10-Q 1 a10-q.txt 10-Q FORM 10-Q SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D. C. 20549 (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, 2000 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 X . No . --- --- As of June 30, 2000 the Corporation had 1,549,930,306 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 Six Months Ended June 30 June 30 ----------------------- -------- ---------------- 2000 1999 2000 1999 ---------- ---------- ---------- ---------- ~~Net Sales .... $3,370,153 $3,259,211 $6,723,331 $6,572,531 ---------- ---------- ---------- ---------- Cost of products sold .... 1,530,254 1,415,188 3,026,701 2,868,204 Research and development .... 361,592 317,903 682,959 587,400 Selling, general and administrative .... 728,943 693,664 1,459,247 1,379,144 Gain on sale of business .... (92,203) -- (138,507) -- ---------- ---------- ---------- ---------- Total Operating Cost and Expenses .... 2,528,586 2,426,755 5,030,400 4,834,748 ---------- ---------- ---------- ---------- Operating Earnings .... 841,567 832,456 1,692,931 1,737,783 Net interest expense .... 11,090 21,716 23,124 47,568 Income from TAP Pharmaceutical Products Inc. joint venture . (117,571) (96,336) (236,485) (167,905) Net foreign exchange (gain) loss .... 1,439 (2,078) 2,280 18,481 Other (income) expense, net .... 7,976 13,355 16,123 15,086 ---------- ---------- ---------- ---------- Earnings Before Taxes .... 938,633 895,799 1,887,889 1,824,553 Taxes on earnings~~

~~.. 253,431 250,824 509,730 510,875 ---------- ---------- ---------- ---------- Net Earnings .... $ 685,202 $ 644,975 $1,378,159 $1,313,678 ========== ========== ========== ========== Basic Earnings Per Common Share .... $ 0.44 $ 0.42 $ 0.89 $ 0.86 ========== ========== ========== ========== Diluted Earnings Per Common Share .... $ 0.44 $ 0.41 $ 0.88 $ 0.84 ========== ========== ========== ========== Cash Dividends Declared Per Common Share .... $ 0.19 $ 0.17 $ 0.38 $ 0.34 ========== ========== ========== ========== Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share .... 1,549,864 1,535,397 1,548,941 1,533,808 Dilutive Common Stock Options .... 16,509 23,304 13,999 24,205 ---------- ---------- ---------- ---------- Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options .... 1,566,373 1,558,701 1,562,940 1,558,013 ========== ========== ========== ========== Outstanding Common Stock Options Having No Dilutive Effect . 19,575 2,808 19,575 2,808 ========== ========== ========== ==========~~

The accompanying notes to consolidated financial statements are an integral part of this statement. 2 Abbott Laboratories and Subsidiaries Condensed Consolidated Statement of Cash Flows (Unaudited) (dollars in thousands)

Six Months Ended June 30 ----------- ------------- 2000 1999 ---------- --- ------- ~~Cash Flow From (Used in) Operating Activities: Net earnings .... $1,378,159 $1,313,678 Adjustments to reconcile net earnings to net cash from operating activities - Depreciation and amortization .... 435,773 417,517 Trade receivables .... (49,696) (33,373) Inventories .... (252,334) (67,557) Gain on sale of business .... (138,507) -- Other, net .... 274,159 (17,205) ---------- ---------- Net Cash From Operating Activities .... 1,647,554 1,613,060 ---------- ---------- Cash Flow From (Used in) Investing Activities: Proceeds from sale of business .... 116,000 -- Acquisitions of property, equipment and businesses .... (530,845) (465,109) Investment securities transactions .... 32,450 79,033 Other .... 36,034 6,558 ---------- ---------- Net Cash Used in Investing Activities .... (346,361) (379,518) ---------- ---------- Cash Flow From (Used in) Financing Activities: Repayments of commercial paper, net .... (548,000) (760,000) Other borrowing transactions, net .... (590) (12,862) Common share transactions .... 49,986 70,267 Dividends paid .... (557,462) (485,939) ---------- ---------- Net Cash Used in Financing Activities .... (1,056,066) (1,188,534) ---------- ---------- Effect of exchange rate changes on cash and cash equivalents .... (13,075) (12,674) ---------- ---------- Net Increase in Cash and Cash Equivalents .... 232,052 32,334 Cash and Cash Equivalents, Beginning of Year .... 608,097 315,238 ---------- ---------- Cash and Cash Equivalents, End of Period .... $ 840,149 $ 347,572~~ ========== ==========

