

BAXTER INTERNATIONAL INC  
Form DEF 14A  
March 18, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**BAXTER INTERNATIONAL INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Baxter International Inc.  
One Baxter Parkway  
Deerfield, Illinois 60015

March 18, 2009

Dear Shareholder:

You are invited to attend Baxter's Annual Meeting of Shareholders on Tuesday, May 5, 2009, at 10:30 a.m., Central Time, at the Chicago Cultural Center, 78 East Washington Street, Chicago, Illinois. Registration will begin at 9:00 a.m., and refreshments will be served.

Details of the business to be conducted at the Annual Meeting are included in the attached Notice of Annual Meeting of Shareholders and Proxy Statement.

In accordance with Securities and Exchange Commission rules, Baxter has elected to deliver its proxy materials over the Internet to a majority of shareholders, which allows shareholders to receive information on a more timely basis, while lowering the company's printing and mailing costs and reducing the environmental impact of the Annual Meeting.

Whether or not you plan to attend in person, your vote is important and you are encouraged to vote promptly. You may vote your shares by Internet or by telephone. If you received a paper copy of the proxy card by mail, you may sign, date and return the proxy card in the enclosed envelope. If you attend the Annual Meeting, you may revoke your proxy and vote in person.

Very truly yours,

Robert L. Parkinson, Jr.  
*Chairman of the Board  
and Chief Executive Officer*

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Baxter International Inc.  
One Baxter Parkway  
Deerfield, Illinois 60015

March 18, 2009

**Notice of Annual Meeting of Shareholders**

The 2009 Annual Meeting of Shareholders of Baxter International Inc. will be held at the Chicago Cultural Center, 78 East Washington Street, Chicago, Illinois, on Tuesday, May 5, 2009 at 10:30 a.m., Central Time, for the following purposes:

1. To elect the four directors named in the attached Proxy Statement to hold office for a term of three years;
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for Baxter in 2009;
3. To consider a shareholder proposal relating to animal testing, if such proposal is properly presented at the meeting; and
4. To transact any other business that may properly come before the meeting.

The Board of Directors recommends a vote **FOR** Items 1 and 2 and **AGAINST** Item 3. Shareholders of record at the close of business on March 9, 2009 will be entitled to vote at the meeting.

By order of the Board of Directors,

David P. Scharf  
*Corporate Secretary*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY  
MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON MAY 5, 2009**

**This Proxy Statement relating to the 2009 Annual Meeting of Shareholders and the Annual Report to Shareholders for the year ended December 31, 2008 are available at <http://materials.proxyvote.com/071813>.**

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## Proxy Statement

The accompanying proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting of Shareholders to be held on Tuesday, May 5, 2009. On or about March 18, 2009, Baxter began mailing to shareholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access proxy materials via the Internet and how to vote online ([www.proxyvote.com](http://www.proxyvote.com)). Shareholders who did not receive the Notice will continue to receive a paper or electronic copy of the proxy materials, which Baxter also began sending on or about March 18, 2009.

### Q: Who is entitled to vote?

A: All record holders of Baxter common stock as of the close of business on March 9, 2009 are entitled to vote. On that day, approximately 608,256,019 shares were issued and outstanding. Each share is entitled to one vote on each matter presented at the Annual Meeting.

### Q: How do I vote?

A: Baxter offers registered shareholders three ways to vote, other than by attending the Annual Meeting and voting in person:

By Internet, following the instructions on the Notice or the proxy card;

By telephone, using the telephone number printed on the proxy card; or

By mail (if you received your proxy materials by mail), using the enclosed proxy card and return envelope.

### Q: What does it mean to vote by proxy?

A: It means that you give someone else the right to vote your shares in accordance with your instructions. In this way, you ensure that your vote will be counted even if you are unable to attend the Annual Meeting. If you give your proxy but do not include specific instructions on how to vote, the individuals named as proxies will vote your shares as follows:

**FOR** the election of the Board's nominees for director;

**FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as Baxter's independent registered public accounting firm; and

**AGAINST** the shareholder proposal relating to animal testing.

### Q: What if I submit a proxy and later change my mind?

A: If you have given your proxy and later wish to revoke it, you may do so by giving written notice to the Corporate Secretary, submitting another proxy bearing a later date (in any of the permitted forms), or casting a ballot in person at the Annual Meeting.

### Q: What happens if other matters are raised at the meeting?

**A:** If other matters are properly presented at the meeting, the individuals named as proxies will have the discretion to vote on those matters for you in accordance with their best judgment. However, Baxter's Corporate Secretary has not received timely and proper notice from any shareholder of any other matter to be presented at the meeting.

**Q: How is it determined whether a matter has been approved?**

**A:** Assuming a quorum is present, the approval of the matters specified in the Notice of Annual Meeting will be determined as follows:

Nominees for director receiving the majority of votes cast (number of shares voted for a director must exceed 50% of the number of votes cast with respect to that director) will be elected as a director; and

Each other matter requires the affirmative vote of a majority of the shares of common stock, present in person or by proxy and entitled to vote at the Annual Meeting.

**Q: Who will count the vote?**

**A:** Broadridge Financial Solutions, Inc. will tabulate the votes and act as the Inspector of Election at the Annual Meeting.

**Q: What constitutes a quorum?**

**A:** A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum. Broker non-votes and abstentions will be counted for purposes of determining whether a quorum is present.

**Q: What are broker non-votes?**

**A:** Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the meeting. If that happens, the nominees may vote those shares only on matters deemed routine by the New York Stock Exchange, such as the election of directors and the ratification of the appointment of the independent registered public accounting firm. On non-routine matters, such as the shareholder proposal, nominees cannot vote unless they receive voting instructions from beneficial holders, resulting in so-called broker non-votes.

**Q: What effect does an abstention have?**

**A:** Abstentions or directions to withhold authority will have no effect on the outcome of the election of directors. Abstentions will have the same effect as a vote against any of the other matters specified in the Notice of Annual Meeting.

**Q: What is householding and how does it affect me?**

**A:** Baxter has adopted householding, a procedure under which shareholders of record who have the same address and last name and do not receive proxy materials electronically will receive a single Notice of Internet Availability of Proxy Materials or set of proxy materials, unless one or more of these shareholders notifies the company that they wish to continue receiving individual copies. Shareholders who participate in householding will continue to receive separate proxy cards. This procedure can result in significant savings to the company by reducing printing and postage costs.

If you participate in householding and wish to receive a separate Notice of Internet Availability of Proxy Materials or set of proxy materials, or if you wish to receive separate copies of future Notices, annual reports and proxy statements, please call 1-800-542-1061 or write to: Broadridge Financial Solutions, Inc., Household Department, 51 Mercedes Way, Edgewood, New York 11717. The company will deliver the requested documents to you promptly upon your request.

Any shareholders of record who share the same address and currently receive multiple copies of proxy materials who wish to receive only one copy of these materials per household in the future may contact Broadridge Financial Solutions at the address or telephone number listed above. If you hold your shares through a broker, bank or other nominee, please contact your broker, bank, or other nominee to request information about householding.

**Q: What shares are covered by the proxy card?**

**A:** The proxy card covers all shares held by you of record (*i.e.*, registered in your name), including those held in Baxter's Dividend Reinvestment Plan, Employee Stock Purchase Plan and any shares credited to your Incentive Investment Plan account or Puerto Rico Savings and Investment Plan account held in custody by the plan trustee. If you hold your shares through a broker, bank or other nominee, you will receive separate instructions from your broker, bank or other nominee describing how to vote your shares.

**Q: How do I vote if I hold my shares through the Baxter Incentive Investment Plan or Puerto Rico Savings and Investment Plan?**

**A:** If you are a current or former Baxter employee with shares credited to your account in the Incentive Investment Plan or Puerto Rico Savings and Investment Plan, then your completed proxy card (or vote via the Internet or by telephone) will serve as voting instructions to the plan trustee. The trustee will vote your shares as you direct, except as may be required by the Employee Retirement Income Security Act (ERISA). If you fail to give instructions to the plan trustee, the trustee may vote your shares at its discretion. To allow sufficient time for voting by the plan trustee, your voting instructions must be received by April 28, 2009.

**Q: Does the company offer an opportunity to receive future proxy materials electronically?**

**A:** Yes. If you wish to receive future proxy materials over the Internet instead of receiving copies in the mail, follow the instructions provided when you vote through the Internet. If you vote by



telephone, you will not have the option to elect electronic delivery while voting.

If you elect electronic delivery, the company will discontinue mailing the proxy materials to you beginning next year and will send you an e-mail message notifying you of the Internet address or addresses where you may access next year's proxy materials and vote your shares. You may discontinue electronic delivery at any time.

**Q: What are the benefits of electronic delivery?**

**A:** Electronic delivery reduces the company's printing and mailing costs as well as the environmental impact of the Annual Meeting. It is also a convenient way for you to receive your proxy materials and makes it easy to vote your shares over the Internet. If you have shares in more than one account, it also is an easy way to avoid receiving duplicate copies of proxy materials.

### **Proposal 1 Election of Directors**

Baxter's Board of Directors currently consists of thirteen members and is divided into three classes. The directors in each class serve three-year terms. The Board has nominated the four current directors of Baxter whose terms expire at the 2009 Annual Meeting for re-election as directors.

Baxter's Bylaws require each director to be elected by the majority of the votes cast with respect to such director in uncontested elections; that is, the number of shares voted for a director must exceed 50% of the number of votes cast with respect to that director. Abstentions will not be considered votes cast. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. If a nominee who is serving as a director is not elected at an annual meeting, under Delaware law the director would continue to serve on the Board as a holdover director. However, under Baxter's Bylaws, any incumbent director who fails to be elected must offer his or her resignation to the Board. The Corporate Governance Committee would then make a recommendation to the Board whether to accept or reject the resignation, or whether other action should be taken. The Board would act on the Corporate Governance Committee's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date the election results are certified. The director who offers his or her resignation would not participate in the Board's decision.

All of the nominees have indicated their willingness to serve if elected, but if any should be unable or unwilling to stand for election, proxies may be voted for a substitute nominee designated by the Board of Directors. No nominations for directors were received from shareholders, and no other candidates are eligible for election as directors at the 2009 Annual Meeting. Unless proxy cards are otherwise marked, the individuals named as proxies intend to vote the shares represented by proxy in favor of all of the Board's nominees.

Set forth below is information concerning the nominees for election as well as information concerning the current directors in each class continuing after the Annual Meeting of Shareholders. The Board of Directors recommends a vote **FOR** the election of each of the director nominees.

#### ***Nominees for Election as Directors (Term Expires 2012)***

**Walter E. Boomer**, age 70, has served as a Director of Baxter since 1997 and was appointed lead director in May 2008. From 1997 until his retirement in 2004, General Boomer served as President and Chief Executive Officer of Rogers Corporation, a manufacturer of specialty materials for targeted applications, focused on communications and computer markets. General Boomer also served as Chairman of the Board of Rogers Corporation between April 2002 and April 2004 and continues as director. From 1994 to 1996, he served as Executive Vice President of McDermott International, Inc. and President of the Babcock & Wilcox Power Generation Group. In 1994, General Boomer retired as a General and Assistant Commandant of the United States Marine Corps after 34 years of service.

**James R. Gavin III, M.D., Ph.D.**, age 63, has served as a Director of Baxter since 2003. Dr. Gavin is Chief Executive Officer and Chief Medical Officer of Healing Our Village, Inc., a corporation that specializes in targeted advocacy, training, education, disease management and outreach for health care professionals and minority communities, having

previously served as Executive Vice President for Clinical Affairs at Healing Our Village from 2005 to 2007. Dr. Gavin is also Clinical Professor of Medicine and Senior Advisor of Health Affairs at Emory University, a position he has held since 2005. From 2002 to 2005, Dr. Gavin was President of the Morehouse School of Medicine and from 1991 to 2002, he was Senior Science Officer at Howard Hughes Medical Institute, a nonprofit medical research organization. Dr. Gavin also serves as a director of Amylin Pharmaceuticals, Inc.

**Peter S. Hellman**, age 59, has served as a Director of Baxter since 2005. From 2000 until his retirement in 2008, Mr. Hellman held various positions at Nordson Corporation, a manufacturer of systems that apply adhesives, sealants and coatings during manufacturing operations, the most recent of which was President and Chief Financial and Administrative Officer. From 1989 to 1999, Mr. Hellman held various positions with TRW Inc., the most recent of which was President and Chief Operating Officer. Mr. Hellman also serves as a director of Qwest Communications International Inc. and Owens-Illinois, Inc.

**K. J. Storm**, age 66, has served as a Director of Baxter since 2003. Mr. Storm is a registered accountant (the Dutch equivalent of a Certified Public Accountant) and was Chief Executive Officer of AEGON N.V., an international insurance group, from 1993 until his retirement in 2002. Mr. Storm is chairman of the Supervisory Board of KLM Royal Dutch Airlines, a member of the Supervisory Board of AEGON N.V. and PON Holdings B.V. and a member of the Board of Anheuser-Busch InBev S.A. and Unilever N.V. and Plc.

*Directors Continuing in Office (Term Expires 2010)*

**Blake E. Devitt**, age 62, has served as a Director of Baxter since 2005. Mr. Devitt retired in 2004 from the public accounting firm of Ernst & Young LLP. During his 33-year career at Ernst & Young, Mr. Devitt held several positions, including Senior Audit Partner and Director, Pharmaceutical and Medical Device Industry Practice, from 1994 to 2004.

**John D. Forsyth**, age 61, has served as a Director of Baxter since 2003. Mr. Forsyth has been Chairman of Wellmark Blue Cross Blue Shield, a healthcare insurance provider for residents of Iowa and South Dakota, since 2000 and Chief Executive Officer since 1996. Prior to that, he spent more than 25 years at the University of Michigan Health System, holding various positions including President and Chief Executive Officer.

**Gail D. Fosler**, age 61, has served as a Director of Baxter since 2001. Ms. Fosler is President of The Conference Board, a global research and business membership organization, and has held several positions with The Conference Board since 1989. Ms. Fosler is a director of Caterpillar Inc. as well as a member of The Conference Board's Board of Trustees.

**Carole J. Shapazian**, age 65, has served as a Director of Baxter since 2003. Ms. Shapazian served as Executive Vice President of Maytag Corporation, a producer of home and commercial appliances, and as President of Maytag's Home Solutions Group, from January 2000 to December 2000. Prior to that, she was Executive Vice President and Assistant Chief Operating Officer of Polaroid Corporation, a photographic equipment and supplies corporation, from 1998 to 1999. From 1997 to 1998, she served as Executive Vice President and President of Commercial Imaging for Polaroid.

*Directors Continuing in Office (Term Expires 2011)*

**Wayne T. Hockmeyer, Ph.D.**, age 64, has served as a Director of Baxter since September 2007. Dr. Hockmeyer was the founder of MedImmune, Inc., a healthcare company focused on infectious diseases, cancer and inflammatory diseases, and served as Chairman and/or Chief Executive Officer of MedImmune from 1988 to 2007. Prior to that, he was vice president of laboratory research and product development at Praxis Biologics Inc. and chief of the Department of Immunology at Walter Reed Army Institute of Research. Dr. Hockmeyer also serves as a director of Middlebrook Pharmaceuticals, Inc., GenVec Inc. and Idenix Pharmaceuticals Inc.

**Joseph B. Martin, M.D., Ph.D.**, age 70, has served as a Director of Baxter since 2002. Dr. Martin serves as Professor of Neurobiology at Harvard Medical School. From July 1997 to July 2007, Dr. Martin served as Dean of the Harvard Faculty of Medicine. He was Chancellor of the University of California, San Francisco from 1993 to 1997 and Dean of the UCSF School of Medicine from 1989 to 1993. From 1978 to 1989, he was chief of the neurology department of Massachusetts General Hospital and Professor of Neurology at Harvard Medical School.

**Robert L. Parkinson, Jr.**, age 58, is Chairman and Chief Executive Officer of Baxter, having served in that capacity since April 2004. Prior to joining Baxter, Mr. Parkinson was Dean of Loyola University Chicago's School of Business Administration and Graduate School of Business from 2002 to 2004. He retired from Abbott Laboratories in 2001 following a 25-year career, having served in a variety of domestic and international management and leadership positions, including as President and Chief Operating Officer. Mr. Parkinson also serves on the boards of directors of Chicago-based Northwestern Memorial Hospital and the Northwestern Memorial Foundation as well as Loyola University Chicago's Board of Trustees.

