BAXTER INTERNATIONAL INC
Form 11-K
June 25, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-4448

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Baxter International Inc. and Subsidiaries
Incentive Investment Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Baxter International Inc.
One Baxter Parkway
Deerfield, IL 60015
(847) 948-2000

Baxter International Inc.
and Subsidiaries
Incentive Investment Plan
Financial Statements and Supplemental Schedule
December 31, 2009 and 2008

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Index
December 31, 2009 and 2008

Report of Independent Registered Public Accounting Firm

To the Participants and Administrative Committee of
the Baxter International Inc. and Subsidiaries Incentive Investment Plan
Deerfield, Illinois

We have audited the accompanying statement of net assets available for benefits of the Baxter International Inc. and Subsidiaries Incentive Investment Plan (Plan) as of December 31, 2009, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2009, and the changes in net assets available for benefits for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, line 4i Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic 2009 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2009 financial statements taken as a whole.

/s/ Crowe Horwath LLP

Oak Brook, Illinois
June 25, 2010

Prior Auditor s Report of Independent Registered Public Accounting Firm

To the Participants and Administrative Committee of
the Baxter International Inc. and Subsidiaries Incentive Investment Plan

In our opinion, the accompanying statement of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Baxter International Inc. and Subsidiaries Incentive Investment Plan (the Plan) at December 31, 2008, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
June 26, 2009

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Statements of Net Assets Available for Benefits
December 31, 2009 and 2008

	2009	2008
Assets		
Investments		
Cash and cash equivalents	$ 47,549,498	$ 66,961,790
Common stock (including securities on loan of $29,596,347 in 2009 and $18,399,870 in 2008)	437,851,778	340,479,494
U.S. government and government agency issues (including securities on loan of $8,557,513 in 2009 and $1,290,325 in 2008)	14,705,865	14,829,298
Corporate and other obligations (including securities on loan of $5,281,686 in 2009 and $2,432,308 in 2008)	38,839,798	39,195,637
Commingled funds	306,140,112	212,980,228
Registered investment companies	121,035,667	59,457,424
Participant loans	35,784,824	31,325,947
Synthetic guaranteed investment contracts (including securities on loan of $175,467,810 in 2009 and $82,975,181 in 2008)	660,399,728	659,502,094
Collateral held on loaned securities	220,811,947	99,545,271
Total investments at fair value	1,883,119,217	1,524,277,183
Receivables		
Sponsor contributions	13,239,234	9,752,268
Accrued interest and dividends	1,798,050	1,962,089
Due from brokers for securities sold	614,243	39,577
	15,651,527	11,753,934
Total assets	1,898,770,744	1,536,031,117
Liabilities		
Accounts payable	2,219,225	2,203,915
Due to brokers for securities purchased	1,535,362	689,464
Collateral to be paid on loaned securities	224,368,108	107,838,014
Total liabilities	228,122,695	110,731,393
Net assets available for benefits, reflecting investments at fair value	1,670,648,049	1,425,299,724
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(5,199,119)	(26,014,601)
Net assets available for benefits	$ 1,665,448,930	$ 1,399,285,123

The accompanying notes are an integral part of these financial statements.

3

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Statements of Changes in Net Assets Available for Benefits
For the Years Ended December 31, 2009 and 2008

	2009	2008
Additions (reductions) to net assets attributed to		
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	$ 181,972,026	$ (339,546,642)
Interest	26,343,333	37,416,536
Dividends	9,259,422	9,723,969
Participant loan interest	2,099,189	2,353,627
Net investment income (loss)	219,673,970	(290,052,510)
Contributions		
Sponsor	53,011,931	45,653,065
Participant	85,388,652	80,374,823
	138,400,583	126,027,888
Net additions (reductions)	358,074,553	(164,024,622)
Deductions from net assets attributed to		
Benefits paid	87,120,929	110,153,382
Plan expenses	4,789,817	4,832,134
Total deductions	91,910,746	114,985,516
Net increase (decrease)	266,163,807	(279,010,138)
Net assets available for benefits		
Beginning of year	1,399,285,123	1,678,295,261
End of year	$ 1,665,448,930	$ 1,399,285,123

