PFIZER INC

FORM 10-K
(Annual Report)

Filed 02/26/10 for the Period Ending 12/31/09

Address	235 E 42ND ST
	NEW YORK, NY 10017
Telephone	2125732323
CIK	0000078003
Symbol	PFE
SIC Code	2834 - Pharmaceutical Preparations
Industry	Major Drugs
Sector	Healthcare
Fiscal Year	12/31

B. Stock Options

Stock options, which, when vested, entitle the holder to purchase a specified number of shares of Pfizer common stock at a price per share equal to the market price of Pfizer common stock on the date of grant, are accounted for using a fair-value-based method at the date of grant in the consolidated statements of income. The values determined through this fair-value-based method generally are amortized on an even basis over the vesting term into *Cost of sales, Selling, informational and administrative expenses,* and *Research and development expenses,* as appropriate.

All employees may receive stock option grants. No stock options were awarded to senior and key management in 2009; however, stock options were awarded to certain other employees. Except for stock options awarded to two executive officers at the time they joined Pfizer, no stock options were awarded to senior and key management in 2008. In virtually all instances, stock options granted since 2005 vest after three years of continuous service from the grant date and have a contractual term of 10 years. In all cases, even for stock options that are subject to accelerated vesting upon voluntary retirement, stock options must be held for at least one year from the grant date before any vesting may occur. In the event of a divestiture or restructuring, options held by employees are immediately vested and are exercisable for a period from three months to their remaining term, depending on various conditions.

The fair-value-based method for valuing each stock option grant on the grant date uses, for virtually all grants, the Black-Scholes-Merton option-pricing model, which incorporates a number of valuation assumptions noted in the following table, shown at their weighted-average values:

	YEAR ENDED DECEMBER 31,		
	2009	2008	2007
Expected dividend yield [(a)]	**4.90%**	5.54%	4.49%
Risk-free interest rate [(b)]	**2.69%**	2.90%	4.69%
Expected stock price volatility [(c)]	**41.36%**	27.21%	21.28%
Expected term [(d)] (years)	**6.0**	5.75	5.75

[(a)] Determined using a constant dividend yield during the expected term of the option.
[(b)] Determined using the interpolated yield on U.S. Treasury zero-coupon issues.
[(c)] Determined using implied volatility, after consideration of historical volatility.
[(d)] Determined using historical exercise and post-vesting termination patterns.

The following table summarizes all stock option activity during 2009:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	AGGREGATE INTRINSIC VALUE [(a)] (MILLIONS)
Outstanding, December 31, 2008	489,054	$ 32.91		
Granted	49,454	12.74		
Exercised	(556)	12.70		
Forfeited	(3,988)	21.55		
Canceled	(86,271)	36.54		
Outstanding, December 31, 2009	**447,693**	**30.11**	**4.6**	**$ 259**
Vested and expected to vest [(b)], December 31, 2009	**441,480**	**30.26**	**4.6**	**$ 246**
Exercisable, December 31, 2009	**318,808**	**34.20**	**3.2**	**$ 3**

[(a)] Market price of underlying Pfizer common stock less exercise price.
[(b)] The number of options expected to vest takes into account an estimate of expected forfeitures.

The following table provides data related to all stock option activity:

(MILLIONS OF DOLLARS, EXCEPT PER STOCK OPTION AMOUNTS AND YEARS)	YEAR ENDED DECEMBER 31, 2009	2008	2007
Weighted-average grant date fair value per stock option	**$3.30**	$3.30	$4.11
Aggregate intrinsic value on exercise	**$ 2**	$ 9	$ 173
Cash received upon exercise	**$ 7**	$ 29	$ 532
Tax benefits realized related to exercise	**$ 1**	$ 3	$ 54
Total compensation cost related to nonvested stock options not yet recognized, pre-tax	**$ 147**	$ 159	$ 216
Weighted-average period in years over which stock option compensation cost is expected to be recognized	**1.2**	1.1	1.2

C. Restricted Stock Units (RSUs)

RSUs, which, when vested, entitle the holder to receive a specified number of shares of Pfizer common stock, including shares resulting from dividend equivalents paid on such RSUs, are accounted for using a fair-value-based method at the date of grant. For RSUs granted in 2009, 2008 and 2007, in virtually all instances, the units vest after three years of continuous service from the grant date and the values determined using the fair-value-based method are amortized on an even basis over the vesting term into *Cost of sales, Selling, informational and administrative expenses* and *Research and development expenses,* as appropriate.

