
FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2002

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) 937-6100

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

As of July 31, 2002, the Corporation had 1,562,265,533 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 June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Net Sales	\$ 4,314,889	\$ 4,099,119	\$ 8,504,178	\$ 7,658,999

Cost of products sold	2,166,590	1,983,064	4,062,667	3,626,382
Research and development	379,492	397,341	736,173	715,621
Acquired in-process research and development	107,700	172,000	107,700	1,187,000
Selling, general and administrative	978,008	948,202	1,869,694	1,695,215
Total Operating Cost and Expenses	3,631,790	3,500,607	6,776,234	7,224,218
Operating Earnings	683,099	598,512	1,727,944	434,781
Net interest expense	52,221	68,471	105,107	95,192
(Income) Loss from TAP Pharmaceutical Products Inc. joint venture	(177,251)	(159,658)	(335,713)	34,285
Net foreign exchange loss	18,369	9,651	43,092	18,721
Other (income) expense, net	5,303	17,133	(496)	12,352
Earnings Before Taxes	784,457	662,915	1,915,954	274,231
Taxes on earnings	192,192	133,867	469,409	(31,204)
Net Earnings	\$ 592,265	\$ 529,048	\$ 1,446,545	\$ 305,435
Basic Earnings Per Common Share	\$ 0.38	\$ 0.34	\$ 0.93	\$ 0.20
Diluted Earnings Per Common Share	\$ 0.38	\$ 0.34	\$ 0.92	\$ 0.20
Cash Dividends Declared Per Common Share	\$ 0.235	\$ 0.21	\$ 0.47	\$ 0.42
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,561,580	1,549,547	1,559,514	1,548,317
Dilutive Common Stock Options	12,380	19,594	17,027	9,797
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,573,960	1,569,141	1,576,541	1,558,114
Outstanding Common Stock Options Having No Dilutive Effect	46,460	3,028	22,558	3,028

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

Abbott Laboratories and Subsidiaries
Condensed Consolidated Statement of Cash Flows
(Unaudited)
(dollars in thousands)

	Six Months Ended June 30	
	2002	2001
Cash Flow From (Used in) Operating Activities:		
Net earnings	\$ 1,446,545	\$ 305,435
Adjustments to reconcile net earnings to net cash from operating activities—		
Depreciation	433,650	386,138
Amortization of intangibles	166,398	155,115
Acquired in-process research and development	107,700	1,187,000
Trade receivables	(41,127)	40,097
Inventories	(161,508)	(189,325)
Other, net	130,824	(389,380)
Net Cash From Operating Activities	2,082,482	1,495,080
Cash Flow From (Used in) Investing Activities:		

Acquisition of businesses and technology	(585,999)	(6,826,102)
Acquisitions of property and equipment	(600,488)	(391,390)
Investment securities transactions	(2,940)	2,214
Other	9,232	16,914
Net Cash (Used in) Investing Activities	(1,180,195)	(7,198,364)
Cash Flow From (Used in) Financing Activities:		
Proceeds from (repayments of) commercial paper, net	(844,000)	5,995,000
Other borrowing transactions, net	257,936	58,566
Common share transactions	121,794	90,080
Dividends paid	(693,521)	(619,010)
Net Cash (Used in) From Financing Activities	(1,157,791)	5,524,636
Effect of exchange rate changes on cash and cash equivalents	80,263	(70,823)
Net (Decrease) in Cash and Cash Equivalents	(175,241)	(249,471)
Cash and Cash Equivalents, Beginning of Year	657,378	914,218
Cash and Cash Equivalents, End of Period	\$ 482,137	\$ 664,747

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

Abbott Laboratories and Subsidiaries

Condensed Consolidated Balance Sheet

(dollars in thousands)

(Unaudited)

	June 30 2002	December 31 2001
Assets		
Current Assets:		
Cash and cash equivalents	\$ 482,137	\$ 657,378
Investment securities	221,009	56,162
Trade receivables, less allowances of \$190,429 in 2002 and \$195,585 in 2001	2,826,996	2,812,727
Inventories:		
Finished products	1,245,354	1,154,329
Work in process	588,782	487,310
Materials	557,855	570,396
Total inventories	2,391,991	2,212,035
Prepaid expenses, income taxes, and other receivables	2,087,912	2,680,887
Total Current Assets	8,010,045	8,419,189
Investment Securities Maturing after One Year	398,662	647,214
Property and Equipment, at Cost	11,599,895	11,225,405
Less: accumulated depreciation and amortization	5,988,349	5,673,858
Net Property and Equipment	5,611,546	5,551,547
Deferred Income Taxes, Investment in Joint Ventures and Other Assets	1,386,181	1,384,153
Goodwill	3,539,591	3,177,646
Intangible Assets, net of amortization	4,107,076	4,116,674
	\$ 23,053,101	\$ 23,296,423
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 2,390,909	\$ 2,953,335

Trade accounts payable	1,043,758	1,525,215
Salaries, income taxes, dividends payable, and other accruals	3,433,632	3,448,267
Total Current Liabilities	6,868,299	7,926,817
Long-Term Debt	4,400,786	4,335,493
Post-employment obligations and other long-term liabilities	1,895,220	1,974,681
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: 2002: 1,578,043,835; 2001: 1,571,816,976	2,856,073	2,643,443
Common shares held in treasury, at cost—Shares: 2002: 15,912,418; 2001: 17,286,684	(232,370)	(252,438)
Unearned compensation—restricted stock awards	(86,755)	(18,258)
Earnings employed in the business	7,996,151	7,281,395
Accumulated other comprehensive loss	(644,303)	(594,710)
Total Shareholders' Investment	9,888,796	9,059,432
	\$ 23,053,101	\$ 23,296,423

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

Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

June 30, 2002

(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 annual financial statements. However, in the opinion of management, all 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, 2001.

Note 2—Supplemental Financial Information

(dollars in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Net interest expense:				
Interest expense	\$ 60,192	\$ 90,175	\$ 123,133	\$ 141,221
Interest income	(7,971)	(21,704)	(18,026)	(46,029)
Total	\$ 52,221	\$ 68,471	\$ 105,107	\$ 95,192

Note 3—Taxes on Earnings

Taxes on earnings reflect the estimated annual effective rates, and for 2001, include the effect of the charge for acquired in-process research and development relating to the acquisition of the pharmaceutical business of BASF and the adjustment to the TAP Pharmaceutical Products Inc. joint venture income relating to the Department of Justice investigation. The effective tax rates, net of the effect of these 2001 charges, are less than the statutory U.S. federal income tax rate principally due to the domestic dividend exclusion and the benefit of tax exemptions in several taxing jurisdictions.

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 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.

The U. S. Attorney's office in the Southern District of Illinois is conducting an industry-wide investigation of the enteral nutritional business, including Abbott's Ross division. Abbott is cooperating with the investigation and is responding to subpoenas which have been issued. The investigation is both civil and criminal in nature. While it is not feasible to predict the outcome of this investigation with certainty, an adverse outcome in this investigation could have a material adverse effect on Abbott's cash flows and results of operations for a particular quarter, but should not have a material adverse effect on Abbott's financial position.

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a loss exposure. No individual site cleanup exposure is expected to exceed \$3 million, and the aggregate cleanup exposure is not expected to exceed \$20 million.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. Except for the enteral nutritional investigation, Abbott has recorded reserves of approximately \$150 million for its legal proceedings and environmental exposures including those discussed above and in Note 5. These reserves are best estimates, as defined by Statement of Financial Accounting Standards No. 5. While it is not feasible to predict the outcome of such proceedings with certainty, management believes that their ultimate disposition should not result in a loss materially different than the amount recorded, and should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations, except as noted above with respect to the enteral nutritional investigation.