The accompanying notes to consolidated financial statements are an integral part of this statement. 3 Abbott Laboratories and Subsidiaries Condensed

Consolidated Balance Sheet (dollars in thousands) June 30 December 31 2000 1999 ----------- ----------- (Unaudited) ~~Assets Current Assets: Cash and cash equivalents .... $ 840,149 $ 608,097 Investment securities .... 144,102 115,199 Trade receivables, less allowances of $193,056 in 2000 and $238,956 in 1999 .... 2,040,877 2,055,839 Inventories: Finished products .... 885,225 772,478 Work in process .... 372,621 338,818 Materials .... 426,461 384,148 ----------- ----------- Total inventories .... 1,684,307 1,495,444 ----------- ----------- Prepaid expenses, income taxes, and other receivables .... 2,188,601 2,145,175 ----------- ----------- Total Current Assets .... 6,898,036 6,419,754 ----------- ----------- Investment Securities Maturing after One Year .... 879,707 954,778 ----------- ----------- Property and Equipment, at Cost .... 9,938,898 9,797,567 Less: accumulated depreciation and amortization .... 5,168,128 5,027,508 ----------- ----------- Net Property and Equipment .... 4,770,770 4,770,059 Deferred Charges, Intangible and Other Assets .... 2,415,568 2,326,453 ----------- ----------- $14,964,081 $14,471,044 =========== =========== Liabilities and Shareholders' Investment Current Liabilities: Short-term borrowings and current portion of long-term debt .... $ 355,594 $ 896,271 Trade accounts payable .... 1,480,079 1,226,854 Salaries, income taxes, dividends payable, and other accruals .... 2,352,593 2,393,586 ----------- ----------- Total Current Liabilities .... 4,188,266 4,516,711 ----------- ----------- Long-Term Debt .... 1,326,416 1,336,789 ----------- ----------- Other Liabilities and Deferrals .... 1,265,005 1,189,949 ----------- ----------- 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: 2000: 1,567,539,540; 1999: 1,564,670,440~~

~~.................................. 2,074,238 1,939,673~~
~~Common shares held in treasury, at cost - Shares:~~
~~2000: 17,609,234; 1999: 17,650,834~~
~~.. (257,147) (257,756)~~
~~Unearned compensation - restricted stock~~
~~awards.. (19,857)~~
~~(23,028) Earnings employed in the business~~
~~... 6,879,490~~
~~6,174,007 Accumulated other comprehensive~~
~~loss .... (492,330)~~
~~(405,301) ----------- ----------- Total~~
~~Shareholders' Investment~~
~~... 8,184,394~~
~~7,427,595 ----------- ----------- $14,964,081~~
~~$14,471,044 =========== ===========~~

The accompanying notes to consolidated financial statements are an integral part of this statement. 4 Abbott Laboratories and Subsidiaries Notes to Condensed Consolidated Financial Statements June 30, 2000 (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, 1999. Note 2 - Supplemental Financial Information (dollars in thousands)

Three Months Ended
Six Months Ended
June 30 June 30 -----
--------------- -------
------------- 2000
1999 2000 1999 ----
---- -------- --------
-------- ~~Net interest~~
~~expense: Interest~~
~~expense ....~~
~~$ 33,018 $ 36,492 $~~
~~65,233 $ 76,840~~
~~Interest income~~
~~................... (21,928)~~
~~(14,776) (42,109)~~
~~(29,272) -------- ----~~
~~---- -------- --------~~
~~Total~~
~~..................................~~
~~$ 11,090 $ 21,716 $~~
~~23,124 $ 47,568~~
~~========~~
~~========~~
~~========~~
~~========~~