**Thomas T. Stallkamp**, age 62, has served as a Director of Baxter since 2000. Mr. Stallkamp has been an Industrial Partner in Ripplewood Holdings L.L.C., a New York private equity group, since 2004. From 2003 to 2004, he served as Chairman of MSX International, Inc., a global provider of technology-driven engineering, business and specialized staffing services, and from 2000 to 2003, he served as Vice-Chairman and Chief Executive Officer of MSX. From 1980 to 1999, Mr. Stallkamp held various positions with DaimlerChrysler Corporation and its predecessor Chrysler Corporation, the most recent of

which was Vice Chairman and President. Mr. Stallkamp also serves as a director of BorgWarner Inc. and Honsel International Technologies S.A and a director and non-executive co-chairman of Asahi Tec Corporation.

**Albert P.L. Stroucken**, age 61, has served as a Director of Baxter since 2004. Mr. Stroucken has served as Chairman, President and Chief Executive Officer of Owens-Illinois, Inc., a glass packaging company, since 2006 and as director since 2005. From 1998 to 2006, Mr. Stroucken served as President and Chief Executive Officer of H.B. Fuller Company, a manufacturer of adhesives, sealants, coatings, paints and other specialty chemicals. Mr. Stroucken served as Chairman of the Board of H.B. Fuller Company from 1999 to 2006. From 1997 to 1998, he was General Manager of the Inorganics Division of Bayer AG. From 1992 to 1997, Mr. Stroucken was Executive Vice President and President of the Industrial Chemicals Division of Bayer Corporation.

### **Board of Directors**

Baxter's Board of Directors currently consists of thirteen members. The Board has determined that each of the following twelve current directors satisfies Baxter's independence standards and the New York Stock Exchange's listing standards for independence: Walter E. Boomer, Blake E. Devitt, John D. Forsyth, Gail D. Fosler, James R. Gavin III, M.D., Ph.D., Peter S. Hellman, Wayne T. Hockmeyer, Ph.D., Joseph B. Martin, M.D., Ph.D., Carole J. Shapazian, Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken. Please refer to the section entitled "Corporate Governance - Director Independence" on page 9 of this Proxy Statement for a discussion of Baxter's independence standards.

During 2008, the Board held 8 meetings. All directors attended 92% or more of the aggregate meetings of the Board and Board committees on which they served and average attendance was in excess of 97%. In accordance with Baxter's Corporate Governance Guidelines, which express the company's expectation that directors attend the annual meeting of shareholders, all of the company's directors attended the annual meeting of shareholders held on May 6, 2008.

### **Committees of the Board**

The standing committees of the Board of Directors are the Audit Committee, Compensation Committee, Corporate Governance Committee, Finance Committee, and Public Policy Committee. Each committee consists solely of independent directors, as defined by the rules of the New York Stock Exchange, and is governed by a written charter. All committee charters are available on Baxter's website at [www.baxter.com](http://www.baxter.com) under "Corporate Governance - Board of Directors - Committees of the Board" and in print upon request by writing to: Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

#### *Audit Committee*

The Audit Committee is currently composed of Blake E. Devitt (Chair), Gail D. Fosler, Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken, each of whom is independent under the rules of the New York Stock Exchange. The Board has determined that Messrs. Devitt, Stallkamp, Storm and Stroucken each qualify as an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission. The Audit Committee is primarily concerned with the integrity of Baxter's financial statements, system of internal accounting controls, the internal and external audit process, and the process for monitoring compliance with laws and regulations. Its duties include: (1) reviewing the adequacy and effectiveness of Baxter's internal control over financial reporting with management and the independent and internal auditors, and reviewing with management Baxter's disclosure controls and procedures; (2) retaining and evaluating the qualifications, independence and performance of the independent registered public accounting firm; (3) approving audit and permissible non-audit engagements to be undertaken by the independent registered public accounting firm; (4) reviewing the scope of the annual internal and external audits;

(5) reviewing and discussing earnings press releases prior to their release; (6) holding separate executive sessions with the independent registered public accounting firm, the internal auditor and management; and (7) discussing guidelines and policies governing the process by which Baxter assesses and manages risk. The Audit Committee met 11 times in 2008. The Audit Committee Report appears on page 37.



### *Compensation Committee*

The Compensation Committee is currently composed of John D. Forsyth (Chair), Walter E. Boomer, Peter S. Hellman, Carole J. Shapazian and Thomas T. Stallkamp. The Compensation Committee exercises the authority of the Board relating to employee benefit plans and is responsible for the oversight of compensation generally. The Compensation Committee may delegate its authority to subcommittees when appropriate. While the Committee has delegated its authority with respect to day-to-day plan administration and interpretation issues and certain off-cycle equity grants, no authority for the compensation of executive officers or directors has been delegated by the Committee. The Committee's duties include: (1) making recommendations for consideration by the Board, in executive session, concerning the compensation of the Chief Executive Officer; (2) determining the compensation of executive officers (other than the Chief Executive Officer) and advising the Board of such determination; (3) making recommendations to the Board with respect to incentive compensation plans and equity-based plans and exercising the authority of the Board concerning benefit plans; (4) serving as the administration committee of the company's equity plans; and (5) making recommendations to the Board concerning director compensation. The Corporate Governance and Compensation Committees work together to establish a link between Mr. Parkinson's performance and decisions regarding his compensation. All compensation actions relating to Mr. Parkinson are subject to the approval of the independent directors of the Board. The Compensation Committee met 3 times in 2008. The Compensation Committee Report appears on page 34.

The Compensation Committee has directly engaged George B. Paulin, Chairman and Chief Executive Officer of Frederic W. Cook & Co., Inc., as its compensation consultant. Additionally, Hewitt Associates assists the Committee with the compilation of market data from time to time. Mr. Paulin reports directly and exclusively to the Committee and his firm provides no other services to Baxter except advising on executive and Board compensation matters. He provides analyses and recommendations that inform the Committee's decisions, but he does not decide or approve any compensation actions. During 2008, he advised the Committee Chairman on setting agenda items for Committee meetings; reviewed management proposals presented to the Committee; evaluated market data compiled by Hewitt Associates; and conducted a review of the structure and level of compensation for non-employee directors.

### *Corporate Governance Committee*

The Corporate Governance Committee is currently composed of James R. Gavin III, M.D., Ph.D. (Chair), Blake E. Devitt, John D. Forsyth and Joseph B. Martin, M.D., Ph.D. The Corporate Governance Committee assists and advises the Board on director nominations, corporate governance and general Board organization and planning matters. Its duties include: (1) developing criteria, subject to approval by the Board, for use in evaluating and selecting candidates for election or re-election to the Board and assisting the Board in identifying and attracting qualified director candidates; (2) selecting and recommending that the Board approve the director nominees for the next annual meeting of shareholders and recommending persons to fill any vacancy on the Board; (3) determining Board committee structure and membership; (4) reviewing at least annually the adequacy of Baxter's Corporate Governance Guidelines; (5) overseeing the succession planning process for management, including the Chief Executive Officer; (6) developing and implementing an annual process for evaluating the performance of the Chief Executive Officer; and (7) developing and implementing an annual process for evaluating Board and committee performance. The Corporate Governance Committee met 4 times in 2008.

### *Finance Committee*

The Finance Committee is currently composed of K. J. Storm (Chair), Gail D. Fosler, Peter S. Hellman, Wayne T. Hockmeyer, Ph.D. and Albert P.L. Stroucken. The Finance Committee assists the Board in fulfilling its responsibilities in connection with the company's financial affairs. The Finance Committee reviews and, subject to the limits specified in its charter, approves or makes recommendations or reports to the Board regarding: (1) proposed

financing transactions, capital expenditures, acquisitions, divestitures and other transactions; (2) dividends; (3) results of the management of pension assets; and (4) risk management relating to the company's hedging activities, use of derivative instruments and insurance coverage. The Finance Committee met 6 times in 2008.

### *Public Policy Committee*

The Public Policy Committee is currently composed of Wayne T. Hockmeyer, Ph.D. (Chair), Walter E. Boomer, James R. Gavin III, M.D., Ph.D., Joseph B. Martin M.D., Ph.D. and Carole J. Shapazian. The Public Policy Committee is primarily concerned with the review of the policies and practices of Baxter to ensure that they are consistent with Baxter's social responsibility to act with integrity as a global corporate citizen to employees, customers and society. The Committee's duties include: (1) addressing the company's responsibilities with respect to the health and safety of employees, consumers and the environment; (2) overseeing, reviewing and making recommendations to the Corporate Responsibility Office as set forth in the company's Code of Conduct; (3) reviewing and making recommendations regarding Baxter's Quality and Regulatory programs and performance; and (4) reviewing and making recommendations on the company's Government Affairs Program, including the company's political contributions and positions with respect to pending legislative and other initiatives, and political advocacy activities. The Public Policy Committee met 4 times in 2008.

## **Corporate Governance**

### *Director Independence*

To be considered independent, the Board must affirmatively determine that a director does not have any direct or indirect material relationship with Baxter (either directly or as a partner, shareholder or officer of an organization that has a relationship with Baxter). Baxter's Corporate Governance Guidelines require that the Board be composed of a majority of directors who meet the criteria for independence established by rules of the New York Stock Exchange.

In making its independence determinations, the Board considers transactions, relationships and arrangements between Baxter and entities with which directors are associated as executive officers, directors and trustees. When these transactions, relationships and arrangements exist, they are in the ordinary course of business and are of a type customary for a global diversified company such as Baxter. More specifically, with respect to each of the three most recent fiscal years, the Board evaluated for directors Fosler and Stroucken, the annual amount of purchases by Baxter from the company where he or she serves as an executive officer, and determined that the amount of purchases in each fiscal year was below two percent of the consolidated gross revenues of each of those companies during the companies' last completed fiscal year.

### *Corporate Governance Guidelines*

Baxter's Board of Directors has long adhered to corporate governance principles designed to ensure effective corporate governance. Since 1995, the Board of Directors has had in place a set of corporate governance guidelines reflecting these principles. Baxter's current Corporate Governance Guidelines cover topics including, but not limited to, director qualification standards, director responsibilities (including those of the lead director), director access to management and independent advisors, director compensation, director orientation and continuing education, succession planning and the annual evaluations of the Board and its committees. Baxter's Corporate Governance Guidelines are available on Baxter's website at [www.baxter.com](http://www.baxter.com) under Corporate Governance Guidelines and in print upon request by writing to: Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

### *Code of Conduct*

Baxter has adopted a code of conduct that applies to all members of Baxter's Board of Directors and all employees of the company, including the Chief Executive Officer, Chief Financial Officer, Controller and other senior financial officers. Any amendment to, or waiver from, a provision of the Code of Conduct that applies to Baxter's Chief Executive Officer, Chief Financial Officer, Controller or persons performing similar functions will be disclosed on the

company's website, at [www.baxter.com](http://www.baxter.com) under Corporate Governance. The Code of Conduct is available on Baxter's website at [www.baxter.com](http://www.baxter.com) under Corporate Governance Ethics & Compliance and in print upon request by writing to: Ethics & Compliance, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

### ***Executive Sessions***

The non-employee directors of the Board met in executive session without management at every regularly scheduled meeting during 2008 pursuant to Baxter's Corporate Governance Guidelines. The Audit Committee is required by its charter to hold separate sessions during at least five committee meetings with each of the internal auditor, the independent registered public accounting firm and management. The Corporate Governance and Compensation Committees also meet in executive session as deemed appropriate.

### ***Lead Director***

Baxter's lead director is currently Walter E. Boomer. Pursuant to Baxter's Corporate Governance Guidelines, General Boomer presides at all executive sessions of the Board and acts as the liaison between the non-management directors and the Chairman of the Board. In addition, the lead director serves as the contact person to facilitate communications by Baxter employees and shareholders directly with the non-management members of the Board. The Corporate Governance Committee recommends a lead director to the full Board for approval on an annual basis.

### ***Communicating with the Board of Directors***

Shareholders and other interested parties may contact any of Baxter's directors, including the lead director or the non-management directors as a group, by writing a letter to Baxter Director c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015 or by sending an e-mail to [boardofdirectors@baxter.com](mailto:boardofdirectors@baxter.com). Baxter's Corporate Secretary will forward communications directly to the lead director, unless a different director is specified.

### ***Nomination of Directors***

It is the policy of the Corporate Governance Committee to consider candidates for director recommended by shareholders, members of the Board and management. The Corporate Governance Committee also considers directors recommended by the independent search firm retained by the Board to help identify and evaluate potential director nominees. The Corporate Governance Committee evaluates all candidates for director in the same manner regardless of the source of the recommendation. Shareholder recommendations for candidates for director should include the information required by Baxter's Bylaws and be sent to the Corporate Governance Committee, c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

Pursuant to Baxter's Corporate Governance Guidelines, nominees for director must:

Possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility.

Have a genuine interest in the company and recognition that as a member of the Board, each director is accountable to all shareholders of the company, not to any particular interest group.

Have a background that demonstrates an understanding of business and financial affairs and the complexities of a large, multifaceted, global business, governmental or educational organization.

Be or have been in a senior position in a complex organization such as a corporation, university or major unit of government or a large not-for-profit institution.

Have no conflict of interest or legal impediment that would interfere with the duty of loyalty owed to the company and its shareholders.

Have the ability and be willing to spend the time required to function effectively as a director.

Be compatible and able to work well with other directors and executives in a team effort with a view to a long-term relationship with the company as a director.

Have independent opinions and be willing to state them in a constructive manner.

The Corporate Governance Guidelines also provide that directors are selected on the basis of talent and experience. Diversity of background, including diversity of gender, race, ethnic or national origin, age, and

experience in business, government and education and in healthcare, science, technology and other areas relevant to the company's activities are factors in the selection process. As a majority of the Board must consist of individuals who are independent, a nominee's ability to meet the independence criteria established by the New York Stock Exchange is also a factor in the nominee selection process.

Once a candidate has been identified, the Corporate Governance Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Corporate Governance Committee or its Chair determines that the candidate warrants further consideration, the Corporate Governance Committee and the external search firm retained by the Committee will engage in a process that includes a thorough investigation of the candidate, an examination of his or her business background and education, research on the individual's accomplishments and qualifications, an in-person interview and reference checking. If this process generates a positive indication, the lead director, the members of the Committee and the Chairman of the Board will meet separately with the candidate and then confer with each other regarding their respective impressions of the candidate. If the individual was positively received, the Committee will then recommend the individual to the full Board for election. If the full Board agrees, the Chairman of the Board is then authorized to extend an offer to the individual candidate.

#### ***Baxter's Stock Ownership Guidelines for Executive Officers and Directors***

Baxter's stock ownership guidelines provide that the Chief Executive Officer is required to achieve ownership of Baxter common stock valued at six times annual base salary and each of the other executive officers is required to achieve ownership of Baxter common stock valued at four times annual base salary, in each case within five years of becoming an executive officer. As of December 31, 2008, each named executive officer has satisfied his or her stock ownership requirement, except for Mr. Davis who was appointed to his position in May 2006 and is expected to meet his stock ownership requirement within the applicable five-year period.

Baxter's Corporate Governance Guidelines require that after five years of Board service, each director is to hold common stock equal to five times the annual cash retainer provided to directors. As of December 31, 2008, all of Baxter's directors hold at least the required amount of common stock, except for Dr. Hockmeyer who was elected to the Board in September 2007 and is expected to satisfy the stock ownership requirement within the applicable five-year period.

### **Executive Compensation**

#### ***Compensation Discussion and Analysis***

The Compensation Committee has designed a compensation program that is straightforward and driven by a few key principles and objectives, with pay for performance being the most significant structural element of the program. The compensation package awarded to each named executive officer primarily consists of a base salary, a cash bonus and equity awards.

#### **Year in Review**

Despite the challenging economic environment, Baxter's financial position remains strong. Baxter reported net income for 2008 of \$2.0 billion, or \$3.16 per diluted share, an increase of 18% and 21%, respectively, over 2007. Baxter also generated record operating cash flows of \$2.5 billion in 2008, with cash flow from operations improving by more than \$200 million. Due to the strong cash flow generated from the company's operations in 2008, Baxter was able to invest \$868 million in research and development while returning value to shareholders in the form of share repurchases, dividends and capital improvements. Baxter achieved the guidance it issued for sales growth and exceeded its diluted

earnings per share guidance for full year 2008. This strong financial performance was a significant factor in the compensation decisions that were made with respect to the company's 2008 performance.