The value of each RSU grant is estimated on the grant date. The fair-value-based method utilizes the closing price of Pfizer common stock on the date of grant. The following table summarizes all RSU activity during 2009:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE PER SHARE
Nonvested, December 31, 2008	28,964	$ 24.47
Granted	15,152	13.75
Vested	(5,179)	25.25
Reinvested dividend equivalents	1,656	15.39
Forfeited	(2,510)	21.53
Nonvested, December 31, 2009	**38,083**	**19.90**

The following table provides data related to all RSU activity:

(MILLIONS OF DOLLARS EXCEPT YEARS)	YEAR ENDED DECEMBER 31, 2009	2008	2007
Total fair-value-based amount of shares vested	**$131**	$119	$146
Total compensation cost related to nonvested RSU awards not yet recognized, pre-tax	**$198**	$257	$254
Weighted-average period in years over which RSU cost is expected to be recognized	**1.3**	1.5	2.1

D. Performance Share Awards (PSAs) and Performance-Contingent Share Awards (PCSAs)

PSAs and PCSAs are awarded to senior and key management. PSAs in 2009, 2008, 2007 and 2006, and PCSAs in earlier years entitle the holder to receive, at the end of a vesting term, a number of shares of our common stock within a specified range of shares, calculated using a non-discretionary formula that measures our performance relative to an industry peer group. PSAs are accounted for using a fair-value-based method at the date of grant in the consolidated statements of income beginning with grants in 2006. Further, PSAs generally are amortized on an even basis over the vesting term into *Cost of sales, Selling, informational and administrative expenses* and *Research and development expenses,* as appropriate. PCSAs, which have not been awarded since 2005, are accounted for using the intrinsic value method in the consolidated statements of income. Senior and other key members of management may receive PSA grants and were eligible to receive PCSA grants. In most instances, PSA grants vest after three years, and PCSA grants vest after five years of continuous service from the grant date. In certain instances, PCSA grants vest over two to four years of continuous service from the grant date. The vesting terms are equal to the contractual terms.

PSA grants made in 2009, 2008, 2007 and 2006 vest and are paid based on a non-discretionary formula that measures our performance using relative total shareholder return over a performance period relative to an industry peer group. If our minimum performance in the measure is below the threshold level relative to the peer group, then no shares are paid. PCSA grants, which were all made prior to 2006, vest and are paid based on a non-discretionary formula that measures our performance using relative total shareholder return and relative change in diluted EPS over a performance period relative to an industry peer group. If our minimum performance is below the threshold level relative to the peer group, then no shares will be paid.

We measure PSA grants using a fair-value-based amount, which is derived from a Monte Carlo simulation model, times the target number of shares. The target number of shares is determined by reference to the fair value of share-based awards to similar employees in the industry peer group. We measure PCSA grants at intrinsic value whereby the probable award is allocated over the term of the award, and then the resultant shares are adjusted to the fair value of our common stock at each accounting period until the date of payment.

The weighted-average assumptions used in the valuation of PSAs are as follows:

	YEAR ENDED DECEMBER 31,		
	2009	2008	2007
Risk-free interest rate	1.95%	2.05%	4.68%
Expected Pfizer stock price volatility	40.40%	27.21%	21.28%
Average peer stock price volatility	36.30%	32.13%	18.85%
Contractual term in years	3	3	3

The following table summarizes all PSA and PCSA activity during 2009, with the shares granted representing the maximum award that could be achieved:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE PER SHARE
Nonvested, December 31, 2008	7,892	$ 23.52
Granted	2,388	12.43
Vested	(2,025)	18.77
Forfeited	(2,479)	19.09
Modifications [a]	342	15.05
Nonvested, December 31, 2009	6,118	23.07

[a] Modifications include pro-ration of the awards for service to the date of termination for 13 former employees in 2009. The modifications were made at the discretion of the Senior Vice President of Worldwide Human Resources, or her designee for 2009. There was no incremental cost related to the modifications.

The following table provides data related to all PSA and PCSA activity:

	YEAR ENDED DECEMBER 31,		
(MILLIONS OF DOLLARS, EXCEPT YEARS)	2009	2008	2007
Total intrinsic value of vested PSA/PCSA shares	$ 37	$ 15	$ 46
Total compensation cost related to nonvested PSA grants not yet recognized, pre-tax	$ 17	$ 20	$ 15
Weighted-average period in years over which PSA cost is expected to be recognized	2	2	2

E. Total Shareholder Return Units (TSRUs)

Total Shareholder Return Units (TSRUs) (formerly known as Stock Appreciation Rights (SARs)) are awarded to senior and key management. TSRUs entitle the holders to receive, two years after the end of a three-year vesting term, a number of shares of our common stock with a value equal to the difference between the defined settlement price and the grant price, plus the dividends accumulated during the five-year term. The settlement price is the average closing price of Pfizer common stock during the 20 trading days ending on the fifth anniversary of the grant; the grant price is the closing price of Pfizer common stock on the date of the grant.

