ABBOTT LABORATORIES
Form 10-Q
May 02, 2018
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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 March 31, 2018**

**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.**<br>**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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer x | Accelerated Filer o |
| Non-Accelerated Filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
| | Emerging growth companyo |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 March 31, 2018, Abbott Laboratories had 1,753,187,766 common shares without par value outstanding.

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Abbott Laboratories

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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 March 31 2018 | 2017 |
|---|---|---|
| Net sales | $ 7,390 | $ 6,335 |
| | | |
| Cost of products sold, excluding amortization of intangible assets | 3,067 | 3,062 |
| Amortization of intangible assets | 584 | 522 |
| Research and development | 589 | 553 |
| Selling, general and administrative | 2,542 | 2,440 |
| Total operating cost and expenses | 6,782 | 6,577 |
| | | |
| Operating earnings (loss) | 608 | (242) |
| | | |
| Interest expense | 227 | 226 |
| Interest (income) | (28) | (22) |
| Net foreign exchange (gain) loss | (3) | (16) |
| Net loss on extinguishment of debt | 14 | |
| Other (income) expense, net | (33) | (1,166) |
| Earnings from continuing operations before tax | 431 | 736 |
| Tax expense on earnings from continuing operations | 22 | 350 |
| Earnings from continuing operations | 409 | 386 |
| | | |
| Earnings from discontinued operations, net of tax | 9 | 33 |
| | | |
| Net Earnings | $ 418 | $ 419 |
| | | |
| Basic Earnings Per Common Share | | |
| Continuing operations | $ 0.23 | $ 0.22 |
| Discontinued operations | 0.01 | 0.02 |
| Net earnings | $ 0.24 | $ 0.24 |
| | | |
| Diluted Earnings Per Common Share | | |
| Continuing operations | $ 0.23 | $ 0.22 |
| Discontinued operations | | 0.02 |
| Net earnings | $ 0.23 | $ 0.24 |
| | | |
| Cash Dividends Declared Per Common Share | $ 0.28 | $ 0.265 |
| | | |
| Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share | 1,753,412 | 1,727,356 |
| Dilutive Common Stock Options | 11,866 | 7,839 |
| Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options | 1,765,278 | 1,735,195 |
| | | |
| Outstanding Common Stock Options Having No Dilutive Effect | | 9,432 |

The accompanying notes to 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 March 31 | |
|---|---|---|
| | **2018** | **2017** |
| Net earnings | $ 418 | $ 419 |
| | | |
| Foreign currency translation gain (loss) adjustments | 333 | 533 |
| Net actuarial gains (losses) and amortization of net actuarial (losses) and prior service (cost) and credits, net of taxes of $17 in 2018 and $12 in 2017 | 23 | 34 |
| Unrealized gains (losses) on marketable equity securities, net of taxes $53 in 2017 | | 80 |
| Net (losses) gains for derivative instruments designated as cash flow hedges, net of taxes of $(20) in 2018 and $(24) in 2017 | (32) | (65) |
| Other comprehensive income | 324 | 582 |
| Comprehensive Income | $ 742 | $ 1,001 |

| | **March 31, 2018** | **December 31, 2017** |
|---|---|---|
| Supplemental Accumulated Other Comprehensive Income (Loss) Information, net of tax: | | |
| Cumulative foreign currency translation (loss) adjustments | $ (3,119) | $ (3,452) |
| Net actuarial (losses) and prior service (cost) and credits | (2,498) | (2,521) |
| Cumulative unrealized (losses) gains on marketable equity securities | | (5) |
| Cumulative (losses) gains on derivative instruments designated as cash flow hedges | (116) | (84) |
| Accumulated other comprehensive income (loss) | $ (5,733) | $ (6,062) |

The accompanying notes to 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)*

