PFIZER INC
Form 10-Q
November 10, 2011

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 October 2, 2011

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 o

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 o

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 o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

At November 7, 2011, 7,686,966,786 shares of the issuer's voting common stock were outstanding.

FORM 10-Q

For the Quarter Ended
October 2, 2011

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended		Nine Months Ended	
(MILLIONS, EXCEPT PER COMMON SHARE DATA)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Revenues	$17,193	$15,995	$50,679	$49,703
Costs and expenses:				
Cost of sales(a)	3,679	3,790	11,177	11,676
Selling, informational and administrative expenses(a)	4,621	4,599	14,097	13,776
Research and development expenses(a)	2,188	2,188	6,516	6,590
Amortization of intangible assets	1,397	1,156	4,168	3,972
Acquisition-related in-process research and development charges	—	—	—	74
Restructuring charges and certain acquisition-related costs	1,101	499	2,474	2,090
Other deductions—net	538	2,349	1,778	3,036
Income from continuing operations before provision for taxes on income	3,669	1,414	10,469	8,489
Provision for taxes on income	1,235	558	3,223	3,165
Income from continuing operations	2,434	856	7,246	5,324
Discontinued operations:				
(Loss)/income from discontinued operations—net of tax	(13)	26	39	76
Gain/(loss) on sale of discontinued operations—net of tax	1,328	(11)	1,316	(9)
Discontinued operations—net of tax	1,315	15	1,355	67
Net income before allocation to noncontrolling interests	3,749	871	8,601	5,391
Less: net income attributable to noncontrolling interests	11	5	31	24
Net income attributable to Pfizer Inc.	$3,738	$866	$8,570	$5,367
Earnings per share—basic:(b)				
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.31	$0.11	$0.92	$0.66
Discontinued operations—net of tax	0.17	—	0.17	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.48	$0.11	$1.09	$0.67
Earnings per share—diluted:(b)				

Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.31	$0.11	$0.91	$0.66
Discontinued operations—net of tax	0.17	—	0.17	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.48	$0.11	$1.08	$0.66
Weighted-average shares used to calculate earnings per common share:				
Basic	7,770	8,027	7,877	8,045
Diluted	7,810	8,057	7,925	8,079
Cash dividends paid per common share	$0.20	$0.18	$0.60	$0.54

(a) Exclusive of amortization of intangible assets, except as disclosed in Note 11B. Goodwill and Other Intangible Assets: Other Intangible Assets.

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

See accompanying Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(millions of dollars)	Oct. 2, 2011 (Unaudited)	Dec. 31, 2010
Assets		
Cash and cash equivalents	$ 3,706	$ 1,735
Short-term investments	25,257	26,277
Accounts receivable, less allowance for doubtful accounts	15,749	14,426
Short-term loans	184	467
Inventories	8,426	8,275
Taxes and other current assets	9,288	8,394
Assets of discontinued operations and other assets held for sale	122	1,439
Total current assets	62,732	61,013
Long-term investments and loans	9,468	9,747
Property, plant and equipment, less accumulated depreciation	17,721	18,645
Goodwill	45,409	43,928
Identifiable intangible assets, less accumulated amortization	55,597	57,555
Taxes and other noncurrent assets	5,205	4,126
Total assets	$ 196,132	$ 195,014
Liabilities and Shareholders' Equity		
Short-term borrowings, including current portion of long-term debt	$ 5,637	$ 5,603
Accounts payable	3,765	3,994
Dividends payable	—	1,601
Income taxes payable	2,215	951
Accrued compensation and related items	1,999	2,080
Other current liabilities	14,240	14,256
Liabilities of discontinued operations	—	151
Total current liabilities	27,856	28,636
Long-term debt	35,399	38,410
Pension benefit obligations	5,734	6,194
Postretirement benefit obligations	3,059	3,035
Noncurrent deferred tax liabilities	20,415	18,628
Other taxes payable	6,900	6,245
Other noncurrent liabilities	6,239	5,601
Total liabilities	105,602	106,749
Commitments and Contingencies		
Preferred stock	46	52
Common stock	445	444
Additional paid-in capital	71,235	70,760
Employee benefit trusts	(3)	(7)
Treasury stock	(28,586)	(22,712)
Retained earnings	48,121	42,716
Accumulated other comprehensive loss	(1,211)	(3,440)

