provided in writing; and
- (b) A fiduciary beneficiary shall designate as a further beneficiary or beneficiaries only those persons or other fiduciaries who are entitled to receive the amounts payable from the participant's account under the trust or estate of which it is a fiduciary.

Any beneficiary designation or grant of any power to any beneficiary under this subsection may be exercised only by an instrument in writing, executed by the person making the designation or granting such power and filed with the Secretary of Abbott during such person's lifetime or prior to the termination of a fiduciary's duties. If a deceased participant or a deceased nonfiduciary beneficiary who had the right to designate a beneficiary as provided above dies without having designated a further beneficiary, or if no beneficiary designated as provided above is living or qualified and acting, the Committee, in its discretion, may direct distribution of the amount remaining from time to time to either:

- (i) any one or more or all of the next of kin (including the surviving spouse) of the participant or the deceased beneficiary, as the case may be, and in such proportions as the Committee determines; or
- (ii) the legal representative of the estate of the deceased participant or deceased beneficiary as the case may be.

5.8 STATUS OF BENEFICIARIES. Following a participant's death, the participant's beneficiary or beneficiaries will be considered and treated as an inactive participant for all purposes of this Plan.

5.9 NON-ASSIGNABILITY AND FACILITY OF PAYMENT. Amounts payable to participants and their beneficiaries under the Plan are not in any way subject to their debts and other obligations, and may not be voluntarily or involuntarily sold, transferred or assigned; provided that the preceding provisions of this section shall not be construed as restricting in any way a designation right granted to a beneficiary pursuant to the terms of subsection 5.7. When a participant or the beneficiary of a participant is under legal disability, or in the

Committee's opinion is in any way incapacitated so as to be unable to manage his or her financial affairs, the Committee may direct that payments shall be made to the participant's or beneficiary's legal representative, or to a relative or friend of the participant or beneficiary for the benefit of the participant or beneficiary, or the Committee may direct the payment or distribution for the benefit of the participant or beneficiary in any manner that the Committee determines.

5.10 PAYER OF AMOUNTS ALLOCATED TO PARTICIPANTS. Any amount allocated to a participant in the Plan and any interest credited thereto will be paid by the employer (or such employer's successor) by whom the participant was employed during the fiscal year for which any amount was allocated, and for that purpose, if a participant shall have been employed by two or more employers during any fiscal year the amount allocated under this Plan for that year shall be an obligation of each of the respective employers in proportion to the respective amounts of base salary paid by each of them in that fiscal year.

5.11 MANNER OF PAYMENT. Subject to subsections 5.12, a participant shall elect the timing and manner of payment of his Deferred Account at the time of his deferral election under subsection 5.1. The participant may select a payment method from among alternative payment methods established by the Committee.

5.12 PAYMENT UPON TERMINATION FOLLOWING CHANGE IN CONTROL. Notwithstanding any other provisions of this Plan or the Predecessor Plans, or the provisions of any award made under this Plan or the Predecessor Plans, if employment of any participant with Abbott and its subsidiaries should terminate for any reason within five (5) years after the date of a Change in Control, the aggregate unpaid balance of all awards previously made to such participant under this Plan and all Predecessor Plans, plus any unpaid interest credited thereon, shall be paid to the participant in a lump sum within thirty (30) days following the date of such termination.



5.13 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 Abbott;
- (ii) The date the shareholders of Abbott approve a definitive agreement (A) to merge or consolidate Abbott with or into another corporation, in which Abbott is not the continuing or surviving corporation or pursuant to which any common shares of Abbott would be converted into cash, securities or other property of another corporation, other than a merger of Abbott 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 Abbott; or
- (iii) The date there shall have been a change in a majority of the Board of Directors of Abbott within a twelve (12) month period unless the nomination for election by Abbott'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.

5.14 PROHIBITION AGAINST AMENDMENT. The provisions of subsections 5.12, 5.13 and this subsection 5.14 may not be amended or deleted, nor superseded by any other provision of this Plan, during the period beginning on the date of a Change in Control and ending on the date five (5) years following such Change in Control.

#### SECTION 6 MISCELLANEOUS

6.1 RULES. The Committee may establish such rules and regulations as it may consider necessary or desirable for the effective and efficient administration of the Plan.