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 3,857 | $ 9,407 |
| Short-term investments | 185 | 203 |
| Trade receivables, less allowances of $321 in 2018 and $294 in 2017 | 5,356 | 5,249 |
| Inventories: | | |
| Finished products | 2,424 | 2,339 |
| Work in process | 536 | 472 |
| Materials | 866 | 790 |
| Total inventories | 3,826 | 3,601 |
| Prepaid expenses and other receivables | 1,720 | 1,667 |
| Current assets held for disposition | 20 | 20 |
| Total Current Assets | 14,964 | 20,147 |
| Investments | 913 | 883 |
| Property and equipment, at cost | 15,556 | 15,265 |
| Less: accumulated depreciation and amortization | 7,897 | 7,658 |
| Net property and equipment | 7,659 | 7,607 |
| Intangible assets, net of amortization | 20,943 | 21,473 |
| Goodwill | 24,227 | 24,020 |
| Deferred income taxes and other assets | 2,082 | 1,944 |
| Non-current assets held for disposition | 120 | 176 |
| | $ 70,908 | $ 76,250 |
| Liabilities and Shareholders Investment | | |
| Current Liabilities: | | |
| Short-term borrowings | $ 230 | $ 206 |
| Trade accounts payable | 2,476 | 2,402 |
| Salaries, wages and commissions | 949 | 1,187 |
| Other accrued liabilities | 4,144 | 3,811 |
| Dividends payable | 492 | 489 |
| Income taxes payable | 212 | 309 |
| Current portion of long-term debt | 507 | 508 |
| Total Current Liabilities | 9,010 | 8,912 |
| Long-term debt | 21,154 | 27,210 |
| Post-employment obligations, deferred income taxes and other long-term liabilities | 9,143 | 9,030 |
| 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: 2018: 1,969,331,007; 2017: 1,965,908,188 | 23,223 | 23,206 |
| Common shares held in treasury, at cost - Shares: 2018: 216,143,241; 2017: 222,305,719 | (9,947) | (10,225) |
| Earnings employed in the business | 23,856 | 23,978 |
| Accumulated other comprehensive income (loss) | (5,733) | (6,062) |
| Total Abbott Shareholders Investment | 31,399 | 30,897 |

| | | | | |
|---|---|---|---|---|
| Noncontrolling Interests in Subsidiaries | | 202 | | 201 |
| Total Shareholders Investment | | 31,601 | | 31,098 |
| | $ | 70,908 | $ | 76,250 |

The accompanying notes to 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)*

| | Three Months Ended March 31 | |
|---|---|---|
| | **2018** | **2017** |
| Cash Flow From (Used in) Operating Activities: | | |
| Net earnings | $ 418 | $ 419 |
| Adjustments to reconcile earnings to net cash from (used in) operating activities - | | |
| Depreciation | 268 | 252 |
| Amortization of intangible assets | 584 | 522 |
| Share-based compensation | 212 | 171 |
| Amortization of inventory step-up | 32 | 392 |
| Gain on sale of businesses | | (1,151) |
| Trade receivables | (53) | 30 |
| Inventories | (171) | (162) |
| Other, net | (182) | 101 |
| Net Cash From (Used in) Operating Activities | 1,108 | 574 |
| | | |
| Cash Flow From (Used in) Investing Activities: | | |
| Acquisitions of property and equipment | (275) | (272) |
| Acquisitions of businesses and technologies, net of cash acquired | | (13,027) |
| Proceeds from business disposition | | 5,472 |
| Proceeds from the sale of Mylan N.V. shares | | 1,685 |
| Sales (purchases) of investment securities, net | (5) | (15) |
| Other | 42 | 3 |
| Net Cash From (Used in) Investing Activities | (238) | (6,154) |
| | | |
| Cash Flow From (Used in) Financing Activities: | | |
| Net proceeds (repayments of) short-term debt and other | 6 | (1,455) |
| Repayments of long-term debt | (5,979) | (2,505) |
| Payment of contingent consideration | | (13) |
| Purchases of common shares | (128) | (95) |
| Proceeds from stock options exercised | 137 | 129 |
| Dividends paid | (491) | (460) |
| Net Cash From (Used in) Financing Activities | (6,455) | (4,399) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 35 | 65 |
| | | |
| Net Decrease in Cash and Cash Equivalents | (5,550) | (9,914) |
| Cash and Cash Equivalents, Beginning of Year | 9,407 | 18,620 |
| Cash and Cash Equivalents, End of Period | $ 3,857 | $ 8,706 |

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

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Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(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, 2017. The condensed consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions.

