ABBOTT LABORATORIES
Form 10-Q
August 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

o 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: **(224) 667-6100**

Indicate by check mark whether the registrant: (l) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of l934 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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of June 30, 2015, Abbott Laboratories had 1,490,441,465 common shares without par value outstanding.

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Abbott Laboratories

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Part I - Financial Information

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Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Earnings

(Unaudited)

(dollars in millions except per share data; shares in thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Net sales	$ 5,170	$ 5,057	$ 10,067	$ 9,812
Cost of products sold, excluding amortization of intangible assets	2,218	2,288	4,299	4,562
Amortization of intangible assets	151	133	307	260
Research and development	345	310	658	679
Selling, general and administrative	1,727	1,649	3,464	3,269
Total operating cost and expenses	4,441	4,380	8,728	8,770
Operating earnings	729	677	1,339	1,042
Interest expense	44	36	81	72
Interest (income)	(27)	(19)	(48)	(35)
Net foreign exchange loss (gain)	5		(49)	1
Other (income) expense, net	(279)	2	(284)	5
Earnings from continuing operations before taxes	986	658	1,639	999
Taxes on earnings from continuing operations	200	233	324	350
Earnings from continuing operations	786	425	1,315	649
Earnings (loss) from discontinued operations, net of taxes	(1)	41	25	192
Gain (loss) on sale of discontinued operations, net of tax	(1)		1,736	
Net earnings (loss) from discontinued operations, net of tax	(2)	41	1,761	192
Net Earnings	$ 784	$ 466	$ 3,076	$ 841
Basic Earnings Per Common Share				
Continuing operations	$ 0.52	$ 0.28	$ 0.87	$ 0.42
Discontinued operations		0.03	1.17	0.13
Net earnings	$ 0.52	$ 0.31	$ 2.04	$ 0.55
Diluted Earnings Per Common Share				
Continuing operations	$ 0.52	$ 0.28	$ 0.87	$ 0.42
Discontinued operations		0.02	1.16	0.13
Net earnings	$ 0.52	$ 0.30	$ 2.03	$ 0.55
Cash Dividends Declared Per Common Share	$ 0.24	$ 0.22	$ 0.48	$ 0.44
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,493,771	1,506,595	1,500,285	1,521,668
Dilutive Common Stock Options	10,444	10,451	10,676	10,605
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,504,215	1,517,046	1,510,961	1,532,273

Outstanding Common Stock Options Having No Dilutive Effect	658	544	658	544

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

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Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

(dollars in millions)

	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Net Earnings	$ 784	$ 466	$ 3,076	$ 841
Foreign currency translation (loss) gain adjustments	84	(19)	(827)	43
Net actuarial gains (losses) and amortization of net actuarial (losses) and prior service (cost) and credits, net of taxes of $10 and $25 in 2015 and $7 and $15 in 2014	22	12	53	28
Unrealized gains (losses) on marketable equity securities, net of taxes of $256 and $344 in 2015 and $(2) and $(2) in 2014	522	(4)	695	(4)
Net adjustments for derivative instruments designated as cash flow hedges and other, net of taxes of $(6) and nil in 2015 and $(2) and $(2) in 2014	(25)	(7)	1	(7)
Other comprehensive income (loss)	603	(18)	(78)	60
Comprehensive Income	$ 1,387	$ 448	$ 2,998	$ 901

Supplemental Accumulated Other Comprehensive Income (Loss) Information, net of tax:	**June 30, 2015**	**December 31, 2014**
Cumulative foreign currency translation (loss) adjustments	$ (3,643)	$ (2,924)
Net actuarial (losses) and prior service cost and credits	(2,157)	(2,229)
Cumulative unrealized gains on marketable equity securities	696	1
Cumulative gains (losses) on derivative instruments designated as cash flow hedges and other	100	99

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

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Abbott Laboratories and Subsidiaries

Condensed Consolidated Balance Sheet

(Unaudited)

(dollars in millions)

	June 30, 2015	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,048	$ 4,063
Short-term investments	7,129	397
Trade receivables, less allowances of $362 in 2015 and $310 in 2014	3,553	3,586
Inventories:		
Finished products	1,869	1,807
Work in process	303	278
Materials	563	558
Total inventories	2,735	2,643
Prepaid expenses, deferred income taxes, and other receivables	3,573	3,680
Current assets held for disposition	93	892
Total Current Assets	21,131	15,261
Investments	243	229
Property and equipment, at cost	12,433	12,632
Less: accumulated depreciation and amortization	6,695	6,697
Net property and equipment	5,738	5,935
Intangible assets, net of amortization	5,785	6,198
Goodwill	9,896	10,067
Deferred income taxes and other assets	1,330	1,651
Non-current assets held for disposition	2	1,934
	$ 44,125	$ 41,275
Liabilities and Shareholders Investment		
Current Liabilities:		
Short-term borrowings	$ 2,867	$ 4,382
Trade accounts payable	1,000	1,064
Salaries, wages and commissions	759	776
Other accrued liabilities	3,288	2,943
Dividends payable	358	362
Income taxes payable	589	270
Current portion of long-term debt	32	55
Current liabilities held for disposition	292	680
Total Current Liabilities	9,185	10,532
Long-term debt	5,862	3,408
Post-employment obligations, deferred income taxes and other long-term liabilities	5,952	5,588
Non-current liabilities held for disposition		108
Commitments and Contingencies		
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: 2015: 1,699,703,688; 2014: 1,694,929,949	12,566	12,383
Common shares held in treasury, at cost - Shares: 2015: 209,262,223; 2014: 186,894,515	(9,716)	(8,678)
Earnings employed in the business	25,162	22,874