A comparison of the performance of Baxter's common stock against the performance of its peers provides another perspective on Baxter's overall performance over the last few years and is another factor that the Committee considered when making compensation decisions. The following graph compares the change in Baxter's



cumulative total shareholder return (including reinvested dividends) on Baxter's common stock with the Standard & Poor's 500 Composite Index and the Standard and Poor's 500 Health Care Index during each of the past five years.

As illustrated in the graph above, Baxter's total shareholder return declined by approximately 6% in 2008 while outperforming the Standard and Poor's 500 Health Care Index by approximately 17% in the same period.

Mr. Parkinson received total compensation of \$16,006,611 for his service as Baxter's Chief Executive Officer and Chairman of the Board in 2008, primarily driven by strong company and individual performance in 2008 and 2007 (as equity awards were made in early 2008 based, in part, on 2007 performance). Mr. Parkinson's compensation reflects the role he plays in establishing Baxter's strategic agenda and long-range plan, meeting the challenges that arise in the day-to-day operations of a company as large and diverse as Baxter and leading the company in an increasingly challenging global economic environment. Mr. Parkinson's 2008 compensation also reflects the Board's annual review of competitive market data. Although his compensation is determined using the same methodology as used for each of the other named executive officers, Mr. Parkinson's compensation is significantly higher than the compensation paid to any of the other named executive officers as his responsibilities and obligations at Baxter are significantly greater than those of any of the other named executive officers.

Each of the other named executive officers received total compensation for his or her 2008 performance as follows: Mr. Davis, \$3,621,789; Ms. Amundson, \$4,552,740; Mr. Arduini, \$3,775,228; and Mr. Greisch, \$5,109,923. The compensation paid to Ms. Amundson, Mr. Arduini and Mr. Greisch reflects the relative performances of the segments of the business for which these officers were responsible during 2008 and 2007 (as equity awards were made in early 2008 based, in part, on 2007 performance). The \$804,817 increase in compensation paid to Mr. Davis in 2008 over 2007 reflects the Committee's efforts to move his compensation towards compensation commensurate with that which is paid to chief financial officers at companies in Baxter's peer group (as defined below) as Mr. Davis gains experience in his role.

Consistent with past years, the most significant component of the total compensation paid to the named executive officers in 2008 was in the form of equity. The grant-date fair value of the equity awards granted to Mr. Parkinson in 2008 represented approximately 65% of his overall compensation. The grant-date fair value of the equity awards granted to the other named executive officers in 2008 represented approximately 58% of their overall compensation. The greater emphasis on equity awards in Mr. Parkinson's compensation is consistent with the Committee's view that with his greater responsibilities more of his compensation should be based on the company's future performance. These grants are described below.

### **Compensation Philosophy**

Baxter's compensation program is designed to:

- Recognize company and individual performance;
- Drive the long-term financial performance of the company; and
- Reflect the value of each officer's position in the marketplace and within the company.

The objective of the program is to compensate Baxter's executive officers in a manner that is consistent with these principles, aligns the interests of management and shareholders, drives sustained and superior performance relative to the company's peers and motivates, retains and attracts executive talent.

## Structure of Compensation Program

### *Pay for Performance*

Pay for performance is the most significant structural element of Baxter's compensation program. Annual performance against financial targets (adjusted earnings per share, adjusted sales and return on invested capital) drives the payout of cash bonuses. Baxter's three-year growth in shareholder value relative to the company's peer group determines the payout under 50% of the company's annual equity awards, which are granted in the form of performance share units. The overall performance of Baxter's common stock determines the value of the remainder, which is granted in the form of stock options. The Committee's assessment (or the Board's in the case of Mr. Parkinson) of how each officer performs his or her job impacts earned cash bonuses and equity awards.

### Financial Targets

For the last three years, the Committee selected adjusted earnings per share, adjusted sales and return on invested capital as the financial measures on which to assess the company's performance for purposes of funding the cash bonus pool. The relative weight assigned to each of these measures was 50%, 25%, and 25%, respectively, for each of the last three years. If each financial measure is met in a given year, then the cash bonus pool is funded at two times the target cash bonus for each executive officer covered by the bonus pool.

The Committee selected adjusted earnings per share (EPS) and adjusted sales, as these are of immediate interest to shareholders and are the primary two measures as to which Baxter regularly provides guidance to the market. Adjusted EPS is the most heavily weighted measure, as the Committee believes it is a straightforward measure of the company's current ability to generate value that is well understood by shareholders. The table below provides adjusted EPS and adjusted sales targets for 2008, 2007 and 2006 as well as actual results in these years.

|  | 2008     |          |               | 2007     |          |               | 2006     |          |               |
|--|----------|----------|---------------|----------|----------|---------------|----------|----------|---------------|
|  | Target   | Actual   | Achievement % | Target   | Actual   | Achievement % | Target   | Actual   | Achievement % |
| <b>Adjusted EPS(1)</b>                   | \$3.14   | \$3.38   | 107.6%        | \$2.53   | \$2.79   | 110.3%        | \$2.11   | \$2.23   | 105.7%        |
| <b>Adjusted Sales<br/>in millions(2)</b> | \$11,445 | \$11,574 | 101.1%        | \$10,552 | \$10,844 | 102.8%        | \$10,232 | \$10,243 | 100.1%        |

- (1) Adjusted EPS is earnings per share of \$3.16 for 2008, \$2.61 for 2007 and \$2.13 for 2006, as calculated in accordance with generally accepted accounting principles (GAAP), after adjusting earnings for special items. Special items included for 2008 a \$125 million charge related to infusion pumps (\$0.17 per share), a \$31 million charge relating to an impairment charge associated with the discontinuation of the CLEARSHOT pre-filled syringe program (\$0.03 per share) and \$19 million of charges relating to acquired in-process and collaboration research and development (\$0.02 per share); for 2007 a \$70 million charge for restructuring (\$0.07 per share), a \$56 million charge relating to litigation (\$0.05 per share) and \$50 million of charges relating to acquired in-process and collaboration research and development (\$0.06 per share); and for 2006 a \$76 million charge

relating to infusion pumps (\$0.10 per share).

- (2) Adjusted Sales is reported net sales of \$12.3 billion for 2008, \$11.3 billion for 2007 and \$10.4 billion for 2006, as calculated in accordance with GAAP, as adjusted for foreign currency fluctuations calculated using budgeted exchange rates.

The company calculates adjusted EPS for purposes of funding the cash bonus pool the same way it calculates adjusted EPS when it publicly announces its results that is, the special items that are excluded from EPS to arrive at adjusted EPS are the same regardless of how the company is using the measure. Adjusted sales is net sales excluding the impact of foreign currency fluctuations using budgeted exchange rates. Baxter uses adjusted sales (rather than sales) as a target for the same reason that Baxter provides sales guidance excluding the impact of foreign currency fluctuations that is, the company believes it provides a better perspective on underlying sales growth.

The use of budgeted exchange rates allows Baxter to evaluate final performance on the same foreign currency basis that was used for setting the target and establishing the budget.

Return on invested capital (ROIC) is the internal cash earnings measure that the company uses to assess how effectively it is allocating and utilizing capital in its operations. ROIC is calculated by dividing cash flows from operations (excluding the impact of interest expense) by average invested capital. Baxter does not provide guidance on ROIC nor does it disclose ROIC in its public filings; however, for years 2008, 2007 and 2006, Baxter achieved 100.0%, 104.7% and 114.7% of its respective ROIC targets. The Committee selected ROIC as the third measure in order to balance the more immediate EPS and sales goals, helping to ensure a focus on efficient and value-maximizing investment and appropriate long-term management of capital. Improving ROIC requires disciplined management of working capital and is inherently challenging because of the measure's focus on increasing cash flows relative to improved retained earnings. As the company becomes more profitable it becomes more difficult to show significant ROIC improvement due to the impact of increases in retained earnings on the denominator of the measure—that is, as the denominator grows the company is required to generate more cash flows from operations than in the prior year to improve its ROIC. As discussed above under Year in Review, Baxter reported net income for 2008 of \$2.0 billion, an increase of 18% over 2007.

#### Performance Against Peers

As a healthcare company, Baxter operates in a rapidly changing environment. Accordingly, encouraging its officers to focus on the long-term performance of the company is particularly important to Baxter. The performance share units that were awarded to named executive officers in March 2008 were designed to reward strong long-term performance by the company relative to the healthcare companies in its peer group. These grants focus on the healthcare companies in the peer group, as these are the primary companies with which Baxter competes for talent, investor capital and market position.

The payout of shares of Baxter common stock resulting from the vesting of the performance share units granted in 2008 will be based on Baxter's change in total shareholder value versus the change in total shareholder value of the healthcare companies included in Baxter's peer group during the three-year performance period commencing with the year in which the performance share units are awarded (January 1, 2008–December 31, 2010). Growth in shareholder value will be measured based on the following formula:

$$\begin{aligned} & \text{Average Closing Stock Price Over the Last Twenty Days of the Performance Period} \\ & \quad \text{minus Average Closing Stock Price Over the Last Twenty Days Immediately} \\ & \quad \text{Preceding the Commencement of the Performance Period} \\ & \quad \text{plus Reinvested Dividends} \end{aligned}$$

**Divided (.) by**

$$\begin{aligned} & \text{Average Closing Stock Price Over the Last Twenty Days Immediately Preceding the} \\ & \quad \text{Commencement of the Performance Period} \end{aligned}$$

The performance share units will pay out in shares of Baxter common stock in a range of 0% to 200% of the number of performance share units awarded. The table below shows how the company's growth in shareholder value against its peers correlates with the 0% to 200% range of payouts.

**Performance**

**Payout**

|   |      |
|---|------|
| Below 25 <sup>th</sup> Percentile Rank    | 0%   |
| 25 <sup>th</sup> Percentile Rank          | 25%  |
| 60 <sup>th</sup> Percentile Rank          | 100% |
| 75 <sup>th</sup> Percentile Rank          | 150% |
| 85 <sup>th</sup> Percentile Rank or Above | 200% |

The performance share units will pay out linearly between each set of data points above the 25<sup>th</sup> percentile and below the 85<sup>th</sup> percentile. For example, if Baxter performs at a 40<sup>th</sup> percentile rank, each named executive officer will receive the number of shares equal to 57% of his or her award of performance share units. As it is possible that there will be no payout under the performance share units, these awards are completely at-risk compensation. Further, in order to pay out at the 100% target level, Baxter must outperform its peers at the 60<sup>th</sup> percentile.

### Performance of Baxter Common Stock

The performance of Baxter common stock determines the value of the stock options and restricted stock units that have been granted to the named executive officers.

### Individual Performance

The Committee (or the full Board in the case of Mr. Parkinson) assesses the individual performance of each executive officer in making compensation decisions related to cash bonuses and equity awards. The Committee's assessment of individual performance is inherently subjective and requires significant input from Mr. Parkinson. Essentially the Committee (or the Board in the case of Mr. Parkinson) assesses how well an officer fulfilled his or her obligations in the past year. This assessment includes consideration of how well the operations or function for which an officer is responsible performed during the year. One factor that the Committee (or the Board in the case of Mr. Parkinson) evaluates in making assessments of individual performance is how well an officer performed against the performance goals set for such officer for the relevant year. Consideration is given in these discussions for not only whether an objective was met but also how the objective was met including how appropriately the officer prioritized meeting an objective relative to the officer's other responsibilities. Mr. Parkinson's goals and his self-evaluation are reviewed with the Committee and the full Board. Mr. Parkinson reviews the performance goals and self-evaluations of each of the other executive officers and shares his insights and recommendations with the Committee. The goals set for each named executive officer for 2008 reflected the diversity of the company's business and the wide range of responsibilities that are attributed to each of these officers. For example, Mr. Parkinson had approximately 50 performance goals for 2008 covering the following areas: financial performance, organizational development/human resources, corporate strategy/business development, innovation/R&D, quality/regulatory, operational excellence, board relations/governance, constituent relations and leadership. The adjustments that are made to such officer's compensation based on his or her performance are not directly correlated to the number of goals that an officer has achieved. The Committee believes that this type of rigid correlation could motivate an officer to focus on achieving his or her performance goals rather than on fulfilling his or her job responsibilities in a manner that is in the best interest of the company and its shareholders. Instead, the Committee (or the Board in the case of Mr. Parkinson) uses this information to facilitate a discussion of each officer's performance and then makes adjustments to cash bonuses and equity grants on a discretionary basis.

### ***Baxter's Peer Group and Use of Peer Group Data***

Use of survey data from Baxter's peers plays a significant role in the structure of the compensation program as it is a primary input in setting target levels for base salaries, cash bonuses and equity awards and helps us to ensure that compensation is market competitive in order to retain and attract talent. Baxter uses data from companies that the Committee has selected as comparable companies (collectively, the peer group) to help identify a reasonable starting point for base salaries, cash bonuses and equity awards and then analyze company and individual performance to determine whether it is appropriate to move away from this baseline. Peer group data also plays a role in what non-cash compensation is paid to the named executive officers as the market data the company obtains regarding companies in its peer group helps determine what types and amounts of non-cash compensation are appropriate for competitive purposes. If survey data is not available for a particular officer's position at the company, the Committee utilizes internal equity principles to set an officer's compensation targets at levels that are competitive with other

officers at Baxter.

Baxter's use of peer group data is consistent among the named executive officers in that the baseline (i.e. percentile target) that is set for an element of compensation applies to all officers regardless of position. However, differences in the compensation paid to comparable officers at companies in the peer group do result in higher target amounts for officers depending on their position. For example, the compensation targets set for Mr. Parkinson based

on peer group data are significantly higher than those set for any of the other named executive officers despite being set using the same percentile targets.

Since October 2006, Baxter's peer group has included other companies of similar size and selected healthcare peers. These selected healthcare peers include all of the companies in the Standard & Poor's 500 Health Care Index for which data is available, except for distribution companies, insurance providers, hospitals, nursing homes and consultants. The target peer group is comprised of approximately 115 companies (of which approximately 35 are healthcare companies). The actual number of companies in the peer group fluctuates from year to year based on the number of companies for which information is available to Hewitt Associates.

As discussed above under Pay for Performance Performance Against Peers, payouts under the performance share units granted in 2008 will be determined based on Baxter's change in total shareholder value versus the change in total shareholder value of the healthcare companies included in Baxter's peer group. As of December 31, 2008, the healthcare companies that will be used to determine the payout under the performance share units granted in 2008 are set forth below.

|                               |  |                                |
|-------------------------------|--|--------------------------------|
| Abbott Laboratories           | Genzyme Corporation                        | Pfizer Inc.                    |
| Allergan, Inc.                | Gilead Sciences, Inc.                      | Quest Diagnostics Incorporated |
| Amgen Inc.                    | Hospira, Inc.                              | Schering-Plough Corporation    |
| Becton, Dickinson and Company | Johnson & Johnson                          | St. Jude Medical, Inc.         |
| Biogen Idec Inc.              | King Pharmaceuticals, Inc.                 | Stryker Corporation            |
| Boston Scientific Corporation | Laboratory Corporation of America Holdings | Thermo Fisher Scientific Inc.  |
| Bristol-Myers Squibb Company  | Medtronic, Inc.                            | Varian Medical Systems, Inc.   |
| Celgene Corporation           | Merck & Co., Inc.                          | Waters Corporation             |
| Covidien Ltd.                 | Millipore Corporation                      | Watson Pharmaceuticals, Inc.   |
| C.R. Bard, Inc.               | Mylan Inc.                                 | Wyeth                          |
| Eli Lilly and Company         | PerkinElmer, Inc.                          | Zimmer Holdings, Inc.          |
| Forest Laboratories, Inc.     |  |                                |

## Elements of Executive Compensation

### *Base Salaries*

Base salaries are paid in order to provide a fixed component of compensation for the named executive officers. For each of the last three years, base salary target levels for all named executive officers were set within a range that is competitive with the 50<sup>th</sup> percentile of salaries paid to comparable officers at companies in the peer group. The Committee selected the 50<sup>th</sup> percentile as the positioning for base salaries because, as they are the only fixed component of compensation, they are less appropriately used to motivate performance and thus, the Committee determined to set them at a reasonably competitive mid-point.

