

BAXTER INTERNATIONAL INC  
Form 11-K  
June 23, 2011

**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, 2010**  
**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 Healthcare of Puerto Rico Savings and 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**

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**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Financial Statements and Supplemental Schedule  
December 31, 2010 and 2009**

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**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Index  
December 31, 2010 and 2009**

	<b>Page(s)</b>
<b>Report of Independent Registered Public Accounting Firm</b>	1
<b>Financial Statements</b>	
Statements of Net Assets Available for Benefits as of December 31, 2010 and 2009	2
Statements of Changes in Net Assets Available for Benefits for the years ended December 31, 2010 and 2009	3
Notes to Financial Statements	4-15
<b>Supplemental Information</b>	
Schedule I: Schedule of Assets (Held at End of Year) as of December 31, 2010	16-41

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**Report of Independent Registered Public Accounting Firm**

To the Participants and Administrative Committee of  
the Baxter Healthcare of Puerto Rico Savings and Investment Plan  
Deerfield, Illinois

We have audited the accompanying statements of net assets available for benefits of the Baxter Healthcare of Puerto Rico Savings and Investment Plan (Plan) as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years ended December 31, 2010 and 2009. 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 audits.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in net assets available for benefits for the years ended December 31, 2010 and 2009, 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 2010 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2010 financial statements taken as a whole.

/s/Crowe Horwath LLP  
Oak Brook, Illinois  
June 22, 2011

**Baxter Healthcare of Puerto Rico**  
**Savings and Investment Plan**  
**Statements of Net Assets Available for Benefits**  
**December 31, 2010 and 2009** (in thousands)

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Investments		
Cash and cash equivalents	\$ 616	\$ 822
Common stock (including securities on loan of \$79 in 2010 and \$350 in 2009)	8,543	9,234
U.S. government and government agency issues (including securities on loan of \$53 in 2010 and \$101 in 2009)	233	174
Corporate and other obligations (including securities on loan of \$35 in 2010 and \$62 in 2009)	554	459
Commingled funds	7,485	6,368
Registered investment companies	1,059	458
Synthetic guaranteed investment contracts (including securities on loan of \$4,995 in 2010 and \$3,929 in 2009)	16,877	14,786
Collateral held on loaned securities	5,198	4,478
Total investments at fair value	40,565	36,779
Receivables		
Participant loans	3,591	3,858
Sponsor contributions	199	160
Accrued interest and dividends	46	44
Due from brokers for securities sold	8	7
	3,844	4,069
Total assets	44,409	40,848
<b>Liabilities</b>		
Accounts payable	215	47
Due to brokers for securities purchased		18
Collateral to be paid on loaned securities	5,255	4,550
Total liabilities	5,470	4,615
Net assets available for benefits, reflecting investments at fair value	38,939	36,233
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(1,156)	(116)
Net assets available for benefits	\$ 37,783	\$ 36,117

The accompanying notes are an integral part of these financial statements



**Baxter Healthcare of Puerto Rico**  
**Savings and Investment Plan**  
**Statements of Changes in Net Assets Available for Benefits**  
**For the Years Ended December 31, 2010 and 2009** (in thousands)

	<b>2010</b>	<b>2009</b>
<b>Additions to net assets attributed to</b>		
Investment income		
Net appreciation in fair value of investments	\$ 473	\$ 2,730
Interest and dividends	920	719
Net investment income	1,393	3,449
Participant loan interest	196	245
Contributions		
Sponsor	1,466	1,469
Participant	2,722	2,655
	4,188	4,124
Net additions	5,777	7,818
<b>Deductions from net assets attributed to</b>		
Benefits paid	3,761	3,612
Plan expenses	350	220
Total deductions	4,111	3,832
Net increase	1,666	3,986
<b>Net assets available for benefits</b>		
Beginning of year	36,117	32,131
End of year	\$ 37,783	\$ 36,117

The accompanying notes are an integral part of these financial statements

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

**1. General Description of the Plan**

The following brief description of Baxter Healthcare of Puerto Rico Savings and Investment Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement 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).

General

The Plan is a defined contribution plan which became effective on January 1, 1998. The Plan covers substantially all employees of Baxter Healthcare S.A. (Puerto Rico Branch), and Baxter Sales and Distribution Corporation (collectively, the Sponsor or the Company), subsidiaries of Baxter International Inc. (Baxter) as of the first day of the month following the completion of thirty days of employment. The Plan was created for the purpose of providing retirement benefits to employees and to encourage and assist employees in adopting a regular savings program by means of payroll deductions through a plan that qualifies under the applicable laws of the Commonwealth of Puerto Rico and the United States Internal Revenue Code.

