10-K 1 d10k.htm FORM 10-K

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

☐ **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 or other jurisdiction of incorporation or organization)	**13-5315170** (I.R.S. Employer Identification Number)
235 East 42nd Street **New York, New York** (Address of principal executive offices)	**10017-5755** (Zip Code)

(212) 733-2323
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.05 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements

The Board of Directors and Shareholders of Pfizer Inc.:

We have audited the accompanying consolidated balance sheets of Pfizer Inc. and Subsidiary Companies as of December 31, 2010 and 2009, 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, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pfizer Inc. and Subsidiary Companies as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Pfizer Inc. and Subsidiary Companies' internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2011 expressed an unqualified opinion on the effective operation of the Company's internal control over financial reporting.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for business combinations in 2009 due to the adoption of Financial Accounting Standards Board Statement No. 141R, Business Combinations (included in FASB ASC Topic 805, Business Combinations), as of January 1, 2009.

KPMG LLP

KPMG LLP
New York, New York

February 28, 2011

C. Employee Stock Ownership Plans

We have two employee stock ownership plans (collectively, the ESOPs), the Preferred ESOP and another that holds common stock of the company (Common ESOP). As of January 1, 2008, the legacy Pharmacia U.S. savings plan was merged with the Pfizer Savings Plan. Prior to the merger, a portion of the matching contributions for legacy Pharmacia U.S. savings plan participants was funded through the ESOPs.

Allocated shares held by the Common ESOP are considered outstanding for the earnings per share (EPS) calculations and the eventual conversion of allocated preferred shares held by the Preferred ESOP is assumed in the diluted EPS calculation. As of December 31, 2010, the Preferred ESOP held preferred shares with a stated value of approximately $52 million, convertible into approximately 3 million shares of our common stock. As of December 31, 2010, the Common ESOP held approximately 4 million shares of our common stock. As of December 31, 2010, all preferred and common shares held by the ESOPs have been allocated to the Pharmacia U.S. and certain Puerto Rico savings plan participants.

D. Employee Benefit Trust

The Pfizer Inc. Employee Benefit Trust (EBT) was established in 1999 to fund our employee benefit plans through the use of its holdings of Pfizer Inc. stock. Our consolidated balance sheets reflect the fair value of the shares owned by the EBT as a reduction of *Shareholders' equity*. Beginning in May 2009, the Company began using the shares held in the EBT to help fund the Company's matching contribution in the Pfizer Savings Plan.

15. Share-Based Payments

Our compensation programs can include share-based payments. In 2010, 2009 and 2008, the primary share-based awards and their general terms and conditions are as follows:

- 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.
- Restricted stock units (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.
- Performance share awards (PSAs) which entitle the holder, and performance-contingent share awards (PCSAs) which entitled the holder, upon vesting, to receive a number of shares of Pfizer common stock, within a range of shares from zero to 200% of the holder's target award, calculated using a formula that measures Pfizer's performance relative to an industry peer group over a specified performance period. The Compensation Committee of the Company's Board of Directors had, with respect to PCSAs, and has, with respect to PSAs, discretion to authorize the payment of fewer shares to a holder than the number of shares determined pursuant to the formula. Dividend equivalents accumulate on PSAs and are paid, and dividend equivalents accumulated on PCSAs and were paid, at the end of the vesting term in respect of any shares paid. PCSA grants were made prior to 2006 and have all been settled.
- Short-term Incentive Shift Awards, which entitle the holder to receive a percentage of the holder's target award (between 0% and 200%) approximately one year following the grant, based on a combination of individual performance and Company performance (as measured by revenue, adjusted diluted earnings per share and cash flow from operations) during the year in which the grant is made. At the election of the holder, the award is paid: (i) in the case of the Executive Leadership Team (ELT) members (determined at the time of the grant), all in RSUs, or half in RSUs and half in cash; and (ii) in the case of all other holders, all in RSUs, all in cash, or half in RSUs and half in cash.
- Stock appreciation rights (SARs), also referred to as Total Shareholder Return Units (TSRUs), which vest on the third anniversary of the grant and entitle the holder to receive, two years after the end of the three-year vesting term, a number of shares of Pfizer common stock with a value equal to the difference between the defined settlement price and the closing market price of Pfizer common stock on the date of grant, plus accumulated dividend equivalents through the payment date, if and to the extent the total value is positive.