The accompanying notes are an integral part of these financial statements.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

1. General Description of the Plan

The following description of the Baxter International Inc. and Subsidiaries Incentive Investment Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan document and summary plan description for more complete information. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Plan allows tax deferred contributions in compliance with Section 401(k) of the Internal Revenue Code. Eligible participants may make pre-tax contributions of up to 50% of their eligible annual compensation within certain limitations. Newly hired employees are deemed to have elected to contribute 3% of compensation (increased by 1% per year to a total of 6%) unless they make a contrary election. The Plan sponsor, Baxter International Inc. (Baxter or the Company), matches participant contributions up to a maximum of 3.5% of the employee s compensation. Participant contributions and Plan sponsor matching contributions are fully vested and nonforfeitable at all times. The Company also contributes an additional non-matching 3% of compensation for employees that are not eligible to participate in the Company s U.S. qualified defined benefit pension plan, which includes all new employees hired on or after January 1, 2007, and employees who had less than five years of service on January 1, 2007 and who elected to cease earning additional service in the pension plan and participate in the higher level of Company contributions in the Plan. The additional non-matching contribution becomes fully vested after three years of service. Forfeitures of nonvested accounts are used to reduce future employer contributions.

Participants may borrow up to the lesser of $50,000 or 50% of their vested account balance. The loans are secured by the balance in the participant s account and bear interest at variable rates as outlined in the Plan agreement.

Participants or their beneficiaries may elect lump-sum benefit payments, or benefits may be paid in installments. Shares of Baxter common stock may also be distributed in kind at the participant s election. Subject to certain provisions specified in the Plan agreement, employed participants may withdraw their pre-tax contributions, matching contributions made prior to 2008, vested non-matching contributions and related earnings in cases of financial hardship and in certain other circumstances.

Each participant s account is credited with the participant s contributions and an allocation of the Company s contributions and Plan earnings, and is charged with his or her withdrawals and an allocation of Plan-related expenses. Allocations are based on participant earnings or account balances, as defined in the Plan document. The net income of the Plan is posted to the participant s accounts on a daily basis. Each participant directs the investment of his or her account to any of the investment options available under the Plan.

Upon enrollment in the Plan, a participant may direct contributions to any of 18 investment options: Stable Income Fund, Baxter Common Stock Fund, Composite Fund, General Equity Fund, S&P 500 Flagship Fund, International EAFE Equity Index Fund, Small Cap Fund, ten different Target Retirement Funds and the Self-Managed Fund. However, non-matching contributions may not be invested in the Baxter Common Stock Fund. In addition, certain participants may maintain shares received in connection with Baxter s 1996 spin-off of Allegiance Corporation (Allegiance), which were subsequently converted into common shares of Cardinal Health Inc. (Cardinal) upon Cardinal s acquisition of Allegiance in 1999. These shares are maintained in the Cardinal

Health Common Stock Fund. Additionally, certain participants maintain shares in Edwards Lifesciences Corporation. These shares were placed into the Edwards Lifesciences Common Stock Fund in connection with Baxter s 2000 spin-off of its cardiovascular business. Participants are not able to make contributions to the Cardinal Health Common Stock Fund or the Edwards Lifesciences Common Stock Fund, but may make transfers out of these funds at any time.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

2. Summary of Significant Accounting Policies

Basis of Accounting
The accompanying financial statements of the Plan have been prepared on the accrual basis of accounting. Accordingly, investment income is recognized when earned and expenses are recognized when incurred.

Issued But Not Yet Effective Accounting Standard
In January 2010, the Financial Accounting Standards Board (FASB) issued a new accounting standard to improve disclosures with respect to fair value measurements, primarily related to the levels within the fair value hierarchy. An entity will be required to disclose significant transfers in and out of Levels 1 and 2 of the fair value hierarchy, and separately present information related to purchases, sales, issuances and settlements in the reconciliation of fair value measurements classified as Level 3. This standard will be effective for reporting periods beginning after December 15, 2009, except for the disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements, which are effective for reporting periods beginning after December 15, 2010. The disclosures required by this standard will be included in the notes to the Plan s financial statements effective January 1, 2010, except for the disclosures related to Level 3 fair value measurements, which will be included in the notes to the Plan s financial statements effective January 1, 2011.