Accumulated other comprehensive income (loss)		(5,004)		(5,053)
Total Abbott Shareholders Investment		23,008		21,526
Noncontrolling Interests in Subsidiaries		118		113
Total Shareholders Investment		23,126		21,639
	$	44,125	$	41,275

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

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Abbott Laboratories and Subsidiaries

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(dollars in millions)

	Six Months Ended June 30	
	2015	**2014**
Cash Flow From (Used in) Operating Activities:		
Net earnings	$ 3,076	$ 841
Adjustments to reconcile net earnings to net cash from operating activities -		
Depreciation	416	463
Amortization of intangibles	307	335
Share-based compensation	205	168
Gain on sale of discontinued operations	(2,820)	
Gain on sale of Mylan shares	(207)	
Trade receivables	(125)	(76)
Inventories	(210)	(141)
Other, net	301	(354)
Net Cash From Operating Activities	943	1,236
Cash Flow From (Used in) Investing Activities:		
Acquisitions of property and equipment	(451)	(513)
Proceeds from business disposition	230	
Acquisitions of businesses and technologies, net of cash acquired	(4)	
Proceeds from the sale of Mylan shares	2,290	
(Purchases) Sales of other investment securities, net	(2,056)	1,119
Other	28	27
Net Cash From Investing Activities	37	633
Cash Flow From (Used in) Financing Activities:		
Net (repayments of) proceeds from issuance of short-term debt and other	(1,518)	872
Proceeds from the issuance of long-term debt	2,485	
Repayments of long-term debt	(33)	
Purchases of common shares	(1,347)	(2,193)
Proceeds from stock options exercised, including income tax benefit	213	226
Dividends paid	(724)	(676)
Net Cash (Used in) Financing Activities	(924)	(1,771)
Effect of exchange rate changes on cash and cash equivalents	(71)	(3)
Net Increase (Decrease) in Cash and Cash Equivalents	(15)	95
Cash and Cash Equivalents, Beginning of Year	4,063	3,475
Cash and Cash Equivalents, End of Period	$ 4,048	$ 3,570

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

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Abbott Laboratories and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

June 30, 2015

(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnote disclosures normally included in audited financial statements. However, in the opinion of management, all adjustments (which include only normal adjustments) necessary to present fairly the results of operations, financial position and cash flows have been made. It is suggested that these statements be read in conjunction with the financial statements included in Abbott s Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions.

Note 2 Discontinued Operations

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for 110 million shares (or approximately 22%) of a newly formed entity (Mylan N.V.) that combined Mylan s existing business and Abbott s developed markets branded generics pharmaceuticals business. Mylan N.V. is publicly traded. Historically, this business was included in Abbott s Established Pharmaceutical Products segment. Abbott retained its branded generics pharmaceuticals business in emerging markets. At the date of closing, the 110 million Mylan N.V. shares that Abbott received were valued at $5.77 billion and Abbott recorded an after-tax gain on the sale of the business of approximately $1.6 billion. The shareholder agreement with Mylan N.V. includes voting and other restrictions that prevent Abbott from exercising significant influence over the operating and financial policies of Mylan N.V.

At the close of this transaction, Abbott and Mylan entered into transition services agreements pursuant to which Abbott and Mylan are providing various back office support services to each other on an interim transitional basis. Transition services may be provided for up to 2 years. Charges by Abbott under these transition services agreements are recorded as a reduction of the costs to provide the respective service in the applicable expense category in the Condensed Consolidated Statement of Earnings. This transition support does not constitute significant continuing involvement in Mylan s operations. Abbott also entered into manufacturing supply agreements with Mylan related to certain products, with the supply term ranging from 3 to 10 years and requiring a 2 year notice prior to termination. The cash flows associated with these transition service and manufacturing supply agreements are not expected to be significant and therefore, these cash flows are not direct cash flows of the disposed component under Accounting Standards Codification 205.

In April 2015, Abbott sold 40.3 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. In the second quarter of 2015, Abbott recorded a pretax gain of $207 million on $2.29 billion in net proceeds from the sale of these shares. The gain is recognized in the Other (income) expense line of the Condensed Consolidated Statement of Earnings. The proceeds from the sale were invested in short-term investments.