Total Pfizer Inc. shareholders’ equity	90,047	87,813
Equity attributable to noncontrolling interests	483	452
Total shareholders’ equity	90,530	88,265
Total liabilities and shareholders’ equity	$ 196,132	$ 195,014

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(millions of dollars)	Nine Months Ended Oct. 2, 2011	Nine Months Ended Oct. 3, 2010
Operating Activities:		
Net income before allocation to noncontrolling interests	$8,601	$5,391
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	6,656	6,493
Share-based compensation expense	347	351
Asset write-offs and impairment charges	773	2,956
Acquisition-related in-process research and development charges	—	74
(Gain)/loss on sale of discontinued operations	(1,683)	9
Deferred taxes from continuing operations	693	1,277
Other deferred taxes	175	—
Other non-cash adjustments	26	(135)
Benefit plan contributions in excess of expense	(283)	(706)
Other changes in assets and liabilities, net of acquisitions and divestitures	(326)	(10,514)
Net cash provided by operating activities	14,979	5,196
Investing Activities:		
Purchases of property, plant and equipment	(1,062)	(966)
Purchases of short-term investments	(13,456)	(5,018)
Proceeds from redemptions and sales of short-term investments—net	17,458	9,493
Purchases of long-term investments	(3,446)	(2,674)
Proceeds from redemptions and sales of long-term investments	2,001	3,822
Acquisitions, net of cash acquired	(3,188)	—
Proceeds from sale of business	2,376	—
Other investing activities	618	496
Net cash provided by investing activities	1,301	5,153
Financing Activities:		
Increase in short-term borrowings	9,613	4,686
Principal payments on short-term borrowings—net	(10,069)	(9,265)
Principal payments on long-term debt	(3,486)	(4)
Purchases of common stock	(5,789)	(1,000)
Cash dividends paid	(4,710)	(4,544)
Other financing activities	84	32
Net cash used in financing activities	(14,357)	(10,095)
Effect of exchange-rate changes on cash and cash equivalents	48	(56)
Net increase in cash and cash equivalents	1,971	198
Cash and cash equivalents at beginning of period	1,735	1,978

Cash and cash equivalents at end of period	$3,706	$2,176
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes	$1,539	$11,519
Interest	1,872	2,039

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation

We prepared the condensed consolidated financial statements following the requirements of the 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-month and nine-month periods ended August 28, 2011, and August 29, 2010. We have made certain reclassification adjustments to conform prior-period amounts to the current presentation, primarily related to discontinued operations (see Note 4. Discontinued Operations) and segment reporting (see Note 15. Segment, Product and Geographic Area Information).

On January 31, 2011, we completed the tender offer for all of the outstanding shares of common stock of King Pharmaceuticals, Inc. (King) and acquired approximately 92.5% of the outstanding shares for approximately $3.3 billion in cash. On February 28, 2011, we acquired the remaining outstanding shares of King for approximately $300 million in cash (for additional information, see Note 3. Acquisition of King Pharmaceuticals, Inc.). Commencing from January 31, 2011, our financial statements include the assets, liabilities, operating results and cash flows of King. Therefore, 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.

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 document. The financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results.

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 Annual Report on Form 10-K for the year ended December 31, 2010.

Note 2. Adoption of New Accounting Standards

The provisions of the following new accounting standards were adopted as of January 1, 2011 and did not have a significant impact on our condensed consolidated financial statements:

New guidelines that address the recognition and presentation of the annual fee paid by pharmaceutical companies beginning on January 1, 2011 to the U.S. Treasury as a result of U.S. Healthcare Legislation. As a result of adopting this new standard, we are recording the annual fee ratably throughout the year in the Selling, informational and administrative expenses line item in our condensed consolidated statement of income.

An amendment to the guidelines that address the accounting for multiple-deliverable arrangements to enable companies to account for certain products or services separately rather than as a combined unit.