Note 5—TAP Pharmaceutical Products Inc.

In 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*. In the first quarter of 2001, Abbott's income from the TAP joint venture was reduced by a charge of \$344 million relating to this investigation.

TAP and Abbott 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 TAP and Abbott. 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.

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 was to ensure its diagnostics manufacturing operations reached conformance with the QSR by various dates through January 15, 2001. The FDA would determine Abbott's conformance with the QSR after an inspection of Abbott's facilities. In January 2002, the FDA concluded its inspection of Abbott's facilities and issued its observations. In February 2002, Abbott submitted its response to those observations. In May 2002, the FDA informed Abbott that its Lake County manufacturing operations were found not in conformity with the QSR. Abbott will incur a one-time charge of approximately \$140 million pre-tax, or 7 cents per share, of which 6 cents per share, or \$129 million pre-tax, has been recorded in the second quarter of 2002. The FDA will determine Abbott's conformance with the QSR after a re-inspection of Abbott's facilities. If the FDA concludes that the operations are not in conformance with the QSR, Abbott may be subject to additional costs.

Note 7—Comprehensive Income, net of tax (dollars in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Foreign currency translation gain (loss) adjustments	\$ 250,504	\$ (170,257)	\$ 45,553	\$ (124,010)
Unrealized gains (losses) on marketable equity securities	(73,738)	15,325	(67,247)	3,878
Net (losses) on derivative instruments designated as cash flow hedges	(11,289)	—	(14,970)	—
Reclassification adjustment for realized (gains) losses	(2,011)	4,612	(12,929)	(13,687)
Other comprehensive (loss) income, net of tax	163,466	(150,320)	(49,593)	(133,819)
Net Earnings	592,265	529,048	1,446,545	305,435
Comprehensive Income	\$ 755,731	\$ 378,728	\$ 1,396,952	\$ 171,616

Supplemental Comprehensive Income Information, net of tax:

Cumulative foreign currency translation loss adjustments	\$ 590,369	\$ 630,893
Cumulative unrealized losses (gains) on marketable equity securities	50,372	(27,681)
Cumulative losses on derivative instruments designated as cash flow hedges	3,562	—

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Note 8—Segment Information (dollars in millions)

Reportable 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 performance measurement policies of Abbott, as described above. As a result, consolidated net sales and consolidated earnings before taxes are presented below in accordance with generally accepted accounting principles and reportable segment net sales and

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operating earnings are presented in accordance with the internal performance measurement policies of Abbott.

	Net Sales to External Customers				Operating Earnings			
	Three Months Ended June 30		Six Months Ended June 30		Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001	2002	2001	2002	2001
Pharmaceutical	\$ 997	\$ 895	\$ 1,947	\$ 1,610	\$ 293	\$ 310	\$ 584	\$ 535
Diagnostics	735	722	1,414	1,426	68	96	130	181
Hospital	762	686	1,436	1,321	208	190	391	357
Ross	515	511	1,094	1,101	159	188	400	443
International	1,243	1,187	2,466	2,030	316	248	663	463
Total Reportable Segments	4,252	4,001	8,357	7,488	1,044	1,032	2,168	1,979
Other	63	98	147	171				
Consolidated Net Sales	\$ 4,315	\$ 4,099	\$ 8,504	\$ 7,659				

Corporate functions	42	59	89	107
Benefit plans costs not allocated to revenue segments	2	21	33	41
Non-reportable segments	(1)	(5)	6	(3)
Net interest expense	52	68	105	95
Acquired in-process research and development	108	172	108	1,187
(Income) loss from TAP Pharmaceutical Products Inc.	(177)	(160)	(335)	34
Net foreign exchange loss	18	10	43	19
Other expense (income), net (a)	215	204	203	225
Consolidated Earnings Before Taxes	\$ 785	\$ 663	\$ 1,916	\$ 274

(a) Other expense (income), net for 2002 includes \$116 of the \$129 one-time pre-tax charge relating to the U.S. FDA consent decree charge as discussed in Note 6. The remaining amount of the charge is included in the results of the diagnostic products segment.

Note 9—Restructuring Charges

(dollars in millions)

In 2001, Abbott began implementing restructuring plans related primarily to the operations of the acquired pharmaceutical business of BASF. The following summarizes the restructuring activity:

	Employee Related And Other
Accrued balance at December 31, 2001	\$ 88.8
Restructuring charges, recorded as goodwill associated with the acquisition of the pharmaceutical business of BASF	59.3
Payments and other	(50.6)
	\$ 97.5
Accrued balance at June 30, 2002	\$ 97.5

Note 10—Sale of Selsun Blue Product Rights

In the first quarter 2002, Abbott sold its U.S. *Selsun Blue* product rights and recorded the gain in Net Sales in accordance with Abbott's revenue recognition accounting policies as discussed in Note 1 to the financial statements included in Abbott's Annual Report on Form 10-K. Sale of the international product rights will be recorded as the appropriate regulatory approvals are received.

Note 11—Goodwill and Intangible Assets (dollars in millions except per share amounts)

Effective with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002, goodwill is no longer subject to amortization over its estimated useful life. Goodwill is subject to at least an annual assessment of impairment by applying a fair-value-based test. Abbott completed its initial assessment of goodwill impairment in the second quarter 2002, which resulted in no impairment charges. Abbott will assess goodwill impairment in the third quarter of each year.

In 2002, Abbott recorded goodwill of \$59 relating to restructuring charges associated with the acquisition of the pharmaceutical business of BASF, \$257 relating to the acquisitions of Biocompatibles International plc and Hokuriku Seiyaku and the translation of foreign currency denominated goodwill. There were no reductions of goodwill in 2002 relating to impairments or disposal of all or a portion of a business. For internal management reporting purposes, goodwill is not allocated to reportable segments.

The following pro forma financial information reflects net income and diluted earnings per share as if goodwill and certain intangibles were not subject to amortization for the three months and six months ended June 30, 2001.

	Three Months Ended June 30, 2001		Six Months Ended June 30, 2001	
	Net Income	Earnings per Share	Net Income	Earnings per Share
Amounts as reported	\$ 529	\$ 0.34	\$ 305	\$ 0.20
Amortization, net of income taxes	30	0.02	40	0.02
Proforma amounts	\$ 559	\$ 0.36	\$ 345	\$ 0.22

The gross amount and accumulated amortization of amortizable intangible assets is as follows:

	June 30, 2002		December 31, 2001	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Product Rights and Technology	\$ 4,323	\$ 512	\$ 4,167	\$ 352
Patient Base and Other	192	44	192	38
Total	\$ 4,515	\$ 556	\$ 4,359	\$ 390

The estimated annual amortization expense for intangible assets is \$339 in 2002, \$346 in 2003 and 2004, \$341 in 2005, and \$335 in 2006. The net amount of intangible assets with indefinite lives, primarily registered tradenames, not subject to amortization is \$148 at June 30, 2002 and December 31, 2001.