New Accounting Standard
In April 2009, the FASB issued a new accounting standard related to estimating fair value when the volume and level of activity for an investment has significantly decreased. This standard also requires enhanced disclosures regarding the major security types of equity and debt securities and was effective for the Plan reporting period ending December 31, 2009. The Plan s adoption of this standard did not have an impact on the net assets available for benefits. Refer to Note 5 for disclosures related to this standard.

In September 2009, the FASB issued a new accounting standard related to the valuation of investments in certain entities that calculate net asset value per share. This standard provides a practical expedient for measuring the fair values of Plan investments in entities that calculate a net asset value per share (such as commingled investments). This standard also requires enhanced disclosures regarding the attributes of certain investments, including the nature of any restrictions and the investment objectives, and was effective for the Plan reporting period ending December 31, 2009. The Plan s adoption of this standard did not have an impact on the net assets available for benefits. Refer to valuation of investments and collateral below for disclosures related to this standard.

Valuation of Investments and Collateral
The fair value of Plan investments and collateral is determined as follows:

Cash and cash equivalents	These largely consist of a short-term investment fund and a money market fund, the fair value of which is based on the net asset value. The investment objectives for these funds are to provide safety for principal, daily liquidity and a competitive yield by investing in high quality instruments.
Common stock	Value based on closing prices on the valuation date in an active market on national and international securities

	exchanges.
U.S. government and government agency issues	Value based on reputable pricing vendors that typically use pricing matrices or models.

6

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

Corporate and other obligations	Value based on reputable pricing vendors that typically use pricing matrices or models.
Commingled funds	Value based on net asset values reported by the fund managers as of the financial statement dates and recent transaction prices. The investment objectives of these funds are to track the performances of the S&P 500 (S&P 500 Flagship Fund); Europe, Australasia and the Far East (EAFE) (International EAFE Equity Index Fund); or Russell 2000 (Small Cap Fund) indexes. The underlying investments vary, with some holding diversified portfolios of domestic stocks and government and government agency bonds, and others holding collective investment funds. Each fund provides for daily redemptions by the Plan at reported net asset values per share, with no advance notice requirement. Refer to Note 6 for amounts invested in each of these funds.
Registered investment companies	Value based upon the last reported sale price from a national security exchange on the valuation date.
Participant loans	Value based on outstanding principal balance plus accrued interest, which approximates fair value.
Synthetic guaranteed investment contracts	Value based on the fair value of the underlying securities in the contract on the valuation date plus the fair value of wrapper contracts, which is calculated using a replacement cost approach. See below for more information.
Collateral held on loaned securities	Value based upon the net asset value per unit of the short-term investment fund (Quality D Short-Term Investment Fund) where the collateral is invested. This fund primarily invests in cash and cash equivalents and asset-backed securities, and is utilized for the investment of cash collateral generated by the securities lending program in which the Plan and Trustee participate. At December 31, 2009, the maturity dates of these securities were less than 90 days. Refer to Note 7 for more information on the securities lending program.
Collateral to be paid on loaned securities	

Value based on the fair value of the underlying securities loaned on the valuation date, plus an incremental margin.

Income Recognition

Plan investment return includes dividend and interest income, gains and losses on sales of investments and unrealized appreciation or depreciation of investments. Purchases and sales of investments are recorded on a trade date basis. Dividends are recorded on the ex-dividend date.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

The financial statements reflect the net appreciation or depreciation in the fair value of the Plan s investments. This net appreciation or depreciation consists of realized gains and losses calculated as the difference between proceeds from a sales transaction and cost determined on a moving average basis, and unrealized gains and losses calculated as the change in the fair value between beginning of the year (or purchase date if later) and the end of the year.