On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc.   Abbott received cash proceeds of $230 million and reported an after tax gain on the sale of approximately $130 million.

As a result of the disposition of the above businesses, the current and prior year operating results of these businesses up to the date of sale are reported as part of discontinued operations on the Earnings from Discontinued Operations, net of tax line in the Condensed Consolidated Statement of Earnings. Discontinued operations include an allocation of interest expense assuming a uniform ratio of consolidated debt to equity for all of Abbott s historical operations.

On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott s research-based proprietary pharmaceuticals business. For a small portion of AbbVie s operations, the legal transfer of AbbVie s assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and other regulatory requirements in each of these countries. Under the terms of the separation agreement with Abbott, AbbVie is subject to the risks and entitled to the benefits generated by these operations and assets. The majority of these operations were transferred to AbbVie in 2013 and 2014. These assets and liabilities have been presented as held for disposition in the Condensed Consolidated Balance Sheet. Abbott has recorded a prepaid asset of $210 million for its obligation to transfer these net liabilities held for disposition to AbbVie.

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Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie s business prior to the separation. AbbVie generally will be liable for all other taxes attributable to its business. Earnings from discontinued operations in the first six months of 2015 and 2014 reflect the recognition of $17 million and $42 million, respectively, of net tax benefits primarily as a result of the resolution of various tax positions related to AbbVie s operations for years prior to the separation. The following table summarizes the components of discontinued operations:

	Three Months Ended June 30				Six Months Ended June 30			
(in millions)	**2015**		**2014**		**2015**		**2014**	
Net Sales								
Developed markets generics pharmaceuticals and animal health businesses	$		$	494	$	256	$	983
AbbVie								
Total	$		$	494	$	256	$	983
Earnings (Loss) Before Tax								
Developed markets generics pharmaceuticals and animal health businesses	$	(5)	$	79	$	20	$	161
AbbVie								
Total	$	(5)	$	79	$	20	$	161
Income Tax Expense (Benefit)								
Developed markets generics pharmaceuticals and animal health businesses	$		$	44	$	12	$	11
AbbVie		(4)		(6)		(17)		(42)
Total	$	(4)	$	38	$	(5)	$	(31)
Net Earnings								
Developed markets generics pharmaceuticals and animal health businesses	$	(5)	$	35	$	8	$	150
AbbVie		4		6		17		42
Total	$	(1)	$	41	$	25	$	192

The sale of the developed markets branded generics pharmaceuticals and animal health businesses in the first six months of 2015 resulted in the recognition of a pretax gain of $2.820 billion, tax expense of $1.084 billion and an after tax gain of $1.736 billion.

The assets of the operations held for disposition and the liabilities to be assumed in the disposition related to the businesses noted above, as well as the AbbVie assets and liabilities are classified as held for disposition in the Condensed Consolidated Balance Sheet as of June 30, 2015 and December 31, 2014. The cash flows associated with the developed markets branded generics pharmaceuticals and animal health businesses are included in Abbott s Condensed Consolidated Statement of Cash Flows up to the date of disposition.

The following is a summary of the assets and liabilities held for disposition:

(in millions)	**June 30, 2015**		**December 31, 2014**	
Trade receivables, net	$	39	$	498
Total inventories		23		254
Prepaid expenses, deferred income taxes, and other receivables		31		140
Current assets held for disposition		93		892

Net property and equipment		2		125
Intangible assets, net of amortization				804
Goodwill				950
Deferred income taxes and other assets				55
Non-current assets held for disposition		2		1,934
Total assets held for disposition	$	95	$	2,826
Trade accounts payable	$	279	$	423
Salaries, wages, commissions and other accrued liabilities		13		257
Current liabilities held for disposition		292		680
Post-employment obligations, deferred income taxes and other long-term liabilities				108
Total liabilities held for disposition	$	292	$	788

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Note 3 Supplemental Financial Information

Shares of unvested restricted stock that contain non-forfeitable rights to dividends are treated as participating securities and are included in the computation of earnings per share under the two-class method. Under the two-class method, net earnings are allocated between common shares and participating securities. Earnings from Continuing Operations allocated to common shares for the three months ended June 30, 2015 and 2014 were $783 million and $423 million, respectively and for the six months ended June 30, 2015 and 2014 were $1,309 million and $646 million, respectively. Net earnings allocated to common shares for the three months ended June 30, 2015 and 2014 were $780 million and $463 million, respectively, and for the six months ended June 30, 2015 and 2014 were $3,061 million and $837 million, respectively.

Other (income) expense, net in the second quarter of 2015 primarily relates to a $207 million gain on the sale of a portion of Abbott s position in Mylan stock and $79 million of income resulting from a decrease in the fair value of contingent consideration related to a business acquisition. In the second quarter of 2015, Abbott sold 40.3 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. Abbott received $2.29 billion in net proceeds from the sale of these shares. As a result of this sale, Abbott s ownership interest in Mylan N.V. decreased from approximately 22% to approximately 14%.

