PFIZER INC
Form 10-Q
November 09, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

COMMISSION FILE NUMBER 1-3619

PFIZER INC.
(Exact name of registrant as specified in its charter)

DELAWARE	13-5315170
(State of Incorporation)	(I.R.S. Employer Identification No.)

235 East 42nd Street, New York, New York 10017
(Address of principal executive offices) (zip code)
(212) 733-2323
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
YES X NO ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES X NO ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated filer X Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ____ NO X

At November 5, 2012, 7,362,573,528 shares of the issuer’s voting common stock were outstanding.

Table of Contents

FORM 10-Q

For the Quarterly Period Ended
September 30, 2012

Table of Contents

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(MILLIONS, EXCEPT PER COMMON SHARE DATA)	Three Months Ended September 30, 2012	Three Months Ended October 2, 2011	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Revenues	$13,976	$16,609	$43,918	$49,118
Costs and expenses:				
Cost of sales[a]	2,665	3,409	8,162	10,449
Selling, informational and administrative expenses[a]	3,847	4,457	11,801	13,635
Research and development expenses[a]	1,981	2,176	5,734	6,487
Amortization of intangible assets	1,228	1,389	3,939	4,138
Restructuring charges and certain acquisition-related costs	302	1,090	1,089	2,458
Other deductions—net	962	547	3,283	1,802
Income from continuing operations before provision for taxes on income	2,991	3,541	9,910	10,149
Provision/(benefit) for taxes on income	(119)	1,216	1,882	3,167
Income from continuing operations	3,110	2,325	8,028	6,982
Discontinued operations:				
Income from discontinued operations—net of tax	104	96	249	303
Gain on sale of discontinued operations—net of tax	—	1,328	—	1,316
Discontinued operations—net of tax	104	1,424	249	1,619
Net income before allocation to noncontrolling interests	3,214	3,749	8,277	8,601
Less: Net income attributable to noncontrolling interests	6	11	22	31
Net income attributable to Pfizer Inc.	$3,208	$3,738	$8,255	$8,570
Earnings per common share—basic[b]:				
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.42	$0.30	$1.07	$0.88
Discontinued operations—net of tax	0.01	0.18	0.03	0.21
Net income attributable to Pfizer Inc. common shareholders	$0.43	$0.48	$1.10	$1.09
Earnings per common share—diluted[b]:				
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.41	$0.30	$1.06	$0.88
Discontinued operations—net of tax	0.01	0.18	0.03	0.20
Net income attributable to Pfizer Inc. common shareholders	$0.43	$0.48	$1.09	$1.08
Weighted-average shares—Basic	7,436	7,770	7,483	7,877
Weighted-average shares—Diluted	7,508	7,810	7,550	7,925
Cash dividends paid per common share	$0.22	$0.20	$0.66	$0.60

(a) Exclusive of amortization of intangible assets, except as disclosed in Note 9B. Goodwill and Other Intangible Assets: Other Intangible Assets.

(b) EPS amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2012	Three Months Ended October 2, 2011	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Net income before allocation to noncontrolling interests	$3,214	$3,749	$8,277	$8,601
Other Comprehensive Income/(Loss)				
Foreign currency translation adjustments	$153	$—	$(1,565)	$2,546
Reclassification adjustments[(a)]	—	(130)	—	(137)
	153	(130)	(1,565)	2,409
Unrealized holding gains/(losses) on derivative financial instruments	446	(1,051)	217	(516)
Reclassification adjustments for realized (gains)/losses[(a)]	(221)	653	(95)	(81)
	225	(398)	122	(597)
Unrealized holding gains/(losses) on available-for-sale securities	35	(74)	127	(94)
Reclassification adjustments for realized (gains)/losses[(a)]	(9)	23	24	32
	26	(51)	151	(62)
Benefit plans: Actuarial gains/(losses)	(88)	1	(592)	4
Reclassification adjustments related to amortization[(b)]	121	68	351	208
Reclassification adjustments related to curtailments and settlements, net[(b)]	48	85	160	258
Other	(36)	(20)	18	(164)
	45	134	(63)	306
Benefit plans: Prior service credits/(costs) and other	(3)	—	23	1
Reclassification adjustments related to amortization[(b)]	(19)	(17)	(53)	(52)
Reclassification adjustments related to curtailments and settlements, net[(b)]	(4)	(16)	(86)	(49)
Other	4	—	—	(4)
	(22)	(33)	(116)	(104)
Other comprehensive income/(loss), before tax	427	(478)	(1,471)	1,952
Tax provision/(benefit) on other comprehensive income/(loss)[(c)]	73	(216)	72	(276)
Other comprehensive income/(loss) before allocation to noncontrolling interests	$354	$(262)	$(1,543)	$2,228
Comprehensive Income				
Comprehensive income before allocation to noncontrolling interests	$3,568	$3,487	$6,734	$10,829
Less: Comprehensive income attributable to noncontrolling interests	5	7	3	35
Comprehensive income attributable to Pfizer Inc.	$3,563	$3,480	$6,731	$10,794

[a] Reclassified into Other deductions—net in the condensed consolidated statements of income.
[b] Generally reclassified into Cost of sales, Selling, informational and administrative expenses, and/or Research and development expenses, as appropriate in the condensed consolidated statements of income.
[c] See Note 5B. Tax Matters: Taxes on Items of Other Comprehensive Income/(Loss).

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS)	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	$4,506	$3,182
Short-term investments	18,462	23,270
Accounts receivable, less allowance for doubtful accounts	12,523	13,058
Inventories	7,516	6,610
Taxes and other current assets	8,849	9,380
Assets of discontinued operations and other assets held for sale	5,271	5,317
Total current assets	57,127	60,817
Long-term investments	13,429	9,814
Property, plant and equipment, less accumulated depreciation	14,606	15,921
Goodwill	44,370	44,569
Identifiable intangible assets, less accumulated amortization	47,209	51,184
Taxes and other noncurrent assets	5,862	5,697
Total assets	$182,603	$188,002
Liabilities and Equity		
Short-term borrowings, including current portion of long-term debt	$7,774	$4,016
Accounts payable	2,967	3,678
Dividends payable	1	1,796
Income taxes payable	1,788	1,009
Accrued compensation and related items	1,736	2,120
Other current liabilities	13,455	15,066
Liabilities of discontinued operations	1,410	1,224
Total current liabilities	29,131	28,909
Long-term debt	31,083	34,926
Pension benefit obligations	6,560	6,341
Postretirement benefit obligations	3,309	3,344
Noncurrent deferred tax liabilities	19,133	18,861
Other taxes payable	6,011	6,886
Other noncurrent liabilities	5,261	6,114
Total liabilities	100,488	105,381
Commitments and Contingencies		
Preferred stock	41	45
Common stock	447	445
Additional paid-in capital	72,317	71,423
Employee benefit trusts	(2)	(3)
Treasury stock	(36,703)	(31,801)
Retained earnings	51,256	46,210
Accumulated other comprehensive loss	(5,653)	(4,129)
Total Pfizer Inc. shareholders’ equity	81,703	82,190
Equity attributable to noncontrolling interests	412	431