6.2 MANNER OF ACTION BY COMMITTEE. A majority of the members of the Committee qualified to act on any particular question may act by meeting or by writing signed without meeting, and may execute any instrument or document required or delegate to one of its members authority to sign. The Committee from time to time may delegate

the performance of certain ministerial functions in connection with the Plan, such as the keeping of records, to such person or persons as the Committee may select. Except as otherwise expressly provided in the Plan, the costs of administration of the Plan will be paid by Abbott. Any notice required to be given to, or any document required to be filed with the Committee, will be properly given or filed if mailed or delivered in writing to the Secretary of Abbott.

6.3 RELIANCE UPON ADVICE. The Board of Directors and the Committee may rely upon any information or advice furnished to it by any Officer of Abbott or by Abbott's independent auditors, or other consultants, and shall be fully protected in relying upon such information or advice. No member of the Board of Directors or the Committee shall be liable for any act or failure to act on their part, excepting only any acts done or omitted to be done in bad faith, nor shall they be liable for any act or failure to act of any other member.

6.4 TAXES. Any employer shall be entitled, if necessary or desirable, to pay, or withhold the amount of any federal, state or local tax, attributable to any amounts payable by it under the Plan after giving the person entitled to receive such amount notice as far in advance as practicable, and may defer making payment of any amount with respect to which any such tax question may be pending unless and until indemnified to its satisfaction.

6.5 RIGHTS OF PARTICIPANTS. Employment rights of participants with Abbott and its subsidiaries shall not be enlarged or affected by reason of establishment of or inclusion as a participant in the Plan. Nothing contained in the Plan shall require Abbott or any subsidiary to segregate or earmark any assets, funds or property for the purpose of payment of any amounts which may have been deferred. The Deferred and Trust Accounts established pursuant to subsection 5.2 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. Participant's rights shall be limited to payment to them at the time or times and in such amounts as are contemplated by the Plan. Any decision made by the Board of Directors or the Committee, which is within the sole and uncontrolled discretion of either, shall be conclusive and binding upon the other and upon all other persons whomsoever.

6.6 TAX GROSS UP. In addition to the allocations provided under subsection 4.1, each participant (or, if the participant is deceased, the beneficiary designated under the participant's Grantor Trust) shall be entitled to a Tax Gross Up payment for each year there is a balance in his or her Trust Account. The "Tax Gross Up" shall approximate: (a) the amount necessary to compensate the participant (or beneficiary) for the net increase in the participant's (or beneficiary's) federal, state and local income taxes as a result of the inclusion in his or her taxable income of the income of the participant's Grantor Trust and any Guaranteed Rate Payment for that year; less (b) any distribution to the participant (or beneficiary) of his or her Grantor Trust's net earnings for that year; plus (c) an amount necessary to compensate the participant (or beneficiary) for the net increase in the taxes described in (a) above as a result of the inclusion in his or her taxable income of any payment made pursuant to this subsection 6.6. 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.

6.7 INCOME TAX ASSUMPTIONS. For purposes of Sections 5 and 6, a participant's federal income tax rate shall be deemed to be the highest marginal rate of federal income individual tax in effect in the calendar year in which a calculation under those Sections 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 on the date such a calculation is made, net of any federal tax benefits.

6.8 PAYMENT OF PRIOR DEFERRALS. Notwithstanding any other provision of this Plan, the Committee, in its absolute discretion, may direct that all or a portion of the balance in a participant's Deferred Account be paid in accordance with the provisions of subsection 5.1(b). In such event, the Committee shall establish and maintain a Trust Account in accordance with subsection 5.2 and, for purposes of subsection 5.4, shall treat such payment as if it were an allocation made for that fiscal year.

SECTION 7  
AMENDMENT, TERMINATION AND CHANGE OF  
CONDITIONS RELATING TO PAYMENTS

7.1 AMENDMENT AND TERMINATION. The Plan will be effective from its effective date until terminated by the Board of Directors. During the fifth year after the Plan's effective date and during every fifth year thereafter, the Committee may recommend to the Board of Directors whether the Plan should be amended or terminated. The Board of Directors reserves the right to amend the Plan from time to time and to terminate the Plan at any time, except that no such amendment or any termination of the Plan shall reduce any fixed or contingent obligations which shall have arisen under the Plan prior to the date of such amendment or termination, or change the terms and conditions of payment of any allocation theretofore made without the consent of the participant concerned.

