New York City Comptroller
John C. Liu

NEWS RELEASE

PR12-04-031 April 2, 2012
Contact: Matthew Sweeney, (212) 669-3747 Page(s): 4

****

LIU, PENSION FUNDS PRESS PHARMA GIANT TO STOP SHIELDING EXECUTIVE BONUSES FROM FINANCIAL PENALTIES

Shareholders call for Abbott Labs' executives to be held financially accountable for Medicare fraud and other costly settlements in resolution announced at this week's Council of Institutional Investors meeting

****

NEW YORK, NY – City Comptroller John C. Liu and the five New York City Pension Funds have called on Abbott Laboratories (NYSE: ABT) to stop insulating executive bonuses against costly penalties that the company pays as a result of improper business practices. The City's shareowner resolution, which was co-filed by four major institutional investors, will be voted on at the company's annual meeting in Lake County, IL on April 27.

Abbott has paid billions in fines and settlements in recent years for Medicare fraud, off-label marketing of its drugs, and other violations. Most recently, the company recorded a $1.5 billion charge to cover an expected settlement with the Department of Justice for the illegal off-label marketing of its anti-seizure drug Depakote. The settlement, if reached, would be the third largest in history for the improper marketing of a pharmaceutical.

"Rewarding top executives with lucrative bonuses when the company pays massive fines for allegedly breaking the law, cheating Medicaid, or potentially putting patients with dementia and autism at risk is just indefensible," Comptroller Liu said. "By effectively paying for failure, Abbott's board creates a perverse incentive for management to perpetuate improper practices that harm the company and its long-term shareowners."

Abbott's board of directors has shielded executives' incentive pay from the financial harm illegal or improper conduct has caused the company in some instances. In 2010, for example, the company adjusted net earnings by six cents per share, for the purposes of determining executive bonuses, to exclude the costs of a product recall and drug withdrawal.

Representatives from Comptroller Liu's office and the other investors highlighted the proposal during yesterday's meeting of the Activism Committee of the Council of Institutional Investors (CII). CII, whose members have more than $3 trillion in combined assets, is holding its spring meeting through tomorrow in Washington, DC.

-more-

The Amalgamated Bank, F&C Asset Management, New York State Common Retirement Fund, and the UAW Retiree Medical Benefits Trust co-filed the NYC Funds' proposal. The investor group, which has $488,029,000,000 of assets under management in total, represents 17,272,689 shares of Abbott Laboratories valued at $1,053,288,575.22.

Abbott is the third largest U.S. pharmaceutical company. Last year, the Department of Justice joined a whistleblower lawsuit accusing Abbott of illegally promoting the use of its anti-seizure drug Depakote for the unapproved treatment of Alzheimer's disease and dementia. The company has since set aside $1.5 billion in anticipation of settling the case. In recent years, Abbott has spent billions to settle charges of manipulating Medicare programs by falsely reporting prices and other violations, including settlements of $126 million last year, $128 million in 2008, $622 million in 2003, and $875 million in 2001.

The New York City Comptroller serves as the investment advisor to, custodian, and trustee of the New York City Pension Funds. The New York City Pension Funds are comprised of the New York City Employees' Retirement System, Teachers' Retirement System, New York City Police Pension Fund, New York City Fire Department Pension Fund, and the Board of Education Retirement System. The New York City Pension Funds hold a combined 3,769,130 total shares in Abbott Laboratories (NYSE: ABT) for a combined asset value of $229,841,547.40 as of 3/29/2012.

TEXT IN-FULL OF SHAREHOLDER PROPOSAL:

RESOLVED that shareholders of Abbott Laboratories urge the Compensation Committee of the Board of Directors (the "Committee") to adopt a policy that no financial performance metric shall be adjusted to exclude Compliance Costs when evaluating performance against financial results for purposes of determining the amount or vesting of any senior executive Incentive Compensation award. "Compliance Costs" are expenses or charges associated with any (a) health care compliance investigation, litigation or settlement, including legal fees and amounts paid in fines, penalties or damages; (b) product recall; and (c) withdrawal of a product from the market. "Incentive Compensation" is compensation paid pursuant to short-term and long-term incentive compensation plans and programs. The policy should be implemented in a way that does not violate any existing contractual obligation of the Company or the terms of any compensation or benefit plan.

SUPPORTING STATEMENT

As long-term Abbott shareholders, we favor compensation arrangements that reward senior executives for generating sustainable value. To that end, we recognize that it may be appropriate to adjust financial metrics for incentive compensation awards to exclude the impact of events that are extraordinary or unrelated to management of the core business. We do not, however, believe it is appropriate to adjust metrics to exclude the financial impact of matters that are central to the company's business.

Creating appropriate incentives is especially important, we think, at companies such as Abbott that have settled multiple allegations of health care fraud in recent years, paying fines and penalties totaling hundreds of millions of dollars. Abbott announced in October 2011 that it would record a $1.5 billion charge to cover a potential settlement with the Justice Department involving off-label marketing.

According to Abbott's most recent proxy statement, the Committee recently adjusted a metric to remove the impact of certain Compliance Costs. Specifically, consolidated net earnings were adjusted by six cents per share for costs of a product recall and drug withdrawal in 2010. (2011 Proxy Statement at 14)

Although the proxy statement does not identify the products involved, Abbott's press release discussing fourth quarter 2010 financial results refers to a nutritional product recall announced in September 2010 and identifies the withdrawn product as sibutramine. (See http://www.abbott.com/PressRelease/2011Jan26.htm) The nutritional product recall involved potentially contaminated infant formula (see http://www.abbott.com/global/url/pressRelease/en_US/Press_Release_0900.htm) and sibutramine was withdrawn because a post marketing study showed that it raised the risk of cardiovascular events. (See http://www.ncbi.nlm.nih.gov/pubmedhealth/PMH0000097/)

In our view, the safety of Abbott's products and the integrity of its manufacturing processes are critical to its long-term success and managing these functions (as well as other health care compliance-related functions) is a core part of senior executives' stewardship of the business. It is thus not appropriate to exclude the financial impact of these kinds of events from the metrics used in determining incentive compensation.
We urge shareholders to vote for this proposal.

Lieutenants' Rep., Uniformed Fire Officers Association; and, Sean O'Connor, Marine Engineers Association.

Board of Education Retirement System: Schools Chancellor Dennis Walcott; Mayoral: Eduardo Marti, Gitte Peng, Jeff Kay; Tino Hernandez, Judy Bergtraum, Freida Foster, Linda Laursell Bryant, and Lisette Nieves; Patrick Sullivan (Manhattan BP), Gbubemi Okotieuro (Brooklyn BP), Dmytro Fedkowskyj (Queens BP), Wilfredo Pagan (Bronx BP) and Diane Peruggia (Staten Island BP); and employee members Joseph D'Amico of the IUOE Local 891 and Milagros Rodriguez of District Council 37, Local 372.

# # #