Total equity	82,115	82,621
Total liabilities and equity	$182,603	$188,002

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(MILLIONS OF DOLLARS)	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Operating Activities		
Net income before allocation to noncontrolling interests	$8,277	$8,601
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	5,716	6,568
Share-based compensation expense	362	347
Asset write-offs and impairment charges	865	773
Gain on sale of discontinued operations	—	(1,683)
Deferred taxes from continuing operations	97	693
Other deferred taxes	23	145
Benefit plan contributions (in excess of)/less than expense	86	(270)
Other non-cash adjustments, net	(118)	(93)
Other changes in assets and liabilities, net of acquisitions and divestitures	(3,510)	(102)
Net cash provided by operating activities	11,798	14,979
Investing Activities		
Purchases of property, plant and equipment	(833)	(1,062)
Purchases of short-term investments	(14,587)	(13,457)
Proceeds from redemptions and sales of short-term investments	19,377	7,221
Net proceeds from redemptions and sales of short-term investments with original maturities of 90 days or less	1,483	10,648
Purchases of long-term investments	(8,694)	(3,646)
Proceeds from redemptions and sales of long-term investments	3,357	2,001
Acquisitions, net of cash acquired	(782)	(3,188)
Proceeds from sale of business	—	2,376
Other investing activities	(4)	408
Net cash provided by/(used in) investing activities	(683)	1,301
Financing Activities		
Proceeds from short-term borrowings	5,700	9,613
Principal payments on short-term borrowings	(3)	(3,826)
Net payments on short-term borrowings with original maturities of 90 days or less	(6,055)	(6,243)
Principal payments on long-term debt	(14)	(3,486)
Purchases of common stock	(4,834)	(5,789)
Cash dividends paid	(4,915)	(4,710)
Other financing activities	355	84
Net cash used in financing activities	(9,766)	(14,357)
Effect of exchange-rate changes on cash and cash equivalents	(25)	48
Net increase in cash and cash equivalents	1,324	1,971
Cash and cash equivalents, beginning	3,182	1,735
Cash and cash equivalents, end	$4,506	$3,706

Supplemental Cash Flow Information		
Cash paid during the period for:		
Income taxes	$1,895	$1,539
Interest	1,675	1,872

See Notes to Condensed Consolidated Financial Statements

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation and Significant Accounting Policies

A. Basis of Presentation

We prepared the condensed consolidated financial statements following the requirements of the U.S. Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted.

Balance sheet amounts and operating results for subsidiaries operating outside the U.S. are as of and for the three and nine months ended August 26, 2012, and August 28, 2011. We have made certain reclassification adjustments to conform prior-period amounts to the current presentation, primarily related to certain inventories (see Note 8. Inventories) and the reclassification of certain investments (see Note 7. Financial Instruments).

On August 13, 2012, we filed a registration statement with the SEC for the potential initial public offering (IPO) of up to a 20% ownership stake in our Animal Health business, Zoetis Inc. (Zoetis).

On April 23, 2012, we announced that we entered into an agreement to sell our Nutrition business to Nestlé. As a result, beginning in the second quarter of 2012, we report the operating results of the Nutrition business as Discontinued operations—net of tax in the condensed consolidated statements of income for all periods presented. In addition, the assets and liabilities associated with this business are reported as Assets of discontinued operations and other assets held for sale and Liabilities of discontinued operations, as appropriate, in the condensed consolidated balance sheets (see Note 2B. Acquisitions and Divestitures: Divestitures).

On August 1, 2011, we completed the sale of our Capsugel business. The operating results and the gain on the sale of this business are reported as Discontinued operations—net of tax in the condensed consolidated statements of income for the three and nine months ended October 2, 2011 (see Note 2B. Acquisitions and Divestitures: Divestitures).

On January 31, 2011, we acquired King Pharmaceuticals, Inc. (King) and in accordance with our domestic and international reporting periods, our condensed consolidated financial statements for the nine months ended October 2, 2011 reflect approximately eight months of King’s U.S. operations and approximately seven months of King’s international operations (for additional information, see Note 2A. Acquisitions and Divestitures: Acquisitions).

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited financial statements included in this Quarterly Report on Form 10-Q. The financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and results of operations.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our 2011 Annual Report on Form 10-K.

B. Adoption of New Accounting Standards

The provisions of the following new accounting and disclosure standards were adopted as of January 1, 2012:

- Presentation of comprehensive income in financial statements. As a result of adopting this new standard, we have presented separate Condensed Consolidated Statements of Comprehensive Income.
- An amendment to the guidelines on the measurement and disclosure of fair value that is consistent between U.S. GAAP and International Financial Reporting Standards. The adoption of this new standard did not have a significant impact on our financial statements.

7

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

C. Fair Value

Our fair value methodologies depend on the following types of inputs:

- Quoted prices for identical assets or liabilities in active markets (Level 1 inputs).
- Quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable (Level 2 inputs).
- Unobservable inputs that reflect estimates and assumptions (Level 3 inputs).

A single estimate of fair value can result from a complex series of judgments about future events and uncertainties and can rely heavily on estimates and assumptions.

Note 2. Acquisitions and Divestitures

A. Acquisitions

Nexium Over-the-Counter Rights

On August 13, 2012, we announced that we entered into an agreement with AstraZeneca for the over-the-counter (OTC) rights for Nexium, a leading prescription drug currently approved to treat the symptoms of gastroesophageal reflux disease. Under the terms of the agreement, we acquired the exclusive global rights to market Nexium for the approved OTC indications. We made an upfront payment of $250 million to AstraZeneca, and AstraZeneca is eligible to receive milestone payments of up to $550 million based on product launches and level of sales as well as royalty payments based on sales. The upfront payment was expensed and included in Research and development expenses in our condensed consolidated statements of income. A marketing authorization application for OTC Nexium in a 20 mg tablet form was filed with the European Medicines Agency in June 2012. A new drug application filing for OTC Nexium in the U.S. in a 20 mg delayed-release capsule is targeted for the first half of 2013.

Alacer Corp.

On February 26, 2012, we completed our acquisition of Alacer Corp., a privately owned company that manufactures, markets and distributes Emergen-C, a line of effervescent, powdered drink mix vitamin supplements that is the largest-selling branded vitamin C line in the U.S. In connection with this consumer healthcare acquisition, we recorded $247 million in Identifiable intangible assets, consisting primarily of the Emergen-C indefinite-lived brand, $94 million in net deferred tax liabilities and $151 million in Goodwill. The allocation of the consideration transferred to the assets acquired and the liabilities assumed has been finalized.