Note 3. Acquisition of King Pharmaceuticals, Inc.

On January 31, 2011 (the acquisition date), we completed the tender offer for all of 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.

PFIZER INC. AND SUBSIDIARY COMPANIES
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(UNAUDITED)

The following table summarizes the provisional amounts recognized for assets acquired and liabilities assumed as of the acquisition date:

(millions of dollars)	Amounts Recognized as of Acquisition Date (Provisional)
Working capital, excluding inventories	$174
Inventories	340
Property, plant and equipment	412
Identifiable intangible assets, excluding in-process research and development	1,822
In-process research and development	312
Net tax accounts	(389)
All other long-term assets and liabilities, net	101
Total identifiable net assets	2,772
Goodwill	783
Net assets acquired/total consideration transferred	$3,555

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 believe will result from combining the operations of King with the operations of Pfizer;

- any intangible assets that do 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 tax purposes. While the allocation of goodwill among reporting units is not complete, we expect that substantially all of the goodwill will be related to our biopharmaceutical reporting units (see Note 11. Goodwill and Other Intangible Assets for additional information).

The assets and liabilities arising from contingencies recognized at acquisition date, some of which are subject to change, are not significant to Pfizer's condensed consolidated financial statements.

The recorded amounts are provisional and subject to change. Specifically, the following items are subject to change:

Amounts for intangibles and inventory, pending finalization of valuation efforts;

Amounts for income tax assets, receivables and liabilities pending the filing of King's pre-acquisition tax returns and the receipt of information from taxing authorities, which may change certain estimates and assumptions used; and

The allocation of goodwill among reporting units.

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

Revenues from King are included in Pfizer's condensed consolidated statements of income from the acquisition date, January 31, 2011, through Pfizer's third-quarter 2011 domestic and international quarter-ends and were $357 million for the third quarter of 2011 and $938 million in the first nine months of 2011. We are no longer able to provide the results of operations attributable to King as those operations have now been substantially integrated into the larger Pfizer operation.

The following table presents supplemental pro forma information as if the acquisition of King had occurred on January 1, 2010:

	Pro Forma Consolidated Results		
	Three Months Ended	Nine Months Ended	
(millions of dollars, except per share data)	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Revenues	$ 16,335	$ 50,788	$ 50,749
Net income attributable to Pfizer Inc. common shareholders	854	8,769	5,163
Diluted earnings per share attributable to Pfizer Inc. common shareholders	0.11	1.11	0.64

The unaudited pro forma consolidated results do not purport to project the future results of operations of the combined company nor do they reflect the expected realization of any cost savings associated with the acquisition. The unaudited pro forma consolidated results reflect the historical financial information of Pfizer and King, adjusted for the following pre-tax amounts:

Elimination of King's historical intangible asset amortization expense (approximately $18 million in the third quarter of 2010, $6 million in the first nine months of 2011 and $98 million in the first nine months of 2010).

Additional amortization expense (approximately $48 million in the third quarter of 2010, $15 million in the first nine months of 2011 and $136 million in the first nine months of 2010) related to the fair value of identifiable intangible assets acquired.

Additional depreciation expense (approximately $9 million in the third quarter of 2010, $3 million in the first nine months of 2011 and $26 million in the first nine months of 2010) related to the fair value adjustment to property, plant and equipment acquired.

Adjustment related to the fair value adjustments to acquisition-date inventory estimated to have been sold (addition of $33 million charge in the third quarter of 2010, elimination of $146 million charge in the first nine months of 2011 and addition of $146 million charge in the first nine months of 2010).

Adjustment for acquisition-related costs directly attributable to the acquisition (addition of $11 million of charges in the third quarter of 2010, elimination of $205 million of charges in the first nine months of 2011 and addition of $205 million of charges in the first nine months of 2010, reflecting charges incurred by both King and Pfizer).

Note 4. Discontinued Operations

We evaluate our businesses and product lines periodically for their strategic fit within our operations. In 2011, we decided to sell our Capsugel business. In connection with the decision to sell this business, for all periods presented, the operating results associated with this business have been reclassified into Discontinued operations—net of tax in the Condensed Consolidated Statements of Income, and the assets and liabilities associated with this business have been reclassified into Assets of discontinued operations and other assets held for sale and Liabilities of discontinued operations, as appropriate, in the Condensed Consolidated Balance Sheets.

