PFIZER INC
Form 10-Q
August 11, 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 July 3, 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

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

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	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 X

At August 8, 2011, 7,802,126,616 shares of the issuer's voting common stock were outstanding.

FORM 10-Q

For the Quarter Ended
July 3, 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		Six Months Ended	
(MILLIONS, EXCEPT PER COMMON SHARE DATA)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Revenues	$16,984	$17,132	$33,486	$33,708
Costs and expenses:				
Cost of sales(a)	3,805	3,684	7,498	7,886
Selling, informational and administrative expenses(a)	4,973	4,774	9,476	9,177
Research and development expenses(a)	2,237	2,181	4,328	4,402
Amortization of intangible assets	1,395	1,407	2,771	2,816
Acquisition-related in-process research and development charges	—	—	—	74
Restructuring charges and certain acquisition-related costs	479	885	1,373	1,591
Other deductions—net	413	275	1,240	687
Income from continuing operations before provision for taxes on income	3,682	3,926	6,800	7,075
Provision for taxes on income	1,094	1,472	1,988	2,607
Income from continuing operations	2,588	2,454	4,812	4,468
Discontinued operations:				
Income from operations—net of tax	30	31	40	50
Gain on sale of discontinued operations—net of tax	—	—	—	2
Discontinued operations—net of tax	30	31	40	52
Net income before allocation to noncontrolling interests	2,618	2,485	4,852	4,520
Less: Net income attributable to noncontrolling interests	8	10	20	19
Net income attributable to Pfizer Inc.	$2,610	$2,475	$4,832	$4,501
Earnings per share—basic: (b)				
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.33	$0.30	$0.60	$0.55
Discontinued operations—net of tax	—	—	0.01	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.33	$0.31	$0.61	$0.56
Earnings per share—diluted: (b)				

Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.33	$0.30	$0.60	$0.55
Discontinued operations—net of tax	—	—	0.01	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.33	$0.31	$0.61	$0.56
Weighted-average shares used to calculate earnings per common share:				
Basic	7,875	8,046	7,929	8,053
Diluted	7,935	8,072	7,980	8,085
Cash dividends paid per common share	$0.20	$0.18	$0.40	$0.36

(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)	July 3, 2011 (Unaudited)	Dec. 31, 2010
Assets		
Cash and cash equivalents	$3,096	$1,735
Short-term investments	22,388	26,277
Accounts receivable, less allowance for doubtful accounts	15,192	14,426
Short-term loans	462	467
Inventories	8,597	8,275
Taxes and other current assets	9,271	8,394
Assets of discontinued operations and other assets held for sale	1,478	1,439
Total current assets	60,484	61,013
Long-term investments and loans	10,207	9,747
Property, plant and equipment, less accumulated depreciation	18,281	18,645
Goodwill	45,107	43,928
Identifiable intangible assets, less accumulated amortization	57,059	57,555
Taxes and other noncurrent assets	4,761	4,126
Total assets	$195,899	$195,014
Liabilities and Shareholders' Equity		
Short-term borrowings, including current portion of long-term debt	$5,988	$5,603
Accounts payable	3,698	3,994
Dividends payable	1,637	1,601
Income taxes payable	1,849	951
Accrued compensation and related items	1,815	2,080
Other current liabilities	15,303	14,256
Liabilities of discontinued operations	181	151
Total current liabilities	30,471	28,636
Long-term debt	35,723	38,410
Pension benefit obligations	5,852	6,194
Postretirement benefit obligations	3,057	3,035
Noncurrent deferred tax liabilities	20,072	18,628
Other taxes payable	6,829	6,245
Other noncurrent liabilities	4,932	5,601
Total liabilities	106,936	106,749
Preferred stock	47	52
Common stock	445	444
Additional paid-in capital	71,095	70,760
Employee benefit trusts	(3)	(7)
Treasury stock	(26,471)	(22,712)
Retained earnings	44,320	42,716
Accumulated other comprehensive loss	(952)	(3,440)
Total Pfizer Inc. shareholders' equity	88,481	87,813
Equity attributable to noncontrolling interests	482	452

Total shareholders' equity	88,963	88,265
Total liabilities and shareholders' equity	$195,899	$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)	Six Months Ended July 3, 2011	Six Months Ended July 4, 2010
Operating Activities:		
Net income before allocation to noncontrolling interests	$4,852	$4,520
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by/(used in) operating activities:		
Depreciation and amortization	4,409	4,264
Share-based compensation expense	244	243
Asset write-offs and impairment charges	573	833
Acquisition-related in-process research and development charges	—	74
Deferred taxes from continuing operations	505	1,610
Other non-cash adjustments	34	(92)
Benefit plan contributions (in excess of)/less than expense	(264)	234
Other changes in assets and liabilities, net of acquisitions and divestitures	187	(13,173)
Net cash provided by/(used in) operating activities	10,540	(1,487)
Investing Activities:		
Purchases of property, plant and equipment	(608)	(678)
Purchases of short-term investments	(6,559)	(3,531)
Proceeds from redemptions and sales of short-term investments—net	12,837	11,048
Purchases of long-term investments	(3,193)	(1,481)
Proceeds from redemptions and sales of long-term investments	1,572	3,156
Acquisitions, net of cash acquired	(3,169)	—
Other investing activities	206	519
Net cash provided by investing activities	1,086	9,033
Financing Activities:		
Increase in short-term borrowings	4,868	3,169
Principal payments on short-term borrowings—net	(4,935)	(7,321)
Principal payments on long-term debt	(3,481)	(2)
Purchases of common stock	(3,679)	(500)
Cash dividends paid	(3,159)	(2,995)
Other financing activities	64	77
Net cash used in financing activities	(10,322)	(7,572)
Effect of exchange-rate changes on cash and cash equivalents	57	(75)
Net increase/(decrease) in cash and cash equivalents	1,361	(101)
Cash and cash equivalents at beginning of period	1,735	1,978
Cash and cash equivalents at end of period	$3,096	$1,877

Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes	$737	$11,311
Interest	1,337	1,342

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 six-month periods ended May 29, 2011, and May 30, 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 six months ended July 3, 2011 reflect approximately five months of King's U.S. operations and approximately four 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 Policies

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 our 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.

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

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

(millions of dollars)	Amounts Recognized as of Acquisition Date (Provisional)
Working capital, excluding inventories	$190
Inventories	338
Property, plant and equipment	413
Identifiable intangible assets, excluding in-process research and development	1,781
In-process research and development	301
Net tax accounts	(373)
All other long-term assets and liabilities, net	114
Total identifiable net assets	2,764
Goodwill	791
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 is 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, which are subject to change, are not significant to Pfizer's financial statements.

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

- Amounts for intangibles, inventory and property, plant and equipment (PP&E), pending finalization of valuation efforts for acquired intangible assets and inventory and the confirmation of the physical existence and condition of certain inventory and PP&E assets.

Amounts for environmental contingencies, pending the finalization of our assessment and valuation of environmental matters.

Amounts for legal contingencies, pending the finalization of our examination and evaluation of the portfolio of filed cases.

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.

The allocation of goodwill among reporting units.

The following table presents information for King that is included in Pfizer's condensed consolidated statement of income from the acquisition date, January 31, 2011, through Pfizer's second-quarter 2011 domestic and international quarter-ends:

(millions of dollars)	King's Operations Included in Pfizer's Second-Quarter 2011 Results	King's Operations Included in Pfizer's Six-Month 2011 Results
Revenues	$357	$581
Loss from continuing operations attributable to Pfizer Inc. common shareholders(a)	(5)	(74)

(a) Includes purchase accounting adjustments related to the fair value adjustments for acquisition-date inventory estimated to have been sold ($61 million pre-tax in the second quarter of 2011 and $119 million pre-tax in the first six months of 2011), amortization of identifiable intangible assets acquired from King ($43 million pre-tax in the second quarter of 2011 and $71 million pre-tax in the first six months of 2011) and restructuring and integration costs ($63 million pre-tax in the second quarter of 2011 and $159 million pre-tax in the first six months of 2011).

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

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	Six Months Ended	
(millions of dollars, except per share data)	July 4, 2010	July 3, 2011	July 4, 2010
Revenues	$17,465	$33,595	$34,414
Income from continuing operations attributable to Pfizer Inc. common shareholders	2,408	5,008	4,314
Diluted earnings per share attributable to Pfizer Inc. common shareholders	0.30	0.63	0.53

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 $38 million in the second quarter of 2010, $6 million in the first six months of 2011 and $79 million in the first six months of 2010).

Additional amortization expense (approximately $43 million in the second quarter of 2010 and $86 million in the first six months of 2010) related to the fair value of identifiable intangible assets acquired.

Additional depreciation expense (approximately $9 million in the second quarter of 2010, $3 million in the first six months of 2011 and $17 million in the first six 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 $61 million charge in the second quarter of 2010, elimination of $119 million charge in the first six months of 2011 and addition of $119 million charge in the first six months of 2010).

Adjustment for acquisition-related costs directly attributable to the acquisition (addition of $63 million of charges in the second quarter of 2010, elimination of $181 million of charges in the first six months of 2011 and addition of $181 million of charges in the first six 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 $2.375 billion in cash. The transaction closed on August 1, 2011.

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		Six Months Ended	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Revenues	$214	$195	$391	$369
Pre-tax income from discontinued operations	$44	$47	$72	$77
Provision for taxes	(14)	(16)	(32)	(27)
Income from discontinued operations—net of tax	30	31	40	50
Pre-tax gain on sale of discontinued operations	—	—	—	3
Provision for income taxes	—	—	—	(1)
Discontinued operations—net of tax	$30	$31	$40	$52

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

The following assets and liabilities, which include assets and liabilities held for sale related to our Capsugel business, and other assets held for sale, 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)	July 3, 2011	Dec. 31, 2010
Accounts receivable	$193	$186
Inventories	149	130
Taxes and other current assets	25	47
Property, plant and equipment	1,041	1,009
Goodwill	20	19
Identifiable intangible assets	6	3
Taxes and other noncurrent assets	44	45
Assets of discontinued operations and other assets held for sale	$1,478	$1,439
Current liabilities	$154	$124
Other liabilities	27	27
Liabilities of discontinued operations	$181	$151

Net cash flows of our discontinued operations from each of the categories of operating, investing and financing activities were not significant.

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 systems integration) 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		Six Months Ended	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Transaction costs(a)	$13	$4	$23	$13
Integration costs(b)	201	211	380	419
Restructuring charges(c):				
Employee termination costs	189	118	856	576
Asset impairments	33	497	58	503
Other	43	55	56	80
Restructuring charges and certain acquisition-related costs	479	885	1,373	1,591
Additional depreciation—asset restructuring (d)				
Cost of sales	171	113	343	126
Selling, informational and administrative expenses	23	103	30	163
Research and development expenses	168	—	232	20
Total additional depreciation—asset restructuring	362	216	605	309
Implementation costs(e)				
Research and development expenses	10	—	20	—
Total implementation costs	10	—	20	—
Total costs associated with cost-reduction initiatives and acquisition activity	$851	$1,101	$1,998	$1,900

(a) Transaction costs represent external costs directly related to business combinations 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 systems integration.