Synthetic Guaranteed Investment Contracts

The Plan holds synthetic guaranteed investment contracts (GICs) as part of the Stable Income Fund. The synthetic GICs provide for a fixed return on principal over a specified time through fully benefit-responsive contracts issued by Aegon Institutional Markets and Bank of America N.A. The portfolio of assets, overall of investment grade, underlying the synthetic GICs primarily includes cash and cash equivalents, U.S. government and government agency issues, corporate and other obligations, and registered investment companies.

The fair value of the synthetic GICs equals the total of the fair value of the underlying assets plus the fair value of the wrapper contracts. The fair value of the wrapper contracts is computed using a replacement cost approach that incorporates a comparison of the current fee rate on similar wrapper contracts to the fee being paid by the Plan. Using this approach, the fair values of the wrapper contracts were $1,668,018 and $1,478,751 at December 31, 2009 and 2008, respectively.

While Plan investments are presented at fair value in the Statements of Net Assets Available for Benefits, any material difference between the fair value of the Plan s direct and indirect interests in fully benefit-responsive investment contracts and their contract value is presented as an adjustment line in the Statements of Net Assets Available for Benefits, because contract value is the relevant measurement attribute for that portion of the Plan s net assets available for benefits. Contract value represents contributions, plus earnings, less participant withdrawals and administrative expenses. The wrapper contracts used by the Plan are fully benefit-responsive because the wrapper contract issuers are contractually obligated to make up any shortfall in the event that the underlying asset portfolio has been liquidated and is inadequate to cover participant withdrawals and transfers at contract value. There are currently no reserves against contract values for credit risk of the contract issuers or any other risk. The contract value for the synthetic GICs was $655,200,609 and $633,487,493 at December 31, 2009 and 2008, respectively.

The crediting interest rate, which is reset quarterly, can never fall below zero. The crediting rate formula smoothes the impact of interest rate changes on participant returns by amortizing any difference between market value and book value over a period of years equal to the duration of the portfolio benchmark. The average yield on the synthetic GICs was approximately 4.2% and (0.18)% at December 31, 2009 and 2008, respectively. The average interest rate credited to participants on the synthetic GICs was approximately 4.1% and 4.82%, respectively, for the years ended December 31, 2009 and 2008. The credit ratings for Aegon Institutional Markets were AA- and AA at December 31, 2009 and December 31, 2008, respectively, and the credit ratings for Bank of America N.A. were A+ and AA- at December 31, 2009 and December 31, 2008, respectively.

Events that lead to market value withdrawals that exceed 20 percent of the contract value would limit the ability of the Plan to transact at contract value with participants. These events include restructurings, early retirement plans, divestitures, bankruptcies, or legal, tax or regulatory changes. The Plan sponsor believes that the occurrence of any such event is remote.

The wrapper providers can only terminate at a value different than contract value under an event of default (that was not remedied) such as failure to follow the terms of the contract. If a wrapper provider would like to exit the contract for another reason, the Plan can maintain the contract through an extended termination process designed to ensure continued benefit-responsive treatment for withdrawals.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

Payment of Benefits
Benefits are recorded when paid.
Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Changes in such estimates may affect amounts reported in future periods.
Other
Due from or due to brokers for securities sold or purchased, respectively, represent the net cash value of security trades initiated but not yet settled at each respective year-end.
Risks and Uncertainties
The Plan provides for various investment options which invest in any combination of registered investment companies, U.S. government and government agency issues, corporate and other obligations, common stock, commingled funds, synthetic guaranteed investment contracts and short-term investments. Investment securities are exposed to various risks, such as interest rate, market, liquidity and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect participants account balances and the amounts reported in the Statements of Net Assets Available for Benefits and the Statements of Changes in Net Assets Available for Benefits. Individual participants accounts bear the risk of loss resulting from fluctuations in investment values.
Investments underlying the Plan s synthetic GICs include securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage-backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies and/or defaults and may be adversely affected by shifts in the market s perception of the issuers and changes in interest rates.