On April 4, 2011, we announced that we had entered into an agreement to sell Capsugel to an affiliate of Kohlberg Kravis Roberts & Co. L.P. for approximately $2.4 billion in cash. The transaction closed on August 1, 2011.

PFIZER INC. AND SUBSIDIARY COMPANIES
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(UNAUDITED)

The following amounts, substantially all of which relate to our Capsugel business, have been segregated from continuing operations and included in Discontinued operations—net of tax in our Condensed Consolidated Statements of Income:

	Three Months Ended		Nine Months Ended	
(millions of dollars)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Revenues	$116	$176	$507	$545
Pre-tax (loss)/income from discontinued operations	$(7)	$29	$78	$106
Provision for taxes on income(a)	6	3	39	30
(Loss)/income from discontinued operations—net of tax	(13)	26	39	76
Pre-tax gain/(loss) on sale of discontinued operations	1,695	(12)	1,683	(9)
Provision/(benefit) for taxes on income(b)	367	(1)	367	—
Discontinued operations—net of tax	$1,315	$15	$1,355	$67

(a) Includes a deferred tax expense of $13 million for the first nine months of 2011.
(b) Includes a deferred tax expense of $162 million for the third quarter and first nine months of 2011.

The following assets and liabilities, which in 2010 include the assets and liabilities related to our Capsugel business, have been segregated and included in Assets of discontinued operations and other assets held for sale and Liabilities of discontinued operations, as appropriate, in our Condensed Consolidated Balance Sheets:

(millions of dollars)	Oct. 2, 2011	Dec. 31, 2010
Accounts receivable	$—	$186
Inventories	—	130
Taxes and other current assets	12	47
Property, plant and equipment	110	1,009
Goodwill	—	19
Identifiable intangible assets	—	3
Taxes and other noncurrent assets	—	45
Assets of discontinued operations and other assets held for sale	$122	$1,439
Current liabilities	$—	$124
Other liabilities	—	27
Liabilities of discontinued operations	$—	$151

The net cash flows of our discontinued operations for each of the categories of operating, investing and financing activities were not significant for the first nine months of 2011 or 2010.

Note 5. Costs Associated with Cost-Reduction and Productivity Initiatives and Acquisition Activity

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

for our cost-reduction and productivity initiatives, 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

for our acquisition activity, we typically incur costs that can include transaction costs, integration costs (such as expenditures for consulting and the integration of systems and processes) and restructuring charges, related to employees, assets and activities that will not continue in the combined company.

On February 1, 2011, we announced a new research and productivity initiative to accelerate our strategies to improve innovation and overall 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.

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

We incurred the following costs in connection with our cost-reduction and productivity initiatives and acquisition activity, such as King (acquired in 2011) and Wyeth (acquired in 2009):

	Three Months Ended		Nine Months Ended	
(millions of dollars)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Transaction costs(a)	$5	$—	$28	$13
Integration costs(b)	187	231	567	650
Restructuring charges(c):				
Employee termination costs	770	27	1,626	603
Asset impairments	99	174	157	677
Other	40	67	96	147
Restructuring charges and certain acquisition-related costs	1,101	499	2,474	2,090
Additional depreciation—asset restructuring(d):				
Cost of sales	68	241	411	367
Selling, informational and administrative expenses	39	27	69	190
Research and development expenses	146	25	378	45
Total additional depreciation—asset restructuring	253	293	858	602
Implementation costs(e):				
Selling, informational and administrative expenses	11	—	11	—
Research and development expenses	8	—	28	—
Total implementation costs	19	—	39	—
Total costs associated with cost-reduction and productivity initiatives and acquisition activity	$1,373	$792	$3,371	$2,692

(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 October 2, 2011, Employee termination costs represent the expected reduction of the workforce by approximately 57,800 employees, mainly in manufacturing and sales and research, of which approximately 41,000 employees have been terminated as of October 2, 2011. Employee termination costs are generally recorded when the actions are probable and estimable and include accrued severance benefits, pension and postretirement benefits, many of which may be paid out during periods after termination. Asset impairments primarily include charges to write down property, plant and equipment to fair value. Other primarily includes costs to exit certain assets and activities.