Note 12—Business Combinations and Technology Acquisition

In the second quarter 2002, Abbott acquired the cardiovascular stent business of Biocompatibles International plc and certain cardiovascular stent technology rights from Medtronic, Inc. In addition, Abbott acquired an additional 28.8 percent of the issued common shares of Hokuriku Seiyaku, resulting in Abbott owning 95.5 percent of the common shares of Hokuriku Seiyaku. The aggregate cash purchase price (\$586 million) of these strategic business and technology acquisitions resulted in a charge of \$108 million for acquired in-process research and development, intangible assets of approximately \$145 million and non-tax deductible goodwill of approximately \$257 million. The allocation of the purchase price was based on preliminary independent appraisals of fair values as of the dates of acquisition. Acquired intangible assets, primarily product technology, will be amortized over 4 to 13 years (average of approximately 8 years). Had these acquisitions taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

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In the first quarter, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll Pharmaceuticals, for approximately \$7.2 billion. The acquisition was accounted for under the purchase method of accounting.

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FINANCIAL REVIEW

Results of Operations—Second Quarter and First Six Months of 2002 Compared with Same Periods in 2001

The following table details sales by reportable segment, presented in accordance with Abbott's internal performance measurement policies, for the second quarter and first six months of 2002 (*dollars in millions*):

	Net Sales to External Customers		Percentage Change (a)	Net Sales to External Customers		Percentage Change (a)
	Three Months Ended June 30			Six Months Ended June 30		
	2002	2001	2002	2001		
Pharmaceutical	\$ 997	\$ 895	11.5	\$ 1,947	\$ 1,610	21.0
Diagnostics	735	722	1.9	1,414	1,426	(0.8)
Hospital	762	686	11.0	1,436	1,321	8.6
Ross	515	511	0.6	1,094	1,101	(0.7)
International	1,243	1,187	4.8	2,466	2,030	21.5
Total Reportable Segments	4,252	4,001	6.3	8,357	7,488	11.6
Other	63	98	(35.7)	147	171	(14.0)
Net Sales	\$ 4,315	\$ 4,099	5.3	\$ 8,504	\$ 7,659	11.0
Total U.S.	\$ 2,603	\$ 2,459	5.8	\$ 5,175	\$ 4,752	8.9
Total International	\$ 1,712	\$ 1,640	4.4	\$ 3,329	\$ 2,907	14.5

(a) Percentage changes are based on unrounded numbers.

Worldwide sales for the second quarter and first six months reflect primarily unit growth. Excluding the negative effect of the relatively stronger U.S. dollar, sales increased 6.3 percent for the second quarter and 12.7 percent for the first six months, respectively, over the comparable 2001 periods. Pharmaceutical and International segment sales for the six months ended June 30, 2002 were favorably impacted by the acquisition of the pharmaceutical business of BASF in the first quarter of 2001. Diluted earnings per common share for the quarter were 38 cents, compared to 34 cents a year ago.

Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 49.8 percent for the second quarter 2002, compared to 51.6 percent for the second quarter 2001. First six months 2002 gross profit margin was 52.2 percent, compared to 52.7 percent for the first six months 2001.

These decreases were due primarily to the one-time consent decree charge in 2002 and the negative effect of the relatively stronger U.S. dollar; partially offset by favorable product mix, and in the second quarter 2002 by the absence of goodwill amortization. The gross profit margin for the pharmaceutical products segment was negatively impacted by unfavorable product mix in the second quarter 2002 versus 2001. Gross profit margins for the diagnostic products segment were negatively impacted by the effect of the consent decree, as discussed below, for both the six months and second quarter 2002 and 2001.

Research and development expenses, excluding acquired in-process research and development, decreased 4.5 percent in the second quarter 2002 and increased 2.9 percent in the six months ended June 30, 2002 over the comparable 2001 periods. The decrease in research and development in the second quarter is due primarily to the timing of spending for pharmaceutical programs. The majority of research and development expenditures continues to be concentrated on pharmaceutical products.

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Selling, general and administrative expenses for the second quarter 2002 and first six months 2002 increased 3.1 percent and 10.3 percent, respectively, over the comparable 2001 periods, due primarily to increased spending as a result of the acquisition of the pharmaceutical business of BASF, increased selling and marketing support for new and existing products and for the Ross products segment, increased promotional spending to counter competitive promotional spending.

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). Under the terms of the amended consent decree, Abbott was to ensure its diagnostics manufacturing operations reached conformance with the QSR by various dates through January 15, 2001. The FDA would determine Abbott's conformance with the QSR after an inspection of Abbott's facilities. In January 2002, the FDA concluded its inspection of Abbott's facilities and issued its observations. In February 2002, Abbott submitted its response to those observations. In May 2002, the FDA informed Abbott that its Lake County manufacturing operations were found not in conformity with the QSR. Abbott will incur a one-time pre-tax charge of approximately \$140 million, or 7 cents per share, of which 6 cents per share, or \$129 million pre-tax, has been recorded in the second quarter of 2002. The majority of the charge is included in Other expense (income), net in the segment information in Note 8 to the condensed consolidated financial statements. In addition, as publicly disclosed on June 11, 2002, ongoing earnings per share is expected to be negatively impacted by approximately 9 cents per share in 2002 and 18 cents per share in 2003. The FDA will determine Abbott's conformance with the QSR after a re-inspection of Abbott's facilities. If the FDA concludes that the operations are not in conformance with the QSR, Abbott may be subject to additional costs.

The FDA announced in 1997 that all manufacturers 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 24, 2002, Abbott announced that it received U.S. FDA approval of its NDA for *Synthroid*. Prior to this approval, Abbott's distribution of *Synthroid* was subject to certain limits, which were lifted by this approval. In 2001, Abbott recorded U.S. net sales of *Synthroid* of \$445 million.

The U. S. Attorney's office in the Southern District of Illinois is conducting an industry-wide investigation of the enteral nutritional business, including Abbott's Ross division. Abbott is cooperating with the investigation and is responding to subpoenas which have been issued. The investigation is both civil and criminal in nature. While it is not feasible to predict the outcome of this investigation with certainty, an adverse outcome in this investigation could have a material adverse effect on Abbott's cash flows and results of operations for a particular quarter, but should not have a material adverse effect on Abbott's financial position.

On July 31, 2002 a jury concluded that Abbott's *Gengraf* product infringed a third party's patent and awarded \$5 million in damages to the third party. Abbott intends to appeal the verdict. Sales of *Gengraf* in the six months ended June 30, 2002 were approximately \$20 million.

Business Combinations and Technology Acquisition

In the second quarter 2002, Abbott acquired the cardiovascular stent business of Biocompatibles International plc and certain cardiovascular stent technology rights from Medtronic, Inc. In addition,

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Abbott acquired an additional 28.8 percent of the issued common shares of Hokuriku Seiyaku, resulting in Abbott owning 95.5 percent of the common shares of Hokuriku Seiyaku. The aggregate cash purchase price (\$586 million) of these strategic business and technology acquisitions resulted in a charge of \$108 million for acquired in-process research and development, intangible assets of approximately \$145 million and non-tax deductible goodwill of approximately \$257 million. Acquired intangible assets, primarily product technology, will be amortized over 4 to 13 years (average of approximately 8 years). Had these acquisitions taken place on January 1 of the previous year, consolidated sales and income would not have been significantly different from reported amounts.

In the first quarter, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll Pharmaceuticals, for approximately \$7.2 billion. The acquisition was accounted for under the purchase method of accounting.

Restructuring Charges (dollars in millions)

In 2001, Abbott began implementing restructuring plans related primarily to the operations of the acquired pharmaceutical business of BASF. The following summarizes the restructuring activity:

Employee Related And Other

Accrued balance at December 31, 2001	\$	88.8
Restructuring charges, recorded as goodwill associated with the acquisition of the pharmaceutical business of BASF		59.3
Payments and other		(50.6)
Accrued balance at June 30, 2002	\$	97.5

Sale of Selsun Blue Product Rights

In the first quarter 2002, Abbott sold its U.S. *Selsun Blue* product rights and recorded the gain in Net Sales in accordance with Abbott's revenue recognition accounting policies as discussed in Note 1 to the financial statements included in Abbott's Annual Report on Form 10-K. Sale of the international product rights will be recorded as the appropriate regulatory approvals are received.