7.2 CHANGE OF CONDITIONS RELATING TO PAYMENTS. Following the establishment by the Committee of any conditions relating to the payment of any amount allocated to a participant for any fiscal year and any interest credited thereon (including the time of payment or the time of commencement of payment and any period over which payment shall be made), neither the Committee nor the participant concerned, acting unilaterally, shall have the power to change the conditions originally established by the Committee.

However, in order to effectuate the purposes of the Plan, any conditions initially established by the Committee may be changed thereafter by mutual agreement of the Committee and the participant concerned.

IRREVOCABLE GRANTOR TRUST AGREEMENT

THIS AGREEMENT, made this \_\_\_\_\_ day of \_\_\_\_\_, 1991, by and between \_\_\_\_\_ of \_\_\_\_\_, Illinois (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 1986 Abbott Laboratories Management Incentive 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 "\_\_\_\_\_ 1991 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. SEPARATE ACCOUNTS. The administrator shall maintain two separate accounts under the trust, a "rollout account" and a "deferred account." Funds delivered to the trustee shall be allocated between the accounts by the trustee as directed by the administrator. As of the end of each calendar year, the administrator shall charge each account with all distributions made from such account during that year; and credit each account with its share of income and realized gains and charge each account with its share of expenses and

realized losses for the year. The trustee shall not be required to make any separate investment of the trust fund for the accounts, and may administer and invest all funds delivered to it under the trust as one trust fund.

II-2. DISTRIBUTIONS FROM THE ROLLOUT ACCOUNT PRIOR TO THE GRANTOR'S DEATH. The trustee shall distribute principal and accumulated income credited to the rollout account to the grantor, if then living, at such times and in such amounts as the administrator shall direct.

II-3. DISTRIBUTIONS FROM THE DEFERRED ACCOUNT PRIOR TO THE GRANTOR'S DEATH. Principal and accumulated income credited to the deferred account 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 deferred account for that year, with the balance of such income to be accumulated in that account. 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 deferred account to the grantor, if then living, in a series of annual installments, with the amount of each installment computed by one of the following methods:

- (a) The amount of each installment shall be equal to the sum of: (i) the amount credited to the deferred account as of the end of the year in which the grantor's settlement date occurs, divided by the number of years over which installments are to be distributed; plus (ii) the net earnings credited to the deferred account for the preceding year (excluding the year in which the grantor's settlement date occurs).
- (b) The amount of each installment shall be determined by dividing the amount credited to the deferred account as of the end of the preceding year by the difference between (i) the total number of years over which installments are to be distributed, and (ii) the number of annual installment distributions previously made from the deferred account.
- (c) Each installment (after the first installment) shall be approximately equal, with the amount comprised of the sum of: (i) the amount of the first installment, plus interest thereon at the rate determined under the 1986 Abbott Laboratories Management Incentive Plan, compounded annually; and (ii) the net earnings credited to the deferred account for the preceding year.

Notwithstanding the foregoing, the final installment distribution made to the grantor under this paragraph II-3 shall equal the total principal and accumulated income then held in the trust fund. The grantor, by writing filed with the trustee and the administrator on or before the end of the calendar year in which the grantor's settlement date occurs (or the end of the calendar year in which this trust is established, if the grantor's settlement date has already occurred), may select both the period (which may not be less than ten years from the end of the calendar year in which the grantor's settlement date occurred) over which the installment distributions are to be made and the method of computing the amount of each installment. In the absence of such a written direction by the grantor, installment distributions shall be made over a period of ten years, and the amount of each installment

shall be computed by using the method described in subparagraph (a) next above. Installment distributions under this Paragraph II-3 shall be made as of January 1 of each year, beginning with the calendar year following the year in which the grantor's settlement date occurs. The administrator shall inform the trustee of the amount of each installment distribution under this paragraph II-3, and the trustee shall be fully protected in relying on such information received from the administrator.

