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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

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 60064-6400

Telephone: (847) 937-6l00

Indicate by check mark whether the registrant (l) has filed all reports required to be filed by Section l3 or l5(d) of the Securities Exchange Act of l934 during the preceding l2 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No / /

As of October 15, 2001, the Corporation had 1,552,475,632 common shares without par value outstanding.

PART I. FINANCIAL INFORMATION

Abbott Laboratories and Subsidiaries

Condensed Consolidated Financial Statements

(Unaudited)

Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Earnings

(Unaudited)

(dollars and shares in thousands except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Net Sales	$ 4,181,185	$ 3,317,895	$ 11,840,184	$ 10,041,226

Cost of products sold	2,040,899	1,515,505	5,667,281	4,542,206
Research and development	400,566	318,383	1,116,187	1,001,342
Acquired in-process research and development	—	—	1,187,000	—
Selling, general and administrative	995,086	699,285	2,690,301	2,158,532
Gain on sale of business	—	—	—	(138,507)
Total Operating Cost and Expenses	3,436,551	2,533,173	10,660,769	7,563,573
Operating Earnings	744,634	784,722	1,179,415	2,477,653
Net interest expense	74,973	879	170,165	24,003
Income from TAP Pharmaceutical Products Inc. joint venture	(215,637)	(136,708)	(181,352)	(373,193)
Net foreign exchange (gain) loss	15,506	1,045	34,227	3,325
Other (income) expense, net	55,639	23,041	67,991	39,164
Earnings Before Taxes	814,153	896,465	1,088,384	2,784,354
Taxes on earnings	182,753	242,046	151,549	751,776
Net Earnings	$ 631,400	$ 654,419	$ 936,835	$ 2,032,578
Basic Earnings Per Common Share	$ 0.41	$ 0.42	$ 0.60	$ 1.31
Diluted Earnings Per Common Share	$ 0.40	$ 0.42	$ 0.60	$ 1.30
Cash Dividends Declared Per Common Share	$ 0.21	$ 0.19	$ 0.63	$ 0.57
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,551,677	1,548,221	1,549,432	1,548,554
Dilutive Common Stock Options	20,377	18,527	13,324	15,508
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,572,054	1,566,748	1,562,756	1,564,062
Outstanding Common Stock Options Having No Dilutive Effect	2,001	19,032	2,001	19,032

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

Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(dollars in thousands)

	Nine Months Ended September 30	
	2001	2000
Cash Flow From (Used in) Operating Activities:		
Net earnings	$ 936,835	$ 2,032,578
Adjustments to reconcile net earnings to net cash from operating activities—		
Depreciation and amortization	849,126	628,656
Acquired in-process research and development	1,187,000	—
Trade receivables	(46,697)	(68,186)
Inventories	(202,480)	(324,894)
Gain on sale of business	—	(138,507)
Other, net	(44,326)	195,788
Net Cash From Operating Activities	2,679,458	2,325,435
Cash Flow From (Used in) Investing Activities:		
Proceeds from sale of business	—	205,000
Acquisition of the pharmaceutical business of BASF	(7,052,626)	—
Acquisitions of property, equipment and businesses	(801,609)	(728,244)
Investment securities transactions	46,767	105,424
Other	17,970	40,319

Net Cash Used in Investing Activities	(7,789,498)	(377,501)
Cash Flow From (Used in) Financing Activities:		
Proceeds from (repayments of) commercial paper, net	2,622,000	(586,000)
Proceeds from issuance (retirements) of long-term debt, net	3,000,000	—
Other borrowing transactions, net	57,474	(20,727)
Common share transactions	107,302	(202,927)
Dividends paid	(944,738)	(851,949)
Net Cash From (Used in) Financing Activities	4,842,038	(1,661,603)
Effect of exchange rate changes on cash and cash equivalents	(52,063)	(16,313)
Net (Decrease) Increase in Cash and Cash Equivalents	(320,065)	270,018
Cash and Cash Equivalents, Beginning of Year	914,218	608,097
Cash and Cash Equivalents, End of Period	$ 594,153	$ 878,115

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

Abbott Laboratories and Subsidiaries

Condensed Consolidated Balance Sheet

(dollars in thousands)

	September 30 2001	December 31 2000
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 594,153	$ 914,218
Investment securities	196,791	242,500
Trade receivables, less allowances of $190,769 in 2001 and $190,167 in 2000	2,688,536	2,179,451
Inventories:		
Finished products	1,172,246	903,973
Work in process	530,534	370,407
Materials	557,941	466,951
Total inventories	2,260,721	1,741,331
Prepaid expenses, income taxes, and other receivables	2,430,700	2,298,741
Total Current Assets	8,170,901	7,376,241
Investment Securities Maturing after One Year	605,643	637,979
Property and Equipment, at Cost	11,849,073	10,127,898
Less: accumulated depreciation and amortization	6,310,038	5,310,987
Net Property and Equipment	5,539,035	4,816,911
Deferred Charges, Investment in joint ventures and Other Assets	3,175,912	2,452,123
Intangible assets of the pharmaceutical business of BASF	5,227,908	—
	$ 22,719,399	$ 15,283,254
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	$ 2,920,266	$ 479,454
Trade accounts payable	1,559,357	1,355,985
Salaries, income taxes, dividends payable, and other accruals	3,302,138	2,462,101
Total Current Liabilities	7,781,761	4,297,540
Long-Term Debt	4,334,103	1,076,368
Other Liabilities and Deferrals	1,932,470	1,338,440

Shareholders' Investment:		
Preferred shares, one dollar par value Authorized—1,000,000 shares, none issued	—	—
Common shares, without par value Authorized—2,400,000,000 shares Issued at stated capital amount—Shares: 2001: 1,569,628,600; 2000: 1,563,436,372	2,535,311	2,218,234
Common shares held in treasury, at cost—Shares: 2001: 17,391,684; 2000: 17,502,239	(250,192)	(255,586)
Unearned compensation—restricted stock awards	(15,154)	(18,116)
Earnings employed in the business	7,047,078	7,229,586
Accumulated other comprehensive loss	(645,978)	(603,212)
Total Shareholders' Investment	8,671,065	8,570,906
	$ 22,719,399	$ 15,283,254

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

Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

September 30, 2001

(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnote disclosures normally included in audited financial statements. However, in the opinion of management, all adjustments (which include only normal adjustments) necessary to present fairly the results of operations, financial position and cash flows have been made. It is suggested that these statements be read in conjunction with the financial statements included in Abbott's Annual Report on Form 10-K for the year ended December 31, 2000.