Note 3 - Taxes on Earnings Taxes on earnings reflect the estimated annual effective tax rates. The effective tax rates are less than the statutory U.S. Federal income tax rate principally due to the domestic dividend exclusion applicable to earnings of TAP Pharmaceutical Products Inc. and tax incentive grants related to subsidiaries operating in Puerto Rico, the Dominican Republic, Ireland, the Netherlands and Italy. Note 4 - Litigation and Environmental Matters Abbott is involved in various claims and legal proceedings including numerous antitrust suits and investigations in connection with the pricing of prescription pharmaceuticals. These suits and investigations allege that various pharmaceutical manufacturers have conspired to fix prices for prescription pharmaceuticals and/or to discriminate in pricing to retail pharmacies by providing discounts to mail-order pharmacies, institutional pharmacies and HMOs in violation of state and federal antitrust laws. The suits have been brought on behalf of individuals and retail pharmacies and name both Abbott and certain other pharmaceutical manufacturers and pharmaceutical wholesalers and at least one mail-order pharmacy company as defendants. The cases seek treble damages, civil penalties, and injunctive and other relief. Abbott has filed or intends to file a response to each of the remaining complaints denying all substantive allegations. In addition, there are several lawsuits and one investigation pending in connection with the sales of HYTRIN. These suits and the investigation allege that Abbott violated state or federal antitrust laws and, in some cases, unfair competition laws by signing 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. Department of Justice is investigating the marketing and sales practices of TAP Pharmaceutical Products Inc. ("TAP") for LUPRON. In addition, various state and federal agencies are investigating the pricing practices of TAP with respect to LUPRON and/or of Abbott with respect to certain other Medicare and Medicaid reimbursable products. Abbott has also 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 expects that within the next year, legal proceedings will occur that may result in a change in the estimated reserves recorded by Abbott. While it is not feasible to predict the outcome of such pending claims, proceedings, investigations and remediation activities with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations. 5 Notes to Condensed Consolidated Financial Statements June 30, 2000 (Unaudited), continued The matters above are discussed more fully in Note 14 to the financial statements included in Abbott's Annual Report on Form 10-K, which is available upon request. Note 5 - U.S. Food and Drug Administration Consent Decree In November 1999, Abbott reached agreement with the U.S. Food and Drug Administration to have a consent decree entered to settle issues involving Abbott's diagnostics manufacturing operations in Lake County, Ill. The decree requires Abbott to ensure its diagnostics manufacturing processes in Lake County, Ill., conform with the FDA's current Quality System Regulation. The decree allows for the continued manufacture and distribution of medically necessary diagnostic products made in Lake County, Ill. However, 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 current Quality System Regulation. Under the terms of the consent decree, among other actions, Abbott has submitted to the FDA a proposed master compliance and validation plan to ensure its processes conform with the current Quality System Regulation. The decree requires Abbott to ensure its facilities are in conformance with the current Quality System Regulation within one year from the date of the consent decree. The consent 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. Note 6 - Comprehensive Income (dollars in thousands)

Three Months Ended Six Months Ended June 30 June 30 -------------------- ------------------------ 2000 1999 2000 1999 -------- -------- ---------- ---------- ~~Foreign currency translation losses .... $(55,158) $(42,637) $ (86,220) $ (122,174) Tax (expense) benefit related to foreign currency translation losses .... 157 (81) (261) 45 Unrealized gains (losses) on marketable equity securities .... 1,189 859 20,172 (27,140) Tax (expense) benefit related to unrealized gains (losses) on marketable equity securities .... (476) (365) (8,069) 10,819 Reclassification adjustment for gains included in net income .... (22,981) -- (12,651) -- -------- -------- ---------- ---------- Other comprehensive loss, net of tax .... (77,269) (42,224) (87,029) (138,450) Net Earnings .... 685,202 644,975 1,378,159 1,313,678 -------- -------- ---------- ---------- Comprehensive Income .... $607,933 $602,751 $1,291,130 $1,175,228~~ ======== ======== ========== ==========