Other, net in Net cash from operating activities in the Condensed Consolidated Statement of Cash Flows for the first six months of 2015 and 2014 includes the effects of contributions to defined benefit plans of $547 million and $330 million, respectively, and to the post-employment medical and dental benefit plans of $24 million and $40 million in the six month periods of 2015 and 2014, respectively. The first six months of 2015 also includes the non-cash impact of approximately $1.1 billion of tax expense associated with the gain on the sale of businesses. The first six months of 2014 includes approximately $70 million of tax benefits, net of cash refunded by taxing authorities, resulting from the resolution of various tax positions pertaining to prior years.

The components of short-term and long-term investments as of June 30, 2015 and December 31, 2014 are as follows:

Short-term Investments (in millions)		**June 30, 2015**		**December 31, 2014**
Equity securities	$	4,672	$	
Other, primarily bank time deposits		2,457		397
Total	$	7,129	$	397
Long-term Investments (in millions)				
Equity securities	$	226	$	212
Other		17		17
Total	$	243	$	229

The short-term investments in equity securities reflect the market value as of June 30, 2015 of 69.7 million of ordinary shares of Mylan N.V.

In March 2015, Abbott issued $2.5 billion of long-term debt consisting of $750 million of 2.00% Senior Notes due March 15, 2020; $750 million of 2.55% Senior Notes due March 15, 2022; and $1.0 billion of 2.95% Senior Notes due March 15, 2025. Abbott also entered into interest rate swap contracts totaling $2.5 billion. These contracts have the effect of changing Abbott s obligation from a fixed interest rate to a variable interest rate obligation.

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Note 4 Changes in Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss), net of income taxes, are as follows:

	Three Months Ended June 30							
	Cumulative Foreign Currency Translation Adjustments		Net Actuarial Losses and Prior Service Costs and Credits		Cumulative Unrealized Gains on Marketable Equity Securities		Cumulative Gains on Derivative Instruments Designated as Cash Flow Hedges	
(in millions)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at March 31	$ (3,727)	$ (656)	$ (2,179)	$ (1,296)	$ 174	$ 13	$ 125	$ 5
Other comprehensive income (loss) before reclassifications	84	(19)			660	1	5	
Amounts reclassified from accumulated other comprehensive income			22	12	(138)	(5)	(30)	(7)
Net current period comprehensive income	84	(19)	22	12	522	(4)	(25)	(7)
Balance at June 30	$ (3,643)	$ (675)	$ (2,157)	$ (1,284)	$ 696	$ 9	$ 100	$ (2)

	Six Months Ended June 30							
	Cumulative Foreign Currency Translation Adjustments		Net Actuarial Losses and Prior Service Costs and Credits		Cumulative Unrealized Gains on Marketable Equity Securities		Cumulative Gains on Derivative Instruments Designated as Cash Flow Hedges	
(in millions)	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Balance at December 31, 2014 and 2013	$ (2,924)	$ (718)	$ (2,229)	$ (1,312)	$ 1	$ 13	$ 99	$ 5
Impact of business dispositions	108		19					
Other comprehensive income (loss) before reclassifications	(827)	43			833	2	48	(1)
Amounts reclassified from accumulated other comprehensive income			53	28	(138)	(6)	(47)	(6)
Net current period comprehensive income	(827)	43	53	28	695	(4)	1	(7)
Balance at June 30	$ (3,643)	$ (675)	$ (2,157)	$ (1,284)	$ 696	$ 9	$ 100	$ (2)

Reclassified amounts for foreign currency translation are recorded in the Condensed Consolidated Statement of Earnings as Net foreign exchange loss (gain); gains on marketable equity securities as Other (income) expense, net and cash flow hedges as Cost of products sold. Net actuarial losses and prior service cost are included as a component of net periodic benefit plan costs; see Note 11 for additional details.

Note 5 Business Acquisitions

In September 2014, Abbott completed the acquisition of the controlling interest in CFR Pharmaceuticals S.A. (CFR) for approximately $2.9 billion in cash ($2.8 billion net of CFR cash on hand at closing). Including the assumption of approximately $570 million of debt, the total cost of the acquisition was $3.4 billion. The acquisition of CFR more than doubles Abbott s branded generics pharmaceutical presence in Latin America and further expands its presence in emerging markets. CFR s financial results are included in Abbott s financial statements beginning on September 26, 2014, the date that Abbott acquired control of this business. Abbott owns 99.9% of the outstanding ordinary shares of CFR. The fair value of the non-controlling interest at the acquisition date was approximately $3 million. The acquisition was funded with cash and cash equivalents and short-term investments. The preliminary allocation of the fair value of the acquisition is shown in the table below. The allocation of the fair value of the acquisition will be finalized when the valuation is completed.