The Committee sets actual individual base salaries higher or lower than targeted base salaries for any reason that the Committee deems relevant. Factors that the Committee considered for 2008 base salaries included how long an officer has been at Baxter and in his or her current role, the impact of his or her position on the company's results and the quality of the overall experience an officer brings to his or her role. With respect to Mr. Davis, the Committee used its discretion to set Mr. Davis's 2008 base salary at a level lower than what was competitive with the 50<sup>th</sup> percentile of the peer group, given the amount of time he has served in his role relative to similarly situated officers at peer companies. Base salaries for all of the other named executive officers were at, or modestly below, the 50<sup>th</sup> percentile of salaries paid to comparable officers in the peer group.



***Cash Bonuses***

Cash bonuses are intended to reward company and individual performance by providing officers with an opportunity to receive additional cash compensation based on both the company's performance relative to the financial targets described above and the Committee's assessment of how well an officer performed his or her role during the applicable year.

### Target Setting

For each of the last three years, cash bonus targets for all named executive officers were set within a range that is competitive with the 60<sup>th</sup> percentile of cash bonuses paid to comparable officers at companies in Baxter's peer group. As the ultimate payout of a cash bonus is driven primarily by achievement of financial targets, the Committee sets the target amounts at the 60<sup>th</sup> percentile to further motivate officers to meet the financial targets. The Committee has the discretion to adjust each officer's target as it deems appropriate. Typical reasons for adjusting cash bonus targets are how long an officer has been in his or her current role, how the officer's role fits within the structure of the organization and how the officer's base salary has increased historically. The last factor is relevant as the peer group data is in the form of a multiple of an officer's base salary. With respect to Mr. Davis, the Committee continues to move his cash bonus target towards compensation commensurate with the bonus compensation paid to similarly situated officers at peer companies. Accordingly, the Committee used its discretion to set Mr. Davis's target cash bonus at 85% of his salary, which was less than the 92% that would have been competitive with the 60<sup>th</sup> percentile, but did represent a 5% increase over his 2007 target. Cash bonus targets for all of the other named executive officers were at the 60<sup>th</sup> percentile of cash bonuses paid to comparable officers in the peer group.

### Determination of 2008 Payouts

As the company met each of its financial targets for its 2008 performance, the bonus pool was funded at two times the target cash bonus for each executive officer covered by the bonus pool. The Committee then used negative discretion to determine the actual cash bonus amount that was paid to each named executive officer. The negative discretion that was used took into account the Committee's view of how well each officer performed his or her responsibilities during 2008. More specifically, in applying its negative discretion, the Committee adjusted each officer's cash bonus target for company performance and then individual performance. As a result, the actual cash bonus paid to each named executive officer was calculated using the following formula: (x) the product of such officer's cash bonus target and the company performance adjustment percentage multiplied by (y) an officer's individual performance adjustment percentage.

*Company Performance.* Based on how the company performed against each of its 2008 financial targets and the relative weighting of these targets, each officer's cash bonus was adjusted to 130% of target. This adjustment was lower than the adjustment of 145% made in the prior year based on how the company performed against its 2007 financial targets. This reduced adjustment percentage led to a decrease in cash bonuses paid to all of the named executive officers other than Mr. Davis (as a result of the increase in his target bonus discussed above), which is consistent with the company's pay for performance philosophy.

*Individual Performance.* Based on the Committee's assessment of each officer's performance, each officer's cash bonus target was adjusted further in a range of 90% to 140%. Ms. Amundson was at the high end of this range with a 140% adjustment due to her performance as President of BioScience, the company's highest-performing segment in 2008. Revenues generated from the BioScience segment in 2008 represented 43% of the company's overall revenues and increased 16% over 2007. Mr. Davis was also at the high end of the range with a 140% adjustment due to his contributions to the company's strong financial performance in 2008 as well as his role in managing the risks and challenges associated with the current global economic environment and the volatility in global financial markets. Mr. Greisch received an adjustment of 130% due to his strong performance overseeing Baxter's international operations during a year in which approximately 60% of Baxter's revenues were generated outside of the United States. Mr. Arduini received an adjustment of 90% due to his performance as President of Medication Delivery, a segment that while performing solidly in 2008 continued to address issues with its infusion pumps. Revenues generated from the Medication Delivery segment in 2008 represented 37% of the company's overall revenues and increased 8% over 2007. Mr. Parkinson was paid a cash bonus of \$2,708,940, which included an upward adjustment of 115%. This amount was determined taking into account the company's strong financial performance in 2008,

Mr. Parkinson's contributions to this performance as well as his other leadership contributions (as discussed above under "Year in Review"), the fact that the company continues to address issues with its infusion pumps, and the amounts he is paid through other components of his compensation package. For more information on how performance was assessed, see "Pay for Performance - Financial Targets and Individual Performance" above. The Committee believes that the methodology it uses in paying cash bonuses is consistent with providing compensation that reflects how an officer is valued within the company and the market place.

### ***Equity Awards***

Equity awards are the most significant components of each named executive officer's compensation package. The company's compensation program emphasizes equity awards to motivate its named executive officers to drive the long-term performance of the company and to align their interests with those of the company's shareholders. This emphasis is appropriate as these officers have the greatest role in establishing the company's direction and should have the greatest proportion of their compensation aligned with the long-term interests of shareholders. This alignment is furthered by requiring officers to satisfy the stock ownership guidelines discussed above under Corporate Governance Baxter's Stock Ownership Guidelines for Executive Officers and Directors.

### **Structure of Equity Compensation Program**

In February 2007, the Committee restructured its equity compensation program to provide for annual equity grants to executive officers of performance share units and stock options rather than restricted stock units and stock options. The Committee also reduced the proportion of stock options from 70% to 50%. The replacement of restricted stock units with performance share units was driven by the Committee's belief that as the recipients of these awards have the most responsibility for Baxter's performance, the payout of a portion of their equity awards should be completely at-risk. As there are factors beyond the control of the officers that affect the company's performance as measured against its peers, the Committee did retain stock options as an annual grant to recognize that it is in the best interest of the company to provide a certain amount of equity to officers that will vest as long as the officer continues to serve at Baxter, and will only have value as long as Baxter's value continues to increase from the date of grant. The reduction in stock options in 2007 was influenced by market data that showed that companies were shifting away from stock options in favor of alternative performance-based awards and the Committee's judgment regarding the appropriate balance between absolute and relative shareholder value in the executive officers' total rewards.

### **2008 Equity Grants**

In order to determine the size of equity grants to be awarded to each named executive officer during the 2008 annual grant process, the Committee reviewed market data on how much equity similarly situated officers were receiving at companies in Baxter's peer group. This review focused on how much equity should be granted to each officer in order to be competitive with the 60<sup>th</sup> percentile of equity awards provided to similarly situated officers at companies in Baxter's peer group. The Committee (or the Board in the case of Mr. Parkinson) set targets that were above the median to motivate the named executive officers to outperform the other healthcare companies in the peer group and to reflect the significant at-risk component of this element. The target set for Mr. Davis was lower than what was competitive for the 60<sup>th</sup> percentile of the peer group, given the amount of time he had served in his role relative to similarly situated officers at peer companies. In determining the actual amounts of the grants, the Committee (or the Board in the case of Mr. Parkinson) then used its discretion to increase each named executive officer's 2008 target grant by 20%. The adjustments primarily reflected the Committee's expectations of such officer's future contributions to the company and assessment of such officer's individual performance during 2007. In addition to his annual grants, Mr. Greisch received a one-time grant of 10,000 restricted stock units in June 2008 in recognition of the additional responsibilities for Global Manufacturing and Supply Chain that he assumed in April 2008.

### ***Perquisites***

Baxter provides a limited range of perquisites to its named executive officers. In 2008, the aggregate incremental cost associated with providing these perquisites, as further described below, was less than \$10,000 for each named executive officer. Baxter permits limited personal travel on company aircraft due to the potential efficiencies associated with such use. All personal aircraft usage must be pre-approved by the Chief Executive Officer and any such aircraft usage, including by the Chief Executive Officer, is reviewed annually by the Compensation Committee.

Baxter reimburses business-related spousal travel expenses and pays related entertainment and other incidental costs for executive officers and their spouses when such executive officers and spouses are invited to attend Board meetings or other business-related activities where the attendance of a spouse is expected. Baxter pays these expenses and costs as the business purpose served by having executive officers attend such

meetings is closely related to the benefits received. Baxter also pays for an annual physical exam for executive officers and believes this practice to be in the best interest of the company and its shareholders as the health of an executive officer is critical to an officer's performance. Baxter reimburses executive officers for the tax payments related to business-related spousal travel (any personal use of company aircraft is not grossed-up) and annual physical exams (however, such gross-up has been discontinued effective as of January 1, 2009). The Committee believes this treatment is appropriate given the nature of the perquisites provided and the close link between these perquisites and the business purposes served by making them available. No named executive officer received reimbursements for taxes on an aggregate basis in an amount greater than \$10,000 in 2008.

### ***Retirement and Other Benefits***

Baxter allows the named executive officers to participate in a pension program and deferred compensation plan in order to provide compensation that is reflective of such officers' value in the market as well as to facilitate retirement savings as part of the total compensation program in a cost- and tax-effective way for the company. The pension plan was closed to new participants effective as of December 31, 2006.

Mr. Parkinson's employment agreement provides for additional pension benefits tied to the number of years he remains employed at Baxter. In April 2007, Mr. Parkinson received an additional two years of service (five years in total) under the pension program upon his third anniversary of employment based on the terms of his employment agreement. The employment agreement further specifies that if Mr. Parkinson remains employed by Baxter for five years, he will receive two additional years of service (nine years in total). This additional service is credited under the supplemental pension plan. Mr. Parkinson's employment agreement also provides that he is eligible for unreduced early retirement upon his termination of employment prior to age 65. Mr. Parkinson will not be eligible for the additional years of service, or an unreduced early retirement benefit, if his employment is terminated for cause (as defined in his employment agreement). The additional service credited to Mr. Parkinson in 2007 accounted for approximately 78% of the change in Mr. Parkinson's accumulated pension value between December 31, 2006 and 2007. The other named executive officers participate in the pension program to the same extent and on the same terms as any other eligible Baxter employee. The distinction between the pension benefits available to Mr. Parkinson versus the other named executive officers is consistent with his level of responsibility within the company and how his position is valued in the market as determined at the time his agreement was originally negotiated. A more detailed discussion of the pension program is provided under the caption "Pension Benefits" on page 27 of this Proxy Statement. Each of the named executive officers also is eligible to participate in Baxter's deferred compensation plan (which permits the officer to defer the receipt of covered compensation and receive a 3.5% company match, the terms of which are more fully described under the caption "Nonqualified Deferred Compensation" on page 29 of this Proxy Statement).

### ***Executive Compensation Recoupment Policy***

In February 2009, the Board adopted an executive compensation recoupment policy. This policy applies to all cash bonuses paid by Baxter under its 2007 Incentive Plan (or any successor plan) and all grants of equity awarded by the company to any person designated as an officer by the Board. Following any restatement of the company's financial results that requires an amendment to any previously filed results or if an officer violates a restrictive covenant contained in any agreement between the company and such officer, the Board will review the facts and circumstances that led to the requirement for the restatement or the violation and take any actions it deems appropriate with respect to executive incentive compensation. With respect to a restatement, the Board will consider whether an officer received compensation based on performance reported, but not actually achieved, or was accountable for the events that led to the restatement, including any misconduct. Actions the Board may take include: recovery, reduction, or forfeiture of all or part of any bonus, equity, or other compensation previously provided or to be provided in the future; disciplinary actions; and the pursuit of any other remedies.

***Post-Termination Compensation***

Named executive officers may receive certain payments if Baxter undergoes a change in control and the officer ceases to be employed by the company. Mr. Parkinson would receive payments under his employment agreement and the other named executive officers would receive payments under their severance agreements. Providing for

payments in a change in control situation is consistent with market practice and helps ensure that if a change in control is in the best interest of the shareholders, officers have appropriate incentives to remain focused on their responsibilities before, during and after the transaction without undue concern for their personal circumstances. In addition to change in control payments, Mr. Parkinson would receive certain payments in the event he is terminated for any reason (other than for cause). The Committee believes that compensating Mr. Parkinson in these additional circumstances is appropriate in light of the value of his position in the market place, including as reflected in the negotiations accompanying the company's hiring of Mr. Parkinson pursuant to his employment agreement. In consideration for these benefits, Mr. Parkinson and the named executive officers have agreed to be bound for two years from the date of his or her termination to non-competition, non-solicitation and non-disparagement covenants. The named executive officers' severance benefits were not a significant factor in determining their other compensation elements because the Committee did not believe that such benefits, as provided, exceeded market practices of peer companies in a way that justified a reduction in any other elements or vice versa. For a more detailed discussion of these agreements, including the estimated amounts that would be payable assuming a termination date of December 31, 2008, please refer to the information under the caption "Potential Payments Upon Termination Following A Change in Control" on page 29 of this Proxy Statement.



### Summary Compensation Table

The following table shows for the years indicated below the compensation provided by Baxter and its subsidiaries to its Chief Executive Officer, Chief Financial Officer and the three next most highly compensated executive officers for the year ended December 31, 2008. The five individuals identified in the Summary Compensation Table are referred to as the named executive officers throughout this Proxy Statement.

| Named Executive Officer   | Year | Salary<br>(\$) | Stock<br>Awards<br>(\$)(1) | Option<br>Awards<br>(\$)(2) | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>(\$)(3) | Change in<br>Pension<br>Value and<br>Non-qualified<br>Deferred<br>Compensation<br>Earnings<br>(\$)(4) | All Other<br>Compensation<br>(\$)(5) | Total<br>(\$) |
|---|------|----------------|----------------------------|-----------------------------|--|---|--------------------------------------|---------------|
| L. Parkinson, Jr.,<br>Chief Executive Officer                     | 2008 | \$ 1,339,339   | \$ 5,529,084               | \$ 5,305,976                | \$ 2,708,940   | \$910,946   | \$212,326                            | \$ 16,000,000 |
|   | 2007 | 1,296,153      | 3,765,572                  | 7,077,052                   | 3,000,000  | 2,288,783   | 153,158                              | 17,580,518    |
|   | 2006 | 1,190,769      | 1,526,450                  | 7,036,639                   | 3,000,000  | 691,998   | 136,187                              | 13,581,943    |
| M. Davis,<br>Senior Vice President,<br>Chief Financial Officer(6) | 2008 | 554,769        | 1,202,636                  | 838,785                     | 866,320  | 68,406  | 90,873                               | 3,621,389     |
|   | 2007 | 506,615        | 692,161                    | 719,208                     | 793,585  | 46,812  | 58,591                               | 2,816,972     |
|   | 2006 | 359,331        | 146,800                    | 386,154                     | 540,960  | 22,647  | 40,641                               | 1,496,533     |
| J. Amundson,<br>Senior Vice President                             | 2008 | 554,769        | 1,528,004                  | 1,353,198                   | 866,320  | 141,384   | 109,065                              | 4,552,630     |
|   | 2007 | 523,077        | 1,218,711                  | 1,820,915                   | 907,410  | 112,036   | 94,119                               | 4,676,258     |
|   | 2006 | 508,053        | 586,894                    | 1,423,160                   | 773,214  | 86,035  | 78,118                               | 3,455,474     |
| G. Arduini,<br>Senior Vice President                              | 2008 | 526,923        | 1,435,464                  | 1,110,401                   | 527,670  | 77,797  | 96,973                               | 3,775,128     |
|   | 2007 | 505,692        | 1,069,641                  | 1,065,604                   | 692,230  | 69,352  | 86,529                               | 3,489,448     |
|   | 2006 | 477,077        | 478,280                    | 705,620                     | 639,216  | 47,440  | 91,009                               | 2,438,642     |
| D. Greisch,<br>Senior Vice President                              | 2008 | 613,462        | 1,745,662                  | 1,447,736                   | 937,950  | 239,823   | 125,290                              | 5,109,923     |
|   | 2007 | 595,165        | 1,288,708                  | 1,888,496                   | 1,089,050  | 141,068   | 107,697                              | 5,110,116     |
|   | 2006 | 564,000        | 613,031                    | 1,630,851                   | 938,952  | 113,422   | 79,103                               | 3,930,363     |

(1) Amounts shown in this column relate to restricted stock, restricted stock units and performance share units granted under the company's equity compensation program. The amounts are valued based on the compensation cost recognized by the company during the applicable year under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (which we refer to as FAS 123-R). Generally, FAS 123-R requires the full grant-date fair value of an award to be amortized and recognized over the vesting period that relates to the award. As a result, the compensation cost disclosed for a

particular year includes the cost associated with grants made over multiple years. See Note 8 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of how the fair value of restricted stock, restricted stock units and performance share units is calculated under FAS 123-R. For further information on these awards, see the Grants of Plan-Based Awards table and the accompanying narrative under Description of Certain Awards Granted in 2008 on page 23 of this Proxy Statement.