Supplemental Comprehensive Income Information:

June 30 -------------------- 2000 1999 -------- -------- ~~Cumulative foreign currency translation loss adjustments, net of tax~~

~~$518,423 $382,840 Cumulative unrealized (gains) on marketable equity securities, net of tax~~

~~(26,093) (16,697)~~

6 Notes to Condensed Consolidated Financial Statements June 30, 2000 (Unaudited), continued Note 7 - Segment Information (dollars in millions) REVENUE SEGMENTS-- Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products and services. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Segments are identified as those revenue divisions that report directly to the chief operating officer of Abbott. Abbott's reportable segments are as follows: PHARMACEUTICAL PRODUCTS-- U.S. sales of a broad line of pharmaceuticals. DIAGNOSTIC PRODUCTS-- Worldwide sales of diagnostic systems for blood banks, hospitals, consumers, commercial laboratories and alternate-care testing sites. HOSPITAL PRODUCTS-- U.S. sales of intravenous and irrigation fluids and related administration equipment, drugs and drug-delivery systems, anesthetics, critical care products, and other medical specialty products for hospitals and alternate-care sites. ROSS PRODUCTS-- U.S. sales of a broad line of adult and pediatric nutritional products, pediatric pharmaceuticals and consumer products. INTERNATIONAL-- Non-U.S. sales of all of Abbott's pharmaceutical, hospital and nutritional products. Products sold by International are manufactured by domestic segments and by international manufacturing locations. Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are sold to segments at predetermined rates which approximate cost. Remaining costs, if any, are not allocated to revenue segments. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and may not be presented in accordance with generally accepted accounting principles.

Net Sales to Operating External Customers Earnings --------------- ----------------------- ----------- ---------------------------- Three Months Ended Six Months Ended Three Months Ended Six Months Ended June 30 June 30 June 30 June 30 ----------------- --------- -------- ----------------- --------- -------- 2000 1999 2000 1999 2000 1999 2000 1999 ------ ----- - ------ ------ ------ ------ ------ - ----- ~~Pharmaceutical (a) .... $ 563 $ 544 $1,170 $1,168 $ 164 $ 292 $ 398 $ 640 Diagnostics .... 761 759 1,468 1,475 101 141 160 251 Hospital (a) .... 659 561 1,229 1,137 166 133 292 284 Ross .... 497 469 1,047 971 171 158 394 343 International .... 807 782 1,659 1,613 202 169 430 382 ------ ------ ------ ------ ------ ------ ------ ------ Total Reportable Segments .... 3,287 3,115 6,573 6,364 804 893 1,674 1,900 Other .... 83 144 150 209 ------ ------ ------ ------ Net Sales .... $3,370 $3,259 $6,723 $6,573 ====== ====== ====== ====== Corporate functions .... 37 30 78 57 Benefit plans costs .... 18 31 37 58 Non-reportable segments .... (19) (28) (26) (41) Gain on sale of business .... (92) -- (139) -- Net interest expense .... 11 22 23 48 Income from TAP Pharmaceutical Products Inc. .... (118) (96) (236) (168) Net foreign exchange loss .... 1 (2) 2 18 Other expense (income), net .... 27 40 47 103 ------ ------ ------ ------ Consolidated Earnings Before Taxes .... $ 939 $ 896 $1,888 $1,825 ====== ====== ====== ======~~

(a) In 2000, management of the cardiovascular medicine franchise was transferred from the Pharmaceutical segment to the Hospital segment. Net sales and operating earnings for 1999 have been restated to reflect this transfer. 7 Notes to Condensed Consolidated Financial Statements June 30, 2000 (Unaudited), continued Note 8 -- Sale of Agricultural Products Business On January 20, 2000, Abbott sold its agricultural products business to