II-4. DISTRIBUTIONS FROM THE TRUST FUND 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 in a lump sum or, if the beneficiary is the grantor's spouse, in installments, as directed by the grantor, upon the grantor's death. If the grantor directs an installment method of distribution, any amounts remaining at the death of the spouse beneficiary shall be distributed in a lump sum. 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-5. 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-6. 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 retain in cash such amounts as the trustee considers advisable; and to invest and reinvest the balance of 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 or in any mutual fund, common trust fund or collective investment fund which invests solely in such obligations; 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, and to invest cash in savings accounts or time certificates of deposit bearing a reasonable rate of interest in any such depository.
- (d) To invest, subject to the limitations of subparagraph (b) above, in any common or commingled trust fund or funds maintained or administered by the trustee solely for the investment of trust funds.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) To compromise, contest, settle or abandon claims or demands.
- (i) 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.
- (j) 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.
- (k) To divide or distribute the trust fund in undivided interests or wholly or partly in kind.
- (l) 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.

- (m) 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.
- (n) 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.
- (o) 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.
- (p) 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.
- (q) 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; and 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.

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 |          |
|---|--------------------------|----------|
|   | 1997                     | 1996     |
| 1. Net earnings   | \$ 1,056.4               | \$ 950.5 |
| 2. Average number of shares outstanding   | 773.1                    | 784.5    |
| 3. Earnings per share based upon average<br>outstanding shares (1 divided by 2)                                   | \$ 1.37                  | \$ 1.21  |
| 4. Fully diluted earnings per share:  |                          |          |
| a. Stock options granted and outstanding for<br>which the market price at quarter-end<br>exceeds the option price | 32.0                     | 26.9     |
| b. Aggregate proceeds to the Company from<br>the exercise of options in 4.a.                                      | \$ 1,225.3               | \$771.7  |
| c. Market price of the Company's common<br>stock at quarter-end   | \$ 66.75                 | \$43.50  |
| d. Shares which could be repurchased<br>under the treasury stock<br>method (4.b. divided by 4.c.)                 | 18.4                     | 17.7     |
| e. Addition to average outstanding shares<br>(4.a. - 4.d.)  | 13.6                     | 9.2      |
| f. Shares for fully diluted earnings per<br>share calculation (2. + 4.e.)   | 786.7                    | 793.7    |
| g. Fully diluted earnings per share<br>(1. divided by 4.f.)   | \$ 1.34                  | \$1.20   |

## ABBOTT LABORATORIES

## CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Unaudited)

(Millions of Dollars)

|   | SIX MONTHS ENDED<br>JUNE 30, 1997<br>----- |
|---|--|
| Net Earnings  | \$ 1,056                                   |
| Add (deduct):   |  |
| Income taxes  | 442  |
| Minority interest   | 6  |
|   | -----                                      |
| Net earnings as adjusted  | \$ 1,504<br>-----                          |
| Fixed Charges:  |  |
| Interest on long-term and<br>short-term debt                      | 64   |
| Capitalized interest cost   | 6  |
| Rental expense representative<br>of an interest factor            | 14   |
|   | -----                                      |
| Total Fixed Charges   | 84<br>-----                                |
| Total adjusted earnings available for<br>payment of fixed charges | \$ 1,588<br>-----                          |
|   | -----                                      |
| Ratio of earnings to fixed charges                                | 18.9<br>-----<br>-----                     |

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.



This schedule contains six-month year-to-date summary financial information extracted from Abbott Laboratories 1997 second quarter Form 10-Q and is qualified in its entirety by reference to such 10Q filing.

1,000

| 6-MOS      |             |
|------------|-------------|
|            | DEC-31-1997 |
|            | JAN-01-1997 |
|            | JUN-30-1997 |
|            | 126,521     |
|            | 18,669      |
|            | 1,891,914   |
|            | 163,245     |
|            | 1,263,986   |
|            | 4,587,932   |
|            | 8,568,669   |
|            | 4,067,168   |
|            | 11,433,526  |
| 4,513,758  |             |
|            | 931,055     |
| 0          |             |
|            | 0           |
|            | 783,063     |
|            | 4,154,107   |
| 11,433,526 |             |
|            | 5,900,222   |
| 5,900,222  |             |
|            | 2,544,374   |
|            | 2,544,374   |
|            | 600,222     |
|            | 14,755      |
|            | 64,142      |
|            | 1,498,376   |
|            | 442,021     |
| 1,056,355  |             |
|            | 0           |
|            | 0           |
|            | 0           |
|            | 1,056,355   |
|            | 1.37        |
|            | 1.34        |

OTHER EXPENSES CONSIST OF RESEARCH AND DEVELOPMENT EXPENSES.