Interest Expense

Interest expense decreased in both the second quarter and first six months of 2002 due primarily to lower interest rates.

Income from TAP Pharmaceutical Products Inc. Joint Venture

In 2001, Abbott's income from TAP Pharmaceutical Products Inc. (TAP) joint venture was adversely affected as a result 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

Taxes on earnings reflect the estimated annual effective rates, and for 2001, include the effect of the charge for acquired in-process research and development relating to the acquisition of the pharmaceutical business of BASF and the adjustment to the TAP Pharmaceutical Products Inc. joint venture income relating to the Department of Justice investigation. The effective tax rates, net of these 2001 charges, are less than the statutory U.S. Federal income tax rate principally due to the domestic dividend exclusion and the benefit of tax exemptions in several taxing jurisdictions.

Earnings (in millions, except per share amounts)

Abbott recorded certain one-time charges to earnings in the second quarter and first six months of 2002 and 2001. Management's analysis of these items compared to reported net income and diluted earnings per share for the three months and six months ended June 30, 2002 and 2001, in accordance with generally accepted accounting principles (GAAP) is as follows:

Description	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Acquired in-process research and development	\$ 108	\$ 172	\$ 108	\$ 1,187
TAP Pharmaceutical Products Inc. joint venture income adjustment relating to <i>Lupron</i>	—	—	—	344
U.S. FDA consent decree charge	129	—	129	—
Acquisition related charges other than acquired in-process research and development	—	104	—	119
Total pretax one-time charges	237	276	237	1,650
Taxes on one-time charges	58	100	58	515
Net income effect of one-time charges	179	176	179	1,135
Net income as reported (GAAP)	592	529	1,446	305
Net income excluding one-time charges	\$ 771	\$ 705	\$ 1,625	\$ 1,440
Diluted earnings per share effect of one-time charges	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.72
Diluted earnings per share as reported (GAAP)	0.38	0.34	0.92	0.20
Diluted earnings per share excluding one-time charges	\$ 0.49	\$ 0.45	\$ 1.03	\$ 0.92

Liquidity and Capital Resources at June 30, 2002 Compared with December 31, 2001

Net cash from operating activities for the first six months 2002 totaled \$2.1 billion. Abbott expects annual cash flow from operating activities to continue to approximate or exceed Abbott's capital expenditures and cash dividends.

At June 30, 2002, Abbott had working capital of \$1.1 billion compared to working capital of approximately \$492 million at December 31, 2001. The increase in working capital in 2002 was primarily due to operating cash flows used to decrease short-term commercial paper borrowings.

At June 30, 2002, 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. In connection

with the acquisition of the issued common shares of Hokuriku Seiyakuyu, as discussed in Note 12, Abbott borrowed approximately \$270 million under a bank credit facility. The \$300 million yen denominated facility requires repayment by March 31, 2003.

Under a registration statement filed with the Securities and Exchange Commission in February 2001, 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

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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.

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.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Abbott is involved in various claims and legal proceedings, including those described below.

As previously reported in Abbott's 2001 Form 10-K, the United States District Court for the Northern District of Illinois dismissed a number of shareholder derivative suits filed in 1999 against Abbott's directors in connection with Abbott's consent decree with the FDA. Plaintiffs appealed that decision. On June 6, 2002, the United States Court of Appeals for the Seventh Circuit reversed the dismissal. On August 2, 2002, the Court of Appeals withdrew, and vacated, its June 6, 2002 order, and reinstated the appeal, indicating it will reissue a revised opinion at a later date.

As previously reported, a number of prescription pharmaceutical pricing antitrust suits are pending in federal and state courts as purported class actions alleging that Abbott, other pharmaceutical manufacturers, and pharmaceutical wholesalers conspired to fix prices for prescription pharmaceuticals and/or to discriminate in pricing to retail pharmacies in violation of state and federal antitrust laws. In the federal cases still pending against Abbott, the wholesalers' motion to be dismissed from these cases was granted. On May 6, 2002, the Seventh Circuit affirmed the district court's ruling granting summary judgment to the wholesalers.

In its Form 10-Q for the period ended March 31, 2002, Abbott reported that nine cases were pending as purported class actions on behalf of individuals or entities that allege generally that Abbott and other pharmaceutical companies reported false information in connection with certain drugs that are reimbursable under Medicare and Medicaid, and generally seek damages, treble damages, disgorgement of profits, restitution and attorneys' fees. One additional case has been filed: *Teamsters Health & Welfare Fund of Philadelphia and Vicinity v. Abbott Laboratories, Inc., Allergan Inc., Amgen Inc., Aventis Pharma, Bayer AG, Bayer Corporation, Baxter International, Inc., Fugisawa Healthcare, Inc., Eli Lilly and Company, and Pharmacia Corp.* filed in April 2002 in the U.S. District Court for the Eastern District of Pennsylvania. One of the previously reported state cases, *State of Montana*, has been removed to federal court. The federal court cases have been consolidated in the United States District Court in Massachusetts under the Multidistrict Litigation Rules as *In re Pharmaceutical Industry Average Wholesale Price Litigation, MDL 1456*.

In its 2001 Form 10-K, Abbott reported that a number of cases had been brought against TAP, Abbott and Takeda Chemical Industries, Ltd. that generally allege that TAP reported false pricing information in connection with Lupron®, a product reimbursable under Medicare. In its first quarter Form 10-Q, Abbott reported that two additional cases (*Empire Healthchoice* and *Blue Cross and Blue Shield of Florida*) were filed in the United States District Court in Massachusetts by insurance carriers. Those two cases have been consolidated into a single action, *Empire Healthchoice*, by the filing of an amended complaint that also added nineteen additional Blue Cross and Blue Shield entities as plaintiffs.

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

As previously reported in Abbott's 2001 Form 10-K, the U.S. Attorney's office in the Southern District of Illinois is conducting an industry-wide investigation of the enteral nutritional business, including Abbott's Ross division. Abbott is cooperating with the investigation and is responding to subpoenas which have been issued. The investigation is both civil and criminal in nature. While it is not feasible to predict the outcome of this investigation with certainty, an adverse outcome in this investigation could have a material adverse effect on Abbott's cash flows and results of operations for a particular quarter, but should not have a material adverse effect on Abbott's financial position.

Item 6. Exhibits and Reports on Form 8-K

1) Exhibits

10.1 Abbott Laboratories Supplemental Pension Plan.

12 Statement re: computation of ratio of earnings to fixed charges - attached hereto.

2) Reports on Form 8-K

On April 1, 2002, Abbott Laboratories filed an amended Current Report on Securities and Exchange Commission Form 8-K/A reporting that on March 15, 2002, the Abbott Board of Directors adopted the recommendation of its Audit Committee that Arthur Andersen LLP be dismissed as Abbott's auditors and that this will occur upon the later of: (i) the engagement of a new independent public accounting firm or (ii) the filing of Abbott's quarterly report on Securities and Exchange Commission Form 10-Q for the period ended March 31, 2002.

On May 2, 2002, Abbott Laboratories filed an amended Current Report on Securities and Exchange Commission Form 8-K/A reporting that on May 2, 2002, Abbott filed its Form 10-Q for the quarterly period ended March 31, 2002, and upon that filing, dismissed Arthur Andersen as Abbott's auditors.