(in billions)		
Acquired intangible assets, non-deductible	$	1.80
Goodwill, non-deductible		1.60
Acquired net tangible assets		0.06
Deferred income taxes recorded at acquisition		(0.54)
Total preliminary allocation of fair value	$	2.92

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Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 12 to 16 years (average of 15 years). The goodwill is primarily attributable to intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Established Pharmaceutical Products segment. The acquired tangible assets consist primarily of cash and cash equivalents of approximately $94 million, trade accounts receivable of approximately $179 million, inventory of approximately $169 million, other current assets of approximately $51 million, property and equipment of approximately $209 million, and other long-term assets of approximately $138 million. Assumed liabilities consist of borrowings of approximately $570 million, trade accounts payable and other current liabilities of approximately $200 million and other noncurrent liabilities of approximately $15 million.

Annualized net sales for CFR Pharmaceuticals are expected to total approximately $750 million at current exchange rates. Had the acquisition of CFR Pharmaceuticals taken place on January 1, 2013, the consolidated net sales and earnings of Abbott would not have been significantly different from the reported amounts.

In December 2014, Abbott acquired control of Veropharm, a leading Russian pharmaceutical company for approximately $315 million, excluding assumed debt, plus a subsequent $5 million payment related to a working capital adjustment. Through this acquisition, Abbott establishes a manufacturing footprint in Russia and obtains a portfolio of medicines that is well aligned with Abbott s current pharmaceutical therapeutic areas of focus. Abbott acquired control of Veropharm through its purchase of Limited Liability Company Garden Hills, the holding company that owns approximately 98 percent of Veropharm. Including the assumption of approximately $90 million of debt and a minority interest with a fair value of $5 million, the total value of the acquired business was approximately $415 million. The preliminary allocation of the fair value of the acquisition resulted in definite-lived non-deductible intangible assets of approximately $100 million, non-deductible goodwill of approximately $115 million, and net deferred tax liabilities of approximately $25 million. Non-deductible goodwill is identifiable with the Established Pharmaceutical Products segment. Additionally, Abbott acquired property, plant, and equipment of approximately $165 million, accounts receivable of approximately $45 million, inventory of approximately $25 million, and net other liabilities of approximately $10 million. Acquired intangible assets consist of developed technology and are being amortized over 16 years. In 2015, Abbott acquired the remaining shares of Veropharm, increasing its ownership to 100 percent.

In December 2014, Abbott completed the acquisition of Topera, Inc. for approximately $250 million in cash, plus additional payments up to $300 million to be made upon completion of certain regulatory and sales milestones. The acquisition of Topera provides Abbott a foundational entry in the electrophysiology market. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $20 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible definite-lived intangibles assets of approximately $325 million, non-deductible goodwill of approximately $175 million, net deferred tax liabilities of approximately $105 million, and contingent consideration of approximately $165 million. The fair value of the contingent consideration was determined based on an independent appraisal. Acquired intangible assets consist of developed technology and trademarks, and are being amortized over 16 years.

The preliminary allocations of fair value of the acquisitions of CFR Pharmaceuticals and Veropharm will be finalized when valuations are completed. Had the aggregate of the above acquisitions taken place on January 1, 2013, consolidated net sales and earnings would not have been significantly different from reported amounts.

Note 6 Goodwill and Intangible Assets

The total amount of goodwill reported was $9.896 billion at June 30, 2015 and $10.067 billion at December 31, 2014, which excluded goodwill classified as held for disposition. As part of the disposal of the developed markets branded generics pharmaceuticals business in the first six months of 2015, $894 million of goodwill was included as part of the net assets sold. In the first six months of 2015, foreign currency translation adjustments decreased goodwill by approximately $235 million, while purchase price allocation adjustments associated with recent acquisitions increased goodwill by approximately $67 million. The amount of goodwill related to reportable segments at June 30, 2015 was $3.3 billion for the Established Pharmaceutical Products segment, $286 million for the Nutritional Products segment, $443 million for the Diagnostic Products segment, and $2.9 billion for the Vascular Products segment. There was no reduction of goodwill relating to impairments.

The gross amount of amortizable intangible assets, primarily product rights and technology was $10.8 billion as of June 30, 2015 and December 31, 2014, and accumulated amortization was $5.1 billion as of June 30, 2015 and $4.9 billion as of December 31, 2014. The December 31, 2014 amounts exclude the intangibles that were classified as held for disposition. $738 million of intangibles were included in the net assets transferred as part of the disposal of the developed markets branded generics pharmaceuticals business in the first six months of 2015. Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, was approximately $134 million at June 30, 2015 and December 31, 2014. Abbott s estimated annual amortization

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expense for intangible assets is approximately $680 million in 2015, $660 million in 2016, $650 million in 2017, $570 million in 2018 and $530 million in 2019. Amortizable intangible assets are amortized over 2 to 20 years (weighted average 12 years).