The Company's shareholders approved the amendment and restatement of the 2004 Stock Plan at the Annual Meeting of Shareholders held on April 23, 2009. The primary purpose of the amendment was to increase the number of shares of common stock available for grants by 425 million shares. In addition, the amendment provided other changes, including that the number of stock options, SARs or other performance-based awards that may be granted to any one individual during any 36-month period is limited to eight million shares and that RSUs, PSAs and restricted stock grants count as two shares, while stock options and SARs count as one share, toward the maximums for the incremental 425 million shares. As of December 31, 2010, 405 million shares were available for award. The 2004 Stock Plan, as amended, is the only Pfizer plan under which equity-based compensation may currently be awarded to executives and other employees.

The Company's shareholders originally approved the 2004 Stock Plan at the Annual Meeting of Shareholders held on April 22, 2004, and, effective upon that approval, new stock option and other share-based awards could be granted only under the originally approved 2004 Stock Plan. As originally approved, the 2004 Stock Plan allowed a maximum of three million shares to be awarded to any employee per year and 475 million shares in total. RSUs, PSAs, PCSAs and restricted stock grants counted as three shares, while stock options and SARs counted as one share, toward the maximums under the Plan.

Notes to Consolidated Financial Statements
Pfizer Inc. and Subsidiary Companies

In the past, we had various employee stock and incentive plans under which stock options and other share-based awards were granted. Stock options and other share-based awards that were granted under prior plans and were outstanding on April 22, 2004, continue in accordance with the terms of the respective plans.

Although not required to do so, we have used authorized and unissued shares and, to a lesser extent, shares held in our Employee Benefit Trust and treasury stock to satisfy our obligations under these programs.

A. Impact on Net Income
The components of share-based compensation expense and the associated tax benefit follow:

	YEAR ENDED DECEMBER 31,		
(MILLIONS OF DOLLARS)	**2010**	2009	2008
Stock option expense	**$ 150**	$165	$ 194
Restricted stock unit expense	**211**	183	169
PSA and PCSA (expense reduction)/expense	**14**	(17)	(2)
Short-term incentive award expense	**—**	1	13
TSRU expense	**28**	15	10
Directors' compensation	**2**	2	—
Share-based payment expense	**405**	349	384
Tax benefit for share-based compensation expense	**(129)**	(99)	(114)
Share-based payment expense, net of tax	**$ 276**	$250	$ 270

Amounts capitalized as part of inventory cost were not significant. In 2010, 2009 and 2008, the impact of modifications under our cost-reduction initiatives to share-based awards was not significant. Generally, these modifications resulted in an acceleration of vesting, either in accordance with plan terms or at management's discretion.

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 eligible employees may receive stock option grants. No stock options were awarded to senior and other key management in 2010 or 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 other 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 most cases, 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,		
	2010	2009	2008
Expected dividend yield[(a)]	**4.00%**	4.90%	5.54%
Risk-free interest rate[(b)]	**2.87%**	2.69%	2.90%
Expected stock price volatility[(c)]	**26.85%**	41.36%	27.21%
Expected term[(d)] (years)	**6.25**	6.0	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.

Notes to Consolidated Financial Statements
Pfizer Inc. and Subsidiary Companies

The following table summarizes all stock option activity during 2010:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	AGGREGATE INTRINSIC VALUE[a] (MILLIONS)
Outstanding, December 31, 2009	447,693	$ 30.11		
Granted	70,327	17.62		
Exercised	(1,280)	12.80		
Forfeited	(5,997)	18.56		
Canceled	(52,139)	31.07		
Outstanding, December 31, 2010	**458,604**	**28.29**	**4.7**	**$ 215**
Vested and expected to vest[b], December 31, 2010	**451,279**	**28.46**	**4.6**	**$ 205**
Exercisable, December 31, 2010	**311,919**	**33.36**	**2.9**	**$ 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:

	YEAR ENDED DECEMBER 31,		
(MILLIONS OF DOLLARS, EXCEPT PER STOCK OPTION AMOUNTS AND YEARS)	**2010**	2009	2008
Weighted-average grant date fair value per stock option	**$3.25**	$3.30	$3.30
Aggregate intrinsic value on exercise	**$ 5**	$ 2	$ 9
Cash received upon exercise	**$ 16**	$ 7	$ 29
Tax benefits realized related to exercise	**$ 1**	$ 1	$ 3
Total compensation cost related to nonvested stock options not yet recognized, pre-tax	**$ 178**	$ 147	$ 159
Weighted-average period in years over which stock option compensation cost is expected to be recognized	**1.3**	1.2	1.1

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 2010, 2009 and 2008, 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 2010:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE PER SHARE
Nonvested, December 31, 2009	38,083	$ 19.90
Granted	17,493	17.55
Vested	(12,705)	24.48
Reinvested dividend equivalents	1,764	16.90
Forfeited	(3,458)	17.36
Nonvested, December 31, 2010	**41,177**	**17.57**