(c) From the beginning of our cost-reduction and transformation initiatives in 2005 through July 3, 2011, Employee termination costs represent the expected reduction of the workforce by approximately 55,400 employees, mainly in manufacturing and sales and research, of which approximately 39,100 employees have been terminated as of July 3, 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.

These restructuring charges in 2011 are associated with the following:

For the three months ended July 3, 2011, Primary Care operating segment ($87 million), Specialty Care and Oncology operating segment ($7 million), Established Products and Emerging Markets operating segment ($12 million), Animal Health and Consumer Healthcare operating segment ($4 million), research and development operations ($51 million), manufacturing operations ($81 million) and Corporate ($23 million).

For the six months ended July 3, 2011, Primary Care operating segment ($133 million), Specialty Care and Oncology operating segment ($42 million), Established Products and Emerging Markets operating segment ($15 million), Animal Health and Consumer Healthcare operating segment ($14 million), Nutrition operating segment ($2 million), research and development operations ($473 million), manufacturing operations ($156 million) and

Corporate ($135 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 July 3, 2011(a)	Accrual As of July 3, 2011(b)
Employee termination costs	$ 9,667	$ 7,395	$ 2,272
Asset impairments	2,366	2,366	—
Other	958	875	83
Total restructuring charges	$ 12,991	$ 10,636	$ 2,355

(a) Includes adjustments for foreign currency translation.
(b) Included in Other current liabilities ($1.7 billion) and Other noncurrent liabilities ($657 million).

Note 6. Other (Income)/Deductions—Net

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

	Three Months Ended		Six Months Ended	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Interest income(a)	$(117)	$(85)	$(222)	$(197)
Interest expense(a)	404	389	862	911
Net interest expense	287	304	640	714
Royalty-related income	(141)	(95)	(312)	(237)
Net gain on asset disposals	(14)	(185)	(26)	(230)
Certain legal matters, net(b)	(14)	37	487	174
Certain asset impairment charges(c)	320	196	480	232
Other, net	(25)	18	(29)	34
Other deductions—net	$413	$275	$1,240	$687

(a) Interest income increased in both periods of 2011 due to higher cash balances and higher interest rates earned on investments. Interest expense increased in the second quarter of 2011 due to lower amortization of deferred gains on terminated interest rate swaps. Interest expense decreased in the first six months 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 six months of 2011, primarily relates to charges for hormone-replacement therapy litigation (see Note 14. Legal Proceedings and Contingencies).
(c) Substantially all of these asset impairment charges are related to intangible assets, including IPR&D assets, that were acquired as part of our acquisition of Wyeth. In the second quarter of 2011, impairment charges included approximately $200 million of IPR&D assets, primarily related to a single compound for the treatment of certain autoimmune and inflammatory diseases, and approximately $120 million of developed technology rights. In the first six months of 2011, impairment charges included approximately $360 million of IPR&D assets, primarily related to two compounds for the treatment of certain autoimmune and inflammatory diseases, and approximately $120 million of developed technology rights. In the second quarter and first six months of 2010, impairment charges of approximately $200 million related to certain IPR&D assets. 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. The impairment charges for all periods reflect, among other things, the impact of new scientific findings

and updated commercial forecasts.

Note 7. Taxes on Income

A. Taxes on Income

Our effective tax rate for continuing operations was 29.7% for the second quarter of 2011, compared to 37.5% for the second quarter of 2010, and in the first six months of 2011 was 29.2%, compared to 36.9% in the first six 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; and

the change in the jurisdictional mix of earnings.

Additionally, the tax impact of the charges incurred for certain legal matters in the first quarter of 2011 contributed to the lower effective tax rate in the first six months of 2011.

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.

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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 six 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		Six Months Ended	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Net income before allocation to noncontrolling interests	$ 2,618	$ 2,485	$ 4,852	$ 4,520
Other comprehensive income/(loss):				
Currency translation adjustment and other	1,006	(2,142)	2,547	(4,891)
Net unrealized (losses)/gains on derivative financial instruments	11	(375)	(124)	(241)
Net unrealized gains/(losses) on available-for-sale securities	12	(97)	(12)	(112)
Benefit plan adjustments	77	167	79	284
Total other comprehensive income/(loss)	1,106	(2,447)	2,490	(4,960)
Total comprehensive income/(loss) before allocation to noncontrolling interests	3,724	38	7,342	(440)
Less: Comprehensive income attributable to noncontrolling interests	12	28	28	18
Comprehensive income/(loss) attributable to Pfizer Inc.	$ 3,712	$ 10	$ 7,314	$ (458)

Note 9. Financial Instruments

A. Selected Financial Assets and Liabilities

Information about certain of our financial assets and liabilities follows:

(millions of dollars)	July 3, 2011	Dec. 31, 2010
Selected financial assets measured at fair value on a recurring basis (a) :		
Trading securities	$157	$173
Available-for-sale debt securities(b)	29,558	32,699
Available-for-sale money market funds	1,141	1,217

Available-for-sale equity securities, excluding money market funds(b)	327	230
Derivative financial instruments in receivable positions(c):		
Interest rate swaps	609	603
Foreign currency swaps	457	128
Foreign currency forward-exchange contracts	103	494
Total	32,352	35,544
Other selected financial assets(d):		
Held-to-maturity debt securities, carried at amortized cost(b)	781	1,178
Private equity securities, carried at cost or equity method	1,046	1,134
Short-term loans, carried at cost	462	467
Long-term loans, carried at cost	182	299
Total	2,471	3,078
Total selected financial assets (e)	$34,823	$38,622
Financial liabilities measured at fair value on a recurring basis(a):		
Derivative financial instruments in a liability position(f):		
Foreign currency swaps	$540	$623
Foreign currency forward-exchange contracts	393	257
Interest rate swaps	5	4
Total	938	884
Other financial liabilities:		
Short-term borrowings, carried at historical proceeds, as adjusted(d)	5,988	5,603
Long-term debt, carried at historical proceeds, as adjusted(g), (h)	35,723	38,410
Total	41,711	44,013
Total selected financial liabilities	$42,649	$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 $111 million as of July 3, 2011 and $105 million as of December 31, 2010 of investments that use Level 1 inputs in the calculation of fair value, and $48 million that use Level 3 inputs as of July 3, 2011.

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

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(c) Designated as hedging instruments, except for certain foreign currency contracts used as offsets; namely, foreign currency swaps with fair values of $107 million and foreign currency forward-exchange contracts with fair values of $73 million at July 3, 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 July 3, 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 $41 million and foreign currency swaps with fair values of $1 million at July 3, 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 $881 million at July 3, 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 $39.2 billion at July 3, 2011 and $42.3 billion at December 31, 2010.

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

(millions of dollars)	July 3, 2011	Dec. 31, 2010
Assets		
Cash and cash equivalents	$597	$906
Short-term investments	22,388	26,277
Short-term loans	462	467
Long-term investments and loans	10,207	9,747
Taxes and other current assets(a)	321	515
Taxes and other noncurrent assets(b)	848	710
Total selected financial assets	$34,823	$38,622
Liabilities		
Short-term borrowings, including current portion of long-term debt	$5,988	$5,603
Other current liabilities(c)	606	339
Long-term debt	35,723	38,410
Other noncurrent liabilities(d)	332	545
Total selected financial liabilities	$42,649	$44,897

(a) At July 3, 2011, derivative instruments at fair value include foreign currency swaps ($147 million), foreign currency forward-exchange contracts ($103 million) and interest rate swaps ($71 million) and at December 31, 2010, include foreign currency forward-exchange contracts ($494 million) and foreign currency swaps ($21 million).
(b) At July 3, 2011, derivative instruments at fair value include interest rate swaps ($538 million) and foreign currency swaps ($310 million) and at December 31, 2010, include interest rate swaps ($603 million) and foreign currency swaps ($107 million).
(c) At July 3, 2011, derivative instruments at fair value include foreign currency forward-exchange contracts ($393 million) and foreign currency swaps ($213 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 July 3, 2011, derivative instruments at fair value include foreign currency swaps ($327 million) and interest rate swaps ($5 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 second quarter and first six months of 2011 or 2010.

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B. Investments in Debt Securities

The contractual maturities of the available-for-sale and held-to-maturity debt securities at July 3, 2011, follow:

	Years			
(millions of dollars)	Within 1	Over 1 to 5	Over 10	Total at July 3, 2011
Available-for-sale debt securities:				
Western European and other government debt	$ 14,758	$ 1,343	$ 17	$ 16,118
Corporate debt	1,251	2,745	—	3,996
Federal Home Loan Mortgage Corporation and Federal National Mortgage Association asset-backed securities	—	2,310	—	2,310
Western European and other government agency debt	2,704	397	—	3,101
Supranational debt	1,401	708	—	2,109
Reverse repurchase agreements	1,154	—	—	1,154
U.S. government Federal Deposit Insurance Corporation guaranteed debt	373	278	—	651
Other asset-backed securities	5	28	30	63
Certificates of deposit	56	—	—	56
Held-to-maturity debt securities:				
Certificates of deposit and other	775	6	—	781
Total debt securities	$ 22,477	$ 7,815	$ 47	$ 30,339

C. Short-Term Borrowings
Short-term borrowings include amounts for commercial paper of $600 million as of July 3, 2011 and $1.2 billion as of December 31, 2010.

D. Derivative Financial Instruments and Hedging Activities
Foreign Exchange Risk—As of July 3, 2011, the aggregate notional amount of foreign exchange derivative financial instruments hedging or offsetting foreign currency exposures is $46.8 billion. The derivative financial instruments primarily hedge or offset exposures in euro, Japanese yen and U.K. pound.

Interest Rate Risk—As of July 3, 2011, the aggregate notional amount of interest rate derivative financial instruments is $13.6 billion. The derivative financial instruments hedge U.S. dollar and euro fixed-rate debt.

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

(millions of dollars)	Amount of Gains/(Losses) Recognized in OID(a) (b) (c) July 3, 2011	Amount of Gains/(Losses) Recognized in OID(a) (b) (c) July 4, 2010	Amount of Gains/(Losses) Recognized in OCI (Effective Portion)(a) (d) July 3, 2011	Amount of Gains/(Losses) Recognized in OCI (Effective Portion)(a) (d) July 4, 2010	Amount of Gains/(Losses) Reclassified from OCI into OID (Effective Portion)(a) (d) July 3, 2011	Amount of Gains/(Losses) Reclassified from OCI into OID (Effective Portion)(a) (d) July 4, 2010
Three Months Ended:						
Derivative Financial Instruments in Fair Value Hedge Relationships(b)						
Interest rate swaps	$ —	$ 1	$ —	$ —	$ —	$ —
Foreign currency swaps	—	1	—	—	—	—
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$ —	$ —	$ 227	$ (1,219)	$ 224	$ (627)
Foreign currency forward-exchange contracts	—	—	1	(1)	—	1
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	$ 14	$ (1)	$ (991)	$ (50)	$ —	$ —
Derivative Financial Instruments Not Designated as Hedges						
Foreign currency swaps	$ 13	$ (4)	$ —	$ —	$ —	$ —
Foreign currency forward-exchange contracts	(158)	(473)	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency short-term borrowings	$ —	$ —	$ 897	$ (130)	$ —	$ —
Foreign currency long-term debt	—	—	(34)	(51)	—	—
Total	$ (131)	$ (476)	$ 100	$ (1,451)	$ 224	$ (626)
Six Months Ended:						

Derivative Financial Instruments in Fair Value Hedge Relationships(b)						
Interest rate swaps	$ —	$ 1	$ —	$ —	$ —	$ —
Foreign currency swaps	—	—	—	—	—	—
Derivative Financial Instruments in Cash Flow Hedge Relationships						
Foreign currency swaps	$ —	$ —	$ 531	$ (1,657)	$ 730	$ (1,255)
Foreign currency forward-exchange contracts	—	—	3	(1)	4	2
Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency swaps	$ 15	$ (1)	$ (958)	$ (40)	$ —	$ —
Derivative Financial Instruments Not Designated as Hedges						
Foreign currency swaps	$ 43	$ —	$ —	$ —	$ —	$ —
Foreign currency forward-exchange contracts	(317)	(1,363)	—	—	—	—
Non-Derivative Financial Instruments in Net Investment Hedge Relationships						
Foreign currency short-term borrowings	$ —	$ —	$ 940	$ (99)	$ —	$ —
Foreign currency long-term debt	—	—	(6)	(34)	—	—
Total	$ (259)	$ (1,363)	$ 510	$ (1,831)	$ 734	$ (1,253)

(a) OID = Other (income)/deductions—net, included in the income statement account, Other deductions—net. OCI = Other comprehensive income/(loss), included in the balance sheet account Accumulated other comprehensive loss.