Note 2—Supplemental Financial Information
(dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Net interest expense:				
Interest expense	$ 92,436	$ 25,045	$ 233,657	$ 90,278
Interest income	(17,463)	(24,166)	(63,492)	(66,275)
Total	$ 74,973	$ 879	$ 170,165	$ 24,003

Note 3—Taxes on Earnings

A summary of the effective tax rates on earnings for the third quarter and nine months of 2001 is as follows:

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Effective tax rates on earnings excluding the effect of acquired in-process research and development and the net increase in the litigation reserve recorded by the TAP joint venture as discussed in Note 5	23.9%	24.4%
Effect on tax rates of acquired in-process research and development	—	(12.6)
Effect on tax rate of one-time increase in the litigation reserve recorded by the TAP joint venture	(1.5)	2.1
Effective tax rates	22.4%	13.9%

The ongoing effective tax rates are lower than the U.S. statutory tax rate due to tax incentive grants related to subsidiaries operating in Puerto Rico, the Dominican Republic, Ireland, the Netherlands and Costa Rica; and lower taxes on the income for the TAP Pharmaceutical Products Inc. joint venture. The acquired in-process research and development charge was tax effected using a rate of 38 percent, which is equal to the U.S. federal income tax rate plus state income taxes, net of the federal tax effect.

Note 4—Litigation and Environmental Matters

Abbott is involved in various claims and legal proceedings including a number of antitrust suits and investigations in connection with the pricing of prescription pharmaceuticals. These suits and investigations 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 Abbott 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, and injunctive and other relief. Abbott has filed a response to each of the complaints denying all substantive allegations.

There are several lawsuits pending in connection with the sales of HYTRIN. These suits allege that Abbott violated state or federal antitrust laws and, in some cases, unfair competition laws by signing patent settlement agreements with Geneva Pharmaceuticals, Inc. and Zenith Laboratories, Inc. Those agreements related to pending patent infringement lawsuits between Abbott and the two companies. Some of the suits also allege that Abbott violated various state or federal laws by filing frivolous patent infringement lawsuits to protect HYTRIN from generic competition. The cases seek treble damages, civil penalties and other relief. Abbott has filed or intends to file a response to each of the complaints denying all substantive allegations.

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of Company-owned locations.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. 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 Abbott's financial position, cash flows, or results of operations.

The matters above are discussed more fully in Note 14 to the financial statements included in Abbott's Annual Report on Form 10-K, which is available upon request.

Note 5—TAP Pharmaceutical Products Inc.

In October 2001, TAP Pharmaceutical Products Inc. (TAP) entered into an agreement with the United States Department of Justice to settle matters relating to its investigation involving TAP's marketing of its prostate cancer drug LUPRON, primarily in the early to mid-1990s. In the first quarter of 2001, Abbott recorded a $344 million increase in a litigation reserve for Abbott's portion of TAP's after-tax increase in the reserve related to the investigation. In the third quarter 2001, this charge was reduced by approximately $70 million to reflect the final settlement terms and tax effects thereon.

Abbott and TAP have been named as defendants in several lawsuits alleging violations of various state or federal laws in connection with TAP's marketing and pricing of Lupron. Abbott intends to file a response to each of the lawsuits denying all substantive allegations.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. While it is not feasible to predict the outcome of these matters with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

Note 6—U.S. Food and Drug Administration Consent Decree

In November 1999, Abbott reached agreement with the U.S. government to have a consent decree entered to settle issues involving Abbott's diagnostics manufacturing operations in Lake County, Ill. The decree, which was amended in December 2000, requires Abbott to ensure its diagnostics manufacturing processes in Lake County conform with the U.S. Food and Drug Administration's (FDA) Quality System Regulation (QSR). The decree allows for the continued manufacture and distribution of medically necessary diagnostic products made in Lake County. However, Abbott is prohibited from manufacturing or distributing certain diagnostic products until Abbott ensures the processes in its Lake County diagnostics manufacturing operations conform with the QSR. The decree allows Abbott to export diagnostic products and components for sale and distribution outside the United States if they meet the export requirements of the Federal Food, Drug and Cosmetic Act. Under the terms of the amended consent decree, Abbott must ensure its diagnostics manufacturing operations are in conformance with the QSR by various dates through January 15, 2001. The FDA will determine Abbott's conformance with the QSR after an inspection of Abbott's facilities in the fourth quarter of 2001. If the FDA concludes that the operations are not in conformance with the QSR as of the date required, Abbott may be subject to additional costs.

Note 7—Comprehensive Income
(dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000
Foreign currency translation gains (losses)	$ 104,918	$ (53,907)	$ (18,135)	$ (140,127)
Tax (expense) benefit related to foreign currency translation gains (losses)	48	(7)	(909)	(268)
Unrealized gains (losses) on marketable equity securities	(4,948)	14,828	(7,609)	35,000
Tax (expense) benefit related to unrealized gains or losses on marketable equity securities	(3,825)	(5,931)	2,714	(14,000)
Reclassification adjustment for gains included in net income	(5,140)	—	(18,827)	(12,651)
Other comprehensive loss, net of tax	91,053	(45,017)	(42,766)	(132,046)

Net Earnings	631,400	654,419	936,835	2,032,578
Comprehensive Income	$ 722,453	$ 609,402	$ 894,069	$ 1,900,532

Supplemental Comprehensive Income Information:

	September 30	
	2001	2000
Cumulative foreign currency translation loss adjustments, net of tax	$ 649,937	$ 572,337
Cumulative unrealized (gains) on marketable equity securities, net of tax	(3,959)	(34,990)

Note 8—Segment Information (dollars in millions)

Revenue Segments—Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products and services. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Abbott's reportable segments are as follows:

Pharmaceutical Products—U.S. sales of a broad line of pharmaceuticals.

Diagnostic Products—Worldwide sales of diagnostic systems for blood banks, hospitals, consumers, commercial laboratories and alternate-care testing sites.

Hospital Products—U.S. sales of 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.

Ross Products—U.S. sales of a broad line of adult and pediatric nutritional products, pediatric pharmaceuticals and consumer products.

International—Non-U.S. sales of all of Abbott's pharmaceutical, hospital and nutritional products. Products sold by International are manufactured by domestic segments and by international manufacturing locations.