Ferrosan Holding A/S

On December 1, 2011, we completed our acquisition of the consumer healthcare business of Ferrosan Holding A/S (Ferrosan), a Danish company engaged in the sale of science-based consumer healthcare products, including dietary supplements and lifestyle products, primarily in the Nordic region and the emerging markets of Russia and Central and Eastern Europe. Due to the fact that financial information included in our fiscal year 2011 consolidated financial statements for our subsidiaries operating outside the U.S. is as of and for the year ended November 30, this acquisition is reflected in our condensed consolidated financial statements beginning in the first fiscal quarter of 2012. Our acquisition of Ferrosan’s consumer healthcare business increases our presence in dietary supplements with a new set of brands and pipeline products. Also, we believe that the acquisition allows us to expand the marketing of Ferrosan’s brands through Pfizer's global footprint and provide greater distribution and scale for certain Pfizer brands, such as Centrum and Caltrate, in Ferrosan's key markets. In connection with this acquisition, we recorded $463 million in Identifiable intangible assets, consisting of indefinite-lived and finite-lived brands, $119 million in net deferred tax liabilities and $246 million in Goodwill. The allocation of the consideration transferred to the assets acquired and the liabilities assumed has not been finalized.

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

King Pharmaceuticals, Inc.

On January 31, 2011 (the acquisition date), we completed a tender offer for the outstanding shares of common stock of King at a purchase price of $14.25 per share in cash and acquired approximately 92.5% of the outstanding shares. On February 28, 2011, we acquired all of the remaining shares of King for $14.25 per share in cash. As a result, the total fair value of consideration transferred for King was approximately $3.6 billion in cash ($3.2 billion, net of cash acquired).

King's principal businesses consist of a prescription pharmaceutical business focused on delivering new formulations of pain treatments designed to discourage common methods of misuse and abuse; the Meridian auto-injector business for emergency drug delivery, which develops and manufactures the EpiPen; an established products portfolio; and an animal health business that offers a variety of feed-additive products for a wide range of species.

The following table provides the assets acquired and liabilities assumed from King:

(MILLIONS OF DOLLARS)	Amounts Recognized as of Acquisition Date (Final)
Working capital, excluding inventories	$155
Inventories	340
Property, plant and equipment	412
Identifiable intangible assets, excluding in-process research and development	1,806
In-process research and development	303
Net tax accounts	(328)
All other long-term assets and liabilities, net	102
Total identifiable net assets	2,790
Goodwill[(a)]	765
Net assets acquired/total consideration transferred	$3,555

(a) Goodwill recorded as of the acquisition date totaled $720 million for our three biopharmaceutical operating segments and $45 million for our Animal Health operating segment. (Since the acquisition of King, we have revised our operating segments. See Note 13A. Segment, Geographic and Other Revenue Information: Segment Information.)

As of the acquisition date, the fair value of accounts receivable approximated the book value acquired. The gross contractual amount receivable was $200 million, virtually all of which was expected to be collected.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of King includes the following:

- the expected synergies and other benefits that we believed would result from combining the operations of King with the operations of Pfizer;
- any intangible assets that did not qualify for separate recognition, as well as future, yet unidentified projects and products; and
- the value of the going-concern element of King's existing businesses (the higher rate of return on the assembled collection of net assets versus if Pfizer had acquired all of the net assets separately).

Goodwill is not amortized and is not deductible for income tax purposes (see Note 9A. Goodwill and Other Intangible Assets: Goodwill for additional information).

The assets and liabilities arising from contingencies recognized as of the acquisition date are not significant to Pfizer's condensed consolidated financial statements.

Revenues from King are included in Pfizer's condensed consolidated statements of income from the acquisition date, January 31, 2011, through Pfizer’s domestic and international quarter-ends and were $938 million in the first nine months of 2011. We are not able to provide the results of operations attributable to King in the first nine months of 2011 as those operations had been substantially integrated into the larger Pfizer operation shortly after the acquisition.

If the acquisition of King had occurred on January 1, 2011, the change to Pfizer’s Revenues, Income from continuing operations attributable to Pfizer Inc. common shareholders and Diluted earnings per share attributable to Pfizer Inc. common shareholders for the first nine months of 2011 would not have been significant.

B. Divestitures

On April 23, 2012, we announced that we entered into an agreement to sell our Nutrition business to Nestlé for $11.85 billion in cash. The transaction is expected to close in the next few months, assuming the receipt of the required regulatory clearances and satisfaction of other closing conditions. Beginning in the second quarter of 2012, we report the operating results of the Nutrition business as Discontinued operations—net of tax in the condensed consolidated statements of income for all periods presented. The transaction also includes the sale of certain prenatal multivitamins currently commercialized by the Pfizer Consumer Healthcare business unit. The operating results of this product line are also included in Discontinued operations—net of tax for all periods presented. In addition, the assets and liabilities associated with the discontinued operations are classified as Assets of discontinued operations and other assets held for sale and Liabilities of discontinued operations, as appropriate, in the condensed consolidated balance sheets.

On August 1, 2011, we completed the sale of our Capsugel business for approximately $2.4 billion in cash. The operating results and the gain on the sale of this business are reported as Discontinued operations—net of tax in the condensed consolidated statements of income for the three and nine months ended October 2, 2011.

The following table provides the components of Discontinued operations—net of tax:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2012	Three Months Ended October 2, 2011	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Revenues[(a)]	$564	$699	$1,665	$2,068
Pre-tax income from discontinued operations	$129	$121	$365	$397
Provision for taxes on income[(b)]	25	25	116	94
Income from discontinued operations—net of tax	104	96	249	303
Pre-tax gain on sale of discontinued operations	—	1,695	—	1,683
Provision for taxes on income[(c)]	—	367	—	367
Gain on sale of discontinued operations—net of tax	—	1,328	—	1,316
Discontinued operations—net of tax[(a)]	$104	$1,424	$249	$1,619

(a) Includes the Nutrition business for all periods presented and the Capsugel business for 2011 only.

(b) Includes deferred tax expense of $9 million and a deferred tax benefit of $10 million for the three months ended September 30, 2012 and October 2, 2011, respectively, and a deferred tax expense of $23 million and a deferred tax benefit of $17 million for the nine months ended September 30, 2012 and October 2, 2011, respectively. These deferred tax provisions include deferred income taxes related to investments in certain foreign subsidiaries resulting from our intention not to hold these subsidiaries permanently.

(c) Includes deferred tax expense of $162 million for the three and nine months ended October 2, 2011. These deferred tax provisions include deferred taxes on certain current-year funds earned outside the U.S. that will not be permanently reinvested overseas.

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table provides the components of Assets of discontinued operations and other assets held for sale and Liabilities of discontinued operations:

(MILLIONS OF DOLLARS)	September 30, 2012	December 31, 2011
Accounts receivable, less allowance for doubtful accounts	$523	$550
Other current assets	433	419
Property, plant and equipment, less accumulated depreciation	1,046	1,118
Goodwill	492	498
Identifiable intangible assets, less accumulated amortization	2,652	2,648
Other noncurrent assets	125	84
Assets of discontinued operations and other assets held for sale	$5,271	$5,317
Current liabilities	$554	$385
Other liabilities	856	839
Liabilities of discontinued operations	$1,410	$1,224

The net cash flows of our discontinued operations for each of the categories of operating, investing and financing activities are not significant for any period presented.

Note 3. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

We incur significant costs in connection with acquiring, integrating and restructuring businesses and in connection with our global cost-reduction and productivity initiatives. For example:

- In connection with our cost-reduction and productivity initiatives, significant programs of which began in 2005, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems; and
- In connection with acquisition activity, we typically incur costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company).