On May 2, 2002, Abbott Laboratories filed a Current Report on Securities and Exchange Commission Form 8-K reporting that on April 26, 2002, the Abbott Board of Directors, upon the recommendation of its Audit Committee, engaged Deloitte & Touche LLP as Abbott's independent auditors.

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

Date: August 13, 2002

EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Abbott Laboratories Supplemental Pension Plan.
12	Statement re: computation of ratio of earnings to fixed charges - attached hereto.

QuickLinks

[PART I. FINANCIAL INFORMATION Abbott Laboratories and Subsidiaries Condensed Consolidated Financial Statements \(Unaudited\)](#)
[Abbott Laboratories and Subsidiaries Condensed Consolidated Statement of Earnings \(Unaudited\) \(dollars and shares in thousands except per share data\)](#)
[Abbott Laboratories and Subsidiaries Condensed Consolidated Statement of Cash Flows \(Unaudited\) \(dollars in thousands\)](#)
[Abbott Laboratories and Subsidiaries Condensed Consolidated Balance Sheet \(dollars in thousands\) \(Unaudited\)](#)
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[Note 1—Basis of Presentation](#)

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[Note 7—Comprehensive Income, net of tax \(dollars in thousands\)](#)

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ABBOTT LABORATORIES SUPPLEMENTAL PENSION PLAN

**(As amended thru the 16th Amendment
effective April 26, 2002)**

ABBOTT LABORATORIES SUPPLEMENTAL PENSION PLAN

*Section 1
INTRODUCTION*

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

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

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

1-3. All benefits provided under the Supplemental Plan shall be provided from the general assets of the employers and not from any trust fund or other designated asset. All participants in the Supplemental Plan shall be general creditors of the employers with no priority over other creditors.

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

*Section 2
ERISA ANNUITY PLAN SUPPLEMENTAL BENEFIT*

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

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

*Section 3
1986 TAX REFORM ACT SUPPLEMENTAL BENEFIT*

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

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

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

*Section 4
DEFERRED MIP ANNUITY PLAN SUPPLEMENTAL BENEFIT*

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

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

- (a) The supplemental pension shall be the difference, if any, between:
 - (i) the monthly benefit payable under the Annuity Plan plus any supplement provided by Section 2 and Section 3; and
 - (ii) the monthly benefit which would have been payable under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) if the participant's "final earnings", as defined in the Annuity Plan, were one-sixtieth of the sum of:
 - (A) the participant's total "basic earnings" (excluding any payments under the Management Incentive Plan or any Division Incentive Plan) received in the sixty consecutive calendar months for which his basic earnings (excluding any payments under the Management Incentive Plan or any Division Incentive Plan) were highest within the last one hundred twenty consecutive calendar months immediately preceding his retirement or termination of employment; and
 - (B) the amount of the participant's total awards under the Management Incentive Plan and any Division Incentive Plan (whether paid immediately or deferred) made for the five consecutive calendar years during the ten consecutive calendar years ending with the year of retirement or termination for which such amount is the greatest and (for participants granted Management Incentive Plan awards for less than five consecutive calendar years during such ten year period) which include all Management Incentive Plan awards granted for consecutive calendar years within such ten year period.
- (b) That portion of any Management Incentive Plan award which the Compensation Committee has determined shall be excluded from the participant's "basic earnings" shall be excluded from the calculation of "final earnings" for purposes of this Section 4-2. "Final earnings" for purposes of this subsection 4-2 shall include any compensation in excess of the limits imposed by Section 401(a)(17), Internal Revenue Code.

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- (c) In the event the period described in subsection 4-2(a)(ii)(B) is the final five calendar years of employment and a Management Incentive Plan award is made to the participant subsequent to retirement for the participant's final calendar year of employment, the supplemental pension shall be adjusted by adding such new award and subtracting a portion of the earliest Management Incentive Plan award included in the calculation, from the amount determined under subsection 4-2(a)(ii)(B). The portion subtracted shall be equal to that portion of the participant's final calendar year of employment during which the participant was employed by Abbott. If such adjustment results in a greater supplemental pension, the greater pension shall be paid beginning the first month following the date of such new award.

Section 5

CORPORATE OFFICER ANNUITY PLAN SUPPLEMENTAL BENEFIT

5-1. The benefits described in this Section 5 shall apply to all participants in the Annuity Plan who are corporate officers of Abbott as of September 30, 1993 or who become corporate officers thereafter, and who retire, or terminate with a vested pension under that plan on or after September 30, 1993. The term "corporate officer" for purposes of this Supplemental Plan shall mean an individual elected an officer of Abbott by its Board of Directors (or designated as such for purposes of this Section 5 by the Compensation Committee of the Board of Directors of Abbott), but shall not include assistant officers.

5-2. Subject to the limitations and adjustments described below, each participant described in subsection 5-1 shall receive a monthly supplemental pension under this Supplemental Plan commencing on the participant's normal retirement date under the Annuity Plan and payable as a life annuity, equal to $\frac{6}{10}$ of 1 percent (.006) of the participant's final earnings (as determined under subsection 4-2) for each of the first twenty years of the participant's benefit service (as defined in the Annuity Plan) occurring after the participant's attainment of age 35.

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

5-4. Benefit service occurring between the date a participant ceases to be a corporate officer of Abbott and the date the participant again becomes a corporate officer of Abbott shall be disregarded in calculating the participant's aggregate percentage under subsection 5-2.

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

- (a) the sum of (i) the benefits due such participant under the Annuity Plan and this Supplemental Plan, plus (ii) the actuarially equivalent value of the employer-paid portion of all benefits due such participant under the primary retirement plans of all non-Abbott employers of such participant; exceeds
- (b) the maximum benefit that would be due under the Annuity Plan (without regard to the limits imposed by Section 415, Internal Revenue Code) based on the participant's final earnings (as determined under subsection 4-2), if the participant had accrued the maximum benefit service recognized by the Annuity Plan.

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

5-6. Any supplemental pension due a participant under this Section 5 shall be actuarially adjusted as provided in the Annuity Plan to reflect the pension form selected by the participant and the participant's age at commencement of the pension, and shall be paid as provided in subsection 6-2.

Section 6
CORPORATE OFFICER ANNUITY PLAN SUPPLEMENTAL EARLY RETIREMENT BENEFIT

6-1. The benefits described in this Section 6 shall apply to all persons described in subsection 5-1.

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

6-3. Each participant described in subsection 6-1 shall receive a monthly supplemental pension under this Supplemental Plan equal to any reduction made in such participant's Annuity Plan pension under subsections 5-3 or 5-6 of the Annuity Plan for the period between the last day of the months the participant will attain age 60 and age 62.

Section 7
MISCELLANEOUS

7-1. For purposes of this Supplemental Plan, the term "Management Incentive Plan" shall mean the Abbott Laboratories 1971 Management Incentive Plan, the Abbott Laboratories 1981 Management Incentive Plan and all successor plans to those plans.

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

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7-3. Notwithstanding any other provisions of this Supplemental Plan, if employment of any participant with Abbott and its subsidiaries and affiliates should terminate for any reason within five (5) years after the date of a Change in Control:

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

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

7-4. For purposes of subsection 7-3, a "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

- (a) The date any entity or person (including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act")) shall have become the beneficial owner of, or shall have obtained voting control over thirty percent (30%) or more of the outstanding common shares of the Company;
- (b) The date the shareholders of the Company approve a definitive agreement (A) to merge or consolidate the Company with or into another corporation, in which the Company is not the continuing or surviving corporation or pursuant to which any common shares of the Company would be converted into cash, securities or other property of another corporation, other than a merger of the Company in which holders of common shares immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before, or (B) to sell or otherwise dispose of substantially all the assets of the Company; or
- (c) The date there shall have been a change in a majority of the Board of Directors of the Company within a twelve (12) month period unless the nomination for election by the Company's shareholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the twelve (12) month period.

