PFIZER INC
Form 10-Q
May 08, 2006

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 April 2, 2006

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) 573-2323
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer __X__ Accelerated Filer Non-accelerated filer

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 May 2, 2006, 7,327,389,419 shares of the issuer's voting common stock were outstanding.

FORM 10-Q

For the Quarter Ended
April 2, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(millions of dollars, except per common share data)	Three Months Ended April 2, 2006	April 3, 2005
Revenues	$ 12,660	$ 13,091
Costs and expenses:		
Cost of sales(a)	1,973	2,191
Selling, informational and administrative expenses(a)	3,810	4,085
Research and development expenses(a)	1,588	1,764
Amortization of intangible assets	828	882
Merger-related in-process research and development charges	--	2
Restructuring charges and merger-related costs	306	219
Other (income)/deductions - net	(272)	1,038
Income from continuing operations before provision for taxes on income and minority interests	4,427	2,910
Provision for taxes on income	315	2,635
Minority interests	4	3
Income from continuing operations	4,108	272
Discontinued operations:		
Loss from discontinued operations - net of tax	--	(12)
Gains on sales of discontinued operations - net of tax	3	41
Discontinued operations - net of tax	3	29
Net income	$ 4,111	$ 301
Earnings per common share - basic:		
Income from continuing operations	$ 0.56	$ 0.04
Discontinued operations - net of tax	--	--
Net income	$ 0.56	$ 0.04
Earnings per common share - diluted:		
Income from continuing operations	$ 0.56	$ 0.04
Discontinued operations - net of tax	--	--
Net income	$ 0.56	$ 0.04
Weighted-average shares used to calculate earnings per common share:		
Basic	7,314	7,416
Diluted	7,324	7,474
Cash dividends paid per common share	$ 0.24	$ 0.19

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

See accompanying Notes to Condensed Consolidated Financial Statements.

PFIZER INC AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(millions of dollars)	April 2, 2006*	Dec. 31, 2005**
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,869	$ 2,247
Short-term investments	12,633	19,979
Accounts receivable, less allowance for doubtful accounts	10,352	9,765
Short-term loans	445	510
Inventories	6,663	6,039
Prepaid expenses and taxes	4,302	3,196
Assets held for sale	151	160
Total current assets	37,415	41,896
Long-term investments and loans	2,543	2,497
Property, plant and equipment, less accumulated depreciation	17,103	17,090
Goodwill	23,741	23,774
Identifiable intangible assets, less accumulated amortization	28,073	27,786
Other assets, deferred taxes and deferred charges	4,084	4,522
Total assets	$ 112,959	$ 117,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings, including current portion of long-term debt	$ 5,059	$ 11,589
Accounts payable	1,892	2,226
Dividends payable	5	1,772
Income taxes payable	3,495	3,617
Accrued compensation and related items	1,504	1,675
Other current liabilities	7,717	7,522
Liabilities held for sale	2	2
Total current liabilities	19,674	28,403
Long-term debt	6,508	6,347
Pension benefit obligations	2,665	2,717
Postretirement benefit obligations	1,448	1,443
Deferred taxes	10,337	10,240
Other noncurrent liabilities	2,718	2,651
Total liabilities	43,350	51,801
Shareholders' Equity		
Preferred stock	159	169
Common stock	439	439
Additional paid-in capital	67,931	67,759
Employee benefit trust, at fair value	(729)	(923)
Treasury stock	(40,757)	(39,767)
Retained earnings	41,715	37,608
Accumulated other comprehensive income	851	479
Total shareholders' equity	69,609	65,764
Total liabilities and shareholders' equity	$ 112,959	$ 117,565

* Unaudited.