All of our businesses and functions may be impacted by these actions, including sales and marketing, manufacturing and research and development, as well as groups such as information technology, shared services and corporate operations.

Since the acquisition of Wyeth on October 15, 2009, our cost-reduction initiatives announced on January 26, 2009, but not completed as of December 31, 2009, were incorporated into a comprehensive plan to integrate Wyeth's operations to generate cost savings and to capture synergies across the combined company. In addition, on February 1, 2011, we announced a new productivity initiative to accelerate our strategies to improve innovation and productivity in R&D by prioritizing areas with the greatest scientific and commercial promise, utilizing appropriate risk/return profiles and focusing on areas with the highest potential to deliver value in the near term and over time.

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table provides the components of costs associated with acquisitions and cost-reduction/productivity initiatives:

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2012	Three Months Ended October 2, 2011	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Transaction costs[a]	$—	$5	$1	$28
Integration costs[b]	87	184	295	562
Restructuring charges[c]:				
Employee termination costs	113	762	424	1,615
Asset impairments	35	99	282	157
Exit costs	67	40	87	96
Restructuring charges and certain acquisition-related costs	302	1,090	1,089	2,458
Additional depreciation—asset restructuring recorded in our condensed consolidated statements of income as follows[d]:				
Cost of sales	78	68	214	410
Selling, informational and administrative expenses	3	39	8	68
Research and development expenses	—	146	259	379
Total additional depreciation—asset restructuring	81	253	481	857
Implementation costs recorded in our condensed consolidated statements of income as follows[e]:				
Cost of sales	19	—	23	—
Selling, informational and administrative expenses	45	12	77	12
Research and development expenses	47	10	132	28
Total implementation costs	111	22	232	40
Total costs associated with acquisitions and cost-reduction/productivity initiatives	$494	$1,365	$1,802	$3,355

(a) Transaction costs represent external costs directly related to acquired businesses and primarily include expenditures for banking, legal, accounting and other similar services.

(b) Integration costs represent external, incremental costs directly related to integrating acquired businesses, and primarily include expenditures for consulting and the integration of systems and processes.

(c) From the beginning of our cost-reduction and transformation initiatives in 2005 through September 30, 2012, Employee termination costs represent the expected reduction of the workforce by approximately 59,700 employees, mainly in manufacturing and sales and research, of which approximately 49,300 employees have been terminated as of September 30, 2012. For the nine months ended September 30, 2012, the amount of employee termination costs represents additional accruals with respect to reserves for approximately 2,300 employees.

The restructuring charges in 2012 are associated with the following:

- For the three months ended September 30, 2012, Primary Care operating segment ($83 million), Specialty Care and Oncology operating segment ($60 million), Established Products and Emerging Markets operating segment ($16 million), other operating segments ($8 million), research and development operations ($39 million income), manufacturing operations ($27 million) and Corporate ($60 million).
-

For the nine months ended September 30, 2012, Primary Care operating segment ($51 million), Specialty Care and Oncology operating segment ($79 million), Established Products and Emerging Markets operating segment ($20 million), other operating segments ($26 million), research and development operations ($14 million income), manufacturing operations ($193 million) and Corporate ($438 million).

The restructuring charges in 2011 are associated with the following:

- For the three months ended October 2, 2011, Primary Care operating segment ($473 million), Specialty Care and Oncology operating segment ($186 million), Established Products and Emerging Markets operating segment ($64 million), other operating segments ($30 million), research and development operations ($46 million income), manufacturing operations ($41 million) and Corporate ($153 million).

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

- For the nine months ended October 2, 2011, Primary Care operating segment ($606 million), Specialty Care and Oncology operating segment ($228 million), Established Products and Emerging Markets operating segment ($80 million), other operating segments ($44 million), research and development operations ($426 million), manufacturing operations ($196 million) and Corporate ($288 million).

(d) Additional depreciation—asset restructuring represents the impact of changes in the estimated useful lives of assets involved in restructuring actions.

(e) Implementation costs represent external, incremental costs directly related to implementing our non-acquisition-related cost-reduction and productivity initiatives.

The following table provides the components of and changes in our restructuring accruals:

(MILLIONS OF DOLLARS)	Employee Termination Costs	Asset Impairment Charges	Exit Costs	Accrual
Balance, December 31, 2011	$ 2,425	$—	$ 92	$ 2,517
Provision[(a)]	424	282	87	793
Utilization and other[(b)]	(1,270)	(282)	(69)	(1,621)
Balance, September, 2012[(c)]	$ 1,579	$—	$ 110	$ 1,689

(a) For the nine months ended September 30, 2012, Provision includes additional accruals with respect to reserves for approximately 2,300 employees.

(b) Includes adjustments for foreign currency translation.

(c) Included in Other current liabilities ($949 million) and Other noncurrent liabilities ($740 million).

The asset impairment charges included in restructuring charges for the nine months ended September 30, 2012 primarily relate to assets held for sale and are based on an estimate of fair value, which was determined to be lower than the carrying value of the assets prior to the impairment charge.

The following table provides additional information about the long-lived assets held-for-sale that were impaired in 2012:

	Fair Value[(a)]				Nine Months Ended September 30, 2012
(MILLIONS OF DOLLARS)	Amount	Level 1	Level 2	Level 3	Impairment
Long-lived assets held-for-sale[(b)]	$ 96	$—	$ 96	$—	$ 220

(a) The fair value amount is presented as of the date of impairment, as these assets are not measured at fair value on a recurring basis. See also Note 1C. Basis of Presentation and Significant Accounting Policies: Fair Value.

(b) Reflects property, plant and equipment and other long-lived assets written down to their fair value of $96 million, less costs to sell of $2 million (a net of $94 million), in the first nine months of 2012. The impairment charges of $220 million are included in Restructuring charges and certain acquisition-related costs. Fair value is determined primarily using a market approach, with various inputs, such as recent sales transactions.

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 4. Other Deductions—Net

The following table provides components of Other deductions—net:

	Three Months Ended		Nine Months Ended	
(MILLIONS OF DOLLARS)	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Interest income[(a)]	$(108)	$(109)	$(275)	$(331)
Interest expense[(a)]	382	423	1,151	1,285
Net interest expense	274	314	876	954
Royalty-related income	(132)	(136)	(353)	(447)
Net gain on asset disposals	(19)	(21)	(45)	(47)
Certain legal matters, net[(b)]	726	132	2,014	619
Certain asset impairment charges[(c)]	49	145	561	625
Costs associated with the potential separation of the Animal Health business[(d)]	32	—	93	—
Other, net	32	113	137	98
Other deductions—net	$962	$547	$3,283	$1,802

(a) Interest income decreased slightly in the third quarter of 2012 due to lower investment balances mostly offset by higher interest rates earned on investments. Interest income decreased in the first nine months of 2012 due to lower interest rates earned on investments. Interest expense decreased in both periods in 2012 due to lower debt balances and the effective conversion of some fixed-rate liabilities to floating-rate liabilities.