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 ($65 million), Animal Health and Consumer Healthcare operating segment ($30 million), Nutrition operating segment ($2 million), research and development operations ($47 million income), manufacturing operations ($47 million) and Corporate ($153 million).

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), Animal Health and Consumer Healthcare operating segment ($44 million), Nutrition operating segment ($4 million), research and development operations ($426 million), manufacturing operations ($203 million) and Corporate ($288 million).

The restructuring charges in 2010 are associated with the following:

For the three months ended October 3, 2010, Primary Care operating segment ($14 million), Specialty Care and Oncology operating segment ($53 million), Established Products and Emerging Markets operating segment ($14 million), Nutrition operating segment ($1 million), research and development operations ($17 million), manufacturing operations ($161 million) and Corporate ($8 million).

For the nine months ended October 3, 2010, Primary Care operating segment ($1 million), Specialty Care and Oncology operating segment ($99 million), Established Products and Emerging Markets operating segment ($23 million), Animal Health and Consumer Healthcare operating segment ($33 million), Nutrition operating segment ($12 million income), research and development operations ($239 million), manufacturing operations ($970 million) and Corporate ($74 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.

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

The components of restructuring charges associated with all of our cost-reduction and productivity initiatives and acquisition activity follow:

(millions of dollars)	Costs Incurred 2005-2011	Activity Through Oct. 2, 2011(a)	Accrual As of Oct. 2, 2011(b)
Employee termination costs	$10,437	$7,720	$2,717
Asset impairments	2,465	2,465	—
Other	996	889	107
Total restructuring charges	$13,898	$11,074	$2,824

(a) Includes adjustments for foreign currency translation.
(b) Included in Other current liabilities ($1.7 billion) and Other noncurrent liabilities ($1.1 billion).

Note 6. Other (Income)/Deductions—Net

The following table sets forth details related to amounts recorded in Other deductions—net:

	Three Months Ended		Nine Months Ended	
(millions of dollars)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Interest income(a)	$(110)	$(100)	$(332)	$(297)
Interest expense(a)	423	427	1,285	1,338
Net interest expense	313	327	953	1,041
Royalty-related income	(135)	(158)	(447)	(395)
Net losses/(gains) on asset disposals	18	(13)	(8)	(243)
Certain legal matters, net(b)	132	712	619	886
Certain asset impairment charges(c)	105	1,478	585	1,710
Other, net	105	3	76	37
Other deductions—net	$538	$2,349	$1,778	$3,036

(a) Interest income increased in both periods of 2011 primarily due to higher cash balances. Interest expense decreased in both periods of 2011 due to lower long- and short-term debt balances and the conversion of some fixed-rate liabilities to floating-rate liabilities.
(b) In the first nine months of 2011, primarily relates to charges for hormone-replacement therapy litigation (see Note 14. Legal Proceedings and Contingencies). In both periods of 2010, primarily includes a charge for asbestos litigation related to our wholly owned subsidiary, Quigley Company, Inc. (See Note 14. Legal Proceedings and Contingencies).
(c) Substantially all of these asset impairment charges are related to intangible assets, including in-process research and development (IPR&D) assets, that were acquired as part of our acquisition of Wyeth. The impairment charges are determined by comparing the estimated fair value of the assets as of the date of the impairment to their carrying values as of the same date. In the first nine months of 2011, we recorded impairment charges of $585 million, which included approximately $440 million of IPR&D assets, primarily related to two compounds for the treatment of certain autoimmune and inflammatory diseases, and approximately $145 million of Developed Technology Rights. These impairment charges reflect, among other things, the impact of new scientific findings and updated commercial forecasts. In the first nine months of 2010, we recorded impairment charges of $1.7 billion, which