(b) Also includes gains and losses attributable to the hedged risk in fair value hedge relationships.

(c) There was no significant ineffectiveness in the second quarter and first six months of 2011 or 2010.

(d) Amounts presented represent the effective portion of the gain or loss. For derivative financial instruments in cash flow hedge relationships, the effective portion is included in Other comprehensive income/(loss)—Net unrealized (losses)/gains on derivative financial instruments. For derivative financial instruments in net investment hedge relationships and for foreign currency debt designated as hedging instruments, the effective portion is included in Other comprehensive income/(loss)—Currency translation adjustment and other.

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For information about the fair value of our derivative financial instruments, and the impact on our Condensed Consolidated Balance Sheets, see Note 9A. Financial Instruments: Selected Financial Assets and Liabilities. Certain of our derivative instruments are covered by associated credit-support agreements that have credit-risk-related contingent features designed to reduce our counterparties' exposure to our risk of defaulting on amounts owed. The aggregate fair value of these derivative instruments that are in a liability position is $362 million, for which we have posted collateral of $265 million in the normal course of business. These features include the requirement to pay additional collateral in the event of a downgrade in our debt ratings. If there had been a downgrade to below an A rating by S&P or the equivalent rating by Moody's Investors Service, on July 3, 2011, we would have been required to post an additional $106 million of collateral to our counterparties. The collateral advanced receivables are reported in Cash and cash equivalents.

E. Credit Risk

On an ongoing basis, we review the creditworthiness of counterparties to our foreign exchange and interest rate agreements and do not expect to incur a significant loss from failure of any counterparties to perform under the agreements. There are no significant concentrations of credit risk related to our financial instruments with any individual counterparty. As of July 3, 2011, we had $3.5 billion due from a well-diversified, highly rated group (S&P ratings of primarily A+ or better) of bank counterparties around the world. See Note 9B. Financial Instruments: Investments in Debt Securities for a distribution of our investments.

In general, there is no requirement for collateral from customers. However, derivative financial instruments are executed under master netting agreements with financial institutions. These agreements contain provisions that provide for the ability for collateral payments, depending on levels of exposure, our credit rating and the credit rating of the counterparty. As of July 3, 2011, we received cash collateral of $717 million against various counterparties. The collateral primarily supports the approximate fair value of our derivative contracts. The collateral received obligations are reported in Short-term borrowings, including current portion of long-term debt.

Note 10. Inventories

The components of inventories follow:

(millions of dollars)	July 3, 2011	Dec. 31, 2010
Finished goods	$3,547	$3,665
Work-in-process	4,189	3,727
Raw materials and supplies	861	883
Total inventories(a), (b)	$8,597	$8,275

(a) The increase reflects the impact of foreign exchange as well as increases associated with the acquisition of King (see Note 3. Acquisition of King Pharmaceuticals, Inc. for additional detail) partially offset by reductions in the normal course of business.

(b) Certain amounts of inventories are in excess of one year's supply. There are no recoverability issues associated with these quantities.

Note 11. Goodwill and Other Intangible Assets

A. Goodwill

The changes in the carrying amount of goodwill for the six months ended July 3, 2011, follow:

(millions of dollars)	Primary Care	Specialty Care and Oncology	Established Products and Emerging Markets	Animal Health and Consumer Healthcare	Nutrition	To be allocated(a)	Total
Balance, December 31, 2010	$	$	$	$2,449	$496	$ 40,983	$43,928
Additions(b)				—	—	791	791
Other(c)				16	10	362	388
Balance, July 3, 2011	$	$	$	$2,465	$506	$ 42,136	$45,107

(a) The amount to be allocated includes the former Biopharmaceutical goodwill (see below), as well as newly acquired goodwill from our acquisition of King, for which the allocation to reporting units is pending (see Note 3. Acquisition of King Pharmaceuticals, Inc. for additional information).

(b) Relates to our acquisition of King and is subject to change until we complete the recording of the assets acquired and liabilities assumed from King (see Note 3. Acquisition of King Pharmaceuticals, Inc.). The allocation of King goodwill among our reporting units has not yet been completed, but will be completed within one year of the acquisition date.

(c) Primarily reflects the impact of foreign exchange.

Our company was previously managed through two operating segments (Biopharmaceutical and Diversified), and is now managed through five operating segments (see Note 15. Segment, Product and Geographic Area Information for further information). As a result of this change, the goodwill previously associated with our Biopharmaceutical operating segment is required to be allocated among the Primary Care, Specialty Care and Oncology, and Established Products and Emerging Markets operating segments. The allocation of goodwill is a complex process that requires, among other things, that we determine the fair value of each reporting unit. Therefore, we have not yet completed the allocation, but we expect that it will be completed in the current year.

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B. Other Intangible Assets

The components of identifiable intangible assets follow:

	July 3, 2011			December 31, 2010		
(millions of dollars)	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets, less Accumulated Amortization
Finite-lived intangible assets:						
Developed technology rights	$71,354	$ (29,608)	$ 41,746	$68,432	$ (26,223)	$ 42,209
Brands	1,710	(649)	1,061	1,626	(607)	1,019
License agreements	582	(254)	328	637	(248)	389
Trademarks and other	522	(322)	200	533	(324)	209
Total amortized finite-lived intangible assets	74,168	(30,833)	43,335	71,228	(27,402)	43,826
Indefinite-lived intangible assets:						
Brands	10,285	—	10,285	10,219	—	10,219
In-process research and development	3,366	—	3,366	3,438	—	3,438
Trademarks	73	—	73	72	—	72
Total indefinite-lived intangible assets	13,724	—	13,724	13,729	—	13,729
Total identifiable intangible assets(a)	$87,892	$ (30,833)	$ 57,059	$84,957	$ (27,402)	$ 57,555

(a) The decrease is primarily related to amortization as well as impairment charges (see Note 6. Other (Income)/Deductions—Net) of intangible assets, partially offset by the assets acquired as part of the acquisition of King (see Note 3. Acquisition of King Pharmaceuticals, Inc.) and the impact of foreign exchange.

At July 3, 2011, our identifiable intangible assets are associated with the following, as a percentage of identifiable intangible assets, less accumulated amortization:

Developed Technology Rights: Specialty Care (62%); Established Products (18%); Primary Care (16%); Animal Health (2%); Oncology (1%); and Nutrition (1%)

Finite-Lived Brands: Consumer Healthcare (57%); Established Products (29%); and Animal Health (14%)

Indefinite-Lived Brands: Consumer Healthcare (50%); Established Products (28%); and Nutrition (22%)

IPR&D: Specialty Care (74%); Worldwide Research and Development (14%); Primary Care (5%); Oncology (3%); Established Products (3%); and Animal Health (1%)

For IPR&D assets, the risk of failure is significant and there can be no certainty that these assets ultimately will yield a successful product. The nature of the biopharmaceutical business is high-risk and requires that we invest in a large

number of projects as a mechanism for achieving a successful portfolio of approved products. As such, we expect that many of these IPR&D assets will become impaired and be written-off at some time in the future.

Amortization expense related to acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in Amortization of intangible assets as it benefits multiple business functions. Amortization expense related to acquired intangible assets that are associated with a single function is included in Cost of sales, Selling, informational and administrative expenses and Research and development expenses, as appropriate. Total amortization expense for finite-lived intangible assets was $1.4 billion for the second quarter of 2011, $1.5 billion for the second quarter of 2010 and $2.9 billion for both the first six months of 2011 and 2010.

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Note 12. Pension and Postretirement Benefit Plans

The components of net periodic benefit costs of the U.S. and international pension plans and the postretirement plans, which provide medical and life insurance benefits to retirees and their eligible dependents, follow:

	Pension Plans							
	U.S. Qualified(a)		U.S. Supplemental (Non-Qualified)(b)		International(c)		Postretirement Plans(d)	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Three Months Ended:								
Service cost	$89	$89	$10	$7	$65	$57	$18	$21
Interest cost	184	188	18	21	114	105	48	54
Expected return on plan assets	(220)	(200)	—	—	(112)	(107)	(8)	(8)
Amortization of:								
Actuarial losses	35	38	9	8	22	16	4	—
Prior service (credits)/costs	(2)	1	—	—	(1)	(1)	(13)	(5)
Curtailments and settlements—net	34	(36)	6	(8)	6	(6)	(20)	(2)
Special termination benefits	5	36	6	62	—	2	1	6
Net periodic benefit costs	$125	$116	$49	$90	$94	$66	$30	$66
Six Months Ended:								
Service cost	$179	$183	$19	$15	$127	$117	$35	$43
Interest cost	369	379	37	40	225	216	97	108
Expected return on plan assets	(441)	(402)	—	—	(221)	(219)	(17)	(16)
Amortization of:								
Actuarial losses	70	76	18	15	43	33	8	—
Prior service (credits)/costs	(4)	1	(1)	(1)	(2)	(2)	(27)	(9)
Curtailments and settlements—net	51	(69)	18	(9)	4	(5)	(26)	(2)
Special termination benefits	10	50	13	152	3	3	1	12
Net periodic benefit costs	$234	$218	$104	$212	$179	$143	$71	$136

(a) The increase in net periodic benefit costs in the first six months of 2011, compared to the first six months of 2010, for our U.S. qualified plans was primarily driven by higher settlement charges and lower curtailment gains associated with Wyeth-related restructuring initiatives partially offset by higher expected return on plan assets and special termination benefits recognized in the prior-year period for certain executives as part of Wyeth-related restructuring initiatives.

(b) The decrease in net periodic benefit costs in the first six months of 2011, compared to the first six months of 2010, for our U.S. supplemental (non-qualified) pension plans was primarily driven by special termination benefits recognized in the prior-year period for certain executives as part of Wyeth-related restructuring initiatives.