(b) In the third quarter of 2012, primarily includes a $491 million charge, not deductible for income tax purposes, resulting from an agreement-in-principle with the U.S. Department of Justice (DOJ) to resolve an investigation into Wyeth's historical promotional practices in connection with Rapamune. In the first nine months of 2012, primarily includes the aforementioned $491 million charge related to Rapamune, a $450 million settlement of a lawsuit by Brigham Young University related to Celebrex, and charges related to hormone-replacement therapy litigation. In 2011, primarily includes charges related to hormone-replacement therapy litigation. (See Note 12. Commitments and Contingencies.)

(c) In the first nine months of 2012, includes intangible asset impairment charges of $494 million reflecting (i) $314 million of in-process research and development (IPR&D), substantially all related to compounds that targeted autoimmune and inflammatory diseases (full write-off), (ii) $45 million related to our Consumer Healthcare indefinite-lived brand, Robitussin, and (iii) $135 million related to three developed technology rights. The intangible asset impairment charges for 2012 reflect, among other things, the impact of new scientific findings, updated commercial forecasts, an increased competitive environment and declining gross margins. The impairment charges for the nine months of 2012 are associated with the following: Worldwide Research and Development ($297 million); Consumer Healthcare ($45 million); Established Products ($45 million); Primary Care ($52 million); Animal Health ($36 million) and Specialty Care ($19 million). In addition, the first nine months of 2012 include charges of approximately $67 million for certain investments. These investment impairment charges reflect the difficult global economic environment.

In the first nine months of 2011, includes intangible asset impairment charges of approximately $585 million, reflecting approximately $440 million impairment of IPR&D assets, primarily related to two compounds for the treatment of certain autoimmune and inflammatory diseases, and approximately $145 million impairment of developed technology rights. Substantially all of these impairment charges relate to intangible assets that were acquired as part of our acquisition of Wyeth. The intangible asset impairment charges for 2011 reflect, among other things, the impact of new scientific findings and updated commercial forecasts. The impairment charges for the nine months of 2011 are associated with the following: Worldwide Research and Development ($394 million); Specialty Care ($126 million); Oncology ($56 million) and Animal Health ($9 million).

(d) Costs incurred in connection with the potential initial public offering of up to a 20% ownership stake in our Animal Health business, Zoetis. Includes expenditures for banking, legal, accounting and similar services related to the potential transaction.

The asset impairment charges included in Other deductions—net for the first nine months of 2012 primarily relate to identifiable intangible assets and are based on estimates of fair value.

The following table provides additional information about the intangible assets that were impaired in 2012:

	Fair Value[(a)]				Nine Months Ended September 30, 2012
(MILLIONS OF DOLLARS)	Amount	Level 1	Level 2	Level 3	Impairment
Intangible assets—IPR&D[(b)]	$44	$—	$—	$44	$314
Intangible assets—Other[(b)]	573	—	—	573	180
Total	$617	$—	$—	$617	$494

(a) Fair value as of the date of impairment, as these assets are not measured at fair value on a recurring basis. See also Note 1C. Basis of Presentation and Significant Accounting Policies: Fair Value.

(b) Reflects intangible assets written down to their fair value of $617 million in the first nine months of 2012. The impairment charges of $494 million are included in Other deductions—net. When we are required to determine the fair value of intangible assets other than goodwill, we use an income approach, specifically the multi-period excess earnings method, also known as the discounted cash flow method. We start with a forecast of all the expected net cash flows associated with the asset, which includes the application of a terminal value for indefinite-lived assets, and then we apply an asset-specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected net cash flows, which includes the expected impact of competitive, legal and/or regulatory forces on the projections and the impact of technological risk associated with IPR&D assets, as well as the selection of a long-term growth rate; the discount rate, which seeks to reflect the various risks inherent in the projected cash flows; and the tax rate, which seeks to incorporate the geographic diversity of the projected cash flows.

Note 5. Tax Matters

A. Taxes on Income from Continuing Operations

During the third quarter of 2012, we reached a settlement with the U.S. Internal Revenue Service (IRS) with respect to the audits of the Pfizer Inc. tax returns for the years 2006 through 2008. The IRS concluded the examination of the aforementioned tax years and issued a final Revenue Agent's Report (RAR). We agreed with all the adjustments and computations contained in the RAR. As a result of settling these audit years, in the third quarter of 2012 we recorded a tax benefit of approximately $1.1 billion representing tax and interest.

Our effective tax rate for continuing operations was (4.0)% for the third quarter of 2012, compared to 34.3% for the third quarter of 2011, and in the first nine months of 2012 was 19.0%, compared to 31.2% in the first nine months of 2011. The effective tax rates for the third quarter and first nine months of 2012 were favorably impacted by the aforementioned settlement with the IRS. The tax rates in both periods in 2012 compared to the same periods in 2011 were also favorably impacted by the resolution of foreign audits pertaining to multiple tax years and the change in the jurisdictional mix of earnings as a result of operating fluctuations in the normal course of business, partially offset by the unfavorable impact of the non-deductibility of a $491 million charge resulting from an agreement-in-principle with the DOJ to resolve an investigation into Wyeth's historical promotional practices in connection with Rapamune, as well as the expiration of the U.S. research and development tax credit.

15

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

B. Taxes on Items of Other Comprehensive Income/(Loss)

The following table provides the components of tax benefit on Other comprehensive income/(loss):

(MILLIONS OF DOLLARS)	Three Months Ended September 30, 2012	Three Months Ended October 2, 2011	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011
Tax Expense/(Benefit) on Other Comprehensive Income/(Loss)				
Foreign currency translation adjustments[(a)]	$(23)	$(60)	$14	$(70)
Unrealized holding gains/(losses) on derivative financial instruments	137	(419)	80	(212)
Reclassification adjustments for realized (gains)/losses	(52)	250	(34)	(31)
	85	(169)	46	(243)
Unrealized gains/(losses) on available-for-sale securities	4	(18)	17	(18)
Reclassification adjustments for realized losses	3	3	8	4
	7	(15)	25	(14)
Benefit plans: Actuarial gains/(losses)	(39)	1	(157)	1
Reclassification adjustments related to amortization	44	24	129	74
Reclassification adjustments related to curtailments and settlements, net	20	28	59	89
Other	(12)	(12)	5	(71)
	13	41	36	93
Benefit plan: Prior service (costs)/credits and other	(2)	—	6	—
Reclassification adjustments related to amortization	(7)	(7)	(21)	(21)
Reclassification adjustments related to curtailments and settlements, net	(2)	(7)	(34)	(20)
Other	2	1	—	(1)
	(9)	(13)	(49)	(42)
Tax provision/(benefit) on other comprehensive income/(loss)	$73	$(216)	$72	$(276)

(a) Taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.

C. Tax Contingencies

We are subject to income tax in many jurisdictions, and a certain degree of estimation is required in recording the assets and liabilities related to income taxes. All of our tax positions are subject to audit by the local taxing authorities in each tax jurisdiction. These tax audits can involve complex issues, interpretations and judgments and the resolution of matters may span multiple years, particularly if subject to negotiation or litigation. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire. We treat these events as discrete items in the period of resolution.