Sumitomo Chemical Co., Ltd., resulting in a $46 million gain recorded in the first quarter 2000. In the second quarter, upon Sumitomo achieving a sales milestone, Abbott recorded an additional $92 million gain. Under the transaction, Sumitomo acquired research and development, sales, marketing, and support operations for Abbott's entire line of naturally occurring biopesticides, plant growth regulators and other products for agriculture, public health and forestry. Bulk active ingredient manufacturing rights were retained by Abbott. For the full year 1999, Abbott recorded approximately $102 million in sales from this business. 8 FINANCIAL REVIEW RESULTS OF OPERATIONS - SECOND QUARTER AND FIRST SIX MONTHS 2000 COMPARED WITH SAME PERIODS IN 1999 The following table details sales by segment for the second quarter and first six months 2000: (dollars in millions)

Net Sales to Percentage Net Sales to Percentage External Customers Change (a) External Customers Change (a) ------------------ --------- ------------------ --------- Three Months Ended June 30 Six Months Ended June 30 ------------------------------ ------------------------- ----- 2000 1999 2000 1999 ------ ------ ------ ------

~~Pharmaceutical (b) .... $ 563 $ 544 3.5 $1,170 $1,168 0.2 Diagnostics .... 761 759 0.2 1,468 1,475 (0.4) Hospital (b) .... 659 561 17.4 1,229 1,137 8.1 Ross .... 497 469 6.0 1,047 971 7.9 International .... 807 782 3.2 1,659 1,613 2.8 ------ ------ ------ ------ Total Reportable Segments .... 3,287 3,115 5.5 6,573 6,364 3.3 Other .... 83 144 150 209 ------ ------ ------ ------ Net Sales .... $3,370 $3,259 3.4 $6,723 $6,573 2.3 ====== ====== ====== ====== Total U.S. ....~~