(c) The increase in net periodic benefit costs in the first six months of 2011, compared to the first six months of 2010. for our international pension plans was primarily driven by the decrease in the discount rate partially offset by higher expected return on plan assets.

(d) The decrease in net periodic benefit costs in the first six months of 2011, compared to the first six months of 2010, for our postretirement plans was primarily driven by the harmonization of the postretirement plans and by higher curtailment gains and lower settlement charges associated with Wyeth-related restructuring initiatives.

For the first six months of 2011, we contributed from our general assets $401 million to our U.S. qualified pension plans, $214 million to our international pension plans, $119 million to our U.S. supplemental (non-qualified) pension plans and $118 million to our postretirement plans.

During 2011, we expect to contribute from our general assets a total of $486 million to our U.S. qualified pension plans, $471 million to our international pension plans, $247 million to our postretirement plans and $184 million to our U.S. supplemental (non-qualified) pension plans. Contributions expected to be made for 2011 are inclusive of amounts contributed during the first six months of 2011. The international pension plan, postretirement plan and U.S. supplemental (non-qualified) pension plan contributions from our general assets include direct employer benefit payments.

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Note 13. Earnings Per Share Attributable to Common Shareholders

Basic and diluted earnings per share (EPS) were computed using the following data:

	Three Months Ended		Six Months Ended	
(in millions)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
EPS Numerator—Basic:				
Income from continuing operations	$2,588	$2,454	$4,812	$4,468
Less: Net income attributable to noncontrolling interests	8	10	20	19
Income from continuing operations attributable to Pfizer Inc.	2,580	2,444	4,792	4,449
Less: Preferred stock dividends—net of tax	—	1	1	1
Income from continuing operations attributable to Pfizer Inc. common shareholders	2,580	2,443	4,791	4,448
Discontinued operations—net of tax	30	31	40	52
Net income attributable to Pfizer Inc. common shareholders	$2,610	$2,474	$4,831	$4,500
EPS Numerator—Diluted:				
Income from continuing operations attributable to Pfizer Inc. common shareholders and assumed conversions	$2,580	$2,444	$4,792	$4,449
Discontinued operations—net of tax	30	31	40	52
Net income attributable to Pfizer Inc. common shareholders and assumed conversions	$2,610	$2,475	$4,832	$4,501
EPS Denominator:				
Weighted-average number of common shares outstanding—Basic	7,875	8,046	7,929	8,053
Common-share equivalents: stock options, stock issuable under employee compensation plans and convertible preferred stock	60	26	51	32
Weighted-average number of common shares outstanding—Diluted	7,935	8,072	7,980	8,085
Stock options that had exercise prices greater than the average market price of our common stock issuable under employee compensation plans(a)	280	427	281	427

(a) These common stock equivalents were outstanding during the three and six months ended July 3, 2011 and July 4, 2010, but were not included in the computation of diluted EPS for those periods because their inclusion would have had an anti-dilutive effect.

Note 14. Legal Proceedings and Contingencies

We and certain of our subsidiaries are involved in various patent, product liability, consumer, commercial, securities, environmental and tax litigations and claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of our business. We do not believe any of them will have a material adverse effect on our financial position.

We record accruals for income tax contingencies to the extent that we conclude that a tax position is not sustainable under a “more likely than not” standard, and we record our estimate of the potential tax benefits in one tax jurisdiction that could result from the payment of income taxes in another tax jurisdiction when we conclude that the potential recovery is more likely than not. We record accruals for all other contingencies to the extent that we conclude their occurrence is probable and the related damages are estimable, and we record anticipated recoveries under existing insurance contracts when assured of recovery. If a range of liability is probable and estimable and some amount within the range appears to be a better estimate than any other amount within the range, we accrue that amount. If a range of liability is probable and estimable and no amount within the range appears to be a better estimate than any other amount within the range, we accrue the minimum of such probable range. Many claims involve highly complex issues relating to causation, label warnings, scientific evidence, actual damages and other matters. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for these contingencies. Our assessments are based on estimates and assumptions that have been deemed reasonable by management. Litigation is inherently unpredictable, and excessive verdicts do occur. Although we believe we have substantial defenses in these matters, we could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations or cash flows in any particular period.

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Patent claims include challenges to the coverage and/or validity of our patents on various products or processes. Although we believe we have substantial defenses to these challenges with respect to all our material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

The principal pending matters to which we are a party are discussed below. In determining whether a pending matter is a principal matter, we consider both quantitative and qualitative factors in order to assess materiality, such as, among other things, the amount of damages and the nature of any other relief sought in the proceeding, if such damages and other relief are specified; our view of the merits of the claims and of the strength of our defenses; whether the action purports to be a class action and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; any experience that we or, to our knowledge, other companies have had in similar proceedings; whether disclosure of the action would be important to a reader of our financial statements, including whether disclosure might change a reader’s judgment about our financial statements in light of all of the information about the Company that is available to the reader; the potential impact of the proceeding on our reputation; and the extent of public interest in the matter. In addition, with respect to patent matters, we consider, among other things, the financial significance of the product protected by the patent.

A. Patent Matters

Like other pharmaceutical companies, we are involved in numerous suits relating to our patents, including but not limited to those discussed below. Most of the suits involve claims by generic drug manufacturers that patents covering our products, processes or dosage forms are invalid and/or do not cover the product of the generic manufacturer. Also, counterclaims as well as various independent actions have been filed claiming that our assertions of, or attempts to enforce, our patent rights with respect to certain products constitute unfair competition and/or violations of the antitrust laws. In addition to the challenges to the U.S. patents on a number of our products that are discussed below, we note that the patent rights to certain of our products, including without limitation Lipitor, are being challenged in various other countries.

Lipitor (atorvastatin)
In November 2008, Apotex Inc. notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Lipitor. In December 2008, we filed patent-infringement suits against Apotex Inc. in the U.S. District Court for the District of Delaware and the U.S. District Court for the Northern District of Illinois. In August 2009, our action in the District of Delaware was transferred to the Northern District of Illinois and consolidated with our pending action there. Apotex Inc. asserts the invalidity of our patent covering the crystalline form of atorvastatin, which (including the pediatric exclusivity period) expires in 2017. We assert the infringement of our crystalline patent and are defending against the allegations of invalidity.

In October 2009, Dr. Reddy's Laboratories Ltd. and Dr. Reddy’s Laboratories, Inc. (collectively, Dr. Reddy's) and KUDCO Ireland, Ltd. and Kremers Urban LLC (collectively, KUDCO) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Lipitor. Both of the abbreviated new drug applications cover the 10, 20 and 40 mg dosage strengths, and KUDCO’s abbreviated new drug application also covers the 80 mg dosage strength. Dr. Reddy’s and KUDCO assert the invalidity and/or non-infringement of our patent covering the crystalline form of atorvastatin and two other Lipitor patents. In December 2009, we filed actions against Dr. Reddy’s and KUDCO in the U.S. District Court for the District of Delaware asserting the infringement of our crystalline patent. In addition, in December 2010, we filed an action against Dr. Reddy’s in the same court asserting the

infringement of the same patent in connection with Dr. Reddy's additional abbreviated new drug application seeking approval to market a generic version of the 80 mg dosage strength.

In July 2010, Actavis, Inc. and Actavis Pharma Manufacturing Pvt. Ltd. (collectively, Actavis) notified us that they had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Lipitor. Actavis asserts the non-infringement of our patent covering the crystalline form of atorvastatin and two other Lipitor patents. In August 2010, we filed an action against Actavis in the U.S. District Court for the District of Delaware asserting the infringement of our crystalline patent.

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In May 2011, Aurobindo Pharma Ltd. (Aurobindo) notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Lipitor. Aurobindo asserts the non-infringement of our patent covering the crystalline form of atorvastatin as well as two formulation patents, all of which (including the six-month pediatric exclusivity period) expire in 2017. In June 2011, we filed an action against Aurobindo in the U.S. District Court for the District of Delaware asserting the validity and infringement of the challenged patents.

In the U.K., on June 20, 2011, certain wholesalers and certain of their pharmacy customers began selling generic atorvastatin that had been supplied to the wholesalers by Teva UK Limited (Teva UK). On the same day, we obtained a preliminary injunction from the High Court of Justice prohibiting Teva UK and the wholesalers from further sales of generic atorvastatin. On July 11, 2011, Teva UK and the wholesalers consented to the continuation of the preliminary injunction during the pendency of the case. In the pending action, which also includes two of the pharmacies that sold generic atorvastatin, Teva UK and the wholesalers have asserted the invalidity of our basic U.K. patent for Lipitor, and we have asserted the infringement of the patent and denied the invalidity allegations. Our basic U.K. patent for Lipitor, including the pediatric extension period, expires in May 2012.

Caduet (atorvastatin/amlodipine combination)
In August 2009, Sandoz Inc., a division of Novartis AG (Sandoz), notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Caduet. In that filing and in a declaratory judgment action brought by Sandoz in October 2009 in the U.S. District Court for the District of Colorado, collectively, Sandoz asserts the invalidity of our patent covering the atorvastatin/amlodipine combination, which expires in 2018, and the invalidity and non-infringement of three patents for Lipitor which (including the six-month pediatric exclusivity period) expire between 2013 and 2017. In October 2009, we filed suit against Sandoz in the U.S. District Court for the District of Delaware and the U.S. District Court for the District of Colorado asserting the infringement of the atorvastatin/amlodipine combination patent. In February 2010, our action and Sandoz's action in the District of Colorado were transferred to the District of Delaware and consolidated with our pending action there.

Viagra (sildenafil)
In March 2010, we brought a patent-infringement action in the U.S. District Court for the Eastern District of Virginia against Teva Pharmaceuticals USA, Inc. (Teva USA) and Teva Pharmaceutical Industries Ltd. (Teva Pharmaceutical Industries), which had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Viagra. Teva USA and Teva Pharmaceutical Industries assert the invalidity and non-infringement of the Viagra use patent, which expires in 2019, but have not challenged the basic patent, which expires in 2012.

In October 2010, we filed a patent-infringement action with respect to Viagra in the U.S. District Court for the Southern District of New York against Apotex Inc. and Apotex Corp., Mylan Pharmaceuticals Inc. and Mylan Inc., Actavis and Amneal Pharmaceuticals LLC. These generic manufacturers have filed abbreviated new drug applications with the FDA seeking approval to market their generic versions of Viagra. They assert the invalidity and non-infringement of the Viagra use patent, but have not challenged the basic patent.

In May and June 2011, respectively, Watson Laboratories Inc. (Watson) and Hetero Labs Limited (Hetero) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market their generic versions of Viagra. Each asserts the invalidity and non-infringement of the Viagra use patent. Neither has challenged the basic patent. In June and July 2011, respectively, we filed actions against Watson and Hetero in the U.S. District Court for the Southern District of New York asserting the validity and infringement of the use patent.

Sutent (sunitinib malate)

In May 2010, Mylan Pharmaceuticals Inc. notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Sutent and challenging on various grounds the Sutent basic patent, which expires in 2021, and two other patents, which expire in 2020 and 2021. In June 2010, we filed suit against Mylan Pharmaceuticals Inc. in the U.S. District Court for the District of Delaware asserting the infringement of those three patents.