The United States is our primary tax jurisdiction and we are regularly audited by the U.S. Internal Revenue Service (IRS):

- During the third quarter of 2012, we reached a settlement with the IRS with respect to the audits of the Pfizer Inc. tax returns for the years 2006 through 2008. The IRS concluded the examination of the aforementioned tax years and issued a final Revenue Agent's Report (RAR). We agreed with all the adjustments and computations contained in the RAR. As a result of settling these audit years, in the third quarter of 2012 we recorded a tax benefit of approximately $1.1 billion representing tax and interest.
- With respect to Pfizer Inc., tax years 2009-2010 are currently under audit. Tax years 2011-2012 are not under audit. All other tax years are closed.

16

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

- With respect to Wyeth, tax years 2006 through the Wyeth acquisition date (October 15, 2009) are currently under audit. All other tax years are closed.
- With respect to King, the audit for tax year 2008 has been effectively settled, and for Alpharma Inc. (a subsidiary of King), tax years 2005-2007 are currently under audit. For King, tax years 2009 through the date of acquisition (January 31, 2011) are open but not under audit. All other tax years are closed. The open tax years and audits for King and its subsidiaries are not considered material to Pfizer.

In addition to the open audit years in the U.S., we have open audit years in other major tax jurisdictions, such as Canada (2001-2012), Japan (2007-2012), Europe (2007-2012, primarily reflecting Ireland, the United Kingdom, France, Italy, Spain and Germany), and Puerto Rico (2007-2012).

Note 6. Accumulated Other Comprehensive Loss, Excluding Noncontrolling Interests

The following table provides the changes, net of tax, in Accumulated other comprehensive loss:

	Net Unrealized Gain/(Losses)			Benefit Plans		
(MILLIONS OF DOLLARS)	Currency Translation Adjustment And Other	Derivative Financial Instruments	Available-For-Sale Securities	Actuarial Gains/(Losses)	Prior Service (Costs)/ Credits And Other	Accumulated Other Comprehensive Loss
Balance, December 31, 2011	$944	$(361)	$ 46	$(5,120)	$362	$(4,129)
Other comprehensive income/(loss)[(a)]	(1,560)	76	126	(99)	(67)	(1,524)
Balance, September 30, 2012	$(616)	$(285)	$ 172	$(5,219)	$295	$(5,653)

(a) Amounts do not include foreign currency translation adjustments attributable to noncontrolling interests of $19 million loss for the first nine months of 2012.

Table of Contents

PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 7. Financial Instruments

A. Selected Financial Assets and Liabilities

The following table provides additional information about certain of our financial assets and liabilities:

(MILLIONS OF DOLLARS)	September 30, 2012	December 31, 2011
Selected financial assets measured at fair value on a recurring basis[a]		
Trading securities[b]	$141	$154
Available-for-sale debt securities[c]	28,187	29,179
Available-for-sale money market funds[d]	1,429	1,727
Available-for-sale equity securities, excluding money market funds[c]	299	317
Derivative financial instruments in receivable positions[e]:		
Interest rate swaps	1,029	1,033
Foreign currency forward-exchange contracts	178	349
Foreign currency swaps	76	17
	31,339	32,776
Other selected financial assets[f]		
Held-to-maturity debt securities, carried at amortized cost[c]	3,029	1,587
Private equity securities, carried at equity method or at cost[g]	1,118	1,020
	4,147	2,607
Total selected financial assets	$35,486	$35,383
Financial liabilities measured at fair value on a recurring basis[a]		
Derivative financial instruments in a liability position[h]:		
Foreign currency swaps	$1,172	$1,396
Foreign currency forward-exchange contracts	165	355
Interest rate swaps	29	14
	1,366	1,765
Other financial liabilities[i]		
Short-term borrowings, carried at historical proceeds, as adjusted[f]	7,774	4,016
Long-term debt, carried at historical proceeds, as adjusted[j], [k]	31,083	34,926
	38,857	38,942
Total selected financial liabilities	$40,223	$40,707

(a) We use a market approach in valuing financial instruments on a recurring basis. See also Note 1C. Basis of Presentation and Significant Accounting Policies: Fair Value. All of our financial assets and liabilities measured at fair value on a recurring basis use Level 2 inputs in the calculation of fair value, except less than 1% that use Level 1 or Level 3 inputs.

(b) Trading securities are held in trust for legacy business acquisition severance benefits.

(c) Gross unrealized gains and losses are not significant.

(d) Includes approximately $625 million as of December 31, 2011 of money market funds that were released from restriction in the second quarter of 2012 and classified as part of Short-term investments. Such money market funds were held in escrow to secure certain of Wyeth's payment obligations under its 1999 Nationwide Class Action Settlement Agreement, which relates to litigation against Wyeth concerning its former weight-loss products, Redux and Pondimin. The amount also includes $397 million as of September 30, 2012 and $357 million as of December 31, 2011 of money market funds held in trust in connection with the asbestos litigation involving

Quigley Company, Inc., a wholly owned subsidiary.

(e) Designated as hedging instruments, except for certain foreign currency contracts used as offsets; namely, foreign currency forward-exchange contracts with fair values of $25 million as of September 30, 2012; and foreign currency forward-exchange contracts with fair values of $169 million and interest rate swaps with fair values of $8 million as of December 31, 2011.

(f) The differences between the estimated fair values and carrying values of these financial assets and liabilities not measured at fair value on a recurring basis were not significant as of September 30, 2012 or December 31, 2011. Held-to-maturity debt securities and our short-term and long-term debt fair value are based on Level 2 valuations using a market approach. Fair value measurements for private equity securities carried at cost are based on Level 3 valuations using a market approach.

(g) Our private equity securities represent investments in the life sciences sector.

(h) Designated as hedging instruments, except for certain foreign currency contracts used as offsets; namely, foreign currency swaps with fair values of $179 million and foreign currency forward-exchange contracts with fair values of $129 million as of September 30, 2012; and foreign currency forward-exchange contracts with fair values of $141 million and foreign currency swaps with fair values of $123 million as of December 31, 2011.

(i) Some carrying amounts may include adjustments for discount or premium amortization or for the effect of interest rate swaps designated as hedges.

(j) Includes foreign currency debt with fair values of $898 million as of September 30, 2012 and $919 million as of December 31, 2011, which are used as hedging instruments.

(k) The fair value of our long-term debt (not including the current portion of long term debt) is $36.5 billion as of September 30, 2012 and $40.1 billion as of December 31, 2011.

The following table provides the classification of these selected financial assets and liabilities in the condensed consolidated balance sheets:

(MILLIONS OF DOLLARS)	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$2,312	$900
Short-term investments	18,462	23,270
Long-term investments	13,429	9,814
Taxes and other current assets[(a)]	210	357
Taxes and other noncurrent assets[(b)]	1,073	1,042
	$35,486	$35,383
Liabilities		
Short-term borrowings, including current portion of long-term debt	$7,774	$4,016
Other current liabilities[(c)]	395	459
Long-term debt	31,083	34,926
Other noncurrent liabilities[(d)]	971	1,306
	$40,223	$40,707

(a) As of September 30, 2012, derivative instruments at fair value include foreign currency forward-exchange contracts ($178 million), foreign currency swaps ($20 million) and interest rate swaps ($12 million) and, as of December 31, 2011, include foreign currency forward-exchange contracts ($349 million) and interest rate swaps ($8 million).