Note 2 New Accounting Standards

*Recently Adopted Accounting Standards*

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* which changes the financial statement presentation requirements for pension and other postretirement benefit expense. While service cost continues to be reported in the same financial statement line items as other current employee compensation costs, the ASU requires all other components of pension and other postretirement benefit expense to be presented separately from service cost, and outside any subtotal of income from operations. Abbott adopted the standard in the first quarter of 2018 and the Condensed Consolidated Statement of Earnings was retrospectively adjusted, resulting in the reclassification of $40 million of income from Operating earnings (loss) to Other (income) expense, net in the first quarter of 2017.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*, which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning and end-of-period total amounts shown on the statement of cash flows. Abbott adopted this standard beginning in the first quarter of 2018, and applied the guidance retrospectively to all periods presented. Abbott did not have any restricted cash balances in the periods presented except for $75 million of restricted cash acquired as part of the Alere Inc. acquisition in October 2017. The restrictions on this cash were eliminated prior to the end of 2017.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires the recognition of the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. Abbott adopted the standard on January 1, 2018, using a modified retrospective approach and recorded a cumulative catch-up adjustment to Earnings employed in the business in the Condensed Consolidated Balance Sheet that was not significant.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which clarifies how companies should present and classify certain cash receipts and cash payments in the statement of cash flows. The ASU became effective for Abbott in the first quarter of 2018 and did not have a material impact to the Company s Condensed Consolidated Statement of Cash Flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides new guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. Abbott adopted the standard on January 1, 2018. Under the new standard, changes in the fair value of equity investments with readily determinable fair values are recorded in Other (income) expense, net within the Consolidated Statement of Earnings. Previously, such fair value changes were recorded in other comprehensive income. Abbott has elected the measurement alternative allowed by ASU 2016-01 for its equity investments without readily determinable fair values. These investments are measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Changes in the measurement of these investments will be recorded in Other (income) expense, net within the Statement of Earnings. As part of the adoption, the cumulative-effect adjustment to Earnings employed in the business in the Condensed Consolidated Balance Sheet for net unrealized losses on equity investments that were recorded in Accumulated other comprehensive income (loss) as of December 31, 2017 was not significant.

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Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for accounting for revenue from contracts with customers and supersedes nearly all previously existing revenue recognition guidance. The core principle of the ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Abbott adopted the new standard as of January 1, 2018, using the modified retrospective approach method. Under this method, entities recognize the cumulative effect of applying the new standard at the date of initial application with no restatement of comparative periods presented. The cumulative effect of applying the new standard resulted in an increase to Earnings employed in the business in the Condensed Consolidated Balance Sheet of $23 million which was recorded on January 1, 2018. The new standard has been applied only to those contracts that were not completed as of January 1, 2018. The impact of adopting ASU 2014-09 was not significant to individual financial statement line items in the Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Earnings.

*Recent Accounting Standards Not Yet Adopted*

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows companies to reclassify stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act, from accumulated other comprehensive income to retained earnings. The standard becomes effective for Abbott beginning in the first quarter of 2019 and early adoption is permitted. Abbott is currently evaluating the impact the new guidance will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which makes changes to the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The standard becomes effective for Abbott beginning in the first quarter of 2019 and early adoption is permitted. Abbott is currently evaluating the effect that the new guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize assets and liabilities for most leases on the balance sheet. The standard becomes effective for Abbott beginning in the first quarter of 2019 and early adoption is permitted. Adoption requires application of the new guidance for all periods presented. Abbott is currently evaluating the impact the new guidance will have on its consolidated financial statements.