The TSRUs are automatically settled on the fifth anniversary of the grant but vest on the third anniversary of the grant, after which time there no longer is a risk of forfeiture. TSRUs are accounted for using a fair-value-based method at the date of grant in the consolidated statements of income and generally are amortized on an even basis over the vesting term into *Cost of sales, Selling, informational and administrative expenses* and *Research and development expenses,* as appropriate.

The fair-value-based method for valuing the TSRUs uses the Monte Carlo simulation model. The model incorporates a number of valuation assumptions noted in the following table, shown at their weighted-average values:

	TSRUs 2009	TSRUs 2008
Expected dividend yield [a]	4.55%	5.54%
Risk-free interest rate [b]	2.35%	2.77%
Expected stock price volatility [c]	36.92%	27.21%
Expected term [d] (years)	5.00	5.00

[a] Determined using a constant dividend yield during the expected term of the TSRU.
[b] Determined using the interpolated yield on U.S. Treasury zero-coupon issues.
[c] Determined using implied volatility, after consideration of historical volatility.
[d] Determined using the contractual term.

The following summarizes all TSRU activity during 2009:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE GRANT DATE VALUE PER SHARE
Nonvested, December 31, 2008	2,756	$ 22.49
Granted	6,365	14.62
Vested	(47)	18.02
Forfeited	(393)	16.12
Nonvested, December 31, 2009	8,681	17.04

The following table provides data related to all TSRU activity:

	YEAR ENDED DECEMBER 31,	
(MILLIONS OF DOLLARS, EXCEPT PER TSRU AMOUNTS AND YEARS)	2009	2008
Weighted-average grant date fair value per TSRU	$ 4.26	$ 5.54
Total compensation cost related to nonvested TSRU grants not yet recognized, pre-tax	$ 23	$ 9
Weighted-average period in years over which TSRU cost is expected to be recognized	2.1	2.2

Exhibit 23

Consent of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Pfizer Inc:

We consent to the incorporation by reference in this Form 10-K of Pfizer Inc. of our reports dated February 26, 2010, with respect to the consolidated balance sheets of Pfizer Inc. and Subsidiary Companies as of December 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009, and all related financial statement schedules, and the effectiveness of internal control over financial reporting as of December 31, 2009, which reports appear in the December 31, 2009 annual report on Form 10-K of Pfizer Inc. and Subsidiary Companies.

Our report refers to Pfizer Inc.'s adoption of Financial Accounting Standards Board Statement No.141R, *Business Combinations* (included in FASB ASC Topic 805, *Business Combinations*), as of January 1, 2009.

We also consent to the incorporation by reference of our reports in the following Registration Statements:

- Form S-8 dated October 27, 1983 (File No. 2-87473),
- Form S-8 dated March 22, 1990 (File No. 33-34139),
- Form S-8 dated January 24, 1991 (File No. 33-38708),
- Form S-8 dated November 18, 1991 (File No. 33-44053),
- Form S-8 dated May 27, 1993 (File No. 33-49631),
- Form S-8 dated May 19, 1994 (File No. 33-53713),
- Form S-8 dated October 5, 1994 (File No. 33-55771),
- Form S-8 dated December 20, 1994 (File No. 33-56979),
- Form S-8 dated March 29, 1996 (File No. 33-02061),
- Form S-8 dated September 25, 1997 (File No. 333-36371),
- Form S-8 dated April 24, 1998 (File No. 333-50899),
- Form S-8 dated April 22, 1999 (File No. 333-76839),
- Form S-8 dated June 19, 2000 (File No. 333-90975),
- Form S-8 dated June 19, 2000 (File No. 333-39606),
- Form S-8 dated April 27, 2001 (File No. 333-59660),
- Form S-8 dated April 27, 2001 (File No. 333-59654),
- Form S-8 dated April 16, 2003 (File No. 333-104581),
- Form S-8 dated April 16, 2003 (File No. 333-104582),
- Form S-8 dated November 18, 2003 (File No. 333-110571),
- Form S-8 dated December 18, 2003 (File No. 333-111333),
- Form S-8 dated April 26, 2004 (File No. 333-114852),
- Form S-8 dated March 1, 2007 (File No. 333-140987),
- Form S-3 dated March 1, 2007 (File No. 333-140989),
- Form S-3 dated March 30, 2007 (File No. 333-141729),
- Form S-4 dated March 27, 2009 (File No. 333-158237),
- Form S-8 dated October 16, 2009 (File No. 333-162519),
- Form S-8 dated October 16, 2009 (File No. 333-162520) and
- Form S-8 dated October 16, 2009 (File No. 333-162521).

/s/ KPMG
New York, New York
February 26, 2010