Contributions

Plan participants may authorize the Company to make payroll deductions under the Plan ranging from 1% to 50% of their pre-tax monthly compensation in both 2010 and 2009, limited to a maximum of \$9,000 a year in 2010 and 2009, respectively. Newly hired employees are deemed to have elected to contribute 3% of compensation unless they make a contrary election. The Company matches a participant's savings contributions at the rate of 50 cents for each dollar of a participant's pre-tax contribution, up to a maximum of 6% of a participant's compensation. The Company also contributes an additional non-matching 3% of compensation for employees that are not eligible to participate in the Company's Puerto Rico defined benefit pension plan, which includes all new employees hired on or after January 1, 2008. The Company may make additional discretionary contributions in such amounts as the Company may determine.

Participant Accounts

Each participant's account is credited with the participant's contribution and allocations 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.

Vesting

Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching and discretionary contributions plus actual earnings thereon is based on years of service. The contributions vest in accordance with the following vesting schedule:

<b>Years of Service</b>	<b>Vesting %</b>
1	20%
2	40%
3	60%
4	80%



5 or more

100%

Employees are fully vested in the Company's matching contributions account, regardless of years of service with the Company, upon attaining age 65, upon becoming disabled in accordance with the provisions of the Plan or upon dying while employed by the Company. The Company's additional non-matching contribution becomes fully vested after three years of service. Forfeitures of nonvested accounts are used to reduce future Company contributions.

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

Participant Loans

Participants may borrow from their vested accounts a minimum of \$500 up to a maximum equal 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 the prime rate at the last day of the month prior to loan request, plus one percent. These loans are reported at their principal balance plus any accrued but unpaid interest, with no allowance for credit losses, as repayments of principal and interest are received through payroll deductions and the notes are collateralized by the participant's account balances.

Investment Options

Upon enrollment in the Plan, a participant may direct contributions into various 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 and ten different Target Retirement Funds. However, non-matching contributions may not be invested in the Baxter Common Stock Fund. In addition, 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 or transfer existing account balances to the Edwards Lifesciences Common Stock Fund, but may make transfers out of these funds at any time.

Payments of Benefits

Plan participants can not request withdrawals from the Plan unless they are at least 59½ years old or incur a financial hardship. On termination of service due to retirement or other reasons, a participant may elect to receive either a lump sum amount equal to their entire vested account balance or installment payments. In the case of a participant termination because of death or disability, the entire vested amount is paid to the person or persons legally entitled thereto.

**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.

New Accounting Standards

In September 2010, the Financial Accounting Standards Board (FASB) amended existing standards with respect to the reporting of participant loans for defined contribution pension plans. The guidance requires that loans issued to participants be reported as receivables, segregated from plan investments, and to be measured at their unpaid principal balances plus accrued but unpaid interest. This guidance was adopted by the Plan effective December 31, 2010 and was applied retrospectively to all periods presented. The adoption of this standard had no effect on the Plan's net assets available for benefits.

In January 2010, the FASB issued a new accounting standard effective for the December 31, 2010 reporting period, which clarified existing fair value disclosures about the level of disaggregation and inputs and valuation techniques used to measure fair value, and required that significant transfers in and out of Levels 1 and 2 of the fair value hierarchy be disclosed. The Plan did not have any transfers between Levels 1 and 2 during 2010. In addition, effective for reporting periods beginning after December 15, 2010, an entity will be required to separately present

information related to purchases, sales, issuances and settlements in the reconciliation of fair value measurements classified as Level 3.

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

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.
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 5 for amounts invested in each of these funds.
Registered investment companies	Value based on the last reported sale price from a national security exchange on the valuation date.
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.

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

Collateral held on loaned securities

Value based upon the net asset value per unit of the short-term investment funds where the collateral is invested. Refer to Note 6 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.

The financial statements reflect the net appreciation in the fair value of the Plan's investments. This net appreciation 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 value of the wrapper contracts were \$38,076 and \$37,348 at December 31, 2010 and 2009, respectively.

While Plan investments are presented at fair value in the Statement 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 Statement 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 \$15.7 million and \$14.7 million at December 31, 2010 and 2009, 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 3.5% and 4.2% at December 31, 2010 and 2009, respectively. The average interest rate credited to participants on the synthetic GICs was approximately 4.1% for both years ended December 31, 2010 and 2009. The credit ratings for Aegon Institutional Markets were AA- at both December 31, 2010 and 2009, and the credit ratings for Bank of America N.A. were A+ at both December 31, 2010 and 2009.

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

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.