Note 3 Revenue

Abbott s revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott s products under a contract most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales and costs. Abbott s products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians offices and government agencies throughout the world. Abbott has four reportable segments: Established Pharmaceutical Products, Diagnostic Products, Nutritional Products, and Cardiovascular and Neuromodulation Products. Diabetes Care is a non-reportable segment and is included in Other in the following table.

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Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

The following table provides detail by sales category:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **(in millions)** | **U.S.** | **Int l** | **Total** | **U.S.** | **Int l** | **Total** |
| Established Pharmaceutical Products | | | | | | |
| Key Emerging Markets | $ | $ 793 | $ 793 | $ | $ 730 | $ 730 |
| Other | | 251 | 251 | | 220 | 220 |
| Total | | 1,044 | 1,044 | | 950 | 950 |
| | | | | | | |
| Nutritionals | | | | | | |
| Pediatric Nutritionals | 448 | 546 | 994 | 432 | 495 | 927 |
| Adult Nutritionals | 310 | 452 | 762 | 298 | 417 | 715 |
| Total | 758 | 998 | 1,756 | 730 | 912 | 1,642 |
| | | | | | | |
| Diagnostics | | | | | | |
| Core Laboratory | 228 | 791 | 1,019 | 216 | 695 | 911 |
| Molecular | 39 | 79 | 118 | 45 | 67 | 112 |
| Point of Care | 110 | 31 | 141 | 110 | 25 | 135 |
| Rapid Diagnostics | 323 | 236 | 559 | | | |
| Total | 700 | 1,137 | 1,837 | 371 | 787 | 1,158 |
| | | | | | | |
| Cardiovascular and Neuromodulation | | | | | | |
| Rhythm Management | 264 | 271 | 535 | 260 | 251 | 511 |
| Electrophysiology | 182 | 209 | 391 | 145 | 171 | 316 |
| Heart Failure | 114 | 39 | 153 | 109 | 33 | 142 |
| Vascular | 286 | 453 | 739 | 304 | 399 | 703 |
| Structural Heart | 109 | 184 | 293 | 107 | 149 | 256 |
| Neuromodulation | 168 | 44 | 212 | 136 | 39 | 175 |
| Total | 1,123 | 1,200 | 2,323 | 1,061 | 1,042 | 2,103 |
| | | | | | | |
| Other | 94 | 336 | 430 | 162 | 320 | 482 |
| Total | $ 2,675 | $ 4,715 | $ 7,390 | $ 2,324 | $ 4,011 | $ 6,335 |

Abbott recognizes revenue from product sales upon the transfer of control, which is generally upon shipment or delivery, depending on the delivery terms set forth in the customer contract. For maintenance agreements that provide service beyond Abbott s standard warranty and other service agreements, revenue is recognized ratably over the contract term. A time-based measure of progress appropriately reflects the transfer of services to the customer. Payment terms between Abbott and its customers vary by the type of customer, country of sale, and the products or services offered. The term between invoicing and the payment due date is not significant.

Management exercises judgment in estimating variable consideration. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Abbott provides rebates to government agencies, wholesalers, group purchasing organizations and other private entities.

Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate generally occurs from one to six months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Historically, adjustments to prior years rebate accruals have not been material to net income.

Other allowances charged against gross sales include cash discounts and returns, which are not significant. Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated. Returns can be reliably estimated because Abbott s historical returns are low, and because sales return terms and other sales terms have remained relatively unchanged for several periods. Product warranties are also not significant.

Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Abbott also applies judgment in determining the timing of revenue recognition related to contracts that include multiple performance obligations. The total transaction price of the contract is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. For goods or services for which observable standalone selling prices are not available, Abbott uses an expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

*Remaining Performance Obligations*

As of March 31, 2018, the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) was approximately $2.9 billion in the Diagnostics segment and approximately $340 million in the Cardiovascular and Neuromodulation segment. Abbott expects to recognize revenue on approximately 60% of these remaining performance obligations over the next 24 months, approximately 15% over the subsequent 12 months and the remainder thereafter.

These performance obligations primarily reflect the future sale of reagents/consumables in contracts with minimum purchase obligations, extended warranty or service obligations related to previously sold equipment, and remote monitoring services related to previously implanted devices. Abbott has applied the practical expedient described in Accounting Standards Codification (ASC) 606-10-50-14 and has not included remaining performance obligations related to contracts with original expected durations of one year or less in the amounts above.

*Assets Recognized for Costs to Obtain a Contract with a Customer*

Abbott has applied the practical expedient in ASC 340-40-25-4 and records as an expense the incremental costs of obtaining contracts with customers in the period of occurrence when the amortization period of the asset that Abbott otherwise would have recognized is one year or less. Upfront commission fees paid to sales personnel as a result of obtaining or renewing contracts with customers are incremental to obtaining the contract. Abbott capitalizes these amounts as contract costs. Capitalized commission fees are amortized based on the contract duration to which the assets relate which ranges from two to ten years. The amounts as of March 31, 2018, were not significant.

Additionally, the cost of transmitters provided to customers that use Abbott s remote monitoring service with respect to certain medical devices are capitalized as contract costs. Capitalized transmitter costs are amortized based on the timing of the transfer of services to which the assets relate, which typically ranges from eight to ten years. The amounts as of March 31, 2018, were not significant.

*Other Contract Assets and Liabilities*

Abbott discloses Trade receivables separately in the Condensed Consolidated Balance Sheet at their net realizable value. Contract assets primarily relate to Abbott s conditional right to consideration for work completed but not billed at the reporting date. Contract assets at the beginning and end of the period, as well as the changes in the balance, were not significant.

Contract liabilities primarily relate to payments received from customers in advance of performance under the contract. Abbott s contract liabilities arise primarily in the cardiovascular and neuromodulation reportable segment when payment is received upfront for various multi-period extended service arrangements. Changes in the contract liabilities during the period are as follows:

| **(in millions)**<br>**Contract Liabilities** | | **March 31,**<br>**2018** |
|---|---|---|
| Balance at January 1, 2018 | $ | 198 |
| Unearned revenue from cash received during the period | | 84 |
| Revenue recognized that was included in contract liability balance at beginning of period | | (43) |
| Balance at March 31, 2018 | $ | 239 |

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Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

Note 4 Discontinued 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. 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 related 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 reflect the recognition of a net tax benefit of $9 million and $33 million in the first quarter of 2018 and 2017, respectively, as a result of the resolution of various tax positions primarily related to AbbVie s operations for years prior to the separation.

Note 5 Assets Held for Disposition

As discussed in Note 8 - Business Acquisitions, in conjunction with the acquisition of Alere Inc. (Alere), Abbott sold the Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel Corporation (Quidel). The legal transfer of certain assets and liabilities related to these businesses did not occur at the close of the sale to Quidel due to, among other factors, the time required to transfer marketing authorizations and other regulatory requirements in various countries. Under the terms of the sale agreement with Abbott, Quidel is subject to the risks and entitled to the benefits generated by these operations and assets. The assets presented as held for disposition in the Condensed Consolidated Balance Sheet as of March 31, 2018 and December 31, 2017, primarily relate to the businesses sold to Quidel.

| **(in millions)** | | **March 31, 2018** | | **December 31, 2017** |
|---|---|---|---|---|
| Trade receivables, net | $ | 15 | $ | 12 |
| Total inventories | | 5 | | 8 |
| Current assets held for disposition | | 20 | | 20 |
| Net property and equipment | | | | 56 |
| Intangible assets, net of amortization | | 18 | | 18 |
| Goodwill | | 102 | | 102 |
| Non-current assets held for disposition | | 120 | | 176 |
| Total assets held for disposition | $ | 140 | $ | 196 |

Note 6 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 March 31, 2018 and 2017 were $406 million and $384 million, respectively. Net earnings allocated to common shares for the three months ended March 31, 2018 and 2017 were $415 million and $417 million, respectively.