3. Eligibility Requirements

Employees become eligible to participate in the Plan as of the first day of the month following the completion of thirty days of employment. Eligible employees are those who meet the following requirements:

A. U.S. employees of Baxter or its subsidiaries which have adopted the Plan;

B. U.S. employees not covered by a collective bargaining agreement unless the agreement provides for coverage under the Plan; and

C. U.S. employees who are not leased employees.

4. Administration of the Plan

State Street Bank and Trust Company (the Trustee) serves as trustee and ING Institutional Plan Services, LLC serves as recordkeeper for the Plan.

The Administrative Committee administers the Plan. The Investment Committee has authority, responsibility and control over the management of the assets of the Plan. Members of both committees are appointed by the Board of Directors of Baxter and are employees of Baxter.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

Substantially all investment manager, trustee and administrative fees incurred in the administration of the Plan were paid from the assets of the Plan.

5. Fair Value Measurements

The fair value hierarchy under the accounting standard for fair value measurements consists of the following three levels:

Level 1 Quoted prices in active markets that the Plan has the ability to access for identical assets or liabilities;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market; and

Level 3 Valuations using significant inputs that are unobservable in the market and include the use of judgment by the Plan s management about the assumptions market participants would use in pricing the asset or liability.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

The following table summarizes the bases used to measure the Plan s financial instruments and liabilities that are carried at fair value on a recurring basis.

	Balance at December 31, 2009	Basis of Fair Value Measurement: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 47,549,498	$	$ 47,549,498	$
Common stock:				
Healthcare	221,596,118	221,596,118		
Information technology	53,234,217	53,234,217		
Financial services	43,116,528	43,116,528		
Consumer products	34,181,956	34,181,956		
Industrial services and materials	29,168,425	29,168,425		
Energy	28,961,600	28,961,600		
Other	27,592,934	27,592,934		
Total common stock	437,851,778	437,851,778		
U.S. government and government agency issues	14,705,865		14,705,865	
Corporate and other obligations	38,839,798		38,839,798	
Commingled funds	306,140,112		306,140,112	
Registered investment companies:				
Target retirement funds	107,452,761	107,452,761		
Self-managed funds	13,582,906	13,582,906		
Total registered investment companies	121,035,667	121,035,667		
Participant loans	35,784,824			35,784,824
Synthetic guaranteed investment contracts:				
Corporate and other obligations	300,237,199		300,237,199	
U.S. government and government agency issues	285,792,869		285,792,869	
Cash and cash equivalents	41,828,642		41,828,642	
Registered investment companies	30,483,586	30,483,586		

Wrapper contracts	1,668,018			1,668,018
Other	389,414		389,414	
Total synthetic guaranteed investment contracts	660,399,728	30,483,586	628,248,124	1,668,018
Collateral held on loaned securities	220,811,947		200,811,947	
Total assets	$ 1,883,119,217	$ 589,371,031	$ 1,256,295,344	$ 37,452,842
Liability				
Collateral to be paid on loaned securities	$ 224,368,108	$ 30,459,249	$ 193,908,859	$

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

The following table summarizes the bases used to measure the Plan s financial instruments and liabilities that are carried at fair value on a recurring basis.

		Basis of Fair Value Measurement		
	Balance at December 31, 2008	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Cash and cash equivalents	$ 66,961,790	$	$ 66,961,790	$
Common stock	340,479,494	340,479,494		
U.S. government and government agency issues	14,829,298		14,829,298	
Corporate and other obligations	39,195,637		39,195,637	
Commingled funds	212,980,228		212,980,228	
Registered investment companies	59,457,424	59,457,424		
Participant loans	31,325,947			31,325,947
Synthetic guaranteed investment contracts	659,502,094	42,757,944	615,265,399	1,478,751
Collateral held on loaned securities	99,545,271		99,545,271	
Total assets	$ 1,524,277,183	$ 442,694,862	$ 1,048,777,623	$ 32,804,698
Liability				
Collateral to be paid on loaned securities	$ 107,838,014	$ 18,467,870	$ 89,370,144	$

The following table sets forth a summary of changes in the fair values of the Plan s level 3 financial instruments.