- (2) Amounts shown in this column relate to stock options granted under the company's equity compensation program. The amounts are valued based on the compensation cost recognized by the company during the applicable year under FAS 123-R. Generally, FAS 123-R requires the full grant-date fair value of an award to be amortized and recognized over the vesting period that relates to the award. As a result, the compensation cost disclosed for a particular year includes the cost associated with grants made over multiple years. See Note 8 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of the relevant assumptions used in calculating the compensation cost under FAS 123-R. For further information on these awards, see the Grants of Plan-Based Awards table and the accompanying narrative under Description of Certain Awards Granted in 2008 on page 23 of this Proxy Statement.
- (3) Amounts shown in this column represent cash bonuses paid for performance in the applicable year under the company's officer bonus program. The methodology applied in determining these bonus amounts is discussed under Compensation Discussion and Analysis Elements of Executive Compensation Cash Bonuses on page 16 of this Proxy Statement.

- (4) Amounts shown in this column represent the aggregate of the increase in actuarial values of each of the named executive officer's benefits under the company's pension plan and supplemental pension plan. Pursuant to the terms of his employment agreement, Mr. Parkinson received an additional two years of service under the pension plan in April 2007 as he recognized the third anniversary of his employment with the company during that month. For more information on this pension benefit, see Employment Agreement with Chairman and Chief Executive Officer below.
- (5) Amounts shown in this column represent dividends paid on restricted stock and dividend equivalent payments on restricted stock units and performance share units held by the named executive officers, contributions made by the company to Baxter's deferred compensation plan on behalf of the participating named executive officers, contributions made by the company to Baxter's tax-qualified section 401(k) plan on behalf of the named executive officers, reimbursements by the company of tax payments related to required business-related spousal travel and related entertainment and other incidental costs and annual physical exams (however, gross-ups for physical exams have been discontinued effective as of January 1, 2009) and the dollar value of term life insurance premiums paid by the company on behalf of the named executive officers. The following table quantifies the amounts paid to the named executive officers for 2008 for each component discussed above that involved an amount equal to or greater than \$10,000:

|               | <b>Dividends</b> | <b>Deferred<br/>Compensation<br/>Contributions</b> |
|---------------|------------------|--|
| Mr. Parkinson | \$ 195,734       |  |
| Mr. Davis     | 42,645           | \$ 35,532  |
| Ms. Amundson  | 55,709           | 37,842   |
| Mr. Arduini   | 54,237           | 32,847   |
| Mr. Greisch   | 63,648           | 47,685   |

Effective with the company's 2009 annual grants, dividends will not be paid during the vesting period but will be accrued and paid when and if the related shares of common stock are paid out.

- (6) Effective May 17, 2006, Mr. Davis was elected to succeed Mr. Greisch as Chief Financial Officer, and Mr. Greisch was elected to serve as President, International. Prior to May 17, 2006, Mr. Davis served as Treasurer.

#### Grants of Plan-Based Awards

| <b>Estimated Future<br/>Payouts<br/>Under Non-Equity<br/>Incentive</b> | <b>Estimated Future Payouts<br/>Under Equity Incentive</b> | <b>All<br/>Other<br/>Stock<br/>Awards:<br/>Number<br/>of<br/>Shares</b> | <b>All Other<br/>Option<br/>Awards:<br/>Number<br/>of</b> | <b>Exercise<br/>or</b> | <b>Grant<br/>Fair V</b> |
|--|--|---|---|------------------------|-------------------------|
|--|--|---|---|------------------------|-------------------------|

|           | Grant Date | Plan Awards       |                |                 | Plan Awards      |               |                | of Stock or Units (#) | Securities Underlying Options (#) | Base Price of Option Awards (\$/Sh) | of Stock and Options Awarded (4) |
|-----------|------------|-------------------|----------------|-----------------|------------------|---------------|----------------|-----------------------|-----------------------------------|-------------------------------------|----------------------------------|
|           |            | Threshold (\$)(1) | Target (\$)(2) | Maximum (\$)(1) | Threshold (#)(3) | Target (#)(3) | Maximum (#)(3) |                       |                                   |                                     |                                  |
| Parkinson | 2/12/2008  |                   | \$ 1,812,000   |                 |                  |               |                |                       |                                   |                                     |                                  |
|           | 3/5/2008   |                   |                |                 |                  |               |                | 304,000               | \$ 58.12                          | \$ 3,566,080                        |                                  |
|           | 3/5/2008   |                   |                | 22,775          | 91,100           | 182,200       |                |                       |                                   |                                     |                                  |
| Wiss      | 2/11/2008  |                   | 476,000        |                 |                  |               |                |                       |                                   |                                     |                                  |
|           | 3/5/2008   |                   |                |                 |                  |               |                | 60,600                | 58.12                             | 7,128,000                           |                                  |
|           | 3/5/2008   |                   |                | 4,800           | 19,200           | 38,400        |                |                       |                                   | 1,280,000                           |                                  |
| Hundson   | 2/11/2008  |                   | 476,000        |                 |                  |               |                |                       |                                   |                                     |                                  |
|           | 3/5/2008   |                   |                |                 |                  |               |                | 60,600                | 58.12                             | 7,128,000                           |                                  |
|           | 3/5/2008   |                   |                | 4,800           | 19,200           | 38,400        |                |                       |                                   | 1,280,000                           |                                  |
| Luini     | 2/11/2008  |                   | 451,000        |                 |                  |               |                |                       |                                   |                                     |                                  |
|           | 3/5/2008   |                   |                |                 |                  |               |                | 60,600                | 58.12                             | 7,128,000                           |                                  |
|           | 3/5/2008   |                   |                | 4,800           | 19,200           | 38,400        |                |                       |                                   | 1,280,000                           |                                  |
| Reisch    | 2/11/2008  |                   | 555,000        |                 |                  |               |                |                       |                                   |                                     |                                  |
|           | 3/5/2008   |                   |                |                 |                  |               |                | 70,200                | 58.12                             | 8,200,000                           |                                  |
|           | 3/5/2008   |                   |                | 5,250           | 21,000           | 42,000        |                |                       |                                   | 1,400,000                           |                                  |
|           | 6/2/2008   |                   |                |                 |                  |               | 10,000         |                       |                                   | 600,000                             |                                  |

(1) There is no threshold amount for cash bonuses. Even if the company meets each financial target, the Committee (or the Board in the case of Mr. Parkinson) may use negative discretion and decline to pay an officer a bonus for

his or her performance. Consistent with the bonus plan and under Section 162(m) of the Internal Revenue Code of 1986, as amended, the maximum bonus that could be paid to any officer for 2008 performance was the lesser of (i) two times an officer's salary (or target bonus in the case of Mr. Parkinson) and (ii) \$5 million.

- (2) Represents the target bonus set for 2008 under Baxter's officer bonus program. The actual cash bonus paid to each named executive officer for his or her 2008 performance is reported as Non-Equity Incentive Plan Compensation above in the Summary Compensation Table.
- (3) The amounts set forth under Threshold, Target and Maximum represent the number of shares of common stock that would be paid out under the performance share units granted in March 2008 if Baxter's growth in shareholder value compared to the growth in shareholder value of the healthcare companies in its peer group is at the 25<sup>th</sup>, 60<sup>th</sup> and 85<sup>th</sup> percentile, respectively. For more information on how these payouts are determined, please see Compensation Discussion and Analysis Structure of Compensation Program Pay for Performance Performance Against Peers on page 14 of this Proxy Statement.
- (4) Represents the grant-date fair value as measured under FAS 123-R of the stock options, restricted stock units and the target amount of performance share units awarded under Baxter's equity compensation program during 2008 and further described below.

#### **Description of Certain Awards Granted in 2008**

**Performance Share Units.** Each named executive officer received a performance share unit grant in March 2008. The threshold, target and maximum payouts that each officer could receive under his or her award is disclosed under the Estimated Future Payouts Under Equity Incentive Plan Awards column in the Grants of Plan-Based Awards table above. The payout amounts under these awards will be earned based on Baxter's growth in shareholder value relative to the growth in shareholder value of the healthcare peers included in Baxter's peer group during the three-year performance period commencing on January 1, 2008. The payout of shares of Baxter common stock will range from 0% to 200% of the number of performance share units awarded. If an officer ceases to be employed at Baxter during the performance period (other than due to death, disability or retirement), such officer will forfeit any payout under his or her performance share units. If an officer who is retirement eligible (meaning he or she is at least 65 years of age, or at least 55 years of age with at least 10 years of service) retires after December 31, 2008, then his or her performance share units will remain eligible for payout at the end of the performance period. If an officer is terminated due to death or disability after December 31, 2008, his or her performance share units will pay out within 60 days at 100% of the target grant. Officers have no rights of a shareholder with respect to the performance share units until the performance period is complete, other than the right to receive cash payments equal to dividends paid on shares of Baxter common stock to the same extent as if each performance share unit was a share of common stock. Effective with the company's 2009 grants, dividends will not be paid during the vesting period but will be accrued and paid when and if the related shares of common stock are paid out. For more information about these awards see Compensation Discussion and Analysis Structure of Compensation Program Pay for Performance Performance Against Peers on page 14 of this Proxy Statement.

**Stock Options.** Each named executive officer received a stock option grant in March 2008. These stock options vest one-third per year over a three-year period. The exercise price of each stock option awarded by Baxter to its executive officers under the company's incentive compensation programs is the closing price of Baxter's common stock on the date of grant, which is the date when the Compensation Committee acts to approve equity awards for senior executives. Generally, if an officer ceases to be employed at Baxter before his or her stock options vest, these options will expire on the date such officer's employment is terminated unless such termination is due to death, disability or retirement. If an officer who is retirement eligible (as defined above) retires after December 31, 2008, then his or her stock options will continue to vest based upon their original vesting schedule. If an officer is terminated due to death

or disability after December 31, 2008, his or her options will vest immediately and expire one year later. Each of these options expires on the ten-year anniversary of the grant date. These grants are reflected in the All Other Option Awards column in the Grants of Plan-Based Awards table above.

**Restricted Stock Units.** Mr. Greisch received a one-time grant of 10,000 restricted stock units in June 2008 in recognition of the additional responsibilities for Global Manufacturing and Supply Chain that he had assumed in

April 2008. These restricted stock units vest three years from the grant date. Under the terms of this grant, Mr. Greisch has no rights of a shareholder with respect to the shares underlying the restricted stock units prior to vesting, other than the right to receive cash payments equal to dividends paid on shares of Baxter common stock to the same extent as if each restricted stock unit was a share of common stock. For any future grants of restricted stock units, dividends will not be paid during the vesting period but will be accrued and paid when and if the related shares of common stock are paid out. This grant is reflected in the All Other Stock Awards column in the Grants of Plan-Based Awards table above.

### **Employment Agreement with Chairman and Chief Executive Officer**

Baxter and Robert L. Parkinson, Jr. entered into an employment agreement on April 19, 2004 in connection with Mr. Parkinson's appointment as Chairman and Chief Executive Officer of Baxter. On December 12, 2008, this agreement was amended to conform the agreement to recent changes to Section 409A of the Internal Revenue Code of 1986, as amended, and the existing company compensation program applicable to employees generally (for example, the use of performance share units rather than restricted stock units and the diminution of perquisites), as well as to provide that the rolling two-year term of the agreement shall expire without further action effective January 30, 2016. These amendments did not have an impact on the compensation reported for Mr. Parkinson for his 2008 performance. There are no other employment agreements between Baxter and its named executive officers.

Mr. Parkinson's agreement provides an annual base salary of not less than \$1,300,000, subject to possible increase by the independent directors of the Board. He is eligible to participate in Baxter's officer bonus and long-term incentive programs at a level commensurate with his position as Chief Executive Officer as determined by the independent directors of the Board, and to receive benefits to the same extent and on the same terms as those benefits provided by the company to its other senior executives including, but not limited to, health, disability, insurance and retirement benefits. In addition to these benefits, the agreement provides that if Mr. Parkinson remains employed for at least three years (which he achieved in 2007), his pension benefit will be determined as if he had completed five years of service, and if he remains employed for at least five years (or until April 2009), his pension benefit will be determined as if he had completed nine years of service (an additional four years credited, including the additional two years credited in 2007), in each case provided that Mr. Parkinson is not later terminated for cause. This additional service is credited under the supplemental pension plan. The agreement also provides that if Mr. Parkinson retires after his pension benefit is vested but before he is eligible for an unreduced early retirement benefit, and he is not terminated for cause, he will receive payments under the supplemental pension plan equal to the difference between an unreduced pension benefit (including the additional service credit described above) and his actual benefits received under the pension plan.

In consideration for his employment at Baxter, Mr. Parkinson will not compete with the company, directly or indirectly, for a period of two years after the termination of his employment. Mr. Parkinson has also agreed not to solicit or attempt to solicit any customer or supplier of the company nor solicit, persuade or induce any individual who is employed by the company or its subsidiaries to terminate such employment or enter into an employment relationship with another entity.

The agreement provides for certain payments in the event of Mr. Parkinson's death, disability, termination without cause or due to constructive discharge, or termination following a change in control. For more information about these payments, please see Potential Payments Upon Termination Following A Change in Control Chairman and Chief Executive Officer on page 30 of this Proxy Statement.

## Outstanding Equity Awards at Fiscal Year-End

| Name          | Option Awards   |  |                     |                        | Stock Awards   |  |  |   |
|---------------|---|--|---------------------|------------------------|--|--|--|---|
|               | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable(1) | Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#)(2) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(3) |
| Mr. Parkinson | 650,000   |  | \$ 31.72            | 4/18/2014              | 19,500   | \$ 1,045,005   | 410,200  | \$ 21,982,618   |
|               | 750,750   |  | 34.85               | 3/13/2015              |  |  |  |   |
|               |   | 546,000  | 38.35               | 3/14/2016              |  |  |  |   |
|               | 128,000   | 256,000  | 51.21               | 3/15/2017              |  |  |  |   |
|               |   | 304,000  | 58.12               | 3/5/2018               |  |  |  |   |
| Mr. Davis     | 25,000  |  | 34.85               | 3/13/2015              | 8,201  | 439,492  | 84,000   | 4,501,560   |
|               |   | 45,000   | 38.35               | 3/14/2016              |  |  |  |   |
|               |   | 35,000   | 36.99               | 5/17/2016              |  |  |  |   |
|               | 25,600  | 51,200   | 51.21               | 3/15/2017              |  |  |  |   |
|               |   | 60,600   | 58.12               | 3/5/2018               |  |  |  |   |
| Ms. Amundson  | 60,000  |  | 30.32               | 8/01/2014              | 16,067   | 861,031  | 84,000   | 4,501,560   |
|               | 180,000   |  | 34.85               | 3/13/2015              |  |  |  |   |
|               |   | 180,000  | 38.35               | 3/14/2016              |  |  |  |   |
|               | 25,600  | 51,200   | 51.21               | 3/15/2017              |  |  |  |   |
|               |   | 60,600   | 58.12               | 3/5/2018               |  |  |  |   |
| Mr. Arduini   | 30,000  |  | 34.07               | 4/17/2015              | 12,950   | 693,991  | 84,000   | 4,501,560   |
|               |   | 132,000  | 38.35               | 3/14/2016              |  |  |  |   |
|               | 25,600  | 51,200   | 51.21               | 3/15/2017              |  |  |  |   |
|               |   | 60,600   | 58.12               | 3/5/2018               |  |  |  |   |
| Mr. Greisch   | 21,000  |  | 53.70               | 5/31/2012              | 26,067   | 1,396,931  | 92,400   | 4,951,716   |
|               | 60,000  |  | 34.51               | 6/30/2014              |  |  |  |   |
|               | 195,000   |  | 34.85               | 3/13/2015              |  |  |  |   |
|               |   | 180,000  | 38.35               | 3/14/2016              |  |  |  |   |
|               | 29,600  | 59,200   | 51.21               | 3/15/2017              |  |  |  |   |



70,200      58.12      3/5/2018

- (1) Mr. Parkinson's stock options vest as follows: 101,333 on March 5, 2009; 546,000 on March 14, 2009; 128,000 on March 15, 2009; 101,333 on March 5, 2010; 128,000 on March 15, 2010; and 101,334 on March 5, 2011. Mr. Davis's stock options vest as follows: 20,200 on March 5, 2009; 45,000 on March 14, 2009; 25,600 on March 15, 2009; 35,000 on May 17, 2009; 20,200 on March 5, 2010; 25,600 on March 15, 2010 and 20,200 on March 5, 2011. Ms. Amundson's stock options vest as follows: 20,200 on March 5, 2009; 180,000 on March 14, 2009; 25,600 on March 15, 2009; 20,200 on March 5, 2010; 25,600 on March 15, 2010; and 20,200 on March 5, 2011. Mr. Arduini's stock options vest as follows: 20,200 on March 5, 2009; 132,000 on March 14, 2009; 25,600 on March 15, 2009; 20,200 on March 5, 2010; 25,600 on March 15, 2010; and 20,200 on March 5, 2011. Mr. Greisch's stock options vest as follows: 23,400 on March 5, 2009; 180,000 on March 14, 2009; 29,600 on March 15, 2009; 23,400 on March 5, 2010; 29,600 on March 15, 2010; and 23,400 on March 5, 2011.
- (2) Mr. Parkinson's restricted stock units vest as follows: 19,500 on March 14, 2009. Mr. Davis's restricted stock units vest as follows: 2,100 on March 14, 2009; 2,133 on March 15, 2009; 1,834 on May 17, 2009; and 2,134 on March 15, 2010. Ms. Amundson's restricted stock units vest as follows: 9,000 on March 14, 2009; 3,533 on March 15, 2009; and 3,534 on March 15, 2010. Mr. Arduini's restricted stock units vest as follows: 7,150 on March 14, 2009; 2,900 on March 15, 2009; and 2,900 on March 15, 2010. Mr. Greisch's restricted stock units vest as follows: 9,000 on March 14, 2009; 3,533 on March 15, 2009; 3,534 on March 15, 2010; and 10,000 on

June 2, 2011. The market value of these unvested restricted stock units is based on the closing price of Baxter common stock on December 31, 2008 (\$53.59).