~~$2,076 $2,006 3.5~~
~~$4,137 $4,062 1.9~~

~~Total International .... $1,294~~
~~$1,253 3.3 $2,586~~
~~$2,511 3.0~~

(a) Percentage changes are based on unrounded numbers. (b) In 2000, management of the cardiovascular medicine franchise was transferred from the Pharmaceutical segment to the Hospital segment. Net sales for 1999 have been restated to reflect this transfer. 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 4.8 percent for the second quarter and 3.8 percent for the first six months, respectively, over the comparable 1999 periods. Diagnostics segment sales decreased for the first six months primarily due to the effect of the consent decree as discussed in Note 5 and due to the negative effect of the relatively stronger U.S. Dollar. Excluding exchange, Diagnostics segment sales increased 2.3 percent for the first six months. Diluted earnings per common share increased 7.3 percent and 4.8 percent in the second quarter and first six months, respectively, over the same periods in 1999. Net earnings increased 6.2 percent and 4.9 percent in the second quarter and first six months 2000, respectively, over the comparable 1999 periods. In August 1999, Geneva Pharmaceuticals, Inc. began shipments of generic HYTRIN in the United States, which has adversely impacted Abbott's HYTRIN sales. Full year U.S. sales of HYTRIN amounted to $466 million in 1999. For the first six months 2000, U.S. sales of HYTRIN were $69 million. As a result of the consent decree entered into with the U.S. Food and Drug Administration in 1999, as discussed in Note 5, 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 current Quality System Regulation. The consent decree resulted in a one-time charge of $168 million in the third quarter of 1999. In addition, Abbott estimates that 2000 sales may be negatively impacted up to $250 million and earnings per share may be negatively impacted up to 10 cents per share. In 1998, the U.S. Food and Drug Administration suspended its approval of the release of production lots of Abbott's pharmaceutical product ABBOKINASE due to Current Good Manufacturing Practice concerns. It is anticipated that sales of ABBOKINASE will resume after 2000. In 1999, sales of ABBOKINASE were approximately $47 million, all of which were recorded in the first quarter. Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 54.6 percent for the second quarter 2000, compared to 56.6 percent for the second quarter 1999. First six months 2000 gross profit margin was 55.0 percent, compared to 56.4 percent for the first six months 1999. These decreases were primarily due to unfavorable product mix. 9 FINANCIAL REVIEW (continued) Research and development expenses for the second quarter 2000 and first six months 2000 increased 13.7 percent and 16.3 percent, respectively, over the comparable 1999 periods, and include charges relating to several research and development collaboration agreements entered into in the first six months 2000. The majority of research and development expenditures continues to be concentrated on pharmaceutical and diagnostic products. Selling, general and administrative expenses for the second quarter 2000 and first six months 2000 increased 5.1 percent and 5.8 percent, respectively, over the comparable 1999 periods, due primarily to increased selling and marketing support for new and existing products. SALE OF AGRICULTURAL PRODUCTS BUSINESS On January 20, 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a $46 million gain recorded in the first quarter 2000. In the second quarter, upon Sumitomo achieving a sales milestone, Abbott recorded an additional $92 million gain. Under the transaction, Sumitomo acquired research and development, sales, marketing, and support operations for Abbott's entire line of naturally occurring biopesticides, plant growth regulators and other products for agriculture, public health and forestry. Bulk active ingredient manufacturing rights were retained by Abbott. For the full year 1999, Abbott recorded approximately $102 million in sales from this business. INTEREST (INCOME) EXPENSE, NET Net interest expense decreased in both the second quarter and first six months 2000, due primarily to a lower level of borrowings. TAXES ON EARNINGS The effective income tax rate was 27.0 percent in 2000 and 28.0 percent in 1999. The tax rate for 2000 was reduced primarily due to the domestic dividend exclusion applicable to the increased earnings of TAP Pharmaceutical Products Inc. LIQUIDITY AND CAPITAL RESOURCES AT JUNE 30, 2000 COMPARED WITH DECEMBER 31, 1999 Net cash from operating activities for the first six months 2000 totaled $1.648 billion. Abbott expects annual cash flow from operating activities to continue to approximate or exceed Abbott's capital expenditures and cash dividends. Abbott has maintained its favorable bond ratings (AAA by Standard & Poor's Corporation and Aa1 by Moody's Investors Service) and continues to have readily available financial resources, including unused domestic lines of credit of $1.505 billion at June 30, 2000. These lines of credit support domestic commercial paper borrowing arrangements. Abbott may issue up to $518 million of securities in the future under a registration statement filed with the Securities and Exchange Commission in 1999. Of the $518 million, Abbott may issue up to $268 million either in the form of debt securities or common shares without par value. The remaining $250 million may only be issued in the form of debt securities. In June 2000, Abbott's Board of Directors authorized the purchase of up to 25 million of Abbott's common shares. Abbott purchased and retired 1,352,000 shares during this period at a cost of $56.8 million. As of June 30, 2000, an additional 23,648,000 shares may be purchased in future periods. LEGISLATIVE ISSUES Abbott's primary markets are highly competitive and subject to substantial government regulation. Abbott expects debate to continue at both the federal and the state levels over the availability, method of delivery, and payment for health care products and services. Abbott believes that if legislation is enacted, it could have the effect of reducing prices, or reducing the rate of price increases for medical products and services. International operations are also subject to a significant degree of government regulation. It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, in the Annual Report on Form 10-K, which is available upon request. 