BAXTER INTERNATIONAL INC
Form 11-K
June 27, 2007

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, 2006
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 Schedules
December 31, 2006 and 2005

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Index
December 31, 2006 and 2005

Note: Other schedules required by Section 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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 statements of net assets available for benefits and the related statements 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, 2006 and 2005, and the changes in net assets available for benefits for the years 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 audits. We conducted our audits 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 audits provide a reasonable basis for our opinion.

As further described in Note 2, the Plan adopted FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans, as of December 31, 2006 and 2005.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) and Schedule of Reportable Transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are 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. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chicago, Illinois
June 25, 2007

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Statements of Net Assets Available for Benefits
December 31, 2006 and 2005

	2006	2005
Assets		
Investments		
Cash and cash equivalents	$ 33,168,843	$ 31,118,478
Common stock (including securities on loan of $17,081,644 in 2006 and $19,097,230 in 2005)	481,186,522	461,907,223
U.S. government and government agency issues	36,187,676	35,492,806
Corporate and other obligations (including securities on loan of $16,775,414 in 2006 and $11,742,965 in 2005)	42,547,956	38,886,788
Commingled funds	378,735,234	298,634,721
Registered investment companies	13,602,410	11,663,581
Participant loans	29,619,239	29,575,488
Synthetic guaranteed investment contracts (including securities on loan of $52,382,101 in 2006 and $93,799,223 in 2005)	612,875,198	621,691,044
Collateral held on loaned securities	87,326,904	126,971,898
Total investments at fair value	1,715,249,982	1,655,942,027
Receivables		
Accrued interest and dividends	2,922,904	2,984,702
Due from brokers for securities sold	318,298	235,820
	3,241,202	3,220,522
Total assets	1,718,491,184	1,659,162,549
Liabilities		
Accounts payable	2,826,722	2,747,092
Due to brokers for securities purchased	1,090,257	493,675
Collateral to be paid on loaned securities	87,326,904	126,971,898
Total liabilities	91,243,883	130,212,665
Net assets available for benefits, at fair value	1,627,247,301	1,528,949,884
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(27,502,635)	(49,731,043)
Net assets available for benefits	$ 1,599,744,666	$ 1,479,218,841

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

Baxter International Inc. and Subsidiaries
Incentive Investment Plan
Statements of Changes in Net Assets Available for Benefits
For the Years Ended December 31, 2006 and 2005

	2006	2005
Additions to net assets attributed to		
Investment income		
Interest	$ 36,837,148	$ 35,005,489
Participant loan interest	1,943,886	1,619,102
Dividends	6,805,226	5,890,923
Net appreciation in fair value of investments	114,810,943	58,542,900
	160,397,203	101,058,414
Contributions		
Sponsor	22,683,169	22,051,130
Participant	65,392,572	59,325,689
	88,075,741	81,376,819
Transfer from other plan		3,123,809
Total additions	248,472,944	185,559,042
Deductions from net assets attributed to		
Benefits paid	123,741,653	116,792,825
Plan expenses	4,205,466	4,171,025
Total deductions	127,947,119	120,963,850
Net increase	120,525,825	64,595,192
Net assets available for benefits		
Beginning of year	1,479,218,841	1,414,623,649
End of year	$ 1,599,744,666	$ 1,479,218,841

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, 2006 and 2005

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 agreement for more complete information.

The Plan allows tax deferred contributions in compliance with Section 401(k) of the Internal Revenue Code. Eligible participants may make pre-tax contributions up to 20% of their eligible annual compensation within certain limitations. The Plan sponsor, Baxter International Inc. (Baxter), matches participant contributions up to a maximum of 3% of the employee s compensation. Participant contributions and Plan sponsor matching contributions are fully vested and nonforfeitable at all times. Participants may borrow up to the lesser of $50,000 or 50% of their 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. Subject to certain provisions specified in the Plan agreement, employed participants may withdraw their pre-tax contributions and related earnings in cases of financial hardship.

Upon enrollment in the Plan, a participant may direct contributions to any of eight 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 the Self-Managed 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 spinoff 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.

2. Summary of Significant Accounting Policies

New Accounting and Disclosure Standard

The Plan adopted Financial Accounting Standards Board Staff Position Nos. AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP) for the plan year ending December 31, 2006. The FSP requires that the Statement of Net Assets Available for Benefits present the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis for fully benefit-responsive investment contracts. As required, the FSP was applied retroactively to the Statement of Net Assets Available for Benefits as of December 31, 2005. The adoption of the FSP had no impact on net assets. See Synthetic Guaranteed Investment Contracts section below for further information.

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.

Baxter International Inc. and Subsidiaries
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Valuation of Investments
The valuation of Plan investments is determined as follows:

Cash and cash equivalents	Value based on cost which approximates fair value
Common stock:	
Traded on national exchanges	Value based on composite pricing of all national closing sales prices on the valuation date
Traded on over-the-counter market	Value based on last reported sale price defaulting to bid quotations
U.S. government and government agency issues	Value based on the last reported sale price from a national security exchange on the valuation date
Corporate and other obligations	Value based on the last reported sale price from a national security exchange on the valuation date
Commingled funds	Value based on closing prices of the underlying securities on the valuation date
Registered investment companies	Value based on the last reported sale price from a national security exchange on the valuation date
Participant loans	Valued based on outstanding principal balance which approximates fair value
Synthetic guaranteed investment contracts	Value based on closing prices of the underlying securities on the valuation date
Collateral held on loaned securities	Value based on cost which approximates fair value

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
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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 NT & SA. The portfolio of assets underlying the synthetic GICS primarily includes U.S government and government agency issues, corporate and other bonds, and commingled trust funds.

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 was zero at both December 31, 2006 and 2005.

Fully benefit-responsive synthetic GICs are valued at contract value, rather than fair value, for determining the 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 $585,372,563 and $571,960,001 at December 31, 2006 and 2005, 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 4.48% and 2.14% at December 31, 2006 and 2005, respectively. The average interest rate credited to participants on the synthetic GICs was approximately 4.73% and 4.49%, respectively, for the years ended December 31, 2006 and 2005. Credit ratings for both issuers of the synthetic GICs at December 31, 2006 and 2005 were AA.

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 as the result of 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.

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Payment of Benefits
Benefits are recorded when paid.

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.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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 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.

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 Citistreet 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.

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

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5. Investments

Investments representing five percent or more of the Plan s net assets available for benefits at December 31, 2006 and 2005 are summarized as follows:

	2006	**2005**
Baxter Common Stock, 3,054,026 shares and 3,387,837 shares at December 31, 2006 and 2005, respectively	$ 141,676,250	$ 127,552,068
S&P500 Flagship Fund	190,	