Other, net in Net cash from operating activities in the Condensed Consolidated Statement of Cash Flows for the first three months of 2018 includes the payment of cash taxes of approximately $220 million. The first three months of 2017 includes the effect of contributions to defined benefit plans of $283 million. The first quarter of 2017 also includes the impact of approximately $430 million of tax expense related to business dispositions, partially offset by cash taxes paid of approximately $160 million.

In February 2017, Abbott completed the sale of Abbott Medical Optics (AMO) to Johnson & Johnson and recognized a pre-tax gain of $1.151 billion, which is reported in Other (income) expense, net within the Condensed Consolidated Statement of Earnings in the first quarter of 2017. Abbott recorded an after-tax gain of $721 million in the first quarter of 2017 related to the sale of AMO. The operating results of AMO up through the date of sale continued to be included in Earnings from Continuing Operations as they did not qualify for reporting as discontinued operations. For the three months ended March 31, 2017, AMO s losses before taxes were $18 million.

In March 2017, Abbott sold 44 million of the ordinary shares of Mylan N.V. received upon the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. Abbott received $1.685 billion in proceeds from the sale of these shares. Abbott recorded an immaterial pre-tax gain, which was recognized in Other (income) expense, net within the Condensed Consolidated Statement of Earnings.

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Abbott Laboratories and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2018

(Unaudited)

The components of long-term investments as of March 31, 2018 and December 31, 2017 are as follows:

| **Long-term Investments (in millions)** | | **March 31, 2018** | | **December 31, 2017** |
|---|---|---|---|---|
| Equity securities | $ | 830 | $ | 797 |
| Other | | 83 | | 86 |
| Total | $ | 913 | $ | 883 |

Abbott s equity securities as of March 31, 2018, include approximately $366 million of investments in mutual funds that are held in a rabbi trust and were acquired as part of the St. Jude Medical, Inc. (St. Jude Medical) business acquisition. These investments, which are specifically designated as available for the purpose of paying benefits under a deferred compensation plan, are not available for general corporate purposes and are subject to creditor claims in the event of insolvency.

Abbott also holds certain investments with a carrying value of approximately $255 million that are accounted for under the equity method of accounting and other equity investments with a carrying value of approximately $195 million that do not have a readily determinable fair value.

## Note 7 Other Comprehensive Income

The components of the changes in other comprehensive income from continuing operations, net of income taxes, are as follows:

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| **(in millions)** | **Cumulative Foreign Currency Translation Adjustments** | **Net Actuarial Losses and Prior Service Costs and Credits** | **Cumulative Unrealized Gains (Losses) on Marketable Equity** | **Cumulative Gains (Losses) on Derivative Instruments** |

| | | | | | Securities | | Designated as Cash Flow Hedges | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Balance at December 31, 2017 and 2016 | $ (3,452) | $ (4,959) | $ (2,521) | $ (2,284) | $ (5) | $ (69) | $ (84) | $ 49 |
| Reclassified to Earnings employed in the business for adoption of ASU 2016-01 | | | | | 5 | | | |
| Impact of business dispositions | | 142 | | 6 | | | | 1 |
| Other comprehensive (loss) income before reclassifications | 333 | 533 | (10) | | | 181 | (52) | (69) |
| Amounts reclassified from accumulated other comprehensive income | | | 33 | 34 | | (101) | 20 | 4 |
| Net current period comprehensive income (loss) | 333 | 533 | 23 | 34 | | 80 | (32) | (65) |
| Balance at March 31 | $ (3,119) | $ (4,284) | $ (2,498) | $ (2,244) | $ | $ 11 | $ (116) | $ (15) |

Reclassified amounts for foreign currency translation are recorded in the Condensed Consolidated Statement of Earnings as Net foreign exchange (gain) loss; gains (losses) 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 is included as a component of net periodic benefit plan costs; see Note 15 for additional details.