(b) As of September 30, 2012, derivative instruments at fair value include interest rate swaps ($1.0 billion) and foreign currency swaps ($56 million) and, as of December 31, 2011, include interest rate swaps ($1 billion) and foreign currency swaps ($17 million).

(c) At September 30, 2012, derivative instruments at fair value include foreign currency swaps ($230 million) and foreign currency forward-exchange contracts ($165 million) and, as of December 31, 2011, include foreign currency forward-exchange contracts ($355 million) and foreign currency swaps ($104 million).

(d) At September 30, 2012, derivative instruments at fair value include foreign currency swaps ($942 million) and interest rate swaps ($29 million) and, as of December 31, 2011, include foreign currency swaps ($1.3 billion) and interest rate swaps ($14 million).

19

B. Investments in Debt Securities

The following table provides the contractual maturities of the available-for-sale and held-to-maturity debt securities:

	Years			
		Over 1	Over 5	September 30, 2012
(MILLIONS OF DOLLARS)	Within 1	to 5	to 10	Total
Available-for-sale debt securities				
Western European, Asian and other government debt[a]	$11,079	$1,810	$6	$12,895
Corporate debt[b]	1,368	4,302	1,799	7,469
Western European, Scandinavian and other government agency debt[a]	1,927	415	—	2,342
Federal Home Loan Mortgage Corporation and Federal National Mortgage Association asset-backed securities	—	2,308	25	2,333
U.S. government debt	1,912	171	—	2,083
Supranational debt[a]	310	345	—	655
Reverse repurchase agreements[c]	410	—	—	410
Held-to-maturity debt securities				
Certificates of deposit and other	2,734	287	8	3,029
Total debt securities	$19,740	$9,638	$1,838	$31,216

[a] All issued by above-investment-grade governments, government agencies or supranational entities, as applicable.
[b] Largely issued by above-investment-grade institutions in the financial services sector.
[c] Involving U.S. government securities.

C. Short-Term Borrowings

Short-term borrowings include amounts for commercial paper of $2.7 billion as of September 30, 2012 and December 31, 2011, respectively.

D. Derivative Financial Instruments and Hedging Activities

Foreign Exchange Risk

As of September 30, 2012, the aggregate notional amount of foreign exchange derivative financial instruments hedging or offsetting foreign currency exposures is $43.9 billion. The derivative financial instruments primarily hedge or offset exposures in the euro, Japanese yen and U.K. pound. The maximum length of time over which we are hedging future foreign exchange cash flow relates to our $2.4 billion U.K. pound debt maturing in 2038.

Interest Rate Risk

As of September 30, 2012, the aggregate notional amount of interest rate derivative financial instruments is $13.0 billion. The derivative financial instruments primarily hedge U.S. dollar and euro fixed-rate debt.

20

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following table provides information about the gains/(losses) incurred to hedge or offset operational foreign exchange or interest rate risk:

	Amount of Gains/(Losses) Recognized in OID(a), (b), (c)		Amount of Gains/(Losses) Recognized in OCI (Effective Portion)(a), (d)		Amount of Gains/(Losses) Reclassified from OCI into OID (Effective Portion)(a), (d)	
(MILLIONS OF DOLLARS)	Sep 30, 2012	Oct 2, 2011	Sep 30, 2012	Oct 2, 2011	Sep 30, 2012	Oct 2, 2011
Three Months Ended						
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$—	$—	$455	$(1,047)	$221	$(654)
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	—	(1)	(40)	(118)	—	—
Derivative Financial Instruments Not Designated as Hedges						
Foreign currency forward-exchange contracts	(201)	(75)	—	—	—	—
Foreign currency swaps	10	29	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency short-term borrowings	—	—	—	—	—	—
Foreign currency long-term debt	—	—	(20)	(42)	—	—
All other net	—	(1)	—	1	—	1
	$(191)	$(48)	$395	$(1,206)	$221	$(653)
Nine Months Ended						
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$—	$—	$238	$(516)	$89	$76
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	(3)	14	33	(1,076)	—	—
Derivative Financial Instruments Not Designated as Hedges						
	(137)	(392)	—	—	—	—

Foreign currency forward-exchange contracts						
Foreign currency swaps	(7)	72	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency short-term borrowings	—	—	—	940	—	—
Foreign currency long-term debt	—	—	3	(47)	—	—
All other net	1	(1)	5	4	6	5
	$(146)	$(307)	$279	$(695)	$95	$81

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(a) OID = Other (income)/deductions—net, included in Other deductions—net in the condensed consolidated statements of income. OCI = Other comprehensive income/(loss), included in the condensed consolidated statements of comprehensive income.
(b) Also includes gains and losses attributable to the hedged risk in fair value hedge relationships.
(c) There was no significant ineffectiveness for any period presented.
(d) Amounts presented represent the effective portion of the gain or loss. For derivative financial instruments in cash flow hedge relationships, the effective portion is included in Other comprehensive income/(loss)—Unrealized holding gains/(losses) on derivative financial instruments. For derivative financial instruments in net investment hedge relationships and for foreign currency debt designated as hedging instruments, the effective portion is included in Other comprehensive income/(loss)—foreign currency translation adjustments.

For information about the fair value of our derivative financial instruments, and the impact on our condensed consolidated balance sheets, see Note 7A. Financial Instruments: Selected Financial Assets and Liabilities above. Certain of our derivative instruments are covered by associated credit-support agreements that have credit-risk-related contingent features designed to reduce our counterparties' exposure to our risk of defaulting on amounts owed. As of September 30, 2012, the aggregate fair value of these derivative instruments that are in a liability position is $819 million, for which we have posted collateral of $782 million in the normal course of business. These features include the requirement to pay additional collateral in the event of a downgrade in our debt ratings. If there had been a downgrade to below an A rating by S&P or the equivalent rating by Moody's Investors Service, on September 30, 2012, we would have been required to post an additional $67 million of collateral to our counterparties. The collateral advanced receivables are reported in Cash and cash equivalents.

E. Credit Risk

On an ongoing basis, we review the creditworthiness of counterparties to our foreign exchange and interest rate agreements and do not expect to incur a significant loss from failure of any counterparties to perform under the agreements.

There are no significant concentrations of credit risk related to our financial instruments with any individual counterparty. As of September 30, 2012, we had $2.5 billion due from a well-diversified, highly rated group (S&P ratings of mostly A+ or better) of bank counterparties around the world. See Note 7B. Financial Instruments: Investments in Debt Securities above for details about our investments.

In general, there is no requirement for collateral from customers. However, derivative financial instruments are executed under master netting agreements with financial institutions. These agreements contain provisions that provide for the ability for collateral payments, depending on levels of exposure, our credit rating and the credit rating of the counterparty. As of September 30, 2012, we received cash collateral of $452 million against various counterparties. The collateral primarily supports the approximate fair value of our derivative contracts. With respect to the collateral received, which is included in Cash and cash equivalents, the obligations are reported in Short-term borrowings, including current portion of long-term debt.