include (i) approximately $900 million of IPR&D assets, primarily Prevnar/Prevenar 13 Adult, a compound for the prevention of pneumococcal disease in adults age 50 and older, and Neratinib, a compound for the treatment of breast cancer; (ii) approximately $600 million of indefinite-lived Brands, related to Third Age, infant formulas for the first 12-36 months of age, and Robitussin, a cough suppressant; and (iii) approximately $200 million of Developed Technology Rights, primarily Protonix, a product that treats erosive gastroesophageal reflux disease. These impairment charges, most of which occurred in the third quarter of 2010, reflect, among other things, the following: for IPR&D assets, the impact of changes to the development programs, the projected development and regulatory timeframes and the risk associated with these assets; for Brand assets, the current competitive environment and planned investment support; and, for Developed Technology Rights, an increased competitive environment.

Note 7. Taxes on Income

A. Taxes on Income

Our effective tax rate for continuing operations was 33.7% for the third quarter of 2011, compared to 39.5% for the third quarter of 2010, and in the first nine months of 2011 was 30.8%, compared to 37.3% in the first nine months of 2010. The decreases in the effective tax rate were primarily the result of:

- the extension of the U.S. research and development credit, which was signed into law on December 17, 2010;

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the decrease and jurisdictional mix of certain impairment charges related to assets acquired in connection with the Wyeth acquisition; and

the change in the jurisdictional mix of earnings.

B. 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. As a result, our evaluation of tax contingencies can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions deemed reasonable by management. However, if our estimates and assumptions are not representative of actual outcomes, our results could be materially impacted.

The United States (U.S.) is one of our major tax jurisdictions. The U.S. Internal Revenue Service (IRS) is currently auditing the 2006, 2007 and 2008 tax years for Pfizer Inc. The 2009 through 2011 tax years are not yet under audit. The tax years 2002 through 2005 are settled and closed with the IRS. All other tax years in the U.S. for Pfizer Inc. are closed under the statute of limitations.

With respect to Wyeth, during the first quarter of 2011, we reached a settlement with the IRS regarding the audits for the tax years 2002 through 2005. The settlement resulted in an income tax benefit to Pfizer of approximately $80 million for income tax and interest in the first quarter and first nine months of 2011. The tax years 2002 through 2005 are now settled and closed with the IRS. Tax years 2006 through the Wyeth acquisition date (October 15, 2009) are now under audit.

In addition to the open audit years in the U.S., we have open audit years in other major tax jurisdictions, such as Canada (1998-2011), Japan (2006-2011), Europe (1997-2011, primarily reflecting Ireland, the United Kingdom, France, Italy, Spain and Germany) and Puerto Rico (2006-2011).

Note 8. Comprehensive Income/(Loss)

The components of comprehensive income/(loss) follow:

	Three Months Ended		Nine Months Ended	
(millions of dollars)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Net income before allocation to noncontrolling interests	$3,749	$871	$8,601	$5,391
Other comprehensive income/(loss):				
Currency translation adjustment and other	(68)	786	2,479	(4,105)
Net unrealized (losses)/gains on derivative financial instruments	(230)	(59)	(354)	(300)
Net unrealized (losses)/gains on available-for-sale securities	(36)	26	(48)	(86)
Benefit plan adjustments	72	(45)	151	239
Total other comprehensive (loss)/income	(262)	708	2,228	(4,252)
	3,487	1,579	10,829	1,139

Total comprehensive income before allocation to noncontrolling interests				
Less: comprehensive income attributable to noncontrolling interests	7	5	35	23
Comprehensive income attributable to Pfizer Inc.	$3,480	$1,574	$10,794	$1,116

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Note 9. Financial Instruments

A. Selected Financial Assets and Liabilities

Information about certain of our financial assets and liabilities follows:

(millions of dollars)	Oct. 2, 2011	Dec. 31, 2010
Selected financial assets measured at fair value on a recurring basis(a) :		
Trading securities	$148	$173
Available-for-sale debt securities(b)	31,368	32,699
Available-for-sale money market funds	1,320	1,217
Available-for-sale equity securities, excluding money market funds(b)	317	230
Derivative financial instruments in receivable positions(c):		
Interest rate swaps	963	603
Foreign currency swaps	133	128
Foreign currency forward-exchange contracts	123	494
Total	34,372	35,544
Other selected financial assets(d):		
Held-to-maturity debt securities, carried at amortized cost(b)	1,204	1,178
Private equity securities, carried at cost or equity method	1,016	1,134
Short-term loans, carried at cost	184	467
Long-term loans, carried at cost	383	299
Total	2,787	3,078
Total selected financial assets(e)	$37,159	$38,622
Selected financial liabilities measured at fair value on a recurring basis(a):		
Derivative financial instruments in a liability position(f):		
Foreign currency swaps	$1,671	$623
Foreign currency forward-exchange contracts	426	257
Interest rate swaps	15	4
Total	2,112	884
Other selected financial liabilities:		
Short-term borrowings, carried at historical proceeds, as adjusted(d)	5,637	5,603
Long-term debt, carried at historical proceeds, as adjusted(g), (h)	35,399	38,410
Total	41,036	44,013
Total selected financial liabilities	$43,148	$44,897

(a) Fair values are determined based on valuation techniques categorized as follows: Level 1 means the use of quoted prices for identical instruments in active markets; Level 2 means the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; Level 3 means the use of unobservable inputs. 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 that included in available-for-sale equity securities, excluding money market funds, are $84 million as of October 2, 2011 and $105 million as of December 31, 2010 of investments that use Level 1 inputs in the calculation of fair value and $26 million that use Level 3 inputs as of October 2, 2011.

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

(c) Designated as hedging instruments, except for certain foreign currency contracts used as offsets; namely, foreign currency forward-exchange contracts with fair values of $68 million and foreign currency swaps with fair values of

$27 million at October 2, 2011; and foreign currency forward-exchange contracts with fair values of $326 million and foreign currency swaps with fair values of $17 million at December 31, 2010.

(d) The differences between the estimated fair values and carrying values of our financial assets and liabilities not measured at fair value on a recurring basis were not significant at October 2, 2011 or December 31, 2010.

(e) The decrease in selected financial assets is primarily due to redemptions of investments, the proceeds from which were used to fund our acquisition of King (see Note 3. Acquisition of King Pharmaceuticals, Inc.)

(f) Designated as hedging instruments, except for certain foreign currency contracts used as offsets; namely, foreign currency forward-exchange contracts with fair values of $113 million and foreign currency swaps with fair values of $82 million at October 2, 2011; and foreign currency forward-exchange contracts with fair values of $186 million and foreign currency swaps with fair values of $93 million at December 31, 2010.

(g) Includes foreign currency debt with fair values of $919 million at October 2, 2011 and $880 million at December 31, 2010, which are used to hedge the exposure of certain foreign currency denominated net investments.

(h) The fair value of our long-term debt is $40.1 billion at October 2, 2011 and $42.3 billion at December 31, 2010.

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These selected financial assets and liabilities are presented in the Condensed Consolidated Balance Sheets as follows:

(millions of dollars)	Oct. 2, 2011	Dec. 31, 2010
Assets		
Cash and cash equivalents	$1,031	$906
Short-term investments	25,257	26,277
Short-term loans	184	467
Long-term investments and loans	9,468	9,747
Taxes and other current assets(a)	232	515
Taxes and other noncurrent assets(b)	987	710
Total selected financial assets	$37,159	$38,622
Liabilities		
Short-term borrowings, including current portion of long-term debt	$5,637	$5,603
Other current liabilities(c)	701	339
Long-term debt	35,399	38,410
Other noncurrent liabilities(d)	1,411	545
Total selected financial liabilities	$43,148	$44,897

(a) At October 2, 2011, derivative instruments at fair value include foreign currency forward-exchange contracts ($123 million), foreign currency swaps ($88 million) and interest rate swaps ($21 million) and at December 31, 2010, include foreign currency forward-exchange contracts ($494 million) and foreign currency swaps ($21 million).
(b) At October 2, 2011, derivative instruments at fair value include interest rate swaps ($942 million) and foreign currency swaps ($45 million) and at December 31, 2010, include interest rate swaps ($603 million) and foreign currency swaps ($107 million).
(c) At October 2, 2011, derivative instruments at fair value include foreign currency forward-exchange contracts ($426 million) and foreign currency swaps ($275 million) and at December 31, 2010, include foreign currency forward-exchange contracts ($257 million), foreign currency swaps ($79 million) and interest rate swaps ($3 million).
(d) At October 2, 2011, derivative instruments at fair value include foreign currency swaps ($1.4 billion) and interest rate swaps ($15 million) and at December 31, 2010, include foreign currency swaps ($544 million) and interest rate swaps ($1 million).