** Condensed from audited financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
(millions of dollars)	April 2, 2006	April 3, 2005
Operating Activities:		
Net income	$ 4,111	$ 301
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	1,351	1,366
Share-based compensation expense	172	22
Merger-related in-process research and development charges	--	2
Intangible asset impairments and other associated non-cash charges	--	1,213
Gains on disposal of investments, products and product lines	(76)	(4)
Loss from discontinued operations	--	18
Gains on sales of discontinued operations	(5)	(65)
Deferred taxes from continuing operations	(714)	483
Other deferred taxes	--	(4)
Other non-cash adjustments	25	98
Changes in assets and liabilities (net of businesses acquired and divested)	(903)	(237)
Net cash provided by continuing operating activities	3,961	3,193
Investing Activities:		
Purchases of property, plant and equipment	(418)	(465)
Purchases of short-term investments	(2,735)	(4,891)
Proceeds from redemptions of short-term investments	10,438	2,531
Purchases of long-term investments	(216)	(494)
Proceeds from sales of long-term investments	4	437
Purchases of other assets	(35)	(70)
Proceeds from sales of other assets	3	5
Proceeds from the sales of businesses, product lines and other products	7	93
Acquisitions, net of cash acquired	(1,440)	--
Other investing activities	(177)	149
Net cash provided by/(used in) investing activities	5,431	(2,705)
Financing Activities:		
Increase in short-term borrowings, net	826	1,591
Principal payments on short-term borrowings	(8,056)	(205)
Proceeds from issuances of long-term debt	1,035	1
Principal payments on long-term debt	(1)	(1)
Purchases of common stock	(1,000)	(919)
Cash dividends paid	(1,743)	(1,400)
Stock option transactions and other	173	115
Net cash used in financing activities	(8,766)	(818)
Effect of exchange-rate changes on cash and cash equivalents	(4)	(2)
Net increase/(decrease) in cash and cash equivalents	622	(332)
Cash and cash equivalents at beginning of period	2,247	1,808
Cash and cash equivalents at end of period	$ 2,869	$ 1,476
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes	$ 640	$ 557
Interest	213	141

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 (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 periods ended February 26, 2006 and February 27, 2005.

We made certain reclassifications to the 2005 condensed consolidated financial statements to conform to the 2006 presentation.

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 Pfizer's Annual Report on Form 10-K for the year ended December 31, 2005.

Note 2. Acquisitions and Dispositions

A. Acquisitions

On February 28, 2006, we completed the acquisition of the sanofi-aventis world-wide rights, including patent rights and production technology, to manufacture and sell Exubera, an inhaled form of insulin for use in adults with type 1 and type 2 diabetes, and the insulin-production business and facilities located in Frankfurt, Germany, previously jointly owned by Pfizer and sanofi-aventis, for approximately $1.4 billion (including transaction costs). In connection with the acquisition, as part of our preliminary purchase price allocation, we recorded an intangible asset for developed technology rights of approximately $1.0 billion, inventory valued at $218 million and goodwill of approximately $166 million, all of which have been allocated to our Human Health segment. The amortization of the developed technology rights will be primarily included in *Cost of Sales*. Given the size and complexity of the acquisition, the fair valuation and allocation work is still being finalized and is expected to be substantially complete in the second quarter. To the extent that our estimates need to be adjusted, we will do so.

Prior to the acquisition, in connection with our collaboration agreement with sanofi-aventis, we recorded a research and development milestone due to us from sanofi-aventis of approximately $118 million ($71 million, after tax) in *Research and development expenses* upon the approval of Exubera in January 2006 by the Food and Drug Administration (FDA).

B. Dispositions

We evaluate our businesses and product lines periodically for strategic fit within our operations. As a result of our evaluation, we decided to sell a number of businesses and product lines, certain of which qualified for *Discontinued operations* treatment. As of December 31, 2005, all of the transactions were completed. The impact of these divested businesses and product lines was not material to the consolidated operating results of Pfizer in the periods presented.

Assets held for sale and *Liabilities held for sale* on the balance sheet at April 2, 2006 and December 31, 2005, relate primarily to assets in Europe that we intend to sell but that are not related to *Discontinued operations*.

Note 3. Adoption of New Accounting Standards

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R*, Share-Based Payment,* as supplemented by the interpretation provided by SEC Staff Accounting Bulletin (SAB) No. 107, issued in March 2005. (SFAS 123R replaced SFAS 123, *Stock-Based Compensation*, issued in 1995.) We have elected the modified prospective application transition method of adoption and, as such, prior period financial statements have not been restated. Under this method, the fair value of all stock options granted or modified after adoption must be recognized in the consolidated statement of income and total compensation cost related to nonvested awards not yet recognized, determined under the original provisions of SFAS 123, must also be recognized in the consolidated statement of income.

Prior to January 1, 2006, we accounted for stock options under Accounting Principle Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, an elective accounting policy permitted by SFAS 123. Under this standard, since the exercise price of our stock options granted is set equal to the market price on the date of the grant, we did not record any expense to the condensed consolidated statement of income related to stock options, unless certain original grant date terms were subsequently modified. However, as required, we disclosed, in the Notes to Consolidated Financial Statements, the pro forma expense impact of the stock option grants as if we had applied the fair-value-based recognition provisions of SFAS 123.

The adoption of SFAS 123R primarily impacted our accounting for stock options (See Note 13, *Share-Based Payments*).

Note 4. Asset Impairment Charge

In the first quarter of 2005, we recorded charges totaling $1.2 billion ($766 million, net of tax) in connection with the decision to suspend sales and marketing of Bextra. The pre-tax charge included $1.1 billion related to the impairment of developed technology rights and $10 million related to the write-off of machinery and equipment, both of which were included in *Other (income)/deductions - net* (See Note 11, *Goodwill and Other Intangible Assets*).