Detrol and Detrol LA (tolterodine)
As previously reported, we filed patent-infringement actions against Teva USA with respect to Detrol LA and against Ivax Pharmaceuticals, Inc., a wholly owned subsidiary of Teva USA, with respect to Detrol. In May 2011, these actions were settled on terms that are not material to the Company.

In October 2007 and January 2008, respectively, Teva USA and Impax Laboratories, Inc. (Impax) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Detrol LA. They are challenging on various grounds the basic patent, which (including the six-month pediatric exclusivity period) expires in 2012, and three formulation patents, which (including the six-month pediatric exclusivity period) expire in 2020. We filed actions against them in the U.S. District Court for the Southern District of New York asserting the infringement of the basic patent and two of the formulation patents. These actions subsequently were transferred to the U.S. District Court for the District of New Jersey.

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In March 2008 and May 2010, respectively, Sandoz and Mylan Pharmaceuticals Inc. notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Detrol LA. They assert the invalidity and/or non-infringement of three formulation patents for Detrol LA. They have not challenged the basic patent. In June 2010, we filed actions against Sandoz and Mylan Pharmaceuticals Inc. in the U.S. District Court for the District of New Jersey asserting the infringement of two of the formulation patents.

In April 2011, Impax notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Detrol. Impax asserts the non-infringement of the basic patent, which (including the six-month pediatric exclusivity period) expires in 2012. In June 2011, we filed an action against Impax in the U.S. District Court for the District of New Jersey asserting infringement of the basic patent.

In June 2011, Torrent Pharmaceuticals Ltd. (Torrent) notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Detrol LA. Torrent asserts the invalidity and non-infringement of three formulation patents. Torrent has not challenged the basic patent. In July 2011, we filed an action against Torrent in the U.S. District Court for the District of New Jersey asserting the validity and infringement of the challenged patents.

Lyrica (pregabalin)
Beginning in March 2009, several generic manufacturers notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Lyrica capsules. Each of the generic manufacturers is challenging one or more of three patents for Lyrica: the basic patent, which expires in 2018, and two other patents, which expire in 2013 and 2018. Each of the generic manufacturers asserts the invalidity and/or the non-infringement of the patents subject to challenge. Beginning in April 2009, we filed actions against these generic manufacturers in the U.S. District Court for the District of Delaware asserting the infringement and validity of our patents for Lyrica. All of these cases have been consolidated in the District of Delaware.

In August and November 2010, respectively, Lupin Limited (Lupin) and Novel Laboratories, Inc. (Novel) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Lyrica oral solution and asserting the invalidity and/or infringement of our three patents for Lyrica referred to above. In October 2010 and January 2011, respectively, we filed actions against Lupin and Novel in the U.S. District Court for the District of Delaware asserting the validity and infringement of all three patents.

Apotex Inc. notified us, in May and June 2011, respectively, that it had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Lyrica oral solution and Lyrica capsules. Apotex Inc. asserts the invalidity and non-infringement of the basic patent, as well as the seizure patent that expires in 2013. In July 2011, we filed an action against Apotex Inc. in the U.S. District Court for the District of Delaware asserting the validity and infringement of the challenged patents in connection with both of the abbreviated new drug applications.

We also have filed patent-infringement actions in Canada against certain generic manufacturers who are seeking approval to market generic versions of Lyrica capsules in that country.

Zyvox (linezolid)
In December 2009, Teva Parenteral Medicines Inc. (Teva Parenteral) notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Zyvox. Teva Parenteral asserts the invalidity and non-infringement of the basic Zyvox patent, which (including the six-month pediatric exclusivity period) expires in 2015, and another patent that expires in 2021. In January 2010, we filed suit against Teva Parenteral

in the U.S. District Court for the District of Delaware asserting the infringement of the basic patent.

Neurontin (gabapentin)

As previously reported, several years ago the Company filed patent-infringement actions against Teva Pharmaceutical Industries and Actavis, Inc. in the U.S. District Court for the District of New Jersey following their at-risk launches of generic gabapentin. The parties settled these actions in May 2011. Under the settlement agreements, Teva Pharmaceutical Industries and Actavis, Inc. were granted licenses to continue to sell generic gabapentin. The other terms of the settlement agreements, including certain cash payments to us, are not material to the Company.

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Relpax (eletriptan)
In June 2010, we received notices from Apotex Inc. and Apotex Corp. and from Teva USA that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Relpax. They assert the non-infringement of our patent covering the crystalline form of eletriptan, which expires in 2017. They have not challenged the basic patent, which expires in 2016. In July 2010, we filed actions against Apotex Inc. and Apotex Corp. and against Teva USA in the U.S. District Court for the Southern District of New York asserting the infringement of the crystalline patent.

Protonix (pantoprazole sodium)
Wyeth has a license to market Protonix in the U.S. from Nycomed GmbH (Nycomed), which owns the patents relating to Protonix. The basic patent (including the six-month pediatric exclusivity period) for Protonix expired in January 2011.

Following their respective filings of abbreviated new drug applications with the FDA, Teva USA and Teva Pharmaceutical Industries, Sun Pharmaceutical Advanced Research Centre Ltd. and Sun Pharmaceutical Industries Ltd. (collectively, Sun) and KUDCO Ireland, Ltd. (KUDCO Ireland) received final FDA approval to market their generic versions of Protonix 20 mg and 40 mg delayed- release tablets. Wyeth and Nycomed filed actions against those generic manufacturers in the U.S. District Court for the District of New Jersey, which subsequently were consolidated into a single proceeding, alleging infringement of the basic patent and seeking declaratory and injunctive relief. Following the court's denial of a preliminary injunction sought by Wyeth and Nycomed, Teva USA and Teva Pharmaceutical Industries and Sun launched their generic versions of Protonix tablets at risk in December 2007 and January 2008, respectively. Wyeth launched its own generic version of Protonix tablets in January 2008, and Wyeth and Nycomed filed amended complaints in the pending patent-infringement action seeking compensation for damages resulting from Teva USA’s, Teva Pharmaceutical Industries’ and Sun's at-risk launches.

In April 2010, the jury in the pending patent-infringement action upheld the validity of the basic patent for Protonix. In July 2010, the court upheld the jury verdict, but it did not issue a judgment against Teva USA, Teva Pharmaceutical Industries or Sun because of their other claims relating to the patent that still are pending. Wyeth and Nycomed will continue to pursue all available legal remedies against those generic manufacturers, including compensation for damages resulting from their at-risk launches.

Separately, Wyeth and Nycomed are defendants in purported class actions brought by direct and indirect purchasers of Protonix in the U.S. District Court for the District of New Jersey. Plaintiffs seek damages, on behalf of the respective putative classes, for the alleged violation of antitrust laws in connection with the procurement and enforcement of the patents for Protonix. These purported class actions have been stayed pending resolution of the underlying patent litigation in the U.S. District Court for the District of New Jersey.

Rapamune (sirolimus)
In March 2010, Watson and Ranbaxy Laboratories Limited (Ranbaxy) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Rapamune. Watson and Ranbaxy assert the invalidity and non-infringement of a method-of-use patent which (including the six-month pediatric exclusivity period) expires in 2014 and a solid-dosage formulation patent which (including the six-month pediatric exclusivity period) expires in 2018. In April 2010, we filed actions against Watson and Ranbaxy in the U.S. District Court for the District of Delaware and against Watson in the U.S. District Court for the Southern District of Florida asserting the infringement of the method-of-use patent. In June 2010, our action in the Southern District of Florida was transferred to the District of Delaware and consolidated with our pending action there.

ReFacto and Xyntha

In February 2008, Novartis Vaccines and Diagnostics, Inc. (Novartis) filed suit against Wyeth and a subsidiary of Wyeth in the U.S. District Court for the Eastern District of Texas alleging that Wyeth's ReFacto and Xyntha products infringe two Novartis patents. Novartis's complaint seeks damages, including treble damages, for alleged willful infringement. Wyeth and its subsidiary assert, among other things, the invalidity and non-infringement of the Novartis patents. In November 2009, Novartis added a third patent to its infringement claim against Wyeth and its subsidiary. In August 2010, Novartis granted Wyeth and its subsidiary a covenant not to sue on the third patent and withdrew that patent from its pending action.

In May 2008, a subsidiary of Wyeth filed suit in the U.S. District Court for the District of Delaware against Novartis seeking a declaration that the two Novartis patents initially asserted against Wyeth and its subsidiary in the action referred to in the preceding paragraph are invalid on the ground that the Wyeth subsidiary was the first to invent the subject matter. In February 2010, the District of Delaware declined to invalidate those two Novartis patents. In March 2010, the Wyeth subsidiary appealed the decision to the U.S Court of Appeals for the Federal Circuit.

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Tygacil (tigecycline)
In October 2009, Sandoz notified Wyeth that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Tygacil. Sandoz asserts the invalidity and non-infringement of two of Wyeth's patents relating to Tygacil, including the basic patent, which expires in 2016. In December 2009, Wyeth filed suit against Sandoz in the U.S. District Court for the District of Delaware asserting infringement of the basic patent.

Avinza (morphine sulfate)
King Pharmaceuticals, Inc. (King) and Elan Pharma International LTD (EPI) brought patent-infringement actions in the U.S. District Court for the District of New Jersey against Actavis, Inc. in 2007 and 2009 (these actions against Actavis, Inc. subsequently were consolidated) and against Sandoz in 2009 as the result of their abbreviated new drug applications with the FDA seeking approval to market generic versions of Avinza. Actavis, Inc. challenged and Sandoz is challenging a formulation patent for Avinza, which is owned by EPI, that expires in 2017.

The trial in the action against Actavis, Inc. was held in March 2011. In July 2011, the parties settled that action on terms that are not material to the Company.

EpiPen
King brought patent-infringement actions against Sandoz in the U.S District Court for the District of New Jersey in 2010 and against Teva Pharmaceutical Industries and Intelliject, Inc. (Intelliject) in the U.S. District Court for the District of Delaware in 2009 and 2011, respectively, as the result of their abbreviated new drug applications with the FDA seeking approval to market epinephrine injectable products. The two actions in Delaware subsequently were consolidated. Sandoz, Teva Pharmaceutical Industries and Intelliject are challenging two patents, which expire in 2025, covering the next generation autoinjector for use with epinephrine that is sold under the EpiPen brand name.

B. Product Litigation

Like other pharmaceutical companies, we are defendants in numerous cases, including but not limited to those discussed below, related to our pharmaceutical and other products. Plaintiffs in these cases seek damages and other relief on various grounds for alleged personal injury and economic loss.

Asbestos

Quigley

Quigley Company, Inc. (Quigley), a wholly owned subsidiary, was acquired by Pfizer in 1968 and sold small amounts of products containing asbestos until the early 1970s. In September 2004, Pfizer and Quigley took steps that were intended to resolve all pending and future claims against Pfizer and Quigley in which the claimants allege personal injury from exposure to Quigley products containing asbestos, silica or mixed dust. We recorded a charge of $369 million pre-tax ($229 million after-tax) in the third quarter of 2004 in connection with these matters.