## Note 8 Business Acquisitions

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, which represented approximately 254 million shares of Abbott common stock, based on Abbott s closing stock price on the acquisition date. As part of the acquisition, approximately $5.9 billion of St. Jude Medical s debt was assumed, repaid or refinanced by Abbott. The acquisition provides expanded opportunities for future growth and is an important part of the company s ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined business competes in nearly every area of the cardiovascular device market, as well as in the neuromodulation market.

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Under the terms of the agreement, for each St. Jude Medical common share, St. Jude Medical shareholders received $46.75 in cash and 0.8708 of an Abbott common share. At an Abbott stock price of $39.36, which reflects the closing price on January 4, 2017, this represented a value of approximately $81 per St. Jude Medical common share and total purchase consideration of $23.6 billion. The cash portion of the acquisition was funded through a combination of medium and long-term debt issued in November 2016 and a $2.0 billion 120-day senior unsecured bridge term loan facility which was subsequently repaid.

In 2016, Abbott and St. Jude Medical agreed to sell certain businesses to Terumo Corporation (Terumo) for approximately $1.12 billion. The sale included the St. Jude Medical Angio-Seal and Femoseal vascular closure and Abbott s Vado® Steerable Sheath businesses. The sale closed on January 20, 2017 and no gain or loss was recorded in the Condensed Consolidated Statement of Earnings.

On October 3, 2017, Abbott acquired Alere Inc. (Alere), a diagnostic device and service provider, for $51.00 per common share in cash, which equated to a purchase price of approximately $4.5 billion. As part of the acquisition, Abbott tendered for Alere s preferred shares for a total value of approximately $0.7 billion. In addition, approximately $3.0 billion of Alere s debt was assumed and subsequently repaid. The acquisition establishes Abbott as a leader in point of care testing, expands Abbott s global diagnostics presence and provides access to new products, channels and geographies. Abbott utilized a combination of cash on hand and debt to fund the acquisition.

The preliminary allocation of the fair value of the Alere acquisition is shown in the table below. The allocation of the fair value of the acquisition will be finalized when the valuation is completed and differences between the preliminary and final allocation could be material.

| **(in billions)** | | |
|---|---|---|
| Acquired intangible assets, non-deductible | $ | 3.5 |
| Goodwill, non-deductible | | 4.1 |
| Acquired net tangible assets | | 0.9 |
| Deferred income taxes recorded at acquisition | | (0.7) |
| Net debt | | (2.6) |
| Preferred stock | | (0.7) |
| Total preliminary allocation of fair value | $ | 4.5 |

The goodwill is primarily attributable to expected synergies from combining operations, as well as intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Diagnostic Products reportable segment. The acquired tangible assets consist primarily of trade accounts receivable of approximately $430 million, inventory of approximately $425 million, other current assets of $206 million, property and equipment of approximately $540 million, and other long-term assets of $112 million. The acquired tangible liabilities consist of trade accounts payable and other current liabilities of approximately $625 million and other non-current liabilities of approximately $160 million.