Note 5. Adapting to Scale Initiative

We incurred the following costs in connection with our Adapting to Scale (AtS) productivity initiative, which was launched in early 2005:

	First Quarter	
(millions of dollars)	2006	2005
Implementation costs(a)	$ 186	$ --
Restructuring charges(b)	301	--
Total AtS costs	$ 487	$ --

(a) Included in *Cost of sales* ($124 million), *Selling, informational and administrative expenses* ($40 million), and *Research and development expenses* ($22 million).

(b) Included in *Restructuring charges and merger-related costs.*

Through April 2, 2006, the restructuring charges primarily relate to our plant network optimization efforts and the restructuring of our U.S. marketing and worldwide research and development operations, while the implementation costs primarily relate to system and process standardization, as well as the expansion of shared services.

The components of restructuring charges associated with AtS follow:

(millions of dollars)	Costs Incurred Through April 2, 2006	Utilization Through April 2, 2006	Accrual as of April 2, 2006(a)
Employee termination costs	$ 478	$ 351	$ 127
Asset impairments	250	250	--
Other	23	7	16
	$ 751	$ 608	$ 143

(a) Included in *Other current liabilities.*

During the first quarter of 2006, we expensed $173 million for *Employee termination costs*, $119 million for *Asset impairments* and $9 million in *Other*. Through April 2, 2006, *Employee termination costs* represent the approved reduction of the workforce by 3,886 employees, mainly in manufacturing, sales and research. We notified affected individuals and 3,610 employees were terminated as of April 2, 2006. *Employee termination costs* are recorded as incurred and include accrued severance benefits, pension and postretirement benefits. *Asset impairments* primarily include charges to write-off inventory and write down property, plant and equipment. *Other* primarily includes costs to exit certain activities.

Note 6. Merger-Related Costs

We incurred the following merger-related costs:

(millions of dollars)	First Quarter 2006	First Quarter 2005
Integration costs	$ 2	$ 106
Restructuring charges	3	113
Total merger-related costs(a)	$ 5	$ 219

(a) Included in *Restructuring charges and merger-related costs*. Amounts in 2005 primarily relate to our acquisition of Pharmacia Corporation (Pharmacia), which was completed on April 16, 2003.

Restructuring charges included severance, costs of vacating duplicative facilities, contract termination and other exit costs.

Note 7. Taxes on Income

A. Taxes on Income

On January 23, 2006, the Internal Revenue Service (IRS) issued final regulations on Statutory Mergers and Consolidations, which impacted certain prior-period transactions. In the first quarter of 2006, we recorded a tax benefit of $217 million, reflecting the total impact of these regulations.

In the first quarter of 2005, we recorded an income tax charge of $2.2 billion, included in *Provision for taxes on income*, in connection with our decision to repatriate about $28.3 billion of foreign earnings in accordance with the *American Jobs Creation Act of 2004* (the Jobs Act). This first quarter impact was based on preliminary information available at the time. The final charge in 2005 was $1.7 billion on a repatriation amount of $37 billion. The change in the repatriation and corresponding tax amount was due primarily to guidance issued by the U.S. Treasury in the second quarter of 2005, as well as our decision to increase the amount of the repatriation.

B. Tax Contingencies

On January 25, 2006, the Company was notified by the IRS Appeals Division that a resolution had been reached on the matter that we were in the process of appealing related to the tax deductibility of a breakup fee paid by Warner-Lambert Company in 2000. As a result, in the first quarter of 2006 we recorded a tax benefit of approximately $441 million related to the resolution of this issue.

The IRS is currently conducting audits of the Pfizer Inc. tax returns for the years 2002, 2003 and 2004. The 2005 and 2006 tax years are also currently under audit under the IRS Compliance Assurance Process, a recently introduced real time audit process.

With respect to Pharmacia Corporation, the IRS has completed audits of the tax returns for the years 2000 through 2002 and is currently conducting an audit for the 2003 tax year through the date of the merger with Pfizer (April 16, 2003).

We periodically reassess the likelihood of assessments resulting from audits of federal, state and foreign income tax filings. We believe that our accruals for tax liabilities are adequate for all open years.