7-5. The provisions of subsections 7-3, 7-4 and this subsection 7-5 may not be amended or deleted, nor superseded by any other provision of this Supplemental Plan, during the period beginning on the date of a Change in Control and ending on the date five years following such Change in Control.

7-6. All benefits due under this Supplemental Plan shall be paid by Abbott and Abbott shall be reimbursed for such payments by the employee's employer. In the event the employee is employed by more than one employer, each employer shall reimburse Abbott in proportion to the period of time the employee was employed by such employer, as determined by the Board of Review in its sole discretion.

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

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7-8 Nothing contained in this Supplemental Plan shall confer on any employee the right to be retained in the employ of Abbott or any of its subsidiaries or affiliates.

7-9. Upon adoption of this Supplemental Plan, the prior resolutions shall be deemed rescinded.

Section 8
ALTERNATE PAYMENT OF SUPPLEMENTAL PENSIONS

8-1. If, as of December 31, 1995 or any subsequent December 31, the present value of the supplemental pension described in Sections 2, 3, 4, 5 and 6 of a participant, who is actively employed by Abbott as a corporate officer, exceeds \$100,000, then payment of such present value shall be made, at the direction of the participant, by either of the following methods: (a) current payment in cash directly to the participant, or (b) current payment of a portion of such present value (determined as of that December 31) in cash for the participant directly to a Grantor Trust established by the participant, and current payment of the balance of such present value in cash directly to the participant, provided that the payment made directly to the participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 8-1(b) (as determined pursuant to the tax rates set forth in subsection 8-14).

8-2. If the present value of a participant's supplemental pension has been paid to the participant (including amounts paid to the participant's Grantor Trust) pursuant to subsection 8-1 (either as in effect prior to June 1, 1996 that applied to any participant with a supplemental pension with a present value in excess of \$100,000 or as currently in effect that requires the participant to have a supplemental pension with a present value in excess of \$100,000 and to be a corporate officer), then as of each subsequent December 31, such participant shall be entitled to a payment in an amount equal to: (i) the present value (as of that December 31) of the participant's supplemental pension described in Sections 2, 3, 4, 5 and 6, less (ii) the current value (as of that December 31) of the payments previously made to the participant under subsections 8-1 and 8-2. Payments under this subsection 8-2 shall be made, at the direction of the participant, by either of the following methods: (a) current payment in cash directly to the participant, or (b) current payment of a portion of such amount in cash for the participant directly to the Grantor Trust established by the participant; and current payment of the balance of such amount in cash directly to the participant, provided that the payment made directly to the participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 8-2(b) (as determined pursuant to the tax rates set forth in subsection 8-14). No payments shall be made under this subsection 8-2 as of any December 31 after the calendar year in which the participant retires or otherwise terminates employment with Abbott.

8-3. Present values for the purposes of subsections 8-1, 8-2, 8-4 and 8-5 shall be determined using reasonable actuarial assumptions specified for this purpose by Abbott and consistently applied. The "current value" of the payments previously made to a participant under subsections 8-1 and 8-2 means the aggregate amount of such payments, with interest thereon (at the rate specified for this purpose by Abbott). For purposes of subsections 8-4 and 8-5, "Projected Taxes" with respect to any payment of supplemental pension benefits under subsections 8-1 or 8-2, shall mean the taxes which Abbott projects will be incurred by the participant on the income earned (i) on the payment (net of taxes) that is made pursuant to subsections 8-1 or 8-2, (ii) on the corresponding payment(s) for Projected Taxes that are made pursuant to subsection 8-4 and, if applicable, 8-5 and (iii) on the accumulated income earned on any of the payments covered by parts (i) and (ii) hereof, during the life of such participant's Grantor Trust (or during the period that such Grantor Trust would have been in existence if the participant had elected to receive all of the payments under subsections 8-1 and 8-2 in cash). In calculating such Projected Taxes, Abbott shall use the aggregate of the current federal, state and local tax rates specified by subsection 8-14.

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8-4. Effective as of December 31, 1995, or any subsequent December 31, as a result of any payment made to a Qualified Participant for any calendar year pursuant to subsection 8-1 or 8-2, Abbott shall also make a corresponding payment to such Qualified Participant in the amount of the present value of the Projected Taxes. A "Qualified Participant" is either (i) a participant who as of December 31, 1995 was actively employed by Abbott and who had previously received, or as of such date was qualified to receive, a payment under subsection 8-1; or (ii) a participant who as of any subsequent December 31 qualifies to receive a payment pursuant to subsection 8-1. The payment for Projected Taxes under this subsection 8-4 shall be made to the Qualified Participant in the identical manner that the payment under subsection 8-1 or 8-2 was made. For example, (a) if the Qualified Participant elected to receive the payment under subsection 8-1 directly in cash, then Abbott shall also pay the present value of the Projected Taxes on such payment in cash directly to the Qualified Participant, and (b) if the Qualified Participant elected to receive the payment under subsection 8-1 into a Grantor Trust established by the Qualified Participant, then Abbott shall pay the present value of the Projected Taxes on such payment as follows: current payment of a portion of such present value (determined as of that December 31) in cash for such Qualified Participant directly to a Grantor Trust established by such participant, and current payment of the balance of such present value in cash directly to such Qualified Participant, provided that the payment made directly to such participant shall approximate the aggregate federal, state and local individual income taxes attributable to the amount paid pursuant to this subparagraph 8-4(b) (as determined pursuant to the tax rates set forth in subsection 8-14). No payments shall be made under this subsection 8-4 as of any December 31 after the calendar year in which the participant retires or otherwise terminates employment with Abbott.

8-5. In the event that Abbott has made any payment for projected Taxes under subsection 8-4 in cash directly to the Qualified Participant and there is a subsequent increase in the tax rates for such Qualified Participant, Abbott shall make a further cash payment to such Qualified Participant in the amount of (a) the present value of the Projected Taxes on the payments that were made under subsections 8-1 and 8-2 in cash directly to such Qualified Participant using the actual tax rates for previous years and the new tax rates (determined in accordance with subsection 8-14) for the current and subsequent years, less (b) the amount that would have been in the Qualified Participant's Tax Payment Account with respect to the payments made under subsections 8-1 and 8-2 in cash directly to the Participant, if such payments had instead been made to the Qualified Participant's Grantor Trust. Such amount shall be paid by Abbott directly to the Qualified Participant in cash. In the event that Abbott has made any payment for Projected Taxes under subsection 8-4 to the Qualified Participant's Grantor Trust, then

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

8-6. For each Qualified Participant whose Grantor Trust has received a payment pursuant to subsection 8-4, Abbott, as the administrator of such Grantor Trust, shall direct the trustee to distribute to the participant from the income of such Grantor Trust, a sum of money sufficient to pay the taxes on trust earnings for such year. The taxes shall be calculated by multiplying the income of the Grantor Trust by the aggregate of the federal, state, and local tax rates (determined in accordance with subsection 8-14).