10 FINANCIAL REVIEW (continued) RECENTLY ISSUED ACCOUNTING STANDARD The Securities and Exchange Commission (the "SEC") has issued Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements, as amended on June 26, 2000. SAB No. 101 provides the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues, and is effective beginning in the fourth quarter of 2000. Abbott is evaluating the effects of implementation, if any, on its financial statements. PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 -- A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS20 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. 11 PART II. OTHER INFORMATION ITEM 1. LEGAL PROCEEDINGS Abbott is involved in various claims and legal proceedings, including those described below. In its Form 10-Q for the quarterly period ended March 31, 2000, Abbott reported five lawsuits were pending involving Abbott's patents for divalproex sodium, a drug that Abbott sells under the trademark Depakote-Registered Trademark-, including the patent infringement lawsuits Abbott filed against Andrx Corporation, Andrx Pharmaceutical, and Andrx Pharmaceutical, L.L.C. in the United States District Court for the Northern District of Illinois and in the United States District Court for the Southern District of Florida and the patent infringement lawsuit Abbott filed against Andrx L.L.C. in the United States District Court for the Eastern District of Virginia. During the quarterly period ended June 30, 2000, the lawsuit pending in the United States District Court for the Northern District of Illinois was transferred to the United States District Court for the Southern District of Florida and consolidated with the case pending in that court. The lawsuit pending in the United States District Court for the Eastern District of Virginia also will be transferred to the United States District Court for the Southern District of Florida and consolidated with the case that is pending in that court. In its Form 10-Q for the quarterly period ended March 31, 2000, Abbott reported 17 lawsuits and one antitrust investigation were pending involving Abbott's patents for terazosin hydrochloride, a drug that Abbott sells under the trademark Hytrin-Registered Trademark-. During the quarterly period ended June 30, 2000, three additional lawsuits were filed. All three of these lawsuits relate to Abbott's agreements with Geneva Pharmaceuticals, Inc. ("Geneva") and/or Zenith Laboratories, Inc. ("Zenith") which are described in Abbott's Form 10-K for the fiscal year ended December 31, 1999. On June 8, 2000, Martin Bernstein filed a lawsuit against Abbott and Geneva in state court in Oakland County, Michigan alleging that Abbott's agreement with Geneva violated the Michigan Antitrust Reform Act. On April 27, 2000, Willie O'Neal filed a lawsuit against Abbott, Geneva, and Zenith in state court in Jefferson County, Alabama alleging that Abbott's agreement with Geneva and Zenith violated the Illinois Fraud and Deceptive Trade Practices Act. On May 26, 2000, Steven Daniels filed a lawsuit against Abbott in state court in Orange County, California alleging that Abbott's agreements with Geneva and Zenith violated the California Cartwright Act and/or the Unfair Trade Practice Act. Each of these cases purports to be a class action and has been conditionally transferred to the United States District Court for the Southern District of Florida. Abbott has filed or intends to file a response to each of the complaints denying all substantive allegations. In its Form 10-K for the fiscal year ended December 31, 1999, Abbott reported that 116 antitrust lawsuits were pending in federal court and 14 were pending in state court involving Abbott's pricing of pharmaceutical products. As of July 21, 2000, as a result of settlements, 114 antitrust suits were pending in federal court. During the quarterly period ended June 30, 2000, the Alabama Supreme Court dismissed the case that had been pending in the Alabama state court in Clarke County, Alabama and a new case was brought in Clarke County on behalf of Alabama consumers by the Alabama District Attorney. Abbott has filed a response denying all substantive allegations of the complaint. 12 In its Form 10-Q for the quarterly period ended March 31, 2000, Abbott reported 19 cases were pending relating to Abbott's alleged noncompliance with the Federal Food and Drug Administration's Quality System Regulation at Abbott's Diagnostics Division facilities in Lake County, Illinois. These include 13 cases consolidated as IN RE ABBOTT LABORATORIES SECURITIES LITIGATION, 4 cases consolidated as IN RE ABBOTT LABORATORIES DERIVATIVE SHAREHOLDER, and GALLAGHER V. ABBOTT. Abbott has moved to dismiss these 18 cases. 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 dispositions should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations. ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K a) Exhibits 10.1. Abbott Laboratories 1996 Incentive Stock Program - attached hereto. 10.2. Abbott Laboratories Non-Employee Directors' Fee Plan - attached hereto. 12. Statement re: computation of ratio of earnings to fixed charges - attached hereto. 27. Financial Data Schedule - attached hereto. b) Reports on Form 8-K On May 19, 2000, Abbott Laboratories and BankBoston, N.A., as Rights Agent, executed Amendment No. 2 to the Rights Agreement by and between Abbott Laboratories and BankBoston, N.A., dated as of November 11, 1999, as amended as of December 7, 1999. SIGNATURE Pursuant to the requirements of the Securities and 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/ Gary L. Flynn -- Date: August 3, 2000 Gary L. Flynn, Vice President and Controller (Principal Accounting Officer)