

PFIZER INC
Form 10-Q
November 12, 2010
UNITED STATES

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

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

For the quarterly period ended October 3, 2010

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
(State of Incorporation)

13-5315170
(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 ☒ 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 ☒ 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):

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Large Accelerated filer ☒ 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 ☒

At November 8, 2010, 8,009,951,287 shares of the issuer's voting common stock were outstanding.

FORM 10-Q

For the Quarter Ended
October 3, 2010

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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		Nine Months Ended	
	Oct. 3, 2010	Sept. 27, 2009	Oct. 3, 2010	Sept. 27, 2009
Revenues	\$ 16,171	\$ 11,621	\$ 50,248	\$ 33,472
Costs and expenses:				
Cost of sales(a)	3,896	1,789	11,997	4,953
Selling, informational and administrative expenses(a)	4,633	3,282	13,876	9,508
Research and development expenses(a)	2,194	1,632	6,607	5,032
Amortization of intangible assets	1,156	594	3,972	1,755
Acquisition-related in-process research and development charges	—	—	74	20
Restructuring charges and certain acquisition-related costs	499	193	2,091	1,206
Other deductions—net	2,353	160	3,038	175
Income from continuing operations before provision for taxes on income	1,440	3,971	8,593	10,823
Provision for taxes on income	564	1,092	3,198	2,952
Income from continuing operations	876	2,879	5,395	7,871
Discontinued operations—net of tax	(5)	2	(4)	6
Net income before allocation to noncontrolling interests	871	2,881	5,391	7,877
Less: Net income attributable to noncontrolling interests	5	3	24	9
Net income attributable to Pfizer Inc.	\$ 866	\$ 2,878	\$ 5,367	\$ 7,868
Earnings per share—basic:				
Income from continuing operations attributable to Pfizer Inc. common shareholders	\$ 0.11	\$ 0.43	\$ 0.67	\$ 1.17
Discontinued operations—net of tax	—	—	—	—
Net income attributable to Pfizer Inc. common shareholders	\$ 0.11	\$ 0.43	\$ 0.67	\$ 1.17
Earnings per share—diluted:				
Income from continuing operations attributable to Pfizer Inc. common shareholders	\$ 0.11	\$ 0.43	\$ 0.66	\$ 1.16

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Discontinued operations—net of tax	—	—	—	—
Net income attributable to Pfizer Inc. common shareholders	\$0.11	\$0.43	\$0.66	\$1.16

Weighted-average shares used to calculate earnings per common share:

Basic	8,027	6,730	8,045	6,727
Diluted	8,057	6,762	8,079	6,758

Cash dividends paid per common share	\$0.18	\$0.16	\$0.54	\$0.64
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(a) Includes amortization of certain intangible assets, as disclosed in Note 10B. 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

(millions of dollars)	Oct. 3, 2010 (Unaudited)	Dec. 31, 2009
Assets		
Cash and cash equivalents	\$2,176	\$1,978
Short-term investments	20,288	23,991
Accounts receivable, less allowance for doubtful accounts	14,302	14,645
Short-term loans	774	1,195
Inventories	8,771	12,403
Current deferred tax assets and other current assets	7,284	6,962
Assets held for sale	494	496
Total current assets	54,089	61,670
Long-term investments and loans	10,344	13,122
Property, plant and equipment, less accumulated depreciation	19,450	22,780
Goodwill	43,787	42,376
Identifiable intangible assets, less accumulated amortization	58,627	68,015
Noncurrent deferred tax assets and other noncurrent assets	5,118	4,986
Total assets	\$191,415	\$212,949
Liabilities and Shareholders' Equity		
Short-term borrowings, including current portion of long-term debt	\$5,158	\$5,469
Accounts payable	3,206	4,370
Dividends payable	1	1,454
Income taxes payable	1,620	10,107
Accrued compensation and related items	1,853	2,242
Current deferred tax liabilities and other current liabilities	12,334	13,583
Total current liabilities	24,172	37,225
Long-term debt	39,010	43,193
Pension benefit obligations	5,196	6,392
Postretirement benefit obligations	3,258	3,243
Noncurrent deferred tax liabilities	16,940	17,839
Other taxes payable	8,578	9,000
Other noncurrent liabilities	6,193	5,611
Total liabilities	103,347	122,503
Preferred stock	54	61
Common stock	443	443
Additional paid-in capital	70,678	70,497
Employee benefit trusts	(8)	(333)
Treasury stock	(22,707)	(21,632)
Retained earnings	42,873	40,426
Accumulated other comprehensive (loss)/income	(3,698)	552
Total Pfizer Inc. shareholders' equity	87,635	90,014
Equity attributable to noncontrolling interests	433	432
Total shareholders' equity	88,068	90,446