- (3) Represents the maximum number and value of shares of common stock that an officer would receive under the performance share units granted in 2007 and 2008. Final payouts under the performance share units will not be known until the respective performance period is completed. Therefore, it is possible that no shares of common stock will be paid out under these performance share units. The market value of these performance share units is based on the closing price of Baxter common stock on December 31, 2008 (\$53.59). For more information on how payouts under the performance share units are determined, please see Compensation Discussion and Analysis Structure of Compensation Program Pay for Performance Performance Against Peers on page 14 of this Proxy Statement.

**Option Exercises and Stock Vested**

| Name          | Option Awards                             |                                    | Stock Awards                             |                                   |
|---------------|---|------------------------------------|--|-----------------------------------|
|               | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$)(1) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$)(2) |
| Mr. Parkinson |   |                                    | 46,313                                   | \$ 2,606,033                      |
| Mr. Davis     |   |                                    | 7,233                                    | 414,661                           |
| Ms. Amundson  |   |                                    | 21,533                                   | 1,208,624                         |
| Mr. Arduini   | 50,000                                    | \$ 1,745,469                       | 24,383                                   | 1,441,346                         |
| Mr. Greisch   | 40,950                                    | 1,294,601                          | 22,283                                   | 1,250,826                         |

(1) Represents the aggregate dollar amount realized upon the exercise of stock options.

(2) Represents the market value of the restricted stock units or restricted stock, as applicable, on the date of vesting as determined by the closing price of Baxter common stock on such vesting date.

**Pension Benefits**

| Name             | Plan Name                 | Number of Years Credited Service (#) | Present Value of Accumulated Benefit (\$)(1) |
|------------------|---------------------------|--------------------------------------|--|
| Mr. Parkinson(2) | Employment Agreement      | 6                                    | \$ 2,705,500                                 |
|                  | Pension Plan              | 4                                    | 91,912                                       |
| Mr. Davis        | Supplemental Pension Plan | 4                                    | 1,522,046                                    |
|                  | Pension Plan              | 3                                    | 34,112                                       |
| Ms. Amundson     | Supplemental Pension Plan | 3                                    | 103,753                                      |
|                  | Pension Plan              | 3                                    | 57,787                                       |
| Mr. Arduini      | Supplemental Pension Plan | 3                                    | 281,668                                      |
|                  | Pension Plan              | 3                                    | 37,323                                       |
| Mr. Greisch      | Supplemental Pension Plan | 3                                    | 157,266                                      |
|                  | Pension Plan              | 6                                    | 104,306                                      |
|                  | Supplemental Pension Plan | 6                                    | 532,573                                      |

(1) The amounts in this column have been determined as follows: the accrued benefit was calculated using pensionable earnings and benefit service through 2008; present value of this accrued benefit payable at the earlier of normal retirement (age 65) or the earliest point where it would be unreduced (85 points, where each year of

age and Baxter service equals one point) was calculated as an annuity payable for the life of the participant only; the present value of the benefit at the assumed payment age was discounted with interest only to the current age as of measurement date. The present value of the accrued benefits disclosed in the table above are based on the following assumptions:

| <b>Assumption</b>        | <b>Value</b>   |
|--------------------------|--|
| Discount Rate            | 6.50%  |
| Postretirement Mortality | Retirement Plan 2000, projected to 2015  |
| Termination/Disability   | None assumed   |
| Retirement Age           | Earlier of age 65 or attainment of 85 points; for Mr. Parkinson's employment agreement, completion of three years of service |

Other assumptions not explicitly mentioned are the same as those assumptions used for financial reporting. Please refer to Note 9 of our Consolidated Financial Statements for the year ended December 31, 2008 for more information on those assumptions.

- (2) As of April 2007, Mr. Parkinson had been employed at Baxter for three years. As a result, under the terms of his employment agreement he received an additional two years of service under the supplemental pension plan. The present value of accumulated benefits for Mr. Parkinson reflects the portion of the present value of these additional benefits that has been accrued by Baxter as of December 31, 2008. For more information about the additional benefits and Mr. Parkinson's employment agreement, please see Compensation Discussion and Analysis Elements of Executive Compensation Retirement and Other Benefits and Employment Agreement with Chairman and Chief Executive Officer on pages 19 and 24 of this Proxy Statement.

Baxter's tax-qualified pension plan is a broad-based retirement income plan. The normal retirement (age 65) benefit equals (i) 1.75 percent of a participant's Final Average Pay multiplied by the participant's number of years of pension plan participation, minus (ii) 1.75 percent of a participant's estimated primary social security benefit, multiplied by the participant's years of pension plan participation. Final Average Pay is equal to the average of a participant's five highest consecutive calendar years of earnings out of his or her last ten calendar years of earnings. In general, the compensation considered in determining the pension payable to the named executive officer includes salary and cash bonuses awarded under the officer bonus program. Although age 65 is the normal retirement age under the pension plan, the pension plan has early retirement provisions based on a point system. Under the point system, each participant is awarded one point for each year of pension plan participation and one point for each year of age. Participants who terminate employment after accumulating at least 65 points, and who wait to begin receiving their pension plan benefits until they have 85 points, receive an unreduced pension plan benefit regardless of their actual age when they begin receiving their pension plan benefits.

Baxter's supplemental pension plan is offered to provide a benefit for the amount of eligible compensation that is disallowed as pensionable earnings under the pension plan pursuant to provisions of the Internal Revenue Code of 1986, as amended, that limit the benefit available to highly compensated employees under qualified pension plans. Accordingly, this plan is available to all employees eligible to participate in the pension plan whose benefit under the pension plan is limited by the Internal Revenue Code of 1986, as amended. Benefits under the supplemental pension plan will be paid at the same time and in the same form as benefits under the pension plan for participants whose pension commenced by December 31, 2008. As a result of new tax regulations that became effective on January 1, 2009, the company amended the supplemental plan to provide a time and form of payment that is independent of the pension plan. Beginning January 1, 2009, if the present value of a participant's benefit in the supplemental plan does not exceed \$50,000 when the participant terminates employment, such participant will be paid in a lump sum. If the present value of the benefit exceeds \$50,000, the participant will be paid in an annuity commencing when the participant is first eligible for early retirement, regardless of whether the participant elects to commence his or her qualified plan benefit at that time. As permitted by the transitional rules under the new tax regulations, persons who were participants in the plan at the end of 2007 were given a one-time option to elect a different commencement date. Deferred salary and bonus amounts that may not be included under the pension plan are included in the supplemental plan. In addition, individual employment agreements may provide for additional pension benefits to be paid through the supplemental pension plan, such as those paid under Mr. Parkinson's employment agreement.

Participation in the pension and supplemental pension plans was closed as of December 31, 2006. Any employees hired or rehired after that date will not be eligible to participate in the pension plan or supplemental pension plan, but instead will receive an additional employer contribution equal to 3% of his or her compensation in Baxter's tax-qualified section 401(k) plan (and nonqualified deferred compensation plan if his or her compensation exceeds the compensation that can be taken into account under Baxter's 401(k) plan). Employees who were hired prior to

December 31, 2006, but who did not have a vested interest in the pension plan, were eligible to elect to cease accruing benefits in the pension plan (and supplemental plan, if applicable), and instead receive the additional employer contribution.

**Nonqualified Deferred Compensation**

| <b>Name</b>   | <b>Executive<br/>Contributions<br/>in<br/>Last FY<br/>(\$)(1)</b> | <b>Registrant<br/>Contributions<br/>in<br/>Last FY<br/>(\$)(2)</b> | <b>Aggregate<br/>Earnings<br/>in Last FY<br/>(\$)(3)</b> | <b>Aggregate<br/>Balance<br/>at Last FYE<br/>(\$)</b> |
|---------------|---|--|--|---|
| Mr. Parkinson |   |  | \$105,994  | \$2,413,896   |
| Mr. Davis     | \$349,401   | \$35,532   | (233,916)  | 553,437   |
| Ms. Amundson  | 639,900   | 37,842   | (303,193)  | 1,690,406   |
| Mr. Arduini   | 168,716   | 32,847   | (125,163)  | 302,911   |
| Mr. Greisch   | 471,300   | 47,685   | (70,854)   | 1,667,606   |

- (1) Amounts in this column are included in either the Salary or Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 21 of this Proxy Statement.
- (2) Amounts in this column are included in the All Other Compensation column of the Summary Compensation Table on page 21 of this Proxy Statement.
- (3) Amounts in this column are not included in the Summary Compensation Table as Baxter's deferred compensation plan provides participants with a subset of investment elections available to all eligible employees under Baxter's tax-qualified section 401(k) plan.

A participant in Baxter's deferred compensation plan may elect to defer a portion of his or her eligible compensation (up to 50% of base salary and up to 100% of eligible bonus) during the calendar year as long as the participant makes such election prior to the beginning of the calendar year. For named executive officers, eligible compensation under the deferred compensation plan includes a participant's base salary and any annual cash bonus. Participants in the deferred compensation plan may select a subset of investment elections available to all eligible employees under Baxter's tax-qualified section 401(k) plan. Amounts in a participant's account are adjusted on a daily basis upward or downward to reflect the investment return that would have been realized had such amounts been invested in the investments selected by the participant. Participants may elect to change their investment elections once each calendar month. Baxter is also required to match contributions to the deferred compensation plan dollar-for-dollar up to 3.5% of a participant's eligible compensation. Any participant who either was hired after December 31, 2006, or who elected as of January 1, 2008 not to continue to accrue benefits in the pension plan, receives a company contribution equal to 3.0% of his or her eligible compensation in excess of the compensation that is recognized in the tax-qualified section 401(k) plan, regardless of whether the participant is otherwise eligible to elect to defer a portion of his or her compensation. Deferrals under the plan are not recognized as eligible compensation for the qualified pension plan (but are recognized in the supplemental pension plan) or in calculating benefit pay under Baxter's welfare benefit plan and result in lower compensation recognized for company matching under Baxter's tax-qualified section 401(k) plan.

Participants may elect to be paid distributions either in a lump sum payment or in annual installment payments over two to fifteen years. Such election must be made when the participant first becomes eligible to participate in the plan. Distributions will be paid in the first quarter of the plan year following such participant's termination of employment unless such participant is a specified employee as defined in Section 409A of the Internal Revenue Code of 1986, as amended. No distributions will be paid in connection with the termination of a specified employee until at least six months following such termination and any amounts that would have otherwise been paid during such six month

period shall be accumulated and paid in a lump sum, without interest, at the expiration of such period. The plan was amended in 2008 to allow for one-time distribution elections under the Section 409A transition rules.

**Potential Payments Upon Termination Following A Change in Control**

In consideration for the benefits discussed below, each named executive officer has agreed to be bound for two years from the date of his or her termination to non-competition, non-solicitation and non-disparagement covenants. A condition for receiving the payments discussed below is the execution by the named executive officer of a customary release of claims in a form reasonably acceptable to the company.



**Chairman and Chief Executive Officer**

Mr. Parkinson's employment agreement provides for certain payments in the event of Mr. Parkinson's death, disability, termination without cause or due to constructive discharge, or termination following a change in control. The following table shows Baxter's potential payment and benefit obligations to Mr. Parkinson upon his termination under each of these circumstances assuming such termination occurred on December 31, 2008.

|   | <b>Death</b>        | <b>Disability</b>   | <b>Termination without Cause or due to Constructive Discharge, or Termination following a Change in Control</b> |
|---|---------------------|---------------------|---|
| Base Salary(1)                          |                     | \$671,000           |   |
| Bonus Payment(2)                        | \$1,812,000         | 1,812,000           | \$1,812,000   |
| Severance Payments(3)                   | N/A                 | N/A                 | 6,308,000   |
| Accelerated Vesting of Equity Awards(4) | 20,966,634          | 20,966,634          | 20,966,634  |
| COBRA Coverage(5)                       | 4,500               | 2,300               | 2,300   |
| <b>Total</b>                            | <b>\$22,783,134</b> | <b>\$23,451,934</b> | <b>\$29,088,934</b>   |

- (1) All salary prior to the termination would have been paid as the assumed termination date is December 31, 2008. The amount under disability reflects the base salary (26 weeks) that would be paid to Mr. Parkinson through the commencement of any payments to him under the company's long-term disability plan. All vacation accrued at December 31, 2008 but not used would be forfeited.
- (2) Represents Mr. Parkinson's 2008 cash bonus target as he would receive an annual bonus payment for the performance period in which the termination occurs.
- (3) Represents twice the amount equal to the sum of Mr. Parkinson's annual salary as in effect on December 31, 2008 and his 2008 cash bonus target. This amount would be paid during the two-year period commencing on the termination date (subject to certain timing requirements prescribed by Section 409A of the Internal Revenue Code, if applicable) and would cease if Mr. Parkinson violated certain of his post-termination obligations including the non-compete and non-solicit obligations discussed above under Employment Agreement with Chairman and Chief Executive Officer.
- (4) Represents the in-the-money value of unvested stock options, the value of unvested restricted stock units, and the target amount of performance share units based on Baxter's closing stock price on December 31, 2008 (\$53.59). As a result of termination due to death or disability, Mr. Parkinson's stock options would remain exercisable for five years, and for termination without cause or following a change in control or due to constructive discharge, Mr. Parkinson's stock options would remain exercisable for the later of five years or the number of days that he was employed prior to his termination (in each case subject to the original expiration date of the option). In the case of termination without cause or due to constructive discharge, the performance share units would remain outstanding and be payable based on actual performance for the entire period and at the same time as such units

become payable for other individuals holding the awards. In the case of termination following a change in control, or as a result of death or disability, the performance share units would vest immediately at the target level of performance, subject to adjustment in the case of termination following a change in control to reflect actual performance through the date of the change in control.

(5) Represents 18 months (or 36 months under death) of COBRA coverage for Mr. Parkinson and his family.

In addition to the payments and obligations included in the table above, upon his termination for any reason, Mr. Parkinson would be entitled to any other payments or benefits due from the company in accordance with the terms of any employee benefit plans or arrangements generally available to all salaried employees, and any vested pension benefit earned upon his termination for any reason.