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

prepared in accordance with the internal accounting policies of Abbott, as described above, and may not be presented in accordance with generally accepted accounting principles.

	Net Sales to External Customers				Operating Earnings			
	Three Months Ended September 30		Nine Months Ended September 30		Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	2001	2000	2001	2000	2001	2000
Pharmaceutical	$ 1,055	$ 649	$ 2,665	$ 1,819	$ 438	$ 273	$ 973	$ 671
Diagnostics	728	714	2,154	2,172	84	89	265	267
Hospital	695	600	2,016	1,829	179	153	536	474
Ross	502	485	1,603	1,542	161	161	604	555
International	1,144	795	3,174	2,454	219	162	682	594
Total Reportable Segments	4,124	3,243	11,612	9,816	1,081	838	3,060	2,561
Other	57	75	228	225				
Net Sales	$ 4,181	$ 3,318	$ 11,840	$ 10,041				
Corporate functions(A)					71	40	178	118
Benefit plans costs					41	26	82	63
Non-reportable segments					9	—	6	(13)
Gain on sale of business					—	—	—	(139)
Net interest expense					75	1	170	24
Acquired in-process research and development					—	—	1,187	—
Income from TAP Pharmaceutical Products Inc.					(216)	(137)	(182)	(373)
Net foreign exchange loss					15	1	34	3
Other expense (income), net(B)					272	11	497	94
Consolidated Earnings Before Taxes					$ 814	$ 896	$ 1,088	$ 2,784

(A) Includes certain one-time charges related to the acquisition of the pharmaceutical business of BASF in 2001.

(B)

2001 includes amortization relating to the acquisition of the pharmaceutical business of BASF and restructuring charges.

Note 9—Acquisition of Knoll

On March 2, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll Pharmaceuticals for approximately $7.1 billion (subject to adjustments for the change in net assets of the business as of the closing date compared to net assets as of September 30, 2000). This acquisition was financed primarily with short-term borrowings, $3.250 billion of which was subsequently refinanced with long-term debt. The acquisition is accounted for under the

purchase method of accounting. The allocation of the acquisition cost is as follows (in billions of dollars):

Allocation of Acquisition Cost—

Acquired intangible assets, primarily product rights for currently marketed products	$ 3.500
Goodwill	1.924
Acquired in-process research and development	1.187
Acquired net tangible assets	.522
Total allocation of acquisition cost	$ 7.133

The acquisition cost has been allocated to intangible assets, goodwill, acquired in-process research and development and net tangible assets based on an independent appraisal of fair values at the date of acquisition. Product rights for currently marketed products will be amortized on a straight-line basis over 10 to 16 years (average approximately 13 years) and goodwill will be amortized in 2001 on a straight-line basis over 20 years. Acquired in-process research and development of $1.187 billion was charged to income in the first half 2001. The net tangible assets acquired consist primarily of property and equipment of approximately $600 million, trade accounts receivable of approximately $402 million and inventories of approximately $303 million, net of assumed liabilities, primarily trade accounts payable and other liabilities.

Prior to the date of acquisition, Abbott began to plan for the integration and restructuring of the business. In the second and third quarters of 2001, Abbott formally approved several restructuring plans and is continuing to assess and formulate further restructuring plans for specific business activities. The costs of implementing formally approved plans have been included in the reported amount of goodwill above. See Note 10 for restructuring charges recorded in 2001. Abbott expects that additional restructuring plans will be finalized and formally approved throughout the 12 months following the date of acquisition which will increase the amount of reported goodwill above.

Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Abbott as if the acquisition of the pharmaceutical business of BASF had taken place on January 1, 2000. The pro forma information includes primarily adjustments for acquired in-process research and development, amortization of product rights for currently marketed products, interest expense for estimated acquisition debt and amortization of goodwill. The pro forma financial

information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date.

	Three months ended September 30		Nine months ended September 30	
In millions, except per share amounts	**2001 Pro Forma**	**2000 Pro Forma**	**2001 Pro Forma**	**2000 Pro Forma**
Sales	$ 4,181.2	$ 3,921.4	$ 12,297.3	$ 11,657.6
Net income	657.2	618.3	1,675.2	1,779.0
Diluted earnings per share	0.42	0.40	1.08	1.14

Note 10—Restructuring Charges
(dollars in millions)

In the second and third quarters of 2001, Abbott began implementing restructuring plans related to the operations of the acquired pharmaceutical business of BASF. In addition, Abbott announced in the second quarter 2001 that it was closing one of its manufacturing operations and relocating production to other Abbott facilities. The following summarizes the restructuring activity:

	Employee and Other Related	Asset Impairments	Total
Restructuring charges	$ 155.9	$ 11.5	$ 167.4
Payments and other activity	(42.8)	(11.5)	(54.3)
Accrued balance at September 30, 2001	$ 113.1	$ —	$ 113.1

Of the $167.4 total restructuring charges, $118.4 has been recorded as goodwill associated with the acquisition of the pharmaceutical business of BASF. Of the amount expensed, approximately $35.8 is classified as cost of products sold, $10.8 as selling, general and administrative and $2.4 as research and development.

Employee related costs are primarily severance pay, relocation of former BASF employees and outplacement services.

Note 11—Sale of Agricultural Products Business

On January 20, 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a $46 million gain recorded in the first quarter 2000. In the second quarter 2000, upon Sumitomo achieving a sales milestone, Abbott recorded an additional $92 million gain.

Note 12—Financial Instruments and Derivatives

On January 1, 2001, Abbott adopted the provisions of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities." On January 1, 2001, all derivative instruments were recognized as either assets or liabilities at fair value, resulting in a transition credit to income of approximately $2.0 million, which is included in net foreign exchange loss (gain) in the Condensed Consolidated Statement of Earnings.

In the third quarter 2001, an Abbott foreign subsidiary entered into foreign currency forward currency exchange contracts totaling $132 million. These contracts help manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by this subsidiary whose functional currency is not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in the foreign exchange rates. At September 30, 2001 Abbott recorded the contracts at fair value, resulting in a $1.8 million charge to accumulated other comprehensive loss. No hedge ineffectiveness was recorded in income in 2001. Accumulated gains and losses will be included in cost of products sold at the time the products are sold, generally through the end of 2002.