Total liabilities and shareholders' equity	\$ 191,415	\$ 212,949
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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. 3, 2010	Sept. 27, 2009
Operating Activities:		
Net income before allocation to noncontrolling interests	\$5,391	\$7,877
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash (used in)/provided by operating activities:		
Depreciation and amortization	6,493	2,983
Share-based compensation expense	351	258
Asset write-offs and impairment charges	2,956	293
Benefit plan contributions (in excess of)/less than expense	(706)	318
Deferred taxes from continuing operations	1,277	1,121
Other non-cash adjustments	(61)	(248)
Changes in assets and liabilities, net of acquisitions and divestitures	(10,505)	(840)
Net cash provided by operating activities	5,196	11,762
Investing Activities:		
Purchases of property, plant and equipment	(966)	(783)
Purchases of short-term investments	(5,018)	(57,148)
Proceeds from redemptions and sales of short-term investments	9,493	31,747
Purchases of long-term investments	(2,674)	(6,053)
Proceeds from redemptions and sales of long-term investments	3,822	4,824
Other investing activities	496	508
Net cash provided by/(used in) investing activities	5,153	(26,905)
Financing Activities:		
Increase in short-term borrowings	4,686	28,473
Principal payments on short-term borrowings	(9,265)	(29,976)
Proceeds from issuances of long-term debt	—	23,997
Principal payments on long-term debt	(4)	(910)
Purchases of common stock	(1,000)	—
Cash dividends paid	(4,544)	(4,268)
Other financing activities	32	(101)
Net cash (used in)/provided by financing activities	(10,095)	17,215
Effect of exchange-rate changes on cash and cash equivalents	(56)	40
Net increase in cash and cash equivalents	198	2,112
Cash and cash equivalents at beginning of period	1,978	2,122
Cash and cash equivalents at end of period	\$2,176	\$4,234

Supplemental Cash Flow Information:

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Cash paid during the period for:

Income taxes	\$11,519	\$1,748
Interest	2,039	723

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 29, 2010, and August 23, 2009.

On October 15, 2009, we completed our acquisition of Wyeth and, commencing from the acquisition date, our financial statements include the assets, liabilities, operating results and cash flows of Wyeth. As a result, legacy Wyeth operations are reflected in our results of operations for the third-quarter and nine-month 2010 periods, but not for the third-quarter and nine-month 2009 periods. Also, legacy Wyeth cash flows are reflected for the nine-month period in 2010, but not for the nine-month period in 2009.

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, 2009.

Note 2. Adoption of New Accounting Policies

The provisions of the following new accounting standards were adopted as of January 1, 2010 and did not have a significant impact on our consolidated financial statements:

An amendment to the recognition and measurement guidance for the transfers of financial assets.

An amendment to the guidelines for determining the primary beneficiary in a variable interest entity.

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

Note 3. Acquisition of Wyeth

On October 15, 2009 (the acquisition date), we acquired all of the outstanding equity of Wyeth in a cash-and-stock transaction, valued at the acquisition date at approximately \$68 billion.

Recording of Assets Acquired and Liabilities Assumed

The following table summarizes the final amounts recognized for assets acquired and liabilities assumed as of the acquisition date, as well as adjustments made in the first nine months of 2010 to the amounts initially recorded in 2009 (measurement period adjustments). The measurement period adjustments did not have a significant impact on our consolidated statements of income, balance sheets or cash flows in any period and, therefore, we have not retrospectively adjusted our financial statements.

(millions of dollars)	Amounts Recognized as of Acquisition Date (provisional)(a)	Measurement Period Adjustments	Amounts Recognized as of Acquisition Date (final)
Working capital, excluding inventories	\$ 16,342	\$ 37	\$ 16,379
Inventories(b)	8,388	(417)	7,971
Property, plant and equipment	10,054	(216)	9,838
Identifiable intangible assets, excluding in-process research and development(b)	37,595	(1,533)	36,062
In-process research and development(b)	14,918	(1,096)	13,822
Other noncurrent assets	2,394	—	2,394
Long-term debt	(11,187)	—	(11,187)
Benefit obligations	(3,211)	36	(3,175)
Net tax accounts(c)	(24,773)	1,058	(23,715)
Other noncurrent liabilities	(1,908)	—	(1,908)
Total identifiable net assets	48,612	(2,131)	46,481
Goodwill(d)	19,954	2,127	22,081
Net assets acquired	68,566	(4)	68,562
Less: Amounts attributable to noncontrolling interests	(330)	4	(326)
Total consideration transferred	\$ 68,236	\$ —	\$ 68,236

(a) As previously reported in Pfizer's 2009 Annual Report on Form 10-K.

(b) These measurement period adjustments were recorded to reflect changes in the estimated fair value of certain intangible assets and inventories. These adjustments were made largely to better reflect market participant assumptions about facts and circumstances existing as of the acquisition date. The measurement period adjustments did not result from intervening events subsequent to the acquisition date.

(c) These measurement period adjustments primarily reflect the tax impact of the pre-tax measurement period adjustments. The measurement period adjustments did not result from intervening events subsequent to the acquisition date.

(d) Goodwill recognized as of the acquisition date totaled \$19,172 million for our Biopharmaceutical segment and \$2,909 million for our Diversified segment.

Note 4. Cost-Reduction Initiatives and Acquisition-Related Costs

We have incurred significant costs in connection with our cost-reduction initiatives (several programs initiated since 2005) and our acquisition of Wyeth on October 15, 2009.

Since the acquisition of Wyeth, our cost-reduction initiatives that were announced on January 26, 2009, but not completed as of December 31, 2009, have been incorporated into a comprehensive plan to integrate Wyeth's operations, generate cost savings and capture synergies across the combined company. We are focusing our efforts on achieving an appropriate cost structure for the combined company.

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

We incurred the following costs in connection with all of our cost-reduction initiatives and the acquisition of Wyeth:

	Three Months Ended		Nine Months Ended	
(millions of dollars)	Oct. 3, 2010	Sept. 27, 2009	Oct. 3, 2010	Sept. 27, 2009