Note 8. Inventories

The following table provides the components of Inventories:

(MILLIONS OF DOLLARS)	September 30, 2012	December 31, 2011

Finished goods	$ 2,634	$ 2,311
Work-in-process	3,994	3,514
Raw materials and supplies	888	785
Total inventories[(a)]	$ 7,516	$ 6,610
Noncurrent portion not included above[(b)]	$ 702	$ 800

(a) The increase reflects, in part, a build-up in anticipation of plant rationalizations.

(b) Included in Taxes and other noncurrent assets. There are no recoverability issues associated with these amounts.

Table of Contents
PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 9. Goodwill and Other Intangible Assets

A. Goodwill

The following table provides the components of and changes in the carrying amount of Goodwill:

(MILLIONS OF DOLLARS)	Primary Care	Specialty Care and Oncology	Established Products and Emerging Markets	Other Operating Segments[a]	Total
Balance, December 31, 2011	$6,229	$17,097	$18,746	$2,497	$44,569
Additions[b]	—	—	—	397	397
Other[c]	(90)	(247)	(266)	7	(596)
Balance, September 30, 2012	$6,139	$16,850	$18,480	$2,901	$44,370

[a] Reflects amounts associated with Animal Health and Consumer Healthcare.
[b] Related to our acquisitions of Alacer and Ferrosan (see Note 2A. Acquisitions and Divestitures: Acquisitions).
[c] Primarily reflects the impact of foreign exchange.

B. Other Intangible Assets

Balance Sheet Information

The following table provides the components of Identifiable intangible assets:

	September 30, 2012			December 31, 2011		
(MILLIONS OF DOLLARS)	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization
Finite-lived intangible assets						
Developed technology rights	$72,439	$(35,695)	$36,744	$72,678	$(31,922)	$40,756
Brands	1,889	(747)	1,142	1,678	(687)	991
License agreements	483	(337)	146	425	(215)	210
Other	649	(444)	205	623	(362)	261
	75,460	(37,223)	38,237	75,404	(33,186)	42,218
Indefinite-lived intangible assets						
Brands	8,085	—	8,085	7,694	—	7,694
In-process research and development	814	—	814	1,200	—	1,200
Trademarks	73	—	73	72	—	72
	8,972	—	8,972	8,966	—	8,966
Total identifiable intangible assets[a]	$84,432	$(37,223)	$47,209	$84,370	$(33,186)	$51,184

[a] The decrease is primarily related to amortization, as well as impairment charges (see Note 4. Other Deductions—Net), partially offset by the assets acquired as part of the acquisitions of Ferrosan and Alacer (see Note

2A. Acquisitions and Divestitures: Acquisitions).

As of September 30, 2012, our identifiable intangible assets are associated with the following, as a percentage of total identifiable intangible assets, less accumulated amortization:

- Developed Technology Rights: Specialty Care (65%); Established Products (18%); Primary Care (14%); Animal Health (2%); and Oncology (1%);
- Brands, finite-lived: Consumer Healthcare (65%); Established Products (23%); and Animal Health (12%);

- Brands, indefinite-lived: Consumer Healthcare (67%); and Established Products (33%); and
- IPR&D: Worldwide Research and Development (47%); Specialty Care (21%); Primary Care (19%); Established Products (11%); and Animal Health (2%).

There are no percentages for our Emerging Markets business unit as it is a geographic-area unit, not a product-based unit. The carrying value of the assets associated with our Emerging Markets business unit is included within the assets associated with the other four biopharmaceutical business units.

Amortization

Amortization expense related to acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in Amortization of intangible assets as these intangible assets benefit multiple business functions. Amortization expense related to acquired intangible assets that are associated with a single function is included in Cost of sales, Selling, informational and administrative expenses or Research and development expenses, as appropriate. Total amortization expense for finite-lived intangible assets was $1.3 billion for the third quarter of 2012 and $1.4 billion for the third quarter of 2011, and $4.1 billion for the first nine months of 2012 and $4.3 billion for the first nine months of 2011.

Impairment Charges

For information about impairments of intangible assets, see Note 4. Other Deductions—Net.

For IPR&D assets, the risk of failure is significant and there can be no certainty that these assets ultimately will yield a successful product. The nature of the biopharmaceutical business is high-risk and, as such, we expect that many of these IPR&D assets will become impaired and be written off.

Note 10. Pension and Postretirement Benefit Plans

On May 8, 2012, we announced to employees that as of January 1, 2018, Pfizer will transition its U.S. and Puerto Rico employees from its defined benefit plans to an enhanced defined contribution savings plan. As a result of this decision to freeze the U.S. defined benefit plans, a curtailment was triggered and we performed a re-measurement of the pension obligations and plan assets in the second quarter of 2012, which had an immaterial impact to the funded status of the plans. For the nine months ended September 30, 2012, we recorded, among other impacts, a curtailment gain of approximately $59 million in the condensed consolidated statements of income.

The following table provides the components of net periodic benefit cost:

	Pension Plans							
	U.S. Qualified[a]		U.S. Supplemental (Non-Qualified)[b]		International[c]		Postretirement Plans	
(MILLIONS OF DOLLARS)	Sep 30, 2012	Oct 2, 2011	Sep 30, 2012	Oct 2, 2011	Sep 30, 2012	Oct 2, 2011	Sep 30, 2012	Oct 2, 2011
Three Months Ended								
Net periodic benefit cost:								
Service cost	$86	$87	$8	$9	$52	$61	$16	$17
Interest cost	170	181	15	17	99	113	46	49
Expected return on plan assets	(247)	(216)	—	—	(104)	(111)	(12)	(9)
Amortization of:								
Actuarial losses	75	33	10	9	28	21	8	4
Prior service credits	(2)	(2)	(2)	(1)	(2)	(2)	(13)	(13)
Curtailments and settlements—net	31	20	3	3	—	3	(3)	(14)
Special termination benefits	1	7	8	5	—	1	1	1
	$114	$110	$42	$42	$73	$86	$43	$35
Nine Months Ended								
Net periodic benefit cost:								
Service cost	$272	$266	$27	$28	$156	$185	$51	$52
Interest cost	528	550	47	54	302	333	137	146
Expected return on plan assets	(738)	(657)	—	—	(317)	(326)	(35)	(26)
Amortization of:								
Actuarial losses	232	103	31	27	63	64	25	12
Prior service credits	(8)	(6)	(3)	(2)	(5)	(4)	(37)	(40)
Curtailments and settlements—net	57	71	13	21	(7)	7	(26)	(40)
Special termination benefits	8	17	23	18	3	4	5	2
	$351	$344	$138	$146	$195	$263	$120	$106

(a) The net periodic benefit cost for the nine months ended September 30, 2012, compared to the nine months ended October 2, 2011, for our U.S. qualified plans was largely unchanged, as (i) an increase in the amounts amortized for actuarial losses (resulting from a decrease in the discount rate and lower than expected actual returns in 2011) was largely offset by a higher expected return on plan assets (resulting from contributions made to the plan in 2011) as well as the fact that (ii) within curtailments and settlements, net, the curtailment gain resulting from the decision to freeze the defined benefit plans in the U.S. and Puerto Rico was more than offset by higher settlement activity.

(b)