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. Administration of the Plan**

Banco Popular de Puerto Rico (the Trustee) and State Street Bank and Trust Company (the Custodian) serve as trustee and custodian, respectively, for the Plan. ING Institutional Plan Services, LLC serves as recordkeeper for

the Plan.

The Administrative Committee is responsible for the general administration of the Plan and for carrying out the provisions thereof. 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.



**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

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

**4. Fair Value of 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 Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

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

(in thousands)	Balance at December 31, 2010	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)
<b>Assets</b>				
Cash and cash equivalents	\$ 616	\$	\$ 616	\$
Common stock:				
Healthcare	4,399	4,399		
Information technology	967	967		
Financial services	691	691		
Consumer products	1,012	1,012		
Industrial services and materials	735	735		
Energy	597	597		
Other	142	142		
Total common stock	8,543	8,543		
U.S. government and government agency issues	233		233	
Corporate and other obligations	554		554	
Commingled funds	7,485		7,485	
Registered investment companies <sup>(1)</sup>	1,059	1,059		
Synthetic guaranteed investment contracts:				
Corporate and other obligations	6,167		6,167	
U.S. government and government agency issues	10,180		10,180	
Cash and cash equivalents	492		492	
Wrapper contracts	38			38
Total synthetic guaranteed investment contracts	16,877		16,839	38
Collateral held on loaned securities	5,198		5,198	
Total assets	\$ 40,565	\$9,602	\$30,925	\$ 38

**Liability**

Collateral to be paid on loaned securities	\$ 5,255	\$ 139	\$ 5,116	\$
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(1) Comprised entirely of Target retirement funds

10

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**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

(in thousands)	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)
<b>Assets</b>				
Cash and cash equivalents	\$ 822	\$	\$ 822	\$
Common stock:				
Healthcare	6,999	6,999		
Information technology	602	602		
Financial services	487	487		
Consumer products	386	386		
Industrial services and materials	330	330		
Energy	327	327		
Other	103	103		
Total common stock	9,234	9,234		
U.S. government and government agency issues	174		174	
Corporate and other obligations	459		459	
Commingled funds	6,368		6,368	
Registered investment companies <sup>(1)</sup>	458	458		
Synthetic guaranteed investment contracts:				
Corporate and other obligations	6,722		6,722	
U.S. government and government agency issues	6,399		6,399	
Cash and cash equivalents	936		936	
Registered investment companies	683	683		
Wrapper contracts	37			37
Other	9		9	
Total synthetic guaranteed investment contracts	14,786	683	14,066	37
Collateral held on loaned securities	4,478		4,478	
Total assets	\$ 36,779	\$10,375	\$26,367	\$ 37

**Liability**

Collateral to be paid on loaned securities	\$ 4,550	\$ 520	\$ 4,030	\$
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(1) Comprised entirely of Target retirement funds

11

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**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

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

(in thousands)	<b>Wrapper Contracts</b>
<b>Balance at December 31, 2008</b>	\$ 30
Unrealized gains (relating to assets held at end of year)	7
Purchases, sales, issuances and settlements (net)	
<b>Balance at December 31, 2009</b>	37
Unrealized gains (relating to assets held at end of year)	1
Purchases, sales, issuances and settlements (net)	
<b>Balance at December 31, 2010</b>	\$ 38

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.

## 5. Investments

The following presents the Plan's investments that represent five percent or more of the Plan's net assets available for benefits at December 31.

(values in thousands, except per share)	<b>2010</b>	<b>2009</b>
Baxter common stock, 113,065 shares and 112,317 shares at December 31, 2010 and 2009, respectively	\$5,723	\$6,591
State Street Global Advisors (SSgA) S&P 500 Flagship Fund	3,961	3,423
SSgA International EAFE Equity Index Fund	*	1,853
State Street Bank Quality D Short-Term Investment Fund (Collateral held on loaned securities)	*	4,478
Baxter International Savings Trust Separate Account (Collateral held on loaned securities)	4,872	*

\* Does not meet 5% threshold.

**Baxter Healthcare of Puerto Rico  
Savings and Investment Plan  
Notes to Financial Statements  
December 31, 2010 and 2009**

Investments as of December 31, 2010 and 2009 are segregated into various investment fund options as follows:

<b>(in thousands)</b>	<b>2010</b>	<b>2009</b>
Cash (available for investment)	\$ 113	\$ 147
Stable Income Fund	17,172	15,270
Baxter Common Stock Fund	5,822	6,687
Composite Fund	1,755	1,677
General Equity Fund	1,862	1,638
SSgA S&P 500 Flagship Fund	3,966	3,423
SSgA International EAFE Equity Index Fund	1,831	1,853
Edwards Lifesciences Common Stock Fund	92	55