Note 8. Comprehensive Income/(Expense)

The components of comprehensive income/(expense) follow:

	First Quarter	
(millions of dollars)	2006	2005
Net income	$ 4,111	$ 301
Other comprehensive income/(expense):		
Currency translation adjustment and other	310	(277)
Net unrealized gains/(losses) on derivative financial instruments	71	(19)
Net unrealized gains/(losses) on available-for-sale securities	3	(71)
Minimum pension liability	(12)	(2)
Total other comprehensive income/(expense)	372	(369)
Total comprehensive income/(expense)	$ 4,483	$ (68)

Note 9. Financial Instruments

A. Long-Term Debt

On February 22, 2006, we issued the following Japanese yen fixed-rate bonds, to be used for general corporate purposes:

$508 million equivalent, senior unsecured notes, due February 2011, which pay interest semi-annually, beginning on August 22, 2006, at a rate of 1.2%; and

$466 million equivalent, senior unsecured notes, due February 2016, which pay interest semi-annually, beginning on August 22, 2006, at a rate of 1.8%.

The notes were issued under a $5 billion debt shelf registration filed with the SEC in November 2002. As of April 2, 2006, we had the ability to borrow $1 billion by issuing debt securities under our existing debt shelf registration statement filed with the SEC in November 2002.

B. Derivative Financial Instruments and Hedging Activities

During the first quarter of 2006, we entered into the following incremental hedging activities:

Instrument(a)	Primary Balance Sheet Caption(b)	Hedge Type(c)	Hedged Item	Notional Amount as of April 2, 2006 (millions of dollars)	Maturity Date
LT yen debt	LTD	NI	Yen net investments	$510	2011
LT yen debt	LTD	NI	Yen net investments	467	2016

(a) LT yen debt = Long-term yen debt
(b) The primary balance sheet caption indicates the financial statement classification of the fair value amount associated with the financial instrument used to hedge foreign exchange risk. LTD = Long-term debt
(c) NI = Net investment hedge

These foreign exchange debt instruments serve to protect net investments against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions.

There was no material ineffectiveness in any hedging relationship reported in earnings in the first quarter of 2006.

Note 10. Inventories

The components of inventories follow:

(millions of dollars)		April 2, 2006		Dec. 31, 2005
Finished goods	$	2,559	$	2,303
Work-in-process		2,905		2,379
Raw materials and supplies		1,199		1,357
Total inventories(a)	$	6,663	$	6,039

(a) Increase primarily due to the acquisition of sanofi-aventis' Exubera inventory, the build-up of inventory in advance of product launches and the impact of foreign exchange.

Note 11. Goodwill and Other Intangible Assets

A. Goodwill

The changes in the carrying amount of goodwill by segment for the first quarter of 2006 follow:

(millions of dollars)	Human Health	Consumer Healthcare	Animal Health	Other	Total
Balance, December 31, 2005	$ 20,919	$ 2,789	$ 56	$ 10	$ 23,774
Additions(a)	166	--	--	--	166
Other(b)	(204)	5	--	--	(199)
Balance, April 2, 2006	$ 20,881	$ 2,794	$ 56	$ 10	$ 23,741

(a) Primarily related to Exubera.
(b) Includes a reduction to goodwill related to the resolution of certain tax positions, partially offset by the impact of foreign exchange.

B. Other Intangible Assets

The components of identifiable intangible assets, primarily included in our Human Health segment, follow:

(millions of dollars)	April 2, 2006 Gross Carrying Amount	April 2, 2006 Accumulated Amortization	Dec. 31, 2005 Gross Carrying Amount	Dec. 31, 2005 Accumulated Amortization
Finite-lived intangible assets:				
Developed technology rights	$31,848	$ (9,662)	$30,781	$(8,819)
Brands	1,024	(72)	1,022	(60)
License agreements	164	(34)	160	(30)
Trademarks	152	(91)	152	(91)
Other(a)	504	(228)	452	(207)
Total amortized finite-lived intangible assets	33,692	(10,087)	32,567	(9,207)
Indefinite-lived intangible assets:				
Brands	3,871	--	3,864	--
License agreements	302	--	296	--
Trademarks	227	--	227	--
Other(b)	68	--	39	--
Total indefinite-lived intangible assets	4,468	--	4,426	--
Total identifiable intangible assets	$38,160	$(10,087)	$36,993	$(9,207)
Total identifiable intangible assets, less accumulated amortization	$28,073		$27,786	

(a) Includes patents, non-compete agreements, customer contracts and other intangible assets.
(b) Includes pension-related intangible assets.

In the first quarter of 2006, we acquired the sanofi-aventis worldwide rights, including patent rights and production technology, to manufacture and sell Exubera. In connection with the acquisition, we recorded an intangible asset for developed technology rights of approximately $1.0 billion. The amortization of these developed technology rights will primarily be included in *Cost of Sales*.

In the first quarter of 2005, we recorded an impairment charge of $1.1 billion in *Other (income)/deductions- net* related to the developed technology rights for Bextra, a selective COX-2 inhibitor (included in our Human Health segment) in connection with the decision to suspend sa