***Other Named Executive Officers***

In December 2006, each of the named executive officers (other than Mr. Parkinson) entered into a severance agreement with the company that provides for certain payments in the event Baxter undergoes a change in control and the officer is involuntarily terminated by the company or voluntarily terminates his or her employment with the company for good reason that is, subject to a double trigger. These payments include:

a lump sum cash payment generally equal to twice the aggregate amount of such officer's salary and target bonus (reported as severance payments in the table below);

a prorated bonus payment;

a lump sum cash payment generally equal to continued retirement and savings plan accruals for two years;

two years of continued health and welfare benefit coverage;

two years of additional age and service credit for retiree health and welfare benefit purposes; and

outplacement expense reimbursement in an amount not exceeding \$50,000.

The agreements were amended in 2008 to conform to recent changes to Section 409A of the Internal Revenue Code of 1986, as amended.

The severance agreements also provide that if the total payments or benefits to which a named executive officer is entitled in connection with a change in control (including amounts paid under the severance agreements or any other such plan, arrangement or agreement with the company such as other equity compensation programs) exceed 110% of the largest amount that would result in no portion of the total payments being subject to any excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, the company will gross-up the severance payments to the officer to cover such excise tax. These amounts are reported in the Tax Gross-Up line of the table below.

The table set forth below shows Baxter's potential payment and benefit obligations to each of the named executive officers (other than Mr. Parkinson) assuming that a change in control of the company has occurred and as a result the named executive officer either is terminated or terminates his or her employment for good reason on December 31, 2008. The accelerated vesting of equity awards that is included in the table below would occur as a result of the terms of the equity compensation programs governing these awards rather than the terms of the severance agreements.

|   | <b>Mr. Davis</b> | <b>Ms.<br/>Amundson</b> | <b>Mr. Arduini</b> | <b>Mr. Greisch</b> |
|---|------------------|-------------------------|--------------------|--------------------|
| Severance Payments  | \$2,072,000      | \$2,072,000             | \$1,962,000        | \$2,344,000        |
| Prorated Bonus Payments(1)                                  | 476,000          | 476,000                 | 451,000            | 555,000            |
| Additional Payments Related to Retirement and Savings Plans | 331,500          | 598,300                 | 313,000            | 956,600            |
| Health and Welfare Benefit Coverage                         | 42,000           | 25,000                  | 43,000             | 44,000             |
| Accelerated Vesting of Equity Awards(2)                     | 4,078,900        | 5,976,900               | 5,078,300          | 6,756,900          |
| Tax Gross-Up(3)   | 2,374,200        | 2,380,200               | 2,151,800          | 2,516,900          |
| Outplacement Expenses                                       | 50,000           | 50,000                  | 50,000             | 50,000             |

|       |             |              |              |              |
|-------|-------------|--------------|--------------|--------------|
| Total | \$9,424,600 | \$11,578,400 | \$10,049,100 | \$13,223,400 |
|-------|-------------|--------------|--------------|--------------|

- (1) Represents full 2008 bonus target as the officer would receive an annual bonus payment for the performance period in which the termination occurs.
- (2) Represents the in-the-money value of unvested stock options, the value of unvested restricted stock units, and the target amount of performance share units based on Baxter's closing stock price on December 31, 2008 (\$53.59).

- (3) The tax-gross up payment was calculated taking into account all payments and benefits payable to the named executive officers under the severance agreements as well as the amounts payable to the named executive officers due to the accelerated vesting of equity under Baxter's equity compensation programs.

### **Director Compensation**

Non-employee directors are compensated for their service under Baxter's non-employee director compensation plan with cash compensation and equity awards of stock options and restricted stock units. Baxter's director compensation program utilizes equity awards in order to further align the interests of directors with Baxter shareholders.

#### ***Cash Compensation***

Each non-employee director is paid a \$60,000 annual cash retainer (increased to \$65,000 effective as of January 1, 2009) and a \$1,500 fee for each Board and each committee meeting attended. Each non-employee director who acts as the chair of any committee meeting is paid an additional \$1,500 for each meeting chaired. The lead director is paid an additional annual cash retainer of \$30,000. Non-employee directors are eligible to participate in a deferred compensation plan that allows for the deferral of all or any portion of cash payments until Board service ends and provides participants with a select subset of investment elections available to all eligible employees under Baxter's tax-qualified section 401(k) plan.

#### ***Stock Options***

Each non-employee director is entitled to receive a grant of stock options annually on the date of the annual meeting of shareholders. Under Baxter's director compensation plan, the annual stock option grant value to each non-employee director is \$60,000 (increased to \$65,000 effective as of January 1, 2009) on the grant date, based on a Black-Scholes valuation of Baxter's options as of that date. The stock options become exercisable on the date of the next annual meeting of shareholders, and may become exercisable earlier in the event of death, disability, or a change in control of Baxter.

#### ***Restricted Stock Units***

Each non-employee director also receives an annual grant of restricted stock units on the date of the annual meeting of shareholders. The number of restricted stock units equals the quotient of \$60,000 (increased to \$65,000 effective as of January 1, 2009) divided by the closing sale price for a share of Baxter common stock on the date of the annual meeting. Directors have the option of deferring the receipt of the shares of stock underlying such restricted stock units until the earlier of three years from the grant date or termination from service as a director. The restricted stock units vest on the date of the next annual meeting of shareholders and may vest earlier in the event of death, disability, or a change in control of Baxter. Directors are credited with dividend equivalents on the shares underlying the restricted stock units and such dividends equivalents are reinvested in additional unvested restricted stock units. Directors have no other rights of a shareholder with respect to the shares underlying the restricted stock units prior to vesting.

#### ***Other Director Compensation***

Directors are eligible to participate in the Baxter International Foundation matching gift program, under which Baxter's foundation matches gifts made by employees and directors to eligible non-profit organizations, on the same terms as employees. The maximum gift total for a non-employee director participant in the program is \$5,500 in any calendar year. Baxter also reimburses spousal travel and pays for meals and related entertainment and other incidental costs for directors and their spouses in connection with their attendance at any off-site meeting of the Board of

Directors. Spouses are invited to attend the company's annual meeting and are generally invited to travel to a Board meeting at a Baxter plant site every other year. The Committee believes these types of events help to create a sense of collegiality among the Board that is helpful to the directors in fulfilling their responsibilities as members of the Board. In no case did the aggregate incremental cost associated with providing these perquisites exceed \$10,000 for any director in 2008.

**Director Compensation Table**

The following table provides information on 2008 compensation for non-employee directors who served during 2008.

| <b>Name</b>                   | <b>Fees Earned<br/>or<br/>Paid in Cash<br/>\$(1)</b> | <b>Stock<br/>Awards<br/>\$(2)</b> | <b>Option<br/>Awards<br/>\$(3)</b> | <b>All Other<br/>Compensation<br/>\$(4)</b> | <b>Total<br/>(\$)</b> |
|-------------------------------|--|-----------------------------------|------------------------------------|---|-----------------------|
| Walter E. Boomer              | \$ 108,000   | \$ 60,112                         | \$ 51,343                          | \$6,108                                     | \$ 225,563            |
| Blake E. Devitt               | 102,000  | 60,112                            | 51,343                             | 9,456                                       | 222,911               |
| John D. Forsyth               | 85,500   | 60,112                            | 51,343                             | 6,690                                       | 203,645               |
| Gail D. Fosler                | 94,500   | 60,112                            | 51,343                             | 1,529                                       | 207,484               |
| James R. Gavin, M.D., Ph.D.   | 84,000   | 60,112                            | 51,343                             | 7,645                                       | 203,100               |
| Peter S. Hellman              | 93,000   | 60,112                            | 51,343                             | 12,163                                      | 216,618               |
| Wayne T. Hockmeyer, Ph.D.(5)  | 87,000   | 58,148                            | 47,873                             | 839   | 193,860               |
| Joseph B. Martin, M.D., Ph.D. | 84,000   | 60,112                            | 51,343                             | 7,160                                       | 202,615               |
| Carole Shapazian              | 82,500   | 60,112                            | 51,343                             | 7,255                                       | 201,210               |
| Thomas T. Stallkamp           | 111,000  | 60,112                            | 51,343                             | 1,013                                       | 223,468               |
| K.J. Storm                    | 103,500  | 60,112                            | 51,343                             | 3,303                                       | 218,258               |
| Albert P.L. Stroucken         | 94,500   | 60,112                            | 51,343                             | 1,038                                       | 206,993               |

- (1) Consists of the amounts described above under Cash Compensation.
- (2) The amounts shown in this column are valued based on the compensation cost recognized by the company under FAS 123-R in 2008. The grant-date fair value of the restricted stock units granted to each of the directors in 2008 under FAS 123-R was \$60,211. As of December 31, 2008, each director had 966 unvested restricted stock units, except for Mr. Hellman who had 2,038 unvested restricted stock units due to his participation in the directors deferred compensation plan.
- (3) The amounts shown in this column are valued based on the compensation cost recognized by the company in 2008 under FAS 123-R. See Note 8 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of the relevant assumptions used in calculating the compensation cost under FAS 123-R. The grant-date fair value of the stock options awards granted to each of the directors in 2008 under FAS 123-R was \$47,134. As of December 31, 2008, each director had the following number of options outstanding: General Boomer (39,290); Mr. Devitt (18,530); Mr. Forsyth (30,140); Ms. Fosler (60,570); Dr. Gavin (36,820); Mr. Hellman (18,530); Dr. Hockmeyer (6,260); Dr. Martin (34,290); Ms. Shapazian (24,290); Mr. Stallkamp (66,890); Mr. Storm (34,320); and Mr. Stroucken (22,370).
- (4) Amounts in this column include dividends paid on the restricted stock units held by each non-employee director during 2008 and reimbursements by the company of tax payments related to required business-related spousal travel and related entertainment and other incidental costs. For Messrs. Devitt and Hellman and Ms. Shapazian, the amount in this column also includes contributions in the amounts of \$5,000, \$5,500 and \$5,500, respectively, made by Baxter's charitable foundation for 2008 on their behalf under the foundation's matching gift program.
- (5)

Dr. Hockmeyer was appointed to serve as a director effective as of September 2007. Accordingly, the company recognized less compensation cost for Dr. Hockmeyer in 2008 because his 2007 grants were prorated to reflect the amount of time he served on the Board in 2007.



### **Compensation Committee Report**

The Compensation Committee is responsible for the oversight of Baxter's compensation programs on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in Baxter's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and Proxy Statement for the 2009 Annual Meeting of Shareholders, each of which will be filed with the Securities and Exchange Commission.

#### **Compensation Committee**

John D. Forsyth (Chair)

Walter E. Boomer

Peter S. Hellman

Carole J. Shapazian

Thomas T. Stallkamp

### Security Ownership by Directors and Executive Officers

The following table sets forth information as of January 31, 2009 regarding beneficial ownership of Baxter common stock by executive officers, directors and director nominees.

| Name of Beneficial Owner  | Shares of<br>Common<br>Stock(1) | Shares Under<br>Exercisable<br>Options(2) |
|---|---------------------------------|---|
| <b>Non-employee Directors:</b>                                      |                                 |   |
| General Boomer  | 21,018                          | 35,530                                    |
| Mr. Devitt  | 8,705                           | 14,770                                    |
| Mr. Forsyth   | 11,222                          | 26,380                                    |
| Ms. Fosler  | 11,226                          | 56,810                                    |
| Dr. Gavin   | 10,472                          | 33,060                                    |
| Mr. Hellman(3)  | 6,578                           | 14,770                                    |
| Dr. Hockmeyer   | 1,585                           | 2,500                                     |
| Dr. Martin(4)   | 9,923                           | 30,530                                    |
| Ms. Shapazian(4)  | 8,155                           | 20,530                                    |
| Mr. Stallkamp   | 19,981                          | 63,130                                    |
| Mr. Storm   | 8,844                           | 30,560                                    |
| Mr. Stroucken   | 6,515                           | 18,610                                    |
| <b>Named Executive Officers:</b>                                    |                                 |   |
| Mr. Parkinson   | 187,971                         | 2,304,083                                 |
| Mr. Davis   | 17,475                          | 141,400                                   |
| Ms. Amundson  | 57,912                          | 491,400                                   |
| Mr. Arduini   | 43,641                          | 233,400                                   |
| Mr. Greisch   | 90,419                          | 413,600                                   |
| All directors and executive officers as a group (25 persons)(3) (5) | 834,829                         | 5,505,905                                 |

- (1) Includes shares over which the person currently holds voting and/or investment power. None of the holdings represents holdings of more than 1% of Baxter's outstanding common stock.
- (2) Amount of shares includes options that are exercisable on January 31, 2009 and options which become exercisable within 60 days thereafter.
- (3) Includes 560 shares not held directly by Mr. Hellman but held by or for the benefit of his spouse.
- (4) Includes shares not held directly by the named individual but in a family trust or custodial account as to which the named individual is a trustee, co-trustee or custodian as follows: Dr. Martin (7,888 shares) and Ms. Shapazian (6,120 shares).
- (5) Includes 9,369 shares beneficially owned as of January 31, 2009 by all executive officers as a group in Baxter's tax-qualified section 401(k) plan, over which such executive officers have voting and investment power.



### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the company's executive officers and directors and persons who own more than 10% of Baxter common stock to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on the company's review of the reports that have been filed by or on behalf of such persons in this regard and written representations from them that no other reports were required, the company believes that all persons filed the reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended, on a timely basis during or with respect to 2008.

### **Certain Relationships and Related Transactions**

The Board of Directors recognizes that related person transactions present a heightened risk of conflicts of interest. Accordingly, pursuant to Baxter's Corporate Governance Guidelines, the Corporate Governance Committee has been charged with reviewing related person transactions regardless of whether the transactions are reportable pursuant to Item 404 of Regulation S-K under the Securities Exchange Act of 1934, as amended. For purposes of this policy, a related person transaction is any transaction in which the company was or is to be a participant and in which any related person has a direct or indirect material interest other than transactions that involve less than \$50,000 when aggregated with all similar transactions. For any related person transaction to be consummated or to continue, the Corporate Governance Committee must approve or ratify the transaction. The Corporate Governance Committee will approve or ratify a transaction if the Committee determines that such transaction is in Baxter's best interest. Related person transactions are reviewed as they arise and are reported to the Committee. The Committee also reviews materials prepared by the Corporate Secretary to determine whether any related person transactions have occurred that have not been reported. It is Baxter's policy to disclose all related person transactions in the company's applicable filings to the extent required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and the rules and regulations thereunder.

### **Audit Committee Report**

Management is responsible for the preparation, presentation and integrity of Baxter's consolidated financial statements and Baxter's internal control over financial reporting. The independent registered public accounting firm of PricewaterhouseCoopers LLP (PwC) is responsible for performing an independent integrated audit of Baxter's consolidated financial statements and the effectiveness of Baxter's internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

In this context, the Audit Committee reports as follows:

1. The Audit Committee has reviewed and discussed with management Baxter's audited financial statements for the year ended December 31, 2008;
2. The Audit Committee has discussed with representatives of PwC the matters required to be discussed by Statement on Auditing Standards No. 61 (*Communication with Audit Committees*), as amended;
3. The Audit Committee also has received and reviewed the written disclosures and the letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board regarding PwC's communications with the Audit Committee concerning independence, and has discussed with PwC its independence; and
4. The Audit Committee also has considered whether the provision by PwC of non-audit services to Baxter is compatible with maintaining PwC's independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that Baxter's audited financial statements referred to above be included in Baxter's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the Securities and Exchange Commission.

#### **Audit Committee**

Blake E. Devitt (Chair)  
Gail D. Fosler  
Thomas T. Stallkamp  
K. J. Storm  
Albert P.L. Stroucken

### Audit and Non-Audit Fees

The table set forth below lists the fees billed to Baxter by PwC for audit services rendered in connection with the integrated audits of Baxter's consolidated financial statements for the years ended December 31, 2008 and 2007, and fees billed for other services rendered by PwC during these periods.

|                    | 2008                   | 2007             |
|--------------------|------------------------|------------------|
|                    | (Dollars in thousands) |                  |
| Audit Fees         | \$ 10,062              | \$ 10,274        |
| Audit-Related Fees | 993                    | 1,790            |
| Tax Fees           | 738                    | 1,028            |
| All Other Fees     | 277                    | 270              |
| <b>Total</b>       | <b>\$ 12,070</b>       | <b>\$ 13,362</b> |

**Audit Fees** include fees for services performed by PwC relating to the integrated audit of the consolidated annual financial statements and internal control over financial reporting, the review of financial statements included in the company's quarterly reports on Form 10-Q and statutory and regulatory filings or engagements. Excluding the impact of foreign exchange, the 2008 Audit Fees increased by 1.5% versus 2007.