There were no significant impairments of financial assets recognized in the third quarter and first nine months of 2011 or 2010.

B. Investments in Debt Securities

The contractual maturities of the available-for-sale and held-to-maturity debt securities at October 2, 2011, follow:

	Years			
(millions of dollars)	Within 1	Over 1 to 5	Over 10	Total at Oct. 2, 2011
Available-for-sale debt securities:				
Western European, U.S., Scandinavian and other government debt	$ 15,215	$ 1,361	$ —	$ 16,576
Corporate debt	1,675	2,495	—	4,170
	3,661	253	—	3,914

Western European, Scandinavian and other government agency debt				
Federal Home Loan Mortgage Corporation and Federal National Mortgage Association asset-backed securities	—	2,240	—	2,240
Supranational debt	2,338	514		2,852
Reverse repurchase agreements	783	—	—	783
U.S. government Federal Deposit Insurance Corporation guaranteed debt	623	13	16	652
Other asset-backed securities	2	74	10	86
Certificates of deposit	95	—	—	95
Held-to-maturity debt securities:				
Certificates of deposit and other	1,198	6	—	1,204
Total debt securities	$ 25,590	$ 6,956	$ 26	$ 32,572

C. Short-Term Borrowings

Short-term borrowings include amounts for commercial paper of $600 million as of October 2, 2011 and $1.2 billion as of December 31, 2010.

D. Derivative Financial Instruments and Hedging Activities

Foreign Exchange Risk—As of October 2, 2011, the aggregate notional amount of foreign exchange derivative financial instruments hedging or offsetting foreign currency exposures is $51.4 billion. The derivative financial instruments primarily hedge or offset exposures in the euro, Japanese yen and U.K. pound.

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Interest Rate Risk—As of October 2, 2011, the aggregate notional amount of interest rate derivative financial instruments is $13.4 billion. The derivative financial instruments hedge U.S. dollar and euro fixed-rate debt.

Information about gains/(losses) incurred to hedge or offset foreign exchange or interest rate risk is as follows:

	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)	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010	Oct. 2, 2011	Oct. 3, 2010
Three Months Ended:						
Derivative Financial Instruments in Fair Value Hedge Relationships(b)						
Interest rate swaps	$—	$—	$—	$—	$—	$—
Foreign currency swaps	(1)	(1)	—	—	—	—
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$—	$—	$(1,047)	$656	$(654)	$815
Foreign currency forward-exchange contracts	—	—	1	(1)	1	—
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	$(1)	$1	$(118)	$(39)	$—	$—
Derivative Financial Instruments Not Designated as Hedges						
Foreign currency swaps	$29	$6	$—	$—	$—	$—
Foreign currency forward-exchange contracts	(75)	419	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency short-term borrowings	$—	$—	$—	$(96)	$—	$—
Foreign currency long-term debt	—	—	(42)	(38)	—	—
Total	$(48)	$425	$(1,206)	$482	$(653)	$815

Nine Months Ended:

Derivative Financial Instruments in Fair Value Hedge Relationships(b)						
Interest rate swaps	$—	$—	$—	$—	$—	$—
Foreign currency swaps	(1)	(1)	—	—	—	—
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$—	$—	$(516)	$(1,000)	$76	$(440)
Foreign currency forward-exchange contracts	—	—	4	(2)	5	2
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	$14	$—	$(1,076)	$(78)	$—	$—
Derivative Financial Instruments Not Designated as Hedges						
Foreign currency swaps	$72	$6	$—	$—	$—	$—
Foreign currency forward-exchange contracts	(392)	(943)	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						