Note 7 Restructuring Plans

In 2014, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including nutritional and established pharmaceuticals businesses. In the first six months of 2015, charges of approximately $19 million were recognized, of which approximately $1 million is recognized in Cost of products sold and approximately $18 million is recognized in Selling, general and administrative expense. Additional charges of approximately $25 million were recorded primarily for accelerated depreciation. The following summarizes the activity for the first six months of 2015 related to these restructuring actions and the status of the related accrual as of June 30, 2015:

(in millions)		
Accrued balance at December 31, 2014	$	118
Restructuring charges recorded in 2015		19
Payments and other adjustments		(44)
Accrued balance at June 30, 2015	$	93

From 2013 to 2015, Abbott management approved various plans to reduce costs and improve efficiencies across various functional areas. In the first six months of 2015, charges of approximately $25 million were recognized, of which approximately $9 million is recorded in Cost of products sold, approximately $2 million is recorded in Research and Development, and approximately $14 million is recorded in Selling, general and administrative expense. In 2013, Abbott management also approved plans to streamline certain manufacturing operations in order to reduce costs and improve efficiencies in Abbott s established pharmaceuticals business. In 2012, Abbott management approved plans to streamline various commercial operations in order to reduce costs and improve efficiencies in Abbott s core diagnostics, established pharmaceuticals and nutritionals businesses. The following summarizes the activity for the first six months of 2015 related to these restructuring actions and the status of the related accrual as of June 30, 2015:

(in millions)		
Accrued balance at December 31, 2014	$	135
Restructuring charges recorded in 2015		25
Payments and other adjustments		(42)
Accrued balance at June 30, 2015	$	118

In 2013 and prior years, Abbott management approved plans to realign its vascular manufacturing operations and core diagnostics business in order to reduce costs. The following summarizes the activity for the first six months of 2015 related to these restructuring actions and the status of the related accrual as of June 30, 2015:

(in millions)		
Accrued balance at December 31, 2014	$	39
Payments and other adjustments		(7)
Accrued balance at June 30, 2015	$	32

Note 8 Incentive Stock Programs

In the first six months of 2015, Abbott granted 5,518,363 stock options, 660,787 restricted stock awards and 5,774,560 restricted stock units under its incentive stock programs. At June 30, 2015, approximately 86 million shares were reserved for future grants. Information regarding the number of stock options outstanding and exercisable at June 30, 2015 is as follows:

	Outstanding	Exercisable
Number of shares	37,098,123	27,421,775
Weighted average remaining life (*years*)	4.9	3.4
Weighted average exercise price	$ 31.06	$ 26.83
Aggregate intrinsic value (*in millions*)	$ 669	$ 611

The total unrecognized share-based compensation cost at June 30, 2015 amounted to approximately $249 million which is expected to be recognized over the next three years.

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Note 9 Financial Instruments, Derivatives and Fair Value Measures

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, with notional amounts totaling $1.6 billion at June 30, 2015 and $1.5 billion at December 31, 2014 are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates and are recorded at fair value. Accumulated gains and losses as of June 30, 2015 will be included in Cost of products sold at the time the products are sold, generally through the next twelve to eighteen months. The amount of hedge ineffectiveness was not significant in 2015 and 2014.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U.S. dollars and other European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. At June 30, 2015 and December 31, 2014, Abbott held $14.1 billion of such foreign currency forward exchange contracts.

Abbott has designated foreign denominated short-term debt as a hedge of the net investment in a foreign subsidiary of approximately $431 million and approximately $445 million as of June 30, 2015 and December 31, 2014, respectively. Accordingly, changes in the reported value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss), net of tax.

Abbott is a party to interest rate hedge contracts totaling approximately $4.0 billion at June 30, 2015 and $1.5 billion at December 31, 2014 to manage its exposure to changes in the fair value of fixed-rate debt. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt. Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount. No hedge ineffectiveness was recorded in income in 2015 or 2014 for these hedges.

The following table summarizes the amounts and location of certain derivative financial instruments as of June 30, 2015 and December 31, 2014:

	Fair Value - Assets			Fair Value - Liabilities		
(in millions)	**June 30, 2015**	**Dec. 31, 2014**	**Balance Sheet Caption**	**June 30, 2015**	**Dec. 31, 2014**	**Balance Sheet Caption**
Interest rate swaps designated as fair value hedges	$ 103	$ 101	Deferred income taxes and other assets	$ 17	$	Post-employment obligations, deferred income taxes and other long-term liabilities
Foreign currency forward exchange contracts:						
Hedging instruments	87	107		9		Other accrued liabilities

			Prepaid expenses, deferred income taxes, and other receivables			
Others not designated as hedges	270	150	Prepaid expenses, deferred income taxes, and other receivables	66	130	Other accrued liabilities
Debt designated as a hedge of net investment in a foreign subsidiary			n/a	431	445	Short-term borrowings
	$ 460	$ 358		$ 523	$ 575	

The following table summarizes the activity for foreign currency forward exchange contracts designated as cash flow hedges, debt designated as a hedge of net investment in a foreign subsidiary and certain other derivative financial instruments, as well as the amounts and location of income (expense) and gain (loss) reclassified into income for the three months and six months ended June 30, 2015 and 2014. The amount of hedge ineffectiveness was not significant in 2015 and 2014 for these hedges.