The following table provides data related to all RSU activity:

	YEAR ENDED DECEMBER 31,		
(MILLIONS OF DOLLARS EXCEPT YEARS)	**2010**	2009	2008
Total grant date fair-value-based amount of shares vested	**$311**	$131	$119
Total compensation cost related to nonvested RSU awards not yet recognized, pre-tax	**$230**	$198	$257
Weighted-average period in years over which RSU cost is expected to be recognized	**1.4**	1.3	1.5

Notes to Consolidated Financial Statements
Pfizer Inc. and Subsidiary Companies

D. Performance Share Awards (PSAs) and Performance-Contingent Share Awards (PCSAs)
Senior and other key members of management may receive PSA grants and were eligible to receive PCSA grants. 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, were accounted for using the intrinsic value method in the consolidated statements of income. In most instances, PSA grants vest after three years, and PCSA grants vested after five years, of continuous service from the grant date. In certain instances, PCSA grants vested over two to four years of continuous service from the grant date. The vesting terms are equal to the contractual terms.

PSAs entitle the holder, and PCSAs entitled the holder, upon vesting, to receive a number of shares of Pfizer common stock, within a range of shares from zero to 200% of the holder's target award, calculated using a formula that measures Pfizer's performance relative to an industry peer group over a specified performance period. PSA grants vest and are paid based on a formula that measures our performance using total shareholder return over a specified performance period relative to an industry peer group. PSCA grants, which were made prior to 2006 and which have all been settled, vested and were paid based on a formula that measured our performance using total shareholder return and the change in diluted EPS over a specified performance period relative to an industry peer group. The Compensation Committee of the Company's Board of Directors had, with respect to PCSAs, and has, with respect to PSAs, discretion to authorize the payment of fewer shares to a holder than the number of shares determined pursuant to the applicable formula.

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 measured PCSA grants at intrinsic value whereby the probable award was allocated over the term of the award, and then the resulting shares were 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,		
	2010	2009	2008
Risk-free interest rate	**1.24%**	1.95%	2.05%
Expected Pfizer stock price volatility	**26.75%**	40.40%	27.21%
Average peer stock price volatility	**23.64%**	36.30%	32.13%
Contractual term in years	**3**	3	3

The following table summarizes all PSA and PCSA activity during 2010, 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, 2009	6,118	$ 23.07
Granted	2,531	19.17
Vested	(163)	17.69
Forfeited	(4,023)	20.75
Modifications[(a)]	706	14.18
Nonvested, December 31, 2010	**5,169**	**21.92**

[(a)] Modifications include pro-ration of the awards for service to the date of termination for 15 former employees in 2010. The modifications were made at the discretion of the Senior Vice President of Worldwide Human Resources, or her designee for 2010. 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)	**2010**	2009	2008
Total intrinsic value of vested PSA/PCSA shares	**$3**	$37	$15
Total compensation cost related to nonvested PSA grants not yet recognized, pre-tax	**$18**	$17	$20
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 other key management. TSRUs entitle the holders to receive, two years after the end of the 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, if and to the extent the total value is positive. The settlement price is the average closing

Notes to Consolidated Financial Statements
Pfizer Inc. and Subsidiary Companies

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, other than a loss or recapture due to a violation by the holder of the restrictive covenants set forth in the TSRU grant documents. 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 2010	**TSRUs 2009**
Expected dividend yield[a]	**3.99%**	4.55%
Risk-free interest rate[b]	**2.34%**	2.35%
Expected stock price volatility[c]	**26.76%**	36.92%
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 2010:

	SHARES (THOUSANDS)	WEIGHTED-AVERAGE GRANT DATE VALUE PER SHARE
Nonvested, December 31, 2009	8,681	$ 17.04
Granted	5,104	17.67
Vested	(78)	16.60
Forfeited	(1,070)	16.96
Nonvested, December 31, 2010	**12,637**	**17.30**

The following table provides data related to all TSRU activity:

	YEAR ENDED DECEMBER 31,	
(MILLIONS OF DOLLARS, EXCEPT PER TSRU AMOUNTS AND YEARS)	**2010**	**2009**
Weighted-average grant date fair value per TSRU	**$ 4.25**	$ 4.26
Total compensation cost related to nonvested TSRU grants not yet recognized, pre-tax	**$ 18**	$ 23
Weighted-average period in years over which TSRU cost is expected to be recognized	**1.5**	2.1