In September 2004, Quigley filed a petition in the U.S. Bankruptcy Court for the Southern District of New York seeking reorganization under Chapter 11 of the U.S. Bankruptcy Code. In March 2005, Quigley filed a reorganization plan in the Bankruptcy Court that needed the approval of both the Bankruptcy Court and the U.S. District Court for the Southern District of New York after receipt of the vote of 75% of the claimants. In connection with that filing, Pfizer entered into settlement agreements with lawyers representing more than 80% of the individuals with claims related to Quigley products against Quigley and Pfizer. The agreements provide for a total of $430 million in

payments, of which $215 million became due in December 2005 and is being paid to claimants upon receipt by the Company of certain required documentation from each of the claimants. The reorganization plan provided for the establishment of a Trust (the Trust) for the payment of all remaining pending claims as well as any future claims alleging injury from exposure to Quigley products.

In February 2008, the Bankruptcy Court authorized Quigley to solicit an amended reorganization plan for acceptance by claimants. According to the official report filed with the court by the balloting agent in July 2008, the requisite votes were cast in favor of the amended plan of reorganization.

The Bankruptcy Court held a confirmation hearing with respect to Quigley's amended plan of reorganization that concluded in December 2009. In September 2010, the Bankruptcy Court declined to confirm the amended reorganization plan. As a result of the foregoing, Pfizer recorded additional charges for this matter of approximately $1.3 billion pre-tax (approximately $800 million after-tax) in 2010. Further, in order to preserve its right to address certain legal issues raised in the court's opinion, in October 2010, Pfizer filed a notice of appeal and motion for leave to appeal the Bankruptcy Court's decision denying confirmation.

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In March 2011, Pfizer entered into a settlement agreement with a committee (the Ad Hoc Committee) representing approximately 40,000 claimants in the Quigley bankruptcy proceeding (the Ad Hoc Committee claimants). The principal provisions of the settlement agreement provide for a settlement payment in two installments and other consideration, as follows:

- the payment to the Ad Hoc Committee, for the benefit of the Ad Hoc Committee claimants, of a first installment of $500 million upon receipt by Pfizer of releases of all asbestos-related claims against Pfizer Inc. from Ad Hoc Committee claimants holding $500 million in the aggregate of claims;

- the payment to the Ad Hoc Committee, for the benefit of the Ad Hoc Committee claimants, of a second installment of $300 million upon Pfizer's receipt of releases of all asbestos-related claims against Pfizer Inc. from Ad Hoc Committee claimants holding an additional $300 million in the aggregate of claims following the earlier of the effective date of a revised plan of reorganization and April 6, 2013;

- the payment of the Ad Hoc Committee's legal fees and expenses incurred in this matter up to a maximum of $19 million; and

- the procurement by Pfizer of insurance for the benefit of certain Ad Hoc Committee claimants to the extent such claimants with non-malignant diseases have a future disease progression to a malignant disease.

Quigley filed a revised plan of reorganization and accompanying disclosure statement with the Bankruptcy Court in April 2011. Under the revised plan, we expect to contribute an additional amount to the Trust, if and when the Bankruptcy Court confirms the plan, of cash and non-cash assets with a value in excess of $550 million. The Bankruptcy Court must find that the revised plan meets the requisite standards of the U.S. Bankruptcy Code before it confirms the plan. There is no assurance that the plan will be confirmed by the court.

If approved by claimants, confirmed by the Bankruptcy Court and upheld upon any appeal, the revised reorganization plan will result in a permanent injunction directing all remaining pending claims as well as any future claims alleging personal injury from exposure to Quigley products to the Trust.

In a separately negotiated transaction with an insurance company in August 2004, we agreed to a settlement related to certain insurance coverage which provides for payments to us over a ten-year period of amounts totaling $405 million.

Other Matters

Between 1967 and 1982, Warner-Lambert owned American Optical Corporation, which manufactured and sold respiratory protective devices and asbestos safety clothing. In connection with the sale of American Optical in 1982, Warner-Lambert agreed to indemnify the purchaser for certain liabilities, including certain asbestos-related and other claims. As of December 31, 2010, approximately 88,000 claims naming American Optical and numerous other defendants were pending in various federal and state courts seeking damages for alleged personal injury from exposure to asbestos and other allegedly hazardous materials. Warner-Lambert is actively engaged in the defense of, and will continue to explore various means to resolve, these claims.

Warner-Lambert and American Optical brought suit in state court in New Jersey against the insurance carriers that provided coverage for the asbestos and other allegedly hazardous materials claims related to American Optical. A majority of the carriers subsequently agreed to pay for a portion of the costs of defending and resolving those claims.

The litigation continues against the carriers who have disputed coverage or how costs should be allocated to their policies, and the court held that Warner-Lambert and American Optical are entitled to coverage by those carriers of a portion of the costs associated with those claims. The case is now in the allocation phase, in which the court will determine the amounts currently due from the carriers who have disputed coverage or allocation as well as their respective coverage obligations going forward.

Numerous lawsuits are pending against Pfizer in various federal and state courts seeking damages for alleged personal injury from exposure to products containing asbestos and other allegedly hazardous materials sold by Gibsonburg Lime Products Company (Gibsonburg). Gibsonburg was acquired by Pfizer in the 1960s and sold small amounts of products containing asbestos until the early 1970s.

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There also is a small number of lawsuits pending in various federal and state courts seeking damages for alleged exposure to asbestos in facilities owned or formerly owned by Pfizer or its subsidiaries.

Celebrex and Bextra

Securities and ERISA Actions

Beginning in late 2004, actions, including purported class actions, were filed in various federal and state courts against Pfizer, Pharmacia Corporation (Pharmacia) and certain current and former officers, directors and employees of Pfizer and Pharmacia. These actions include (i) purported class actions alleging that Pfizer and certain current and former officers of Pfizer violated federal securities laws by misrepresenting the safety of Celebrex and Bextra, and (ii) purported class actions filed by persons who claim to be participants in the Pfizer or Pharmacia Savings Plan alleging that Pfizer and certain current and former officers, directors and employees of Pfizer or, where applicable, Pharmacia and certain former officers, directors and employees of Pharmacia, violated certain provisions of the Employee Retirement Income Security Act of 1974 (ERISA) by selecting and maintaining Pfizer stock as an investment alternative when it allegedly no longer was a suitable or prudent investment option. In June 2005, the federal securities and ERISA actions were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Pfizer Inc. Securities, Derivative and "ERISA" Litigation MDL–-1688) in the U.S. District Court for the Southern District of New York.

Securities Action in New Jersey

In 2003, several purported class action complaints were filed in the U.S. District Court for the District of New Jersey against Pharmacia, Pfizer and certain former officers of Pharmacia. The complaints allege that the defendants violated federal securities laws by misrepresenting the data from a study concerning the gastrointestinal effects of Celebrex. These cases were consolidated for pre-trial proceedings in the District of New Jersey (Alaska Electrical Pension Fund et al. v. Pharmacia Corporation et al.). In January 2007, the court certified a class consisting of all persons who purchased Pharmacia securities from April 17, 2000 through February 6, 2001 and were damaged as a result of the decline in the price of Pharmacia's securities allegedly attributable to the misrepresentations. Plaintiffs seek damages in an unspecified amount.

In October 2007, the court granted defendants’ motion for summary judgment and dismissed the plaintiffs’ claims. In November 2007, the plaintiffs appealed the decision to the U.S. Court of Appeals for the Third Circuit. In January 2009, the Third Circuit vacated the District Court’s grant of summary judgment in favor of defendants and remanded the case to the District Court for further proceedings. The Third Circuit also held that the District Court erred in determining that the class period ended on February 6, 2001, and directed that the class period end on August 5, 2001. In June 2009, the District Court stayed proceedings in the case pending a determination by the U.S. Supreme Court with regard to defendants’ petition for certiorari seeking reversal of the Third Circuit’s decision. In May 2010, the U.S. Supreme Court denied defendants’ petition for certiorari, and the case has been remanded to the District Court for further proceedings.

Other

Pfizer and several predecessor and affiliated companies, including Monsanto Company (Monsanto), are defendants in an action brought by Brigham Young University (BYU) and a BYU professor in the U.S. District Court for the District of Utah alleging, among other things, breach by Monsanto of a 1991 research agreement with BYU. Plaintiffs

claim that research under that agreement led to the discovery of Celebrex and that, as a result, they are entitled to a share of the profits from Celebrex sales. Plaintiffs seek, among other things, compensatory and punitive damages.

Various Drugs: Off-Label Promotion Actions

Shareholder Derivative Actions

As previously reported, beginning in 2009, a number of shareholder derivative actions were filed in state court in New York and in Delaware against certain of our current and former officers and directors in connection with the promotion of certain drugs. In May, June and July 2011, all of these actions were dismissed.

Securities Action

In May 2010, a purported class action was filed in the U.S. District Court for the Southern District of New York against Pfizer and several of our current and former officers. The complaint alleges that the defendants violated federal securities laws by failing to disclose that Pfizer was engaged in off-label marketing of certain drugs. Plaintiffs seek damages in an unspecified amount.

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Actions by Health Care Service Corporation

In June 2010, Health Care Service Corporation (HCSC), for itself and its affiliates, Blue Cross and Blue Shield plans in Illinois, New Mexico, Oklahoma and Texas, filed an action against us in the U.S. District Court for the Eastern District of Texas. In July 2010, HCSC amended its complaint. The complaint, as amended, alleges that we engaged in deceptive marketing activities, including off-label promotion, and the payment of improper remuneration to health care professionals with respect to Bextra and Celebrex in violation of, among other things, the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and the Illinois Consumer Fraud Act. In December 2010, this action was transferred to a Multi-District Litigation (In re Celebrex and Bextra Marketing, Sales Practices and Product Liability Litigation MDL-1699) in the U.S. District Court for the Northern District of California. In July 2010, HCSC also filed a separate lawsuit against us in the U.S. District Court for the Eastern District of Texas including substantially similar allegations regarding Geodon, Lyrica and Zyvox. In both actions, HCSC seeks to recover the amounts that it paid for the specified drugs on behalf of its members in Illinois, New Mexico, Oklahoma, and Texas, as well as treble damages and punitive damages.

Hormone-Replacement Therapy
Pfizer and certain wholly owned subsidiaries and limited liability companies, including Wyeth and King, along with several other pharmaceutical manufacturers, have been named as defendants in numerous lawsuits in various federal and state courts alleging personal injury or economic loss related the use or purchase of certain estrogen and progestin medications prescribed for women to treat the symptoms of menopause. Plaintiffs in these suits allege a variety of personal injuries, including breast cancer, ovarian cancer, stroke and heart disease. Certain co-defendants in some of these actions have asserted indemnification rights against Pfizer and its affiliated companies. The cases against Pfizer and its affiliated companies involve one or more of the following products, all of which remain approved by the FDA: femhrt (which Pfizer divested in 2003); Activella and Vagifem (which are Novo Nordisk products that were marketed by a Pfizer affiliate from 2000 to 2004); Premarin, Prempro, Aygestin, Cycrin and Premphase (which are legacy Wyeth products); and Provera, Ogen, Depo-Estradiol, Estring and generic MPA (which are legacy Pharmacia & Upjohn products). The federal cases have been transferred for consolidated pre-trial proceedings to a Multi-–District Litigation (In re Prempro Products Liability Litigation MDL-1507) in the U.S. District Court for the Eastern District of Arkansas. Certain of the federal cases have been remanded to their respective District Courts for further proceedings including, if necessary, trial.