**Audit-Related Fees** include fees for assurance and related services performed by PwC related to the performance of the audit or review of the financial statements, including employee benefit plan audits, accounting consultations and reviews, due diligence services and other assurance services. Audit-Related Fees in 2007 include a carve-out audit of the Transfusion Therapies business.

**Tax Fees** include fees for services performed by PwC for tax compliance, tax advice, and tax planning. Of these amounts, approximately \$542 in 2008 and \$738 in 2007 were related to tax compliance services, including transfer pricing support, income tax return preparation or review and VAT compliance. Fees for tax consulting services of approximately \$196 in 2008 and \$290 in 2007 were related to international, federal, state and local tax planning, assistance with tax audits and appeals and other tax consultations.

**All Other Fees** include fees for all other services performed by PwC, including software license fees for certain accounting software.

#### ***Pre-approval of Audit and Permissible Non-Audit Services***

The Audit Committee must pre-approve the engagement of the independent registered public accounting firm to audit the company's consolidated financial statements. Prior to the engagement, the Audit Committee reviews and approves a list of services, including estimated fees, expected to be rendered during that year by the independent registered public accounting firm. Reports on projects and services are presented to the Audit Committee on a regular basis.

The Audit Committee has established a pre-approval policy for engaging the independent registered public accounting firm for other audit and permissible non-audit services. Under the policy, the Audit Committee has identified specific audit, audit-related, tax and forensic services that may be performed by the independent registered public accounting firm. The engagement for these services specified in the policy requires the further, separate pre-approval of the chair

of the Audit Committee or the entire Audit Committee if specific dollar thresholds set forth in the policy are exceeded. Any project approved by the chair under the policy must be reported to the Audit Committee at the next meeting. Services not specified in the policy as well as the provision of internal control-related services by the independent registered public accounting firm require separate pre-approval by the Audit Committee.

All audit, audit-related, tax and other services provided by PwC in 2008 were pre-approved by the Audit Committee in accordance with its pre-approval policy.

## **Proposal 2 Ratification of Independent Registered Public Accounting Firm**

In accordance with its charter, the Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP (PwC) as the independent registered public accounting firm for Baxter in 2009. The Audit Committee requests that the shareholders ratify the appointment. PwC served as the independent registered public accounting firm for Baxter in 2008. If the shareholders do not ratify the appointment of PwC, the Audit Committee will consider the selection of another independent registered public accounting firm for 2010 and future years.

Before selecting PwC, the Audit Committee carefully considered PwC's qualifications as an independent registered public accounting firm. This included a review of its performance in prior years as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee's review also included matters required to be considered under rules of the Securities and Exchange Commission on auditor independence, including the nature and extent of non-audit services, to ensure that the provision of such services will not impair the independence of the auditors. The Audit Committee expressed its satisfaction with PwC in all of these respects.

One or more representatives of PwC will be present at the Annual Meeting to respond to appropriate questions and to make a statement if they so desire.

The persons named as proxies intend to vote the shares represented by proxy in favor of the ratification of the appointment of PwC as the company's independent registered public accounting firm, except to the extent a shareholder votes against or abstains from voting on this proposal.

The Audit Committee of the Board of Directors recommends a vote **FOR** the ratification of the appointment of PwC as independent registered public accounting firm for Baxter in 2009.

## **Proposal 3 Shareholder Proposal Relating to Animal Testing**

Baxter has been advised that Daniel Kinburn, Esq., as representative for Josie Kinkade, M.D., owner of 178 shares of Baxter common stock, will present the following resolution at the 2009 Annual Meeting. The Board of Directors recommends that you vote **AGAINST** this proposal for the reasons discussed below.

In accordance with rules of the Securities and Exchange Commission, the proposal and supporting statement are being reprinted as they were submitted to Baxter's Corporate Secretary by the shareholder's representative. Baxter takes no responsibility for them. The following shareholder statement supporting the proposed resolution contains certain assertions about animal testing that we believe are incorrect and misleading. Rather than refuting these inaccuracies, however, the Board has recommended a vote against this proposal for the broader reasons as set forth below.

### **Shareholder Proposal**

RESOLVED, that shareholders encourage the Board of Baxter International Inc. ( Baxter ) to prepare and issue a detailed report to shareholders by November 30, 2009, incorporating (1) an animal use inventory, including, but not limited to designations by species, numbers, and the nature and purpose of each use (e.g., research and development, efficacy, toxicity), and (2) a written plan with a reasonable timeframe for replacing, reducing and refining the use of animals ( 3Rs ) in all research, development and testing, where not otherwise mandated by law. The report should address animal use in all of Baxter's research, development and testing conducted by in-house or contracting laboratories. Finally, the Board should consider creating a management position committed solely to ensuring Baxter's realization of the 3Rs.



**Shareholder s Statement Supporting the Proposed Resolution**

Product development or testing on animals carries moral and scientific obligations to adhere to the modern principles of the 3Rs. As a result, replacement of animal testing has increasingly become a matter of significant controversy, debate, and public policy concern. The scientific imperative for this change is furthered not only by the high failure rate of pharmaceuticals, but by recent advances in genomics, systems biology, and computational biology.

Astonishingly, 92% of drugs deemed safe and effective in animals, fail when tested in humans.<sup>1</sup> Out of the 8% of FDA-approved drugs, half are later relabeled or withdrawn due to unanticipated, severe adverse effects. A 96% failure rate not only challenges the reliability of animal experiments to predict human safety and efficacy, it creates enormous risks of litigation, adverse publicity, and wasted resources. Drugs with remarkable promise for human health can have delayed market entry, if at all, because misleading animal results may portray safe products as dangerous.

In addressing these shortcomings, Baxter should consider the recent report by the National Academies' esteemed National Research Council (NRC). The report stated: Advances in toxicogenomics, bioinformatics, systems biology, epigenetics, and computational toxicology could transform toxicity testing from a system based on whole-animal testing to one founded primarily on *in vitro* methods.<sup>2</sup> These approaches will improve efficiency with cost cutting, increased speed, better, more predictive science based on human rather than animal physiology, and reduced animal use and suffering. Baxter's accelerated adoption of cutting edge human-based technologies potentially enables increased profitability of drug development, a strengthened leadership role in pharmaceutical technology, and advancement of the 3Rs' vision to replace all animal use in research and testing.

With high failure rates and potential human health implications of animal-tested drugs, Baxter should concretely outline the implementation of alternatives that will safely and effectively address human health risks. We urge shareholders to vote in favor of this proposal to require Baxter to report on an implementation plan for the 3Rs, and the replacement of animal-based testing.

<sup>1</sup> FDA Teleconference: Steps to Advance the Earliest Phases of Clinical Research in the Development of Innovative Medical Treatments (von Eschenbach, Andrew C. 2006). Accessed online: <http://www.fda.gov/oc/speeches/2006/fdateleconference0112.html>.

<sup>2</sup> Toxicity Testing in the 21st Century: A Vision and a Strategy (NRC 2007).

### **Board of Directors' Statement Opposing Shareholder Resolution**

The Board of Directors believes that approval of the proponent's resolution relating to animal testing would not serve the best interests of Baxter and its shareholders. Accordingly, the Board recommends a vote **AGAINST** the proposal for the reasons discussed below.

Baxter is committed to providing products and therapies that sustain and save lives worldwide, and we strive to do so as a responsible corporate citizen. This commitment requires us to balance our business priorities with our social and other responsibilities. As part of fulfilling this commitment, we utilize the best scientific technologies available to develop, evaluate and test our products. We are ethically required to ensure the safety and efficacy of our products and legally required by health authorities throughout the world to use animals to develop and test our products. At the same time, we are also committed to limiting the use of animals in our research, development and testing programs as evidenced by the policies and procedures we already have in place to replace, reduce and refine the use of animal testing (3Rs).

Baxter's current policy, which is included in our Bioethics Policy and Bioethics Position Statement, both of which are available on our website, is to support the conscientious use of animals in research only when no other valid scientific alternative exists. To the extent possible, we minimize the use of animals in our research and, when used, treat them humanely and with the highest standards of care. Our animal facilities and programs are regularly inspected by applicable government agencies and comply with all applicable laws and regulations. Our animal testing program is also overseen by licensed, certified and accredited veterinary professionals and animal use and care committees that include independent representatives. Consistent with our Bioethics Position Statement, we are committed to using and

developing alternative protocols, methodologies and models which may eliminate the use or reduce the number of animals required for research and testing and, in fact, have introduced a number of successful innovations in this area over the years.

The company has reviewed this proposal and believes that in light of our current policy on animal testing and related practices and initiatives, implementation of this proposal would not result in any meaningful enhancement of the company's current efforts to advance the 3Rs and limit the use of animals in our research, development and testing. While the company's policies may not provide exactly what is specified in the proposal, we believe that our policies regarding animal testing advance the goals of the 3Rs and in doing so satisfy the essential objective of this

proposal. For example, the proposal asks the Board of Directors to consider creating a management position to oversee the company's commitment to the 3Rs. Currently, Baxter's Chief Scientific Officer, who oversees research and development initiatives, has oversight over the company's use of animal testing and the use of non-animal alternatives and has consistently and publicly advocated the 3Rs. We also believe that publishing an animal use inventory and written plan to implement the 3Rs as requested would not be particularly meaningful to our shareholders as the company's use of animals in research, development and testing is largely driven by strict regulatory requirements, conducted in compliance with all applicable laws and regulations, and may involve highly confidential research and development programs.

In short, we believe that the company's policies, practices and procedures are already aligned with the essential objective of this shareholder proposal. Given Baxter's commitment to using animals in research and development activities only as required and enforced by regulatory agencies worldwide and only when no other valid scientific alternative exists, publishing a report that is designed to cause Baxter to reduce its use of animals in testing and creating a management position to oversee the company's commitment to the 3Rs would be redundant to measures already in place and not the best use of our resources. Accordingly, we do not believe that the adoption of this shareholder proposal would be in the best interest of our shareholders.

The Board recommends a vote **AGAINST** the shareholder proposal relating to animal testing.

### **Other Information**

#### ***Attending the Annual Meeting***

The 2009 Annual Meeting of Shareholders will take place at the Chicago Cultural Center, 78 East Washington Street, Chicago, Illinois on Tuesday, May 5, 2009 at 10:30 a.m., Central Time. Please see the map provided on the back cover of this Proxy Statement for more information about the location of the 2009 Annual Meeting. If you have other questions about attending the Annual Meeting, please contact the Center for One Baxter at 847-948-4770.

Admittance to the meeting will be limited to shareholders eligible to vote or their authorized representatives. If you plan to attend the Annual Meeting, simply indicate your intention by marking the designated box on the proxy card or by following the instructions provided when you vote by Internet or telephone. Shareholders who wish to attend the Annual Meeting, but do not wish to vote by proxy prior to the meeting, may register at the door. If you hold shares through a broker, bank or other nominee, your name will not appear on the list of registered shareholders and you will be admitted only after showing proof of ownership, such as your most recent account statement or a letter from your broker or bank.

#### ***Shareholder Proposals for the 2010 Annual Meeting***

Any shareholder who intends to present a proposal at Baxter's annual meeting to be held in 2010, and who wishes to have a proposal included in Baxter's proxy statement for that meeting, must deliver the proposal to the Corporate Secretary. All proposals must be received by the Corporate Secretary no later than November 18, 2009 and must satisfy the rules and regulations of the Securities and Exchange Commission to be eligible for inclusion in the proxy statement for that meeting.

Shareholders may present proposals that are proper subjects for consideration at an annual meeting, even if the proposal is not submitted by the deadline for inclusion in the proxy statement. To do so, the shareholder must comply with the procedures specified by Baxter's Bylaws. The Bylaws require all shareholders who intend to make proposals at an annual meeting of shareholders to submit their proposal to the Corporate Secretary not fewer than 90 and not more than 120 days before the anniversary date of the previous year's annual meeting.

To be eligible for consideration at the 2010 annual meeting, proposals which have not been submitted by the deadline for inclusion in the proxy statement and any nominations for director must be received by the Corporate Secretary between January 5 and February 4, 2010. This advance notice period is intended to allow all shareholders an opportunity to consider all business and nominees expected to be considered at the meeting.

All submissions to, or requests from, the Corporate Secretary should be made to Baxter's principal executive offices at One Baxter Parkway, Deerfield, Illinois 60015.

***Cost of Proxy Solicitation***

Baxter will bear the costs of soliciting proxies. Copies of proxy solicitation materials will be mailed to shareholders, and employees of Baxter may communicate with shareholders to solicit their proxies. Banks, brokers and others holding stock in their names, or in the names of nominees, may request and forward copies of the proxy solicitation material to beneficial owners and seek authority for execution of proxies, and Baxter will reimburse them for their expenses.

**2009 Annual Meeting of Shareholders**  
**Chicago Cultural Center**  
78 East Washington Street  
Chicago, Illinois  
312-744-6630

The Chicago Cultural Center is located in downtown Chicago. You may enter the Chicago Cultural Center at either 78 East Washington Street or 77 East Randolph Street.

**Parking**

Validated parking will be available at the Imperial Parking Garage located across the street from the Cultural Center at 60 East Randolph Street between Wabash Avenue and Michigan Avenue. Once in the garage, signs will be displayed directing you to the Chicago Cultural Center.

**Please remember to bring your parking ticket to the meeting registration desk where it can be exchanged for a validated parking ticket.**

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**BAXTER INTERNATIONAL INC. ONE BAXTER PARKWAY DEERFIELD, IL 60015** VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com) Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time on May 4, 2009. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form. **ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS** If you would like to reduce the costs incurred by Baxter International Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. **VOTE BY PHONE** 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 4, 2009. Have your proxy card in hand when you call and then follow the instructions. **VOTE BY MAIL** Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Baxter International Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. **TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: BAXTR1 KEEP THIS PORTION FOR YOUR RECORDS THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. DETACH AND RETURN THIS PORTION ONLY BAXTER INTERNATIONAL INC.** Vote on Directors Vote on Proposal For Against Abstain *Directors recommend a vote FOR the Nominees: Directors recommend a vote FOR proposal 2:* 1. Election of Directors For Against Abstain 2. Ratification of independent registered public 0 0 0 Nominees: accounting firm 1a. Walter E. Boomer 0 0 0 *Directors recommend a vote AGAINST proposal 3:* 1b. James R. Gavin III, M.D., Ph.D. 0 0 0 3. Shareholder proposal relating to animal testing 0 0 0 1c. Peter S. Hellman 0 0 0 1d. K.J. Storm 0 0 0 For address changes and/or comments, please check this box and 0 Yes No write them on the back where indicated. **MATERIALS ELECTION** Please indicate if you plan to attend this meeting. 0 0 SEC rules permit companies to send you a notice that proxy information is available on the Internet instead of mailing you 0 a complete set of materials. Check the box to the right if you want to receive a complete set of future proxy materials by mail, at no cost to you. If you do not take action you may receive only a Notice. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com). BAXTR2 BAXTER INTERNATIONAL INC. Proxy for Annual Meeting of Shareholders to be held on May 5, 2009 This Proxy is Solicited on Behalf of the Board of Directors of Baxter International Inc. The undersigned hereby appoint(s) Robert L. Parkinson, Jr. and David P. Scharf, and each of them, as proxyholders with the powers the undersigned would possess if personally present and with full power of substitution, to vote all shares of common stock of the undersigned in Baxter International Inc. (including shares credited to the Dividend Reinvestment Plan and the Employee Stock Purchase Plan) at the Annual Meeting of Shareholders to be held on May 5, 2009, and at any adjournment thereof, upon all subjects that may properly come before the meeting, subject to any directions indicated on this card. If no directions are given, the proxyholders will vote: for the election of the four directors; for the ratification of the independent public accounting firm; against the shareholder proposal relating to animal testing; and at their discretion on any other matter that may properly come before the meeting. This proxy card will serve as voting instructions for any shares held for the undersigned in the Incentive Investment Plan or Puerto Rico Savings and Investment Plan. To allow sufficient time for voting by the trustee of the Plans, your instructions must be received by April 28, 2009. If no directions are given, this proxy will be voted FOR the election of directors, FOR proposal 2 and AGAINST proposal 3. Address Changes/Comments: (If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)