In the third quarter 2001, Abbott entered into interest rate hedge contracts totaling $1.225 billion to manage its exposure to changes in the fair value of $1.225 billion of fixed-rate debt due in July 2004. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. At September 30, 2001, Abbott recorded the contracts at fair value and adjusted the carrying amount of the fixed-rate debt by an offsetting amount. No hedge ineffectiveness was recorded in income in 2001.

Abbott has designated a Japanese yen denominated liability as a hedge of the foreign currency exposure on Abbott's net investment in certain Japanese operations whose functional currency is the Japanese yen. Accordingly, changes in this liability due to fluctuations in foreign exchange rates are charged or credited to accumulated other comprehensive loss. During the first nine months of 2001, $1.4 million was charged to accumulated other comprehensive loss.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. Such contracts are also used for foreign currency denominated third-party trade payables and receivables. For intercompany loans, the contracts require Abbott to sell foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U.S. dollars and other European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. These contracts are recorded at fair value with the resulting gains or losses reflected in income.

Note 13—Subsequent Event

On October 24, 2001, Abbott announced its intention to acquire, for cash, all of the outstanding common stock of Vysis, Inc., a leading genomic disease management company, in a transaction valued at approximately $355 million. The acquisition is expected to be completed in the fourth quarter 2001, subject to regulatory approvals and customary closing conditions. Abbott anticipates a yet to be determined one-time charge in the fourth quarter of 2001 related to this acquisition, primarily for in-process research and development.

FINANCIAL REVIEW

Results of Operations—Third Quarter and First Nine Months 2001 Compared with Same Periods in 2000

The following table details sales by reportable segment for the third quarter and first nine months 2001:
(dollars in millions)

	Three Months Ended September 30			Nine Months Ended September 30		
	Net Sales to External Customers			Net Sales to External Customers		
	2001	2000	Percentage Change(a)	2001	2000	Percentage Change(a)
Pharmaceutical	$ 1,055	$ 649	62.7	$ 2,665	$ 1,819	46.5
Diagnostics	728	714	2.0	2,154	2,172	(0.8)
Hospital	695	600	15.7	2,016	1,829	10.2
Ross	502	485	3.5	1,603	1,542	3.9
International	1,144	795	43.8	3,174	2,454	29.3
Total Reportable Segments	4,124	3,243	27.1	11,612	9,816	18.3
Other	57	75		228	225	
Net Sales	$ 4,181	$ 3,318	26.0	$ 11,840	$ 10,041	17.9
Total U.S.	$ 2,600	$ 2,083	24.8	$ 7,355	$ 6,220	18.2

Total International	$ 1,581	$ 1,235	28.1	$ 4,485	$ 3,821	17.4

(a) Percentage changes are based on unrounded numbers.

Worldwide sales for the third quarter and first nine months reflect primarily unit growth. Excluding the negative effect of the relatively stronger U.S. dollar, sales increased 28.7 percent for the third quarter and 20.7 percent for the first nine months, respectively, over the comparable 2000 periods. Pharmaceutical and International segment sales were favorably impacted by the acquisition of the pharmaceutical business of BASF on March 2, 2001. Diluted earnings per common share for the quarter were 40 cents, compared to diluted earnings per share of 42 cents a year ago.

Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 51.2 percent for the third quarter 2001, compared to 54.3 percent for the third quarter 2000. First nine months 2001 gross profit margin was 52.1 percent, compared to 54.8 percent for the first nine months 2000. These decreases were due primarily to increased goodwill and intangibles amortization as a result of the acquisition of the pharmaceutical business of BASF in 2001, the negative effect of the relatively stronger U.S. dollar and one-time restructuring charges; partially offset by favorable sales mix.

Research and development expenses for the third quarter 2001 and first nine months 2001, excluding acquired in-process research and development of $1.187 billion in the first nine months of 2001, increased 25.8 percent and 11.5 percent, respectively, over the comparable 2000 periods. The majority of research and development expenditures continues to be concentrated on pharmaceutical and diagnostic products.

Selling, general and administrative expenses for the third quarter 2001 and first nine months 2001 increased 42.3 percent and 24.6 percent, respectively, over the comparable 2000 periods, due primarily to increased spending as a result of the acquisition of the pharmaceutical business of BASF and increased selling and marketing support for new and existing products.

As a result of the consent decree entered into with the U.S. government in 1999, as discussed in Note 6, Abbott is prohibited from manufacturing or distributing certain diagnostic products until Abbott ensures the processes in its Lake County, Ill., diagnostics manufacturing operations conform

with the U.S. Food and Drug Administration's (FDA) Quality System Regulation (QSR). Abbott estimates that full year 2000 sales were negatively impacted by approximately $250 million, and earnings per share were negatively impacted by approximately 10 cents per share. Under the terms of the amended consent decree, Abbott must ensure its diagnostics manufacturing operations are in conformance with the QSR by various dates through January 15, 2001. The FDA will determine Abbott's conformance with the QSR after an inspection of Abbott's facilities in the fourth quarter of 2001. If the FDA concludes that the operations are not in conformance with the QSR as of the date required, Abbott may be subject to additional costs.

The FDA announced in 1997 that every manufacturer of levothyroxine drug products (SYNTHROID), most of which had been on the market for many years, would be required as part of the agency's regulatory process to file either a New Drug Application (NDA), or a citizen petition showing that their products are not new drugs and therefore do not require an NDA. SYNTHROID's manufacturer at the time, Knoll Pharmaceutical Company, which Abbott acquired in March 2001, exercised the citizen petition option because of SYNTHROID's long history and excellent track record. On April 26, 2001, the FDA denied Knoll's petition. Abbott promptly responded to the FDA that Abbott would submit an NDA for SYNTHROID, which Abbott submitted on August 1, 2001. On July 11, 2001 the FDA issued guidance on the distribution of levothyroxine sodium products during the NDA review process. The guidance assures that SYNTHROID will remain on the market while the agency reviews the NDA Abbott has submitted for SYNTHROID. However, the guidance also requires that levothyroxine sodium products without approved NDAs will be subject to a phased reduction in distribution as measured against levels previously distributed. By August 14, 2003, all levothyroxine sodium products without approved NDAs would be required to cease distribution. Upon NDA approval, the limits on distribution will be removed. Abbott expects that the NDA review process will take approximately ten to twelve months, during which time the distribution of SYNTHROID would be reduced to 60% of the level distributed during the six months preceding August 1, 2001. During the nine months ended September 30, 2001, Abbott recorded U.S. net sales of SYNTHROID of $380 million.