This litigation consists of individual actions, a few purported statewide class actions, a statewide class action in California and a nationwide class action in Canada. In March 2011, in an action against Wyeth seeking the refund of the purchase price paid for Wyeth's hormone-replacement therapy products by individuals in the State of California during the period from January 1995 to January 2003, the U.S. District Court for the Southern District of California certified a class consisting of all individual purchasers of such products in California who actually heard or read Wyeth's alleged misrepresentations regarding such products. This is the only hormone-replacement therapy action to date against Pfizer and its affiliated companies in the U.S. in which a class has been certified. In addition, in August 2011, in an action against Wyeth seeking damages for personal injury, the Supreme Court of British Columbia certified a class consisting of all women who were prescribed Premplus and/or Premarin in combination with progestin in Canada between January 1, 1997 and December 1, 2003 and who thereafter were diagnosed with breast cancer.

Pfizer and its affiliated companies have prevailed in many of the hormone-replacement therapy actions that have been resolved to date, whether by voluntary dismissal by the plaintiffs, summary judgment, defense verdict or judgment notwithstanding the verdict; a number of these cases have been appealed by the plaintiffs. Certain other

hormone-replacement therapy actions have resulted in verdicts for the plaintiffs and have included the award of compensatory and, in some instances, punitive damages; each of these cases has been appealed by Pfizer and/or its affiliated companies. The decisions in a few of the cases that had been appealed by Pfizer and/or its affiliated companies or by the plaintiffs have been upheld by the appellate courts, while several other cases that had been appealed by Pfizer and/or its affiliated companies or by the plaintiffs have been remanded by the appellate courts to their respective trial courts for further proceedings. Trials of additional hormone-replacement therapy actions are scheduled for 2011.

As of July 3, 2011, Pfizer and its affiliated companies had settled, or entered into definitive agreements or agreements-in-principle to settle, approximately 41% of the hormone-replacement therapy actions pending against us and our affiliated companies. We have recorded aggregate charges with respect to those actions, as well as with respect to the actions that have resulted in verdicts against us or our affiliated companies, of approximately $250 million in the first six months of 2011 and $300 million in prior years. In addition, we have recorded a charge of approximately $280 million in the first six months of 2011 that provides for the minimum expected costs to resolve all of the other outstanding hormone-replacement therapy actions against Pfizer and its affiliated companies, consistent with our current ability to quantify such future costs. The foregoing charges are estimates and, while we cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for these contingencies given the uncertainties inherent in product liability litigation, additional charges may be required in the future.

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Pfizer and/or its affiliated companies also have received inquiries from various federal and state agencies and officials relating to the marketing of their hormone-replacement products. In November 2008, the State of Nevada filed an action against Pfizer, Pharmacia & Upjohn Company and Wyeth in state court in Nevada alleging that they had engaged in deceptive marketing of their respective hormone-replacement therapy medications in Nevada in violation of the Nevada Deceptive Trade Practices Act. The action seeks monetary relief, including civil penalties and treble damages. In February 2010, the action was dismissed by the court on the grounds that the statute of limitations had expired. In July 2011, the Nevada Supreme Court reversed the dismissal and remanded the case to the district court for further proceedings.

Zoloft and Effexor
A number of individual lawsuits, as well as a multi-plaintiff lawsuit with respect to Effexor, have been filed against us and/or our subsidiaries in various federal and state courts alleging personal injury as a result of the purported ingesting of Zoloft or Effexor.

Neurontin
A number of lawsuits, including purported class actions, have been filed against us in various federal and state courts alleging claims arising from the promotion and sale of Neurontin. The plaintiffs in the purported class actions seek to represent nationwide and certain statewide classes consisting of persons, including individuals, health insurers, employee benefit plans and other third-party payers, who purchased or reimbursed patients for the purchase of Neurontin that allegedly was used for indications other than those included in the product labeling approved by the FDA. In 2004, many of the suits pending in federal courts, including individual actions as well as purported class actions, were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Neurontin Marketing, Sales Practices and Product Liability Litigation MDL-1629) in the U.S. District Court for the District of Massachusetts. Purported class actions also have been filed against us in various Canadian provincial courts alleging claims arising from the promotion and sale of Neurontin and generic gabapentin.

In the Multi-District Litigation, in 2009, the court denied the plaintiffs' renewed motion for certification of a nationwide class of all consumers and third-party payers who allegedly purchased or reimbursed patients for the purchase of Neurontin for off-label uses from 1994 through 2004. The plaintiffs have filed a motion for reconsideration. Although the court has not yet ruled on the motion for reconsideration, in December 2010, the court partially granted the Company's motion for summary judgment, dismissing the claims of all of the proposed class representatives for third-party payers and two of the six proposed class representatives for individual consumers. One of the proposed class representatives for third-party payers has filed a motion for reconsideration.

Plaintiffs are seeking certification of statewide classes of Neurontin purchasers in actions pending in California, Illinois and Oklahoma. State courts in New York, Pennsylvania, Missouri and New Mexico have declined to certify statewide classes of Neurontin purchasers.

In January 2011, the U.S. District Court for the District of Massachusetts entered an order affirming a jury verdict against us in an action by a third-party payer seeking damages for the alleged off-label promotion of Neurontin in violation of the RICO Act and California's Unfair Trade Practices law. The verdict was for $47.4 million, which is subject to automatic trebling to $142.2 million under the RICO Act. In November 2010, the court had entered a separate verdict against us in the amount of $65.4 million under California's Unfair Trade Practices law relating to the same alleged conduct, which amount is included within and is not additional to the $142.2 million trebled amount of the jury verdict. In August 2011, we appealed the District Court's judgment to the U.S. Court of Appeals for the First Circuit.

A number of individual lawsuits have been filed against us in various U.S. federal and state courts and in certain other countries alleging suicide, attempted suicide and other personal injuries as a result of the purported ingesting of Neurontin. Certain of the U.S. federal actions have been transferred for consolidated pre-trial proceedings to the same Multi–-District Litigation referred to in the first paragraph of this section. In addition, in February 2010 in a proceeding pending in Ontario, Canada, the court certified a class consisting of all persons in Canada, except in Quebec, who purchased and ingested Neurontin prior to August 2004. The plaintiffs claim that Pfizer failed to provide adequate warning of the alleged risks of personal injury associated with Neurontin. The parties have jointly sought court approval to include in this proceeding two purported province-wide class actions pending in Quebec that include substantially similar allegations.

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In January 2011, in a Multi-District Litigation (In re Neurontin Antitrust Litigation MDL-1479) that consolidates three actions, the U.S. District Court for the District of New Jersey certified a nationwide class consisting of wholesalers and other entities who purchased Neurontin directly from Pfizer and Warner-Lambert during the period from December 11, 2002 to August 31, 2008 and who also purchased generic gabapentin after it became available. The complaints allege that Pfizer and Warner-Lambert engaged in anticompetitive conduct in violation of the Sherman Act that included, among other things, submitting applications for listing in the Orange Book and prosecuting and enforcing certain patents relating to Neurontin, as well as engaging in off-label marketing of Neurontin. Plaintiffs seek compensatory damages, which may be subject to trebling.

Lipitor

In 2004, a former employee filed a “whistleblower” action against us in the U.S. District Court for the Eastern District of New York. The complaint remained under seal until September 2007, at which time the U.S. Attorney for the Eastern District of New York declined to intervene in the case. We were served with the complaint in December 2007. Plaintiff alleges that, through patient and medical education programs, written materials and other actions aimed at doctors, consumers, payers and investors, the Company promoted Lipitor for use by certain patients contrary to national cholesterol guidelines that plaintiff claims are a part of the labeled indications for the product. Plaintiff alleges violations of the Federal Civil False Claims Act and the false claims acts of certain states and seeks treble damages and civil penalties on behalf of the federal government and the specified states as the result their purchase, or reimbursement of patients for the purchase, of Lipitor allegedly for such off-label uses. Plaintiff also seeks compensation as a whistleblower under those federal and state statutes. In addition, plaintiff alleges that he was wrongfully terminated, in violation of the anti-retaliation provisions of the Federal Civil False Claims Act, the Civil Rights Act of 1964 and applicable New York law, for raising concerns about the alleged off-label promotion of Lipitor and about alleged instances of sexual harassment in the workplace, and he seeks damages and the reinstatement of his employment. In 2009, the court dismissed without prejudice the claims alleging violations of the Federal Civil False Claims Act and the false claims acts of certain states. In 2010, plaintiff filed an amended complaint containing allegations concerning violations of the Federal Civil False Claims Act and the false claims acts of certain states that are substantially similar to the allegations in the original complaint.

Chantix/Champix

A number of individual lawsuits have been filed against us in various federal and state courts alleging suicide, attempted suicide and other personal injuries as a result of the purported ingesting of Chantix, as well as economic loss. Plaintiffs in these actions seek compensatory and punitive damages and the disgorgement of profits resulting from the sale of Chantix. In October 2009, the federal cases were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Chantix (Varenicline) Products Liability Litigation MDL-2092) in the U.S. District Court for the Northern District of Alabama.

Beginning in December 2008, purported class actions were filed against us in the Ontario Superior Court of Justice (Toronto Region), the Superior Court of Quebec (District of Montreal), the Court of Queen’s Bench of Alberta, Judicial District of Calgary, and the Superior Court of British Columbia (Vancouver Registry) on behalf of all individuals and third-party payers in Canada who have purchased and ingested Champix or reimbursed patients for the purchase of Champix. Each of these actions asserts claims under Canadian product liability law, including with respect to the safety and efficacy of Champix, and, on behalf of the putative class, seeks monetary relief, including punitive damages. The actions in Quebec, Alberta and British Columbia have been stayed pending the decision regarding class certification in the Ontario action.

Bapineuzumab

In June 2010, a purported class action was filed in the U.S. District Court for the District of New Jersey against Pfizer, as successor to Wyeth, and several former officers of Wyeth. The complaint alleges that Wyeth and the individual defendants violated federal securities laws by making or causing Wyeth to make false and misleading statements, and by failing to disclose or causing Wyeth to fail to disclose material information, concerning the results of a clinical trial involving bapineuzumab, a product in development for the treatment of Alzheimer's disease. The plaintiff seeks to represent a class consisting of all persons who purchased Wyeth securities from May 21, 2007 through July 2008 and seeks damages in an unspecified amount on behalf of the purported class.

In July 2010, a related action was filed in the U.S. District Court for the Southern District of New York against Elan Corporation (Elan), certain directors and officers of Elan, and Pfizer, as successor to Wyeth. Elan participated in the development of bapineuzumab until September 2009. The complaint alleges that Elan, Wyeth and the individual defendants violated federal securities laws by making or causing Elan to make false and misleading statements, and by failing to disclose or causing Elan to fail to disclose material information, concerning the results of a clinical trial involving bapineuzumab. The plaintiff seeks to represent a class consisting of all persons who purchased Elan call options from June 17, 2008 through July 29, 2008 and seeks damages in an unspecified amount on behalf of the purported class. In June 2011, the court granted Pfizer's and Elan's motions to dismiss the complaint. In July 2011, the plaintiffs filed a supplemental memorandum setting forth the bases that they believed supported amendment of the complaint. In August 2011, the court dismissed the complaint with prejudice.