	Participant Loans	**Wrapper Contracts**
Balance at December 31, 2007	$ 29,686,366	$
Unrealized gains		1,478,751
Purchases, sales, issuances and settlements (net)	1,639,581	
Balance at December 31, 2008	$ 31,325,947	$ 1,478,751
Unrealized gains		189,267

Purchases, sales, issuances and settlements (net)	4,458,877	
Balance at December 31, 2009	$ 35,784,824	$ 1,668,018

See Valuation of Investments and Collateral in Note 2 above for a discussion of the methodologies used to determine the fair values of the Plan s investments and collateral. These methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

6. Investments

Investments representing five percent or more of the Plan s net assets available for benefits at December 31, 2009 and 2008 are summarized as follows:

	2009	2008
Baxter common stock, 2,933,075 shares and 2,994,818 shares at December 31, 2009 and 2008, respectively	$ 172,112,858	$ 160,492,320
State Street Global Advisors (SSgA) S&P 500 Flagship Fund	152,285,488	112,007,447
SSgA International EAFE Equity Index Fund	93,424,087	*
State Street Bank Short-Term Investment Fund	*	79,735,100
State Street Bank Quality D Short-Term Investment Fund (Collateral held on loaned securities)	220,811,947	99,545,271

* Does not meet 5% threshold.

Investments as of December 31, 2009 and 2008 are segregated into various investment fund options as follows:

	2009	2008
Cash (available for investment)	$ 6,719,155	$ 5,596,164
Stable Income Fund	682,022,055	701,010,677
Baxter Common Stock Fund	174,258,550	163,038,527
Composite Fund	141,894,896	105,989,479
General Equity Fund	148,831,025	108,085,903
Cardinal Health Common Stock Fund	4,809,280	5,410,042
SSgA S&P 500 Flagship Fund	152,285,488	112,188,634
SSgA International EAFE Equity Index Fund	93,468,012	59,492,812
Edwards Lifesciences Common Stock Fund	13,974,606	9,747,177
SSgA Small Cap Fund	60,430,537	41,479,969
Self-Managed Fund	40,376,081	31,764,148
Target Retirement Funds	107,452,761	49,602,433
Participant loans	35,784,824	31,325,947
Collateral held on loaned securities	220,811,947	99,545,271
Total investments at fair value	1,883,119,217	1,524,277,183
Adjustment from fair value to contract value for Stable Income Fund	(5,199,119)	(26,014,601)
Total investments	$ 1,877,920,098	$ 1,498,262,582

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Notes to Financial Statements
December 31, 2009 and 2008

Net appreciation (depreciation) in fair value for each significant class of investment, which includes realized and unrealized gains and losses, is as follows:

	2009	2008
Baxter common stock	$ 16,645,083	$ (13,221,835)
Other common stock	65,810,071	(137,322,856)
U.S. government and government agency issues	100,929	361,524
Corporate and other obligations	7,563,830	(11,579,043)
Commingled funds	66,494,910	(142,670,970)
Registered investment companies	20,620,621	(26,820,719)
Collateral held on loaned securities	4,736,582	(8,292,743)
	$ 181,972,026	$ (339,546,642)

7. Securities Lending Transactions

The Plan participates in a securities lending program with the Trustee. The program allows the Trustee to loan securities, which are assets of the Plan, to approved brokers (the Borrowers).

The Trustee requires the Borrowers, pursuant to a security loan agreement, to deliver collateral to secure each loan in an amount that is at least equal to the fair value of the securities loaned. The Plan bears the risk of loss with respect to any unfavorable change in fair value of the invested cash collateral. However, the Borrower bears the risk of loss related to the decrease in the fair value of the non-cash collateral and, therefore, would have to deliver additional securities to maintain the required collateral. In the event of default by the Borrower, the Trustee shall indemnify the Plan