Acquisition of Knoll

On March 2, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll Pharmaceuticals for approximately $7.1 billion (subject to adjustments for the change in net assets of the business as of the closing date compared to net assets as of September 30, 2000). This acquisition was financed primarily with short-term borrowings, $3.250 billion of which was subsequently refinanced with long-term debt. The acquisition is accounted for under the purchase method of accounting. The allocation of the acquisition cost is as follows (in billions of dollars):

Allocation of Acquisition Cost—

Acquired intangible assets, primarily product rights for currently marketed products	$ 3.500
Goodwill	1.924
Acquired in-process research and development	1.187
Acquired net tangible assets	.522
Total allocation of acquisition cost	$ 7.133

The acquisition cost has been allocated to intangible assets, goodwill, acquired in-process research and development and net tangible assets based on an independent appraisal of fair values at the date of acquisition. Product rights for currently marketed products will be amortized on a straight-line basis over 10 to 16 years (average approximately 13 years) and goodwill will be amortized in 2001 on a

straight-line basis over 20 years. Acquired in-process research and development of $1.187 billion was charged to income in the first half 2001. The net tangible assets acquired consist primarily of property and equipment of approximately $600 million, trade accounts receivable of approximately $402 million and

inventories of approximately $303 million, net of assumed liabilities, primarily trade accounts payable and other liabilities.

Prior to the date of acquisition, Abbott began to plan for the integration and restructuring of the business. In the second and third quarters of 2001, Abbott formally approved several restructuring plans and is continuing to assess and formulate further restructuring plans for specific business activities. The costs of implementing formally approved plans have been included in the reported amount of goodwill above. Abbott expects that additional restructuring plans will be finalized and formally approved throughout the 12 months following the date of acquisition which will increase the amount of reported goodwill above. In addition, integration of the acquired operations will result in charges which will be recorded against earnings in the periods in which the integration plans are finalized, consistent with previous forecasts.

Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Abbott as if the acquisition of the pharmaceutical business of BASF had taken place on January 1, 2000. The pro forma information includes primarily adjustments for acquired in-process research and development, amortization of product rights for currently marketed products, interest expense for estimated acquisition debt and amortization of goodwill. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date.

	Three months ended September 30		Nine months ended September 30	
In millions, except per share amounts	2001 Pro Forma	2000 Pro Forma	2001 Pro Forma	2000 Pro Forma
Sales	$ 4,181.2	$ 3,921.4	$ 12,297.3	$ 11,657.6
Net income	657.2	618.3	1,675.2	1,779.0
Diluted earnings per share	0.42	0.40	1.08	1.14

Restructuring Charges
(dollars in millions)

In the second and third quarters of 2001, Abbott began implementing restructuring plans related to the operations of the acquired pharmaceutical business of BASF. In addition, Abbott announced in the second quarter 2001 that it was closing one of its manufacturing operations and relocating production to other Abbott facilities. The following summarizes the restructuring activity:

	Employee and Other Related	Asset Impairments	Total
Restructuring charges	$ 155.9	$ 11.5	$ 167.4
Payments and other activity	(42.8)	(11.5)	(54.3)
Accrued balance at September 30, 2001	$ 113.1	$ —	$ 113.1

Of the $167.4 total restructuring charges, $118.4 has been recorded as goodwill associated with the acquisition of the pharmaceutical business of BASF. Of the amount expensed, approximately $35.8 is classified as cost of products sold, $10.8 as selling, general and administrative and $2.4 as research and development. Employee related costs are primarily severance pay, relocation of former BASF employees and outplacement services.

Sale of Agricultural Products Business

On January 20, 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a $46 million gain recorded in the first quarter 2000. In the second quarter 2000, upon Sumitomo achieving a sales milestone, Abbott recorded an additional $92 million gain.

Interest (Income) Expense, Net

Net interest expense increased in both the third quarter and first nine months 2001 due primarily to a higher level of borrowings as a result of the acquisition of the pharmaceutical business of BASF.

Income from TAP Pharmaceutical Products Inc. Joint Venture

Abbott's income from TAP Pharmaceutical Products Inc. (TAP) joint venture was adversely affected, for the nine months ended September 30, 2001, as a result of the settlement of the U.S. Department of Justice investigation of TAP's marketing of LUPRON as discussed in Note 5 to the condensed consolidated financial statements.

Taxes on Earnings

The effective tax rates on earnings for the third quarter and nine months of 2001, excluding the charge for acquired in-process research and development, were approximately 22 percent and 26 percent, respectively. The estimated annual effective tax rate on income, excluding the charge for acquired in-process research and development is approximately 26 percent. In addition, the tax rate used to benefit the charge for acquired in-process research and development was 38 percent, which is comprised of the U.S. federal income tax rate plus state income taxes, net of the federal tax effect. The combination of these items resulted in tax rates of approximately 22 percent and 14 percent for the third quarter and nine months of 2001 respectively. The effective income tax rate was 27 percent in 2000.

Liquidity and Capital Resources at September 30, 2001 Compared with December 31, 2000

Net cash from operating activities for the first nine months 2001 totaled $2.7 billion. Abbott expects annual cash flow from operating activities to continue to approximate or exceed Abbott's capital expenditures and cash dividends.

At September 30, 2001, Abbott had working capital of $389 million compared to working capital of approximately $3.1 billion at December 31, 2000. The decrease in working capital in 2001 was primarily due to increased short-term commercial paper borrowings as a result of the acquisition of the pharmaceutical business of BASF.

At September 30, 2001, Abbott's bond ratings were AA by Standard & Poor's Corporation and Aa3 by Moody's Investors Service. Abbott has readily available financial resources, including unused domestic lines of credit of $3.0 billion, which support domestic commercial paper borrowing arrangements. As a result of the acquisition of the pharmaceutical business of BASF, Abbott's credit ratings were adjusted to reflect the increased borrowings that financed the acquisition.

Under a registration statement filed with the Securities and Exchange Commission in February 2001, Abbott issued $3.250 billion of long-term debt securities in the third quarter of 2001. Proceeds from this issuance were used to reduce short-term commercial paper borrowings. Under the registration statement, Abbott may issue up to $250 million of securities in the future in the form of debt securities or common shares without par value.

Legislative Issues

Abbott's primary markets are highly competitive and subject to substantial government regulation. Abbott 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. Abbott 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 Abbott 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.

Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires the recognition of the fair value of derivatives as either assets or liabilities. Adoption of the provisions of this statement on January 1, 2001, resulted in a transition credit to income of approximately $2 million in 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations initiated after September 30, 2001, be accounted for using the purchase method of accounting. With the adoption of SFAS No. 142 on January 1, 2002, goodwill will no longer be subject to amortization over its estimated useful life. Goodwill will be subject to at least an annual assessment of impairment by applying a fair-value-based test, beginning on the date of adoption of the new standard. Abbott is assessing the potential impact, if any, which may be caused by the assessment of impairment requirements of SFAS No. 142. Abbott estimates that annual goodwill amortization subject to the new rule is approximately $80 million to $100 million on an after tax basis.

Private Securities Litigation Reform Act of 1995—A Caution Concerning Forward-Looking Statements

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Abbott cautions investors that any forward-looking statements or projections made by Abbott, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Exhibit 99.1 to the Annual Report on Form 10-K.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Abbott is involved in various claims and legal proceedings, including those described below. In addition, the Department of Justice has been engaged in an investigation of the marketing and pricing practices of TAP Pharmaceutical Products Inc. ("TAP") for leuprolide acetate depot suspension (a drug TAP markets as Lupron Depot®). Abbott owns fifty percent of TAP.

In its 10-Q for the quarterly period ended March 31, 2001, Abbott reported that nineteen antitrust cases were pending in federal court and 3 were pending in state court in connection with the settlement of patent litigation by Abbott involving terazosin hydrochloride (a drug Abbott sells under the trademark Hytrin®). Four additional cases have been filed. On September 4, 2001, Abbott was served with a complaint that had been filed on April 10, 2000 by Blue Cross Blue Shield of Michigan in the United States District Court for the Western District of Michigan. On September 19, 2001, the Attorney General of the State of West Virginia filed a lawsuit in state court in Wyoming County, West Virginia. On October 2, 2001, the Attorneys' General of the states of Florida, Colorado and Kansas filed a lawsuit in the United States District Court for the Southern District of Florida. On October 2, 2001, Linda Hopper filed a lawsuit in state court in Pitt County, North Carolina. Each alleges that Abbott's agreements with Geneva and Zenith violated antitrust and/or consumer protection laws and purports to be a class action. Abbott has filed or intends to file a response to all four complaints denying all substantive allegations.

In its 10-Q for the quarterly period ended March 31, 2001, Abbott reported that the fourteen securities law cases related to Abbott's alleged noncompliance with the Food and Drug Administration's Quality System Regulation at Abbott's Diagnostics Division facilities in Lake County, Illinois had been dismissed by the United States District Court for the Northern District of Illinois. Abbott also reported that the plaintiffs had appealed the dismissal decisions to the United States Court of Appeals for the Seventh Circuit. On October 17, 2001, the Seventh Circuit affirmed the dismissal decisions. The plaintiffs may appeal this decision.

In its 2000 Form 10-K, Abbott reported that various state and federal agencies are investigating Abbott's marketing and pricing practices with respect to certain Medicare and Medicaid reimbursable products. These civil investigations seek to determine whether these practices violated any laws, including the Federal False Claims Act, or constituted fraud in connection with the Medicare and/or Medicaid reimbursement paid to third parties. Three cases have been filed in state courts

in connection with these marketing practices. *Jonathon Peralta, a minor by and through his Guardian ad Litem, Filomena Ibarra v. Abbott Laboratories, Inc.* and *Shirley Geller v. Abbott Laboratories, Baxter International, Glaxo Wellcome, Inc., SmithKline Beecham, Bristol-Myers Squibb Company, and Does 1 through 100* were filed in Superior Court of California, County of Los Angeles. Each alleges violations of the California Business and Professional Code and purports to be a class action on behalf of a nationwide class of consumers who use Lupron, Calcijex®, Vancomycin, and Acyclovir Sodium and sodium saline solution and seeks damages, disgorgement of profits, and other relief. On October 11, 2001, the Attorney General of West Virginia filed *State of West Virginia ex rel Darrell V. McGraw, Jr. Attorney General v. Warrick Pharmaceuticals Corp., Dev. Inc., Abbott Laboratories and Abbott Laboratories, Inc.* in Kanawha County, West Virginia, alleging fraud violations, including fraud and abuse in the Medicaid program, violations of the West Virginia Consumer Credit and Protection Act, and unjust enrichment and seeking damages, disgorgement of profits, and other relief.

As previously reported in Abbott's 2000 Form 10-K, the Department of Justice has been engaged in an investigation of the marketing and pricing practices of TAP Pharmaceutical Products Inc. ("TAP") for leuprolide acetate depot suspension (a drug TAP markets as Lupron Depot®). Abbott owns fifty percent of TAP. TAP has reached a settlement with the U.S. Department of Justice. The Department of Justice alleged that certain of TAP's marketing and pricing practices resulted in losses

to the Medicare and Medicaid programs as well as certain other federal health care programs. As part of the settlement, TAP entered into a Corporate Integrity Agreement with the U.S. Department of Health and Human Services, Office of Inspector General. TAP also reached a settlement with each of the 50 states and with the District of Columbia concerning their respective Medicaid programs. As part of the negotiations, TAP agreed to plead guilty to a one count Information alleging a conspiracy to violate the Prescription Drug Marketing Act and to pay a criminal fine of $290 million to resolve this charge. TAP also agreed to pay $585 million to resolve certain civil allegations. Settlement of the civil allegations includes settlement of two *qui tam* cases filed against TAP. Under the civil settlement, the 50 states and the District of Columbia will receive $25.5 million of the $585 civil settlement dollars. The entire settlement is contingent upon the U.S. District Court for the District of Massachusetts accepting TAP's plea and imposing the agreed-upon criminal fine. The hearing has been scheduled for December 17, 2001.

