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Abbott shareholders, including a powerful union pension, take aim at leadership

By [Katherine Davis](#)



Credit: Getty via Bloomberg

Abbott's factory in Sturgis, Mich.

Abbott Laboratories shareholders, including a powerful union pension fund, have filed a derivative lawsuit on behalf of the company against its leadership that includes a range of accusations, including insider trading amid misconduct related to its baby formula business.

Accusations include claims that North Chicago-based Abbott and its executives violated federal securities law, breached fiduciary duties, engaged in insider trading, and unjustly enriched themselves while unsafely and unethically producing infant formula, and either lied or omitted it to shareholders and the public.

Plaintiffs said in the 166-page complaint that the behavior has caused billions of dollars of damage to Abbott since 2019. Amid the behavior in question, the lawsuit points to Abbott's board allowing the company to buy back more than 57 million shares for \$6.4 billion from 2019 to 2022. Additionally, executives sold \$163.7 million in stock over the same period, when the stock was "artificially inflated," due to the company's failures to disclose issues with the company's formula business, the complaint says.

The lawsuit, filed June 27 in U.S. District Court for the Northern District of Illinois, names Abbott CEO Robert Ford and other executives and board members as defendants. The plaintiffs, the International Brotherhood of Teamsters Local 710 Pension Fund and the Southeastern Pennsylvania Transportation Authority, or SEPTA, are seeking restitution be paid to Abbott from the individual defendants for all profits, benefits and other compensation obtained by them. Plaintiffs also ask that Abbott improve its corporate governance and internal procedures, which include requiring independent approval for the terms and timing of insider stock selling.

Teamsters Local 710 Pension Fund, based in southwest suburban Mokena, has about 21,000 members and more than \$3.5 billion in plan assets. SEPTA is the sixth-largest public transportation agency in the U.S. with 9,500 employees and more than \$1.6 billion in its defined benefit plan.

The lawsuit piles onto the many other pieces of pending litigation related to Abbott's baby formula business. Other shareholders have [filed complaints](#) against Abbott and its executives with similar allegations after the company's formulas were at the center of a nationwide shortage last year when the company's Sturgis, Mich., manufacturing plant was shut down amid contamination issues.

The saga has led to multiple federal investigations into conduct at the plant and a [group of class-action lawsuits](#) from parents. Additionally, in a somewhat separate issue, there's a [growing group](#) of lawsuits alleging Abbott and competitor Mead Johnson's cow milk-based formulas are unsafe and sometimes deadly for premature infants.

Allegations in this week's lawsuit, parts of which are redacted, touch on each of these topics, displaying the shareholders' general dissatisfaction with how Abbott's entire pediatric formula segment has operated in recent years.

"Abbott's board and management have allowed the company to engage in actions to maximize Abbott's profits related to its manufacture and sales of infant formula products in the U.S., regardless of whether those actions were safe, ethical, or complied with federal regulations," the complaint reads.

“Abbott’s culture, which focuses on maximizing profits at all costs, has pushed its employees to take risky, unsafe and illegal actions, which ultimately caused significant harm to Abbott, with the Individual defendants at the helm.”

The complaint accuses several executives, including Ford and Chief Financial Officer Robert Funck, of taking advantage of Abbott’s high stock price between 2019 and 2022 and selling company stock. Ford sold \$22.3 million worth of stock from 2019 to February of 2023 in a manner that was inconsistent with past trading patterns and amounts, according to the complaint. Meanwhile, Funck sold nearly \$21 million worth of stock in the same period.

Abbott did not respond to a request for comment. The plaintiffs’ attorneys from New York-based Scott & Scott Attorneys at Law, Washington, D.C.-based Cohen Milstein Sellers & Toll and Philadelphia-based Kehoe Law Firm also did not respond to requests for comment.

Among the many accusations is one that, since at least 2019, Abbott has manufactured and sold formulas in violation of federal regulations, referring to the well-documented [sanitation issues](#) at the company’s Sturgis plant, where about half of the company’s formulas were produced. The company was forced to [recall](#) formula products following complaints of infants being sickened by Salmonella newport and another type of bacteria called Cronobacter sakazakii. Abbott has said it did not find any definitive link between its products and the reported illnesses.

The lawsuit also alleges Abbott has used potentially anti-competitive methods to secure a majority of the country’s Special Supplemental Nutrition Program for Women, Infants & Children contracts, a program that subsidizes formula costs for low-income families and makes up a large portion of Abbott’s formula sales. The U.S. Federal Trade Commission [opened an investigation](#) into the issue in May.

The complaint also accuses Abbott’s board and management of allowing the company to engage in “deceptive and unethical marketing practices” related to the company’s claims that its cow milk-based infant formulas are safe for preterm infants. This very issue is at the center of a separate group of lawsuits being heard before a Chicago judge from families claiming Abbott and another formula manufacturer, Mead Johnson, sell cow milk-based formula that can cause necrotizing enterocolitis when fed to premature babies. Other similar suits have been filed in British Columbia, Canada and Israel against Abbott, according to the union's complaint.

During the Sturgis plant shutdown, Abbott's formula [revenues sank dramatically](#) as its products were pulled from shelves and parents [turned to alternatives](#). But sales have begun to [rebound](#). The company reported 9.2% sales growth in its pediatric formula lines in the first quarter, which contributed to overall nutrition segment sales growing 3.8% to \$1.9 billion.

Abbott is scheduled to release its second-quarter earnings on July 20.

Last year's baby formula saga wasn't the first time the segment caused trouble for Abbott. The business has [performed inconsistently](#) since Abbott spun off its branded pharmaceutical business as AbbVie in 2013.

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