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	Gain (loss) Recognized in Other Comprehensive Income (loss)				Income (expense) and Gain (loss) Reclassified into Income				
	Three Months Ended June 30		Six Months Ended June 30		Three Months Ended June 30		Six Months Ended June 30		Income Statement
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014	Caption
Foreign currency forward exchange contracts designated as cash flow hedges	$ 5	$ (3)	$ 48	$ (1)	$ 30	$ 2	$ 47	$ 5	Cost of products sold
Debt designated as a hedge of net investment in a foreign subsidiary	(11)	(7)	(14)	(18)	n/a	n/a	n/a	n/a	n/a
Interest rate swaps designated as fair value hedges	n/a	n/a	n/a	n/a	(63)	8	(14)	19	Interest expense
Foreign currency forward exchange contracts not designated as hedges	n/a	n/a	n/a	n/a	(85)	(11)	(101)	(25)	Net foreign exchange loss (gain)

The interest rate swaps are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The hedged debt is marked to market, offsetting the effect of marking the interest rate swaps to market.

The carrying values and fair values of certain financial instruments as of June 30, 2015 and December 31, 2014 are shown in the following table. The carrying values of all other financial instruments approximate their estimated fair values. The counterparties to financial instruments consist of select major international financial institutions. Abbott does not expect any losses from nonperformance by these counterparties.

	June 30, 2015		December 31, 2014	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment Securities:				
Equity securities	$ 4,898	$ 4,898	$ 212	$ 212
Other	17	17	17	17
Total Long-term Debt	(5,894)	(6,323)	(3,463)	(4,113)
Foreign Currency Forward Exchange Contracts:				
Receivable position	357	357	263	263
(Payable) position	(75)	(75)	(135)	(135)
Interest Rate Hedge Contracts:				
Receivable position	103	103	101	101
Payable position	(17)	(17)		

The fair value of the debt was determined based on significant other observable inputs, including current interest rates.

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The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the balance sheet:

		Basis of Fair Value Measurement		
(in millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
June 30, 2015:				
Equity securities	$ 4,682	$ 10	$ 4,672	$
Interest rate swap derivative financial instruments	103		103	
Foreign currency forward exchange contracts	357		357	
Total Assets	$ 5,142	$ 10	$ 5,132	$
Fair value of hedged long-term debt	$ 4,104	$	$ 4,104	$
Foreign currency forward exchange contracts	75		75	
Interest rate swap derivative financial instruments	17		17	
Contingent consideration related to business combinations	169			169
Total Liabilities	$ 4,365	$	$ 4,196	$ 169
December 31, 2014:				
Equity securities	$ 9	$ 9	$	$
Interest rate swap derivative financial instruments	101		101	
Foreign currency forward exchange contracts	263		263	
Total Assets	$ 373	$ 9	$ 364	$
Fair value of hedged long-term debt	$ 1,637	$	$ 1,637	$
Foreign currency forward exchange contracts	135		135	
Contingent consideration related to business combinations	243			243
Total Liabilities	$ 2,015	$	$ 1,772	$ 243

Equity securities are principally comprised of Mylan N.V. ordinary shares. The fair value of the Mylan equity securities was determined based on the value of the publicly-traded ordinary shares adjusted for the restrictions related to the resale of these shares. The fair value of debt was determined based on the face value of the debt adjusted for the fair value of the interest rate swaps, which is based on a discounted cash flow analysis. The fair value of foreign currency forward exchange contracts is determined using a market approach, which utilizes values for comparable derivative instruments. The fair value of the contingent consideration was determined based on an independent appraisal adjusted for the time value of money and other changes in fair value primarily resulting from changes in regulatory timelines.

Note 10 Litigation and Environmental Matters

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 probable loss exposure. No individual site cleanup exposure is expected to exceed $4 million, and the aggregate cleanup exposure is not expected to exceed $15 million.

Abbott is involved in various claims and legal proceedings, and Abbott estimates the range of possible loss for its legal proceedings and environmental exposures to be from approximately $40 million to $55 million. The recorded accrual balance at June 30, 2015 for these proceedings and exposures was approximately $50 million. This accrual represents management s best estimate of probable loss, as defined by FASB ASC No. 450, Contingencies. Within the next year, legal proceedings may occur that may result in a change in the estimated loss accrued by Abbott. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott s financial position, cash flows, or results of operations.