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8-7. A participant shall be deemed to have irrevocably waived and shall be foreclosed from any right to receive any supplemental pension benefits on that portion of the supplemental pension that the participant elects to be paid in cash under subsection 8-1 or 8-2. A participant, who has elected to receive a payment under subsection 8-1 or 8-2 to a Grantor Trust, must establish such trust in a form which Abbott determines to be substantially similar to the trust attached to this Supplemental Plan as Exhibit A. If a participant fails to make an election under subsection 8-1 or 8-2, or if a participant makes an election under subsection 8-1 or 8-2 to receive payment in a Grantor Trust but fails to establish a Grantor Trust, then payment shall be made in cash directly to the participant. Each payment required under subsections 8-1, 8-2, 8-4 and 8-5 shall be made as soon as practicable after the amount thereof can be ascertained by Abbott, but in no event later than the last day of the calendar year following the December 31 as of which such payment becomes due.

8-8. Abbott will establish and maintain a separate Supplemental Pension Account in the name of each participant, a separate After-Tax Supplemental Pension Account in the name of each participant, and a separate Tax Payment Account in the name of each participant. The Supplemental Pension Account shall reflect any amounts: (i) paid to a participant (including amounts paid to a participant's Grantor Trust) pursuant to subsections 8-1 and 8-2; (ii) credited to such Account pursuant to subsection 8-9; and (iii) disbursed to a participant for supplemental pension benefits (or which would have been disbursed to a participant if the participant had not elected to receive a cash disbursement pursuant to subsections 8-1 and 8-2). The After-Tax Supplemental Pension Account shall also reflect such amounts but shall be maintained on an after-tax basis. The Tax Payment Account shall reflect any amounts (i) paid to a Qualified Participant (net of taxes) pursuant to subsections 8-4 and 8-5 and (ii) disbursed to a participant for the payment of taxes pursuant to subsection 8-6. The accounts established pursuant to this subsection 8-8 are for the convenience of the administration of the Plan and no trust relationship with respect to such accounts is intended or should be implied.

8-9. As of the end of each calendar year, a participant's Supplemental Pension Account shall be credited with interest calculated at a reasonable rate of interest specified for this purpose by Abbott and consistently applied. Any amount so credited shall be referred to as a participant's "Interest Accrual". The calculation of the Interest Accrual shall be based on the balance of the payments made pursuant to subsections 8-1 and 8-2 and any Interest Accrual thereon from previous years. As of the end of each calendar year a participant's After-Tax Supplemental Pension Account shall be credited with interest which shall be referred to as the After-Tax Interest Accrual. The "After-Tax Interest Accrual" shall be an amount equal to (a) the Interest Accrual credit to the participant's Supplemental Pension Account for such year less (b) the product of (i) the amount of such Interest Accrual multiplied by (ii) the aggregate of the federal, state and local income tax rates (determined in accordance with subsection 8-14). The Excess Interest Account shall be the cumulative amount, if any, by which the net income earned by the Grantor Trust on the payments made pursuant to Sections 8-1, 8-2, 8-4, 8-5 and 8-10 (and interest earned thereon) for all years that the Grantor Trust has been in existence exceeds the After-Tax Interest Accrual for such years.

8-10. In addition to any payment made to a participant for any calendar year pursuant to subsections 8-1, 8-2, 8-4 and 8-5, Abbott shall also make a payment to a participant's Grantor Trust (a "Guaranteed Rate Payment"), for any year in which the net income of such trust does not equal or exceed the participant's After-Tax Interest Accrual for that year. The Guaranteed Rate Payment shall equal the difference between the participant's After-Tax Interest Accrual and such net income of the participant's Grantor Trust for the year, and shall be paid within 180 days of the end of that year. Any funds in a participant's Excess Interest Account may be used by Abbott as a credit against any Guaranteed Rate Payment due to the participant under this subsection 8-10 or as specified in subsection 8-12. No payments shall be made under this subsection 8-10 for any year following the year of the participant's death.

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8-11. If at any time after a participant's retirement or other termination of employment with Abbott, there is no longer a balance in his or her Grantor Trust, then such participant (or his or her surviving spouse if such spouse is entitled to periodic payments from the Grantor Trust) shall be entitled to a "Continuation Payment" under this subsection 8-11. The amount of the Continuation Payment shall be equal to the amount of the supplemental pension that would have been payable to the participant (or surviving spouse) had no payments been made to or for the participant's Grantor Trust under subsections 8-1 and 8-2. Continuation Payments shall be made monthly, beginning with the month in which there is no longer a sufficient balance in the participant's Grantor Trust and ending with the month of the participant's (or surviving spouse's) death. Payments under this subsection 8-11 shall be made by the employers (in such proportions as Abbott shall designate) directly from their general corporate assets. Appropriate adjustments to the Continuation Payments shall be made in the event distributions have been made from a participant's Grantor Trust for reasons other than benefit payments to the participant or surviving spouse.

8-12. To the extent that Abbott is obligated to make a payment to a participant under subsections 8-1, 8-2, 8-4, 8-5 or 8-10, Abbott shall have the right to offset such payment with any funds in the participant's Excess Interest Account or Excess Tax Account. In addition, any funds in a participant's Excess Tax Account may be used by Abbott as a credit against any future Guaranteed Rate Payment due to the participant under subsection 8-10.

8-13. For participants who are not Qualified Participants that received any payment pursuant to subsection 8-4, in addition to the payments provided under subsections 8-1 and 8-2, each participant shall also be entitled to a Tax Gross Up payment for each year there is a balance in his or her Supplemental Pension Account. The "Tax Gross Up" shall approximate: (a) the product of (i) the participant's After-Tax Interest Accrual for the year (calculated using the greater of the rate of return of the Grantor Trusts or the rate specified in subsection 8-9), multiplied by (ii) the aggregate of the federal, state and local tax rates (determined in accordance with subsection 8-14) plus (b) an amount equal to the product of (i) any payment made pursuant to this subsection 8-13, multiplied by (ii) the aggregate tax rate determined under subparagraph 8-13(a)(ii) above, such that the participant is fully compensated for taxes on payments made hereunder. Payment of the Tax Gross Up shall be made by the employers (in such proportions as Abbott shall designate) directly from their general corporate assets. The Tax

Gross Up for a year shall be paid to the participant as soon as practicable after the amount of the Tax Gross Up can be ascertained by Abbott, but in no event later than the last day of the calendar year following the calendar year to which the Tax Gross Up relates. No payments shall be made under this subsection 8-13 for any year following the year of the participant's death.

8-14. For purposes of this Supplemental Plan, a participant's federal income tax rate shall be deemed to be the highest marginal rate of federal individual income tax in effect in the calendar year in which a calculation under this Supplemental Plan is to be made, and state and local tax rates shall be deemed to be the highest marginal rates of individual income tax in effect in the state and locality of the participant's residence in the calendar year for which such a calculation is to be made, net of any federal tax benefits.

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**SUPPLEMENTAL BENEFIT
GRANTOR TRUST**

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

WITNESSETH THAT:

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

NOW, THEREFORE, IT IS AGREED as follows:

*ARTICLE I
Introduction*

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

I-2. *The Trust Fund.* The "trust fund" as at any date means all property then held by the trustee under this agreement.

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

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

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

*ARTICLE II
Distribution of the Trust Fund*

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

II-2. *Distributions Prior to the Grantor's Death.* Principal and accumulated income shall not be distributed from the trust prior to the grantor's retirement or other termination of employment with Abbott or a subsidiary of Abbott (the grantor's "settlement date"); provided that, each year the administrator may direct the trustee to distribute to the grantor a portion of the income of the trust fund for that year, with the balance of such income to be accumulated in the trust. The administrator shall inform the trustee of the grantor's settlement date. Thereafter, the trustee shall distribute the amounts from time to time credited to the supplemental pension account to the grantor, if then living,

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in the same manner, at the same time and over the same period as the pension payable to the grantor under Abbott Laboratories Annuity Retirement Plan.