In its 10-Q for the quarterly period ended June 30, 2001, Abbott reported that seven cases were pending in connection with the marketing practices of TAP described in the preceding paragraph. Three additional cases have been filed. Two of these cases are pending in the United States District Court for the Northern District of Illinois: *Jama K. Russano and George Russano v. Abbott Laboratories, Takeda Chemical Industries, Ltd., and TAP Pharmaceutical Products, Inc.* (filed September 7, 2001) and *Mechanical Contractors—UA Local 119 Welfare Plan v. Abbott Laboratories, Takeda Chemical Industries, Ltd. and TAP Pharmaceutical Products, Inc.* (filed September 25, 2001). Each case alleges fraud in connection with the marketing of Lupron; purports to be a class action on behalf of entities and individuals who paid the twenty percent co-payment cost of Lupron; and seeks treble damages and other relief. Abbott has filed or intends to file a response in each case denying all substantive allegations. The other case is pending in state court. On October 18, 2001, *Bernard Walker v. TAP Pharmaceutical Products, Inc., Abbott Laboratories and Takeda Chemical Industries, Ltd.* was filed in state court in Cape May County, New Jersey. This complaint alleges violations of the New Jersey consumer protection statutes, unjust enrichment, fraud and civil conspiracy in connection with the marketing of Lupron; purports to be a class action on behalf of entities and individuals who paid the twenty percent co-payment cost of Lupron; and seeks damages (including punitive damages) and other relief.

The U.S. Attorney's office in the Southern District of Illinois is conducting an investigation of the enteral nutrition industry, including Abbott. On July 24, 2001, Abbott received a subpoena for documents from the U.S. Attorney's office and is cooperating with the investigation.

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 Abbott'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	Abbott Laboratories 1991 Incentive Stock Program - attached hereto.
12.	Statement re: computation of ratio of earnings to fixed charges - 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

/s/ Thomas C. Freyman

Thomas C. Freyman, Senior Vice President,
Finance and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Abbott Laboratories 1996 Incentive Stock Program—attached hereto.
10.2	Abbott Laboratories 1991 Incentive Stock Program—attached hereto.
12.	Statement re: computation of ratio of earnings to fixed charges—attached hereto.

QuickLinks

Exhibit 10.1

As amended, effective 9/7/01

ABBOTT LABORATORIES
1996 INCENTIVE STOCK PROGRAM

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") for the years 1996 through 1999, 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 and for the years from and including 2000, one and a half percent (1.5%) 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 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.

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. During the term of the Program, no more than 5 million shares of Abbott common stock may be granted in the form of Performance Units and no more than 5 million shares of Abbott common stock may be granted in the form of Performance Shares. 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.

13. RESTRICTED STOCK AWARDS FOR NON-EMPLOYEE DIRECTORS.

(a) Each year, on the date of the annual shareholders meeting, each person who is elected a Non-Employee Director at the annual shareholders meeting shall be awarded both: (i) a Restricted Stock Award covering a number of common shares with a fair market value on the date of the award closest to, but not in excess of, an amount equal to six times the monthly fee in effect under Section 3.1 of the Abbott Laboratories Non-Employee Director's Fee Plan on the date of the award and (ii) in the years 1996 through 2005, a Restricted Stock Award 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 20(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.

(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) Effective on October 10, 1997, each Non-qualified Stock Option due a director under this Section 14 prior to the 1998 annual shareholders meeting shall be granted on October 10, 1997 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. Effective with the 1998 Annual Shareholders Meeting, each

Non-qualified Stock Option due a director under this Section 14 shall be granted annually, on the date of the annual shareholders meeting, 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 immediately exercisable and nonforfeitable, and shall not be exercisable after the expiration of ten (10) years from the date it is granted. Each such option shall contain provisions allowing payment of the purchase price and, to the extent permitted, any taxes due on exercise, by delivery of other common shares of the Company (or, in the case of the payment of taxes, by withholding of shares).

(e) All Non-qualified Stock Options granted under this Section 14 prior to October 10, 1997, shall be immediately exercisable and nonforfeitable, and shall not be exercisable after the expiration of ten (10) years from the date granted.

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 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. Notwithstanding the foregoing, except as provided in paragraph 22, the Committee shall neither

lower the purchase price of any option granted under the Program nor grant any option under the Program in replacement of a cancelled option which had previously been granted at a higher purchase price, without shareholder approval.

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. Except as provided below, the Fair Market Value of the Company's common shares shall be determined by such methods or procedures as shall be established by the Committee; 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.

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 paragraphs 11 and 19 on the number of shares that may be granted or issued (as the case may be), 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. Notwithstanding the foregoing,

except as provided in paragraph 22, the Company shall neither lower the purchase price of any option granted under the Program nor grant any option under the Program in replacement of a cancelled option which had previously been granted at a higher purchase price, without shareholder approval. 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.

Exhibit 10.2

As amended, effective 9/7/01

ABBOTT LABORATORIES
1991 INCENTIVE STOCK PROGRAM

1. PURPOSE. The purpose of the Abbott Laboratories 1991 Incentive Stock Program (the "Program") is to attract and retain outstanding individuals as directors, officers and other employees of Abbott Laboratories (the "Company") and its subsidiaries, and to furnish incentives to such persons by providing such persons opportunities to acquire common shares of the Company, or monetary payments based on the value of such shares or financial performance of the Company, or both, on advantageous terms as herein provided.

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 "disinterested persons" as defined in Rule 16b-3 of the Securities and Exchange Commission 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 a majority of the Committee members

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 discretions 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; and (iv) 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. 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 Units; and (g) Foreign Qualified Benefits, all as described below and pursuant to the Plans set forth in paragraphs 6-12 hereof.

5. SHARES RESERVED UNDER THE PROGRAM. There is hereby reserved for issuance under the Program an aggregate of Five Million (5,000,000) common shares, which may be newly issued or treasury shares. The shares hereby reserved are in addition to the shares previously reserved under the Company's 1977 Incentive Stock Plan, 1981 Incentive Stock Program and 1986 Incentive Stock Program (the "Prior Stock Option Plans"). Any common shares reserved for issuance under the Prior Stock Option Plans 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

Stock Option Plans 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. All of such shares may, but need not, be issued pursuant to the exercise of the Incentive Stock Options.

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, the shares subject to or reserved for such Benefit may again be used for new options, rights of awards or any sort authorized under this Program; provided, however,

that in no event may the number of common shares issued under this Program exceed the total number of shares reserved for issuance hereunder.

6. INCENTIVE STOCK OPTION PLAN. 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. Incentive Stock Options will be exercisable over not more than ten (10) years after the date of grant. 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 earlier of the end of the original term of the option or sixty (60) months after the date of such retirement, disability or death. 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. If the optionee should die within sixty (60) months after termination of employment due to retirement or disability, the right of his or her successor in interest to exercise an Incentive Stock Option shall terminate upon the later of sixty (60) months after the date of such retirement or disability or six (6) months after the date of such death, but not later than the end of the original term of the option. The aggregate fair market value (determined as of the time the Option is granted) of the common shares with respect to which Incentive Stock Options are exercisable for the first time by any individual during any calendar year (under all option plans of the Company and its subsidiary corporations) shall not exceed $100,000. An Incentive Stock Option 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 otherwise permitted under Rule 16b-3 of the Securities and Exchange Commission).