In the third quarter of 2017, Alere entered into agreements to sell its Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel Corporation (Quidel). The transactions with Quidel reflect a total purchase price of $400 million payable at the close of the transaction, $240 million payable in six annual installments beginning approximately six months after the close of the transaction, and contingent consideration with a maximum value of $40 million. In the third quarter of 2017, Alere entered into an agreement with Siemens Diagnostics Holding II B.V. (Siemens) to sell its subsidiary, Epocal Inc., for approximately $200 million payable at the close of the transaction. Alere agreed to divest these businesses in connection with the review by the Federal Trade Commission and the European Commission of Abbott s agreement to acquire Alere. The sale to Quidel closed on October 6, 2017, and the sale to Siemens closed on October 31, 2017. No gain or loss on these sales was recorded in the Consolidated Statement of Earnings.

On July 17, 2017, Abbott commenced a tender offer to purchase for cash the 1.77 million outstanding shares of Alere s Series B Convertible Perpetual Preferred Stock at a price of $402 per share, plus accrued but unpaid dividends to, but not including, the settlement date of the tender offer. This tender offer was subject to the satisfaction of certain conditions, including Abbott s acquisition of Alere and upon there being validly tendered (and not properly withdrawn) at the expiration date of the tender offer that number of shares of Preferred Stock that equaled at least a majority of the Preferred Stock issued and outstanding at the expiration of the tender offer. The tender offer expired on October 3, 2017. All conditions to the offer were satisfied and Abbott accepted for payment the 1.748 million shares of Preferred Stock that were validly tendered (and not properly withdrawn). The remaining shares were cashed out for an amount equal to the $400.00 per share liquidation preference of such shares, plus accrued but unpaid dividends, without interest. Payment for all of the shares of Preferred Stock was made in the fourth quarter of 2017.

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## Note 9 Goodwill and Intangible Assets

The total amount of goodwill reported was $24.2 billion at March 31, 2018 and $24.0 billion at December 31, 2017. The amounts reported at March 31, 2018 and December 31, 2017 exclude goodwill reported in non-current assets held for disposition. Foreign currency translation adjustments increased goodwill by approximately $204 million in the first quarter of 2018. The amount of goodwill related to reportable segments at March 31, 2018 was $3.3 billion for the Established Pharmaceutical Products segment, $286 million for the Nutritional Products segment, $4.1 billion for the Diagnostic Products segment, and $15.6 billion for the Cardiovascular and Neuromodulation Products segment. There was no reduction of goodwill relating to impairments in the first quarter of 2018.

The gross amount of amortizable intangible assets, primarily product rights and technology was $25.8 billion as of March 31, 2018 and $25.6 billion as of December 31, 2017, and accumulated amortization was $8.7 billion as of March 31, 2018 and $8.1 billion as of December 31, 2017. Purchase price allocation adjustments and foreign currency translation adjustments increased intangible assets by $100 million and $53 million, respectively, during the quarter. The March 31, 2018 and December 31, 2017 amounts exclude net intangible assets reported in non-current assets held for disposition.

Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, were approximately $3.8 billion and $3.9 billion as of March 31, 2018 and December 31, 2017, respectively. The decrease in indefinite-lived intangible assets during the quarter relates to purchase price allocation adjustments associated with the Alere acquisition. Abbott s estimated annual amortization expense for intangible assets is approximately $2.4 billion in 2018, $2.3 billion in 2019, $2.1 billion in 2020, $2.0 billion in 2021 and $2.0 billion in 2022. Amortizable intangible assets are amortized over 2 to 20 years (weighted average 14 years).

## Note 10 Restructuring Plans

In 2017 and 2018, Abbott management approved restructuring plans as part of the integration of the acquisitions of St. Jude Medical into the cardiovascular and neuromodulation segment and Alere into the diagnostics segment, in order to leverage economies of scale and reduce costs. In the first three months of 2018, charges of approximately $23 million, including one-time employee termination benefits were recognized, of which approximately $3 million is recorded in Cost of products sold, approximately $8 million is recorded in Research and development and approximately $12 million as Selling, general and administrative expense.  The following summarizes the activity for the first three months of 2018 related to these actions and the status of the related accrual as of March 31, 2018:

| **(in millions)** |
| --- |
| Accrued balance at December 31, 2017 |