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Note 11 Post-Employment Benefits

Retirement plans consist of defined benefit, defined contribution, and medical and dental plans. Net cost recognized in continuing operations for the three months and six months ended June 30 for Abbott s major defined benefit plans and post-employment medical and dental benefit plans is as follows:

	Defined Benefit Plans				Medical and Dental Plans			
	Three Months Ended June 30		Six Months Ended June 30		Three Months Ended June 30		Six Months Ended June 30	
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014
Service cost benefits earned during the period	$ 68	$ 62	$ 150	$ 128	$ 6	$ 9	$ 15	$ 18
Interest cost on projected benefit obligations	77	75	156	152	11	16	25	32
Expected return on plan assets	(128)	(113)	(257)	(226)	(10)	(9)	(19)	(19)
Net amortization of:								
Actuarial loss, net	42	24	89	49	1	4	10	9
Prior service cost (credit)				1	(12)	(9)	(24)	(18)
Total Cost	59	48	138	104	(4)	11	7	22
Less: Discontinued operations		4	1	8				
Net cost - continuing operations	$ 59	$ 44	$ 137	$ 96	$ (4)	$ 11	$ 7	$ 22

Abbott funds its domestic defined benefit plans according to IRS funding limitations. International pension plans are funded according to similar regulations. In the first six months of 2015 and 2014, $547 million and $330 million, respectively, were contributed to defined benefit plans and $24 million and $40 million were contributed to the post-employment medical and dental benefit plans in the first six months of 2015 and 2014, respectively.

Note 12 Taxes on Earnings

Taxes on earnings from continuing operations reflect the estimated annual effective rates and include charges for interest and penalties. In the first six months of 2015, taxes on earnings from continuing operations include a tax cost of $69 million related to the disposal of shares of Mylan stock. Taxes on earnings from continuing operations were not affected by any adjustments as the result of the resolution of various tax positions pertaining to prior years. Tax expense related to discontinued operations includes $665 million of tax expense on certain current-year funds earned outside the U. S. that were not designated as permanently reinvested overseas. Earnings from discontinued operations, net of tax, in the first six months of 2015 also reflects the recognition of $17 million of net tax benefits primarily as a result of the resolution of various tax positions related to AbbVie s operations for years prior to the separation. The conclusion of these tax matters decreased the gross amount of unrecognized tax benefits by approximately $35 million. Taxes on earnings from continuing operations, in the first six months of 2014, reflect a tax cost of $7 million, primarily as a result of the resolution of various tax positions related to the branded generics pharmaceutical business. Earnings from discontinued operations, net of tax, in the first six months of 2014 reflects the recognition of $109 million of net tax benefits primarily as a result of the resolution of various tax positions related to the developed markets branded generics pharmaceuticals business, as well as AbbVie s operations, for years prior to the separation. The conclusion of these tax matters decreased the gross amount of unrecognized tax benefits by approximately $134 million.

Tax authorities in various jurisdictions regularly review Abbott s income tax filings. Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease by $525 million to $635 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters. In the U.S., Abbott s federal income tax returns through 2011 are settled except for two issues.

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Note 13 Segment Information

Abbott s principal business is the discovery, development, manufacture and sale of a broad line of health care products. 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:

Established Pharmaceutical Products International sales of a broad line of branded generic pharmaceutical products.

Nutritional Products Worldwide sales of a broad line of adult and pediatric nutritional products.

Diagnostic Products Worldwide sales of diagnostic systems and tests for blood banks, hospitals, commercial laboratories and alternate-care testing sites. For segment reporting purposes, the Core Laboratories Diagnostics, Molecular Diagnostics, Point of Care and Ibis diagnostic divisions are aggregated and reported as the Diagnostic Products segment.

Vascular Products Worldwide sales of coronary, endovascular, structural heart, vessel closure and other medical device products. For segment reporting purposes, the Vascular and Electrophysiology Products divisions are aggregated and reported as the Vascular Products segment.

Non-reportable segments include the Diabetes Care and Medical Optics segments.

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan N.V. This business was previously included in the Established Pharmaceutical Products segment for the first six months of 2014; therefore, the 2014 segment information below has been adjusted to reflect the classification of the developed markets branded generics pharmaceuticals business as part of discontinued operations in the Condensed Consolidated Statement of Earnings.

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 charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. In addition, intangible asset amortization is not allocated to operating segments, and intangible assets and goodwill are not included in the measure of each segment s assets. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

	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	
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014
Established Pharmaceutical Products	$ 977	$ 744	$ 1,874	$ 1,425	$ 172	$ 160	$ 339	$ 281
Nutritional Products	1,717	1,731	3,386	3,362	389	302	739	585
Diagnostic Products	1,177	1,189	2,270	2,306	304	279	580	501
Vascular Products	722	765	1,420	1,503	280	303	564	524
Total Reportable Segments	4,593	4,429	8,950	8,596	1,145	1,044	2,222	1,891
Other	577	628	1,117	1,216				
Net Sales	$ 5,170	$ 5,057	$ 10,067	$ 9,812				
Corporate functions and benefit plans costs					(104)	(103)	(221)	(161)
Non-reportable segments					62	106	117	172
Net interest expense					(17)	(17		