7. NON-QUALIFIED STOCK OPTION PLAN. 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. Non-qualified Stock Options will be exercisable over not more than ten (10) years after the date of grant. 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 earlier of the end of the original term of the option

or sixty (60) months after the date of such retirement, disability or death. 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. If the optionee should die within sixty (60) months after termination of employment due to retirement or disability, the right of his or her successor in interest to exercise a Non-qualified Stock Option shall terminate upon the later of sixty (60) months after the date of such retirement or disability or six (6) months after the date of such death, but not later than the end of the original term of the option. A Non-qualified Stock Option 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 otherwise permitted under Rule 16b-3 of the Securities and Exchange Commission).

8. STOCK APPRECIATION RIGHTS PLAN. The Committee may, in its discretion, grant a Stock Appreciation Right to the holder of any stock option granted hereunder or under the Prior Stock Option Plans. 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 otherwise permitted under Rule 16b-3 of the Securities and Exchange Commission).

(d) The Committee shall have the discretion to satisfy a participant's right to receive the amount of cash determined under subparagraph (b) hereof, in whole or in part, by the delivery of common shares valued as of the date of the participant's election.

(e) 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.

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

9. LIMITED STOCK APPRECIATION RIGHTS PLAN. 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 Stock Option Plans. 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 otherwise permitted under Rule 16b-3 of the Securities and Exchange Commission) and only during the sixty (60) day period commencing with the day following the date of a Change In Control.

(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 PLAN. 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 one of its subsidiaries. Restricted Stock Awards shall be subject to such terms and conditions as the Committee determines appropriate, including, without limitations, 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 otherwise permitted under Rule 16b-3 of the Securities and Exchange Commission).

11. PERFORMANCE UNITS PLAN. Performance Units shall consist of monetary units granted to participants 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, but not in any event more than five (5) years. The goals established by the Committee may include earnings per share, return on shareholder equity, return on average total capital employed, and/or such other goals as may be established by the Committee in its discretion. In the event the minimum corporate goal established by the Committee is not achieved at the conclusion of a period, no amount shall be paid to or vested in the participant. In the event the maximum corporate goal is achieved, One Hundred percent (100%) of the monetary value of the Performance Units shall be paid to or vested in the participants. Partial achievement of the maximum goal 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 vested and deferred, as the Committee in its sole discretion determines. Deferred awards shall earn interest on the terms and at a rate determined by the Committee. The number of shares reserved for issuance hereunder shall be reduced by the largest whole number obtained by dividing monetary value of the units at the commencement of the performance period by the market value of a common share at such time, provided that such number of shares may again become available for issuance under this Program as is provided in Paragraph 5 hereof.

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.

13. RESTRICTED STOCK AWARDS FOR NON-EMPLOYEE DIRECTORS.

(a) Each person elected a Non-Employee Director at the annual shareholders meeting in 1991, 1992, 1993, 1994 and 1995 shall receive a restricted Stock Award on that date 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 Thousand Dollars ($20,000).

(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. At the discretion of the Company, the Certificates shall bear legends 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 case 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 otherwise permitted 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 19(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 16 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.

14. NONTRANSFERABILITY. 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. A participant's interest in a Performance Unit shall not be transferable until payment or delivery of the award is made.

15. 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.

The Committee may, in its discretion, permit payment of 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 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 a participant to pay all or a portion of the federal, state and local taxes, including FICA 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 electing (i) to have the Company withhold common shares, (ii) to tender back common shares received in connection with such Benefit or (iii) to deliver other previously acquired common shares of the Company having a fair market value approximately equal to the amount to be withheld.

16. TERM OF PROGRAM AND AMENDMENT MODIFICATION. CANCELLATION OR

ACCELERATION OF BENEFITS. No Benefit shall be granted more than five (5) years after the date of the approval of this Program by the shareholders; provided, however, that the terms and conditions applicable to any Benefits granted prior to such date 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 Stock Option Plans to be exercisable, any or all then outstanding Restricted Stock Awards to be vested, and any or all then

outstanding Performance Units to have been earned, whether or not such options, rights, awards or units are then otherwise exercisable, vested or earned.

17. AMENDMENT TO PRIOR STOCK OPTION PLANS. No options or other Benefits shall be granted under the Prior Stock Option Plans on or after the date of shareholder approval of this Program.

18. 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.

19. DEFINITIONS.

(a) FAIR MARKET VALUE. Except as provided below, the Fair Market Value of the Company's common shares shall be determined by such methods or procedures as shall be established by the Committee; 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 19(c)(i) and 19(c)(ii).

(b) SUBSIDIARY. The term "subsidiary" for all purposes other than the Incentive Stock Option Plan described 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 Plan purposes the term "subsidiary" shall be defined as provided in Internal Revenue Code Section 425(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, 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

(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.

20. 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 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 common shares resulting from reorganization, sale, merger, consolidation or similar occurrence.

(b) Notwithstanding any other provision of this Program, and without affecting 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 11(d) but notwithstanding any other provision of this program or the Prior Stock

Option Plans, upon the occurrence of a Change in Control:

(i) All stock options then outstanding under this Program or the Prior Stock Option Plans 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 of the date of the Change in Control; and

(iv) All Performance Units 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.

21. 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. 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 losing its status as a protected plan under said Rule 16b-3.

22. SHAREHOLDER APPROVAL. The Program was adopted by the Board of Directors of the Company on February 8, 1991. The Program and any Benefit granted thereunder shall be null and void if shareholder approval is not obtained within twelve (12) months of the adoption of the Program by the Board of Directors.

Exhibit 12

Abbott Laboratories

Computation of Ratio of Earnings to Fixed Charges

(Unaudited)

(dollars in millions except ratios)

Nine Months Ended September 30, 2001	
Net Earnings	$937
Add (deduct): Taxes on earnings	151
Minority interest	13
Net Earnings as adjusted	$1,101
Fixed Charges: Interest on long-term and short-term debt	234
Capitalized interest cost	14
Rental expense representative of an interest factor	38
Total Fixed Charges	286
Total adjusted earnings available for payment of fixed charges	$1,387
Ratio of earnings to fixed charges	4.8

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) Abbott 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.