II-3. *Distributions After the Grantor's Death.* The grantor, from time to time may name any person or persons (who may be named contingently or successively and who may be natural persons or fiduciaries) to whom the principal of the trust fund and all accrued or undistributed income thereof shall be distributed upon the grantor's death. The grantor may direct that such amounts be distributed in a lump sum or, if the beneficiary is the grantor's spouse (or a trust for which the grantor's spouse is the sole income beneficiary), in the same manner, at the same time and over the same period as the pension payable to the grantor's surviving spouse under the Abbott Laboratories Annuity Retirement Plan. If the grantor directs the same method of distribution as the pension payable to the surviving spouse under the Abbott Laboratories Annuity Retirement Plan to the spouse as beneficiary, any amounts remaining at the death of the spouse beneficiary shall be distributed in a lump sum to the executor or administrator of the spouse beneficiary's estate. If the grantor directs the same method of distribution as the pension payable to the surviving spouse under the Abbott Laboratories Annuity Retirement Plan to a trust for which the grantor's spouse is the sole income beneficiary, any amounts remaining at the death of the spouse shall be distributed in a lump sum to such trust. Despite the foregoing, if (i) the beneficiary is a trust for which the grantor's spouse is the sole income beneficiary, (ii) payments are being made pursuant to this paragraph II-3 other than in a lump sum and (iii) income earned by the trust fund for the year exceeds the amount of the annual installment payment, then such trust may elect to withdraw such excess income by written notice to the trustee. Each designation shall revoke all prior designations, shall be in writing and shall be effective only when filed by the grantor with the administrator during the grantor's lifetime. If the grantor fails to direct a method of distribution, the distribution shall be made in a lump sum.

If the grantor fails to designate a beneficiary as provided above, then on the grantor's death, the trustee shall distribute the balance of the trust fund in a lump sum to the executor or administrator of the grantor's estate."

II-4. *Facility of Payment.* When a person entitled to a distribution hereunder is under legal disability, or, in the trustee's opinion, is in any way incapacitated so as to be unable to manage his or her financial affairs, the trustee may make such distribution to such person's legal representative, or to a relative or friend of such person for such person's benefit. Any distribution made in accordance with the preceding sentence shall be a full and complete discharge of any liability for such distribution hereunder.

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

*ARTICLE III
Management of the Trust Fund*

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

- (a) Subject to the limitations of subparagraph (b) next below, to sell, contract to sell, purchase, grant or exercise options to purchase, and otherwise deal with all assets of the trust fund, in such way, for such considerations, and on such terms and conditions as the trustee decides.
- (b) To invest and reinvest the trust fund, without distinction between principal and income, in obligations of the United States Government and its agencies or which are backed by the full faith and credit of the United States Government and in any mutual funds, common trust funds or collective investment funds which invest solely in such obligations, provided that to the extent practicable no more than Ten Thousand Dollars (\$10,000) shall be invested in such

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mutual funds, common trust funds or collective investment funds at any time; and any such investment made or retained by the trustee in good faith shall be proper despite any resulting risk or lack of diversification or marketability.

- (c) To deposit cash in any depository (including the banking department of the bank acting as trustee) without liability for interest, in amounts not in excess of those reasonably necessary to make distributions from the trust.
- (d) To borrow from anyone, with the administrator's approval, such sum or sum from time to time as the trustee considers desirable to carry out this trust, and to mortgage or pledge all or part of the trust fund as security.
- (e) To retain any funds or property subject to any dispute without liability for interest and to decline to make payment or delivery thereof until final adjudication by a court of competent jurisdiction or until an appropriate release is obtained.
- (f) To begin, maintain or defend any litigation necessary in connection with the administration of this trust, except that the trustee shall not be obliged or required to do so unless indemnified to the trustee's satisfaction.
- (g) To compromise, contest, settle or abandon claims or demands.
- (h) To give proxies to vote stocks and other voting securities, to join in or oppose (alone or jointly with others) voting trusts, mergers, consolidations, foreclosures, reorganizations, liquidations, or other changes in the financial structure of any corporation, and to exercise or sell stock subscription or conversion rights.
- (i) To hold securities or other property in the name of a nominee, in a depository, or in any other way, with or without disclosing the trust relationship.
- (j) To divide or distribute the trust fund in undivided interests or wholly or partly in kind.
- (k) To pay any tax imposed on or with respect to the trust; to defer making payment of any such tax if it is indemnified to its satisfaction in the premises; and to require before making any payment such release or other document from any lawful taxing authority and such indemnity from the intended payee as the trustee considers necessary for its protection.
- (l) To deal without restriction with the legal representative of the grantor's estate or the trustee or other legal representative of any trust created by the grantor or a trust or estate in which a beneficiary has an interest, even though the trustee, individually, shall be acting in such other capacity, without liability for any loss that may result.
- (m) Upon the prior written consent of the administrator, to appoint or remove by written instrument any bank or corporation qualified to act as successor trustee, wherever located, as special trustee as to part or all of the trust fund, including property as to which the trustee does not act, and such special trustee, except as specifically limited or provided by this or the appointing instrument, shall have all of the rights, titles, powers, duties, discretions and immunities of the trustee, without liability for any action taken or omitted to be taken under this or the appointing instrument.
- (n) To appoint or remove by written instrument any bank, wherever located, as custodian of part or all of the trust fund, and each such custodian shall have such rights, powers, duties and discretions as are delegated to it by the trustee.
- (o) To employ agents, attorneys, accountants or other persons, and to delegate to them such powers as the trustee considers desirable, and the trustee shall be protected in acting or refraining from acting on the advice of persons so employed without court action.

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- (p) To perform any and all other acts which in the trustee's judgment are appropriate for the proper management, investment and distribution of the trust fund.

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

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

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

ARTICLE IV General Provisions

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

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

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

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

IV-5. *Waiver of Notice.* Any notice required under this agreement may be waived by the person entitled to such notice.

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

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

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ARTICLE V Changes in Trustee

V-1. *Resignation or Removal of Trustee.* The trustee may resign at any time by giving thirty days' advance notice to the administrator and the grantor. The administrator may remove a trustee by written notice to the trustee and the grantor.

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

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

ARTICLE VI Amendment and Termination

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

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

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

* * *

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

Grantor

The Northern Trust Company, as Trustee

By

Its

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QuickLinks

[Exhibit 10.1](#)

Abbott Laboratories
Computation of Ratio of Earnings to Fixed Charges
(Unaudited)

(dollars in millions except ratios)

	<u>Six Months Ended</u> <u>June 30, 2002</u>
Net Earnings	\$ 1,447
Add (deduct):	
Taxes on earnings	469
Minority interest	13
Net Earnings as adjusted	<u>\$ 1,929</u>
Fixed Charges:	
Interest on long-term and short-term debt	123
Capitalized interest cost	5
Rental expense representative of an interest factor	28
Total Fixed Charges	<u>156</u>
Total adjusted earnings available for payment of fixed charges	<u>\$ 2,085</u>
Ratio of earnings to fixed charges	<u>13.4</u>

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.

QuickLinks

[Exhibit 12](#)

[Abbott Laboratories Computation of Ratio of Earnings to Fixed Charges \(Unaudited\) \(dollars in millions except ratios\)](#)