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Thimerosal

Wyeth is a defendant in a number of suits by or on behalf of vaccine recipients alleging that exposure through vaccines to cumulative doses of thimerosal, a preservative used in certain childhood vaccines formerly manufactured and distributed by Wyeth and other vaccine manufacturers, caused severe neurological damage and/or autism in children. While several suits were filed as purported nationwide or statewide class actions, all of the purported class actions have been dismissed, either by the courts or voluntarily by the plaintiffs. In addition to the suits alleging injury from exposure to thimerosal, certain of the cases were brought by parents in their individual capacities for, among other things, loss of services and loss of consortium of the injured child.

The National Childhood Vaccine Injury Act (the Vaccine Act) requires that persons alleging injury from childhood vaccines first file a petition in the U.S. Court of Federal Claims asserting a vaccine-related injury. At the conclusion of that proceeding, petitioners may bring a lawsuit against the manufacturer in federal or state court, provided that they have satisfied certain procedural requirements. Also under the terms of the Vaccine Act, if a petition has not been adjudicated by the U.S. Court of Federal Claims within a specified time period after filing, the petitioner may opt out of the proceeding and pursue a lawsuit against the manufacturer by following certain procedures. Some of the vaccine recipients who have sued Wyeth to date may not have satisfied the conditions to filing a lawsuit that are mandated by the Vaccine Act. The claims brought by parents for, among other things, loss of services and loss of consortium of the injured child are not covered by the Vaccine Act.

In 2002, the Office of Special Masters of the U.S. Court of Federal Claims established an Omnibus Autism Proceeding with jurisdiction over petitions in which vaccine recipients claim to suffer from autism or autism spectrum disorder as a result of receiving thimerosal-containing childhood vaccines and/or the measles, mumps and rubella (MMR) vaccine. There currently are several thousand petitions pending in the Omnibus Autism Proceeding. Special masters of the court have heard six test cases on petitioners' theories that either thimerosal-containing vaccines in combination with the MMR vaccine or thimerosal-containing vaccines alone can cause autism or autism spectrum disorder.

In February 2009, special masters of the U.S. Court of Federal Claims rejected the three cases brought on the theory that a combination of MMR and thimerosal-containing vaccines caused petitioners' conditions. After these rulings were affirmed by the U.S. Court of Federal Claims, two of them were appealed by petitioners to the U.S. Court of Appeals for the Federal Circuit. In 2010, the Federal Circuit affirmed the decisions of the special masters in both of these cases.

In March 2010, special masters of the U.S. Court of Federal Claims rejected the three additional test cases brought on the theory that thimerosal-containing vaccines alone caused petitioners' conditions. Petitioners did not seek review by the U.S. Court of Federal Claims of the decisions of the special masters in these latter three test cases, and judgments were entered dismissing the cases in April 2010.

Petitioners in each of the six test cases have filed an election to bring a civil action.

Pristiq

In late 2007 and early 2008, the following actions were filed in various federal courts: (i) a purported class action alleging that Wyeth and certain former officers of Wyeth violated federal securities laws by misrepresenting the safety of Pristiq during the period before the FDA's issuance in July 2007 of an "approvable letter" for Pristiq for the treatment of vasomotor symptoms, which allegedly caused a decline in the price of Wyeth stock; (ii) a shareholder derivative action alleging that certain former officers of Wyeth and certain former directors of Wyeth, two of whom are now

directors of Pfizer, breached fiduciary duties and violated federal securities laws by virtue of the aforementioned alleged misrepresentation; and (iii) a purported class action against Wyeth, the Wyeth Savings Plan Committee, the Wyeth Savings Plan-Puerto Rico Committee, the Wyeth Retirement Committee and certain former Wyeth officers and committee members alleging that they violated certain provisions of ERISA by maintaining Wyeth stock as an investment alternative under certain Wyeth plans notwithstanding their alleged knowledge of the aforementioned alleged misrepresentation.

The U.S. District Court for the Southern District of New York dismissed the ERISA action and denied the plaintiff's motion to amend the complaint in March and August 2010, respectively. In September 2010, the plaintiff appealed both of those rulings to the U.S. Court of Appeals for the Second Circuit. In November 2010, the plaintiff withdrew the appeal, but reserved the right to reinstate the appeal by September 2011. In addition, in January 2011, the shareholder derivative action was voluntarily dismissed by the plaintiff. The purported securities class action remains pending.

Rebif

We have an exclusive collaboration agreement with EMD Serono, Inc. (Serono) to co-promote Rebif, a treatment for multiple sclerosis, in the U.S. In August 2011, Serono filed a complaint in the Philadelphia Court of Common Pleas seeking a declaratory judgment that we are not entitled to a 24-month extension of the Rebif co-promotion agreement, which otherwise would terminate at the end of 2013. We disagree with Serono's interpretation of the agreement and believe that we have the right to extend the agreement to the end of 2015.

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C. Commercial and Other Matters

Acquisition of Wyeth
In 2009, a number of retail pharmacies in California brought an action against Pfizer and Wyeth in the U.S. District Court for the Northern District of California. The plaintiffs allege, among other things, that our acquisition of Wyeth violated various federal antitrust laws by creating a monopoly in the manufacture, distribution and sale of prescription drugs in the U.S. In April 2010, the District Court granted our motion to dismiss the second amended complaint. In May 2011, the U.S. Court of Appeals for the Ninth Circuit affirmed the dismissal by the District Court and, in June 2011, it denied plaintiffs' petition for a rehearing.

Acquisition of King Pharmaceuticals, Inc.
In October 2010, several purported class action complaints were filed in federal and state court in Tennessee by shareholders of King challenging Pfizer's acquisition of King. King and the individuals who served as the members of King's Board of Directors at the time of the execution of the merger agreement are named as defendants in all of these actions. Pfizer and Parker Tennessee Corp., a subsidiary of Pfizer, also are named as defendants in most of these actions.

In November 2010, all of the actions filed in state court were consolidated in the Chancery Court for Sullivan County, Tennessee Second Judicial District, at Bristol. The parties to the consolidated state court action have reached an agreement in principle to resolve that action as a result of certain disclosures regarding the transaction made by King in its amended Schedule 14D-9 recommendation statement for the tender offer dated January 21, 2011. The proposed settlement is subject to, among other things, court approval.

In April 2011, the plaintiff in the federal action filed a motion to dismiss that action as moot.

Average Wholesale Price Litigation
A number of states as well as most counties in New York have sued Pharmacia, Pfizer and other pharmaceutical manufacturers alleging that they provided average wholesale price (AWP) information for certain of their products that was higher than the actual prices at which those products were sold. The AWP is used to determine reimbursement levels under Medicare Part B and Medicaid and in many private-sector insurance policies and medical plans. The plaintiffs claim that the alleged spread between the AWPs at which purchasers were reimbursed and the actual sale prices was promoted by the defendants as an incentive to purchase certain of their products. In addition to suing on their own behalf, many of the plaintiff states seek to recover on behalf of individual Medicare Part B co-payers and private-sector insurance companies and medical plans in their states. These various actions generally assert fraud claims as well as claims under state deceptive trade practice laws, and seek monetary and other relief, including civil penalties and treble damages. Several of the suits also allege that Pharmacia and/or Pfizer did not report to the states their best price for certain products under the Medicaid program.

In addition, Pharmacia, Pfizer and other pharmaceutical manufacturers are defendants in a number of purported class action suits in various federal and state courts brought by employee benefit plans and other third-party payers that assert claims similar to those in the state and county actions. These suits allege, among other things, fraud, unfair competition and unfair trade practices and seek monetary and other relief, including civil penalties and treble damages.

All of these state, county and purported class action suits were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Pharmaceutical Industry Average Wholesale Price Litigation MDL-1456) in the U.S.

District Court for the District of Massachusetts. Certain of the state and private suits have been remanded to their respective state courts. In 2006, the claims against Pfizer in the Multi-District Litigation were dismissed with prejudice; the claims against Pharmacia are still pending.

In 2008, the court in the Multi-District Litigation granted preliminary approval with respect to the fairness of a proposed settlement of the claims against 11 defendants, including Pharmacia, for a total of $125 million. It is expected that the court will consider final approval of the settlement later this year. If the settlement is approved, Pharmacia's contribution would not be material.

In addition, Wyeth is a defendant in AWP actions brought by certain states, which are not included in the Multi-District Litigation, as well as AWP actions brought by most counties in New York, almost all of which are included in the Multi-District Litigation. Wyeth also is a defendant in a purported class action in state court in New Jersey brought by two union health and welfare plans on behalf of a putative class consisting of third-party payers, certain consumers and Medicare beneficiaries. These actions against Wyeth would not be included in the proposed settlement referred to in the previous paragraph.

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Monsanto-Related Matters

In 1997, Monsanto Company (Former Monsanto) contributed certain chemical manufacturing operations and facilities to a newly formed corporation, Solutia Inc. (Solutia), and spun off the shares of Solutia. In 2000, Former Monsanto merged with Pharmacia & Upjohn Company to form Pharmacia Corporation (Pharmacia). Pharmacia then transferred its agricultural operations to a newly created subsidiary, named Monsanto Company (New Monsanto), which it spun off in a two-stage process that was completed in 2002. Pharmacia was acquired by Pfizer in 2003 and is now a wholly owned subsidiary of Pfizer.

In connection with its spin-off that was completed in 2002, New Monsanto assumed, and agreed to indemnify Pharmacia for, any liabilities related to Pharmacia's former agricultural business. New Monsanto is defending and indemnifying Pharmacia for various claims and litigation arising out of, or related to, the agricultural business.

In connection with its spin-off in 1997, Solutia assumed, and agreed to indemnify Pharmacia for, liabilities related to Former Monsanto's chemical businesses. As the result of its reorganization under Chapter 11 of the U.S. Bankruptcy Code, Solutia's indemnification obligations related to Former Monsanto's chemical businesses are limited to sites that Solutia has owned or operated. In addition, in connection with its spinoff that was completed in 2002, New Monsanto assumed, and agreed to indemnify Pharmacia for, any liabilities primarily related to Former Monsanto's chemical businesses, including, but not limited to, any such liabilities that Solutia assumed. Solutia's and New Monsanto's assumption of and agreement to indemnify Pharmacia for these liabilities apply to pending actions and any future actions related to Former Monsanto's chemical businesses in which Pharmacia is named as a defendant, including, without limitation, actions asserting environmental claims, including alleged exposure to polychlorinated biphenyls.

Trade Secrets Action in California

In 2004, Ischemia Research and Education Foundation (IREF) and its chief executive officer brought an action in California Superior Court, Santa Clara County, against a former IREF employee and Pfizer. Plaintiffs allege that defendants conspired to misappropriate certain information from IREF's allegedly proprietary database in order to assist Pfizer in designing and executing a clinical study of a Pfizer drug. In 2008, the jury returned a verdict for compensatory damages of approximately $38.7 million. In March 2009, the court awarded prejudgment interest, but declined to award punitive damages. In July 2009, the court granted our motion for a new trial and vacated the jury verdict.

Trimegestone

Aventis filed a breach of contract action against Wyeth in the Commercial Court of Nanterre in France arising out of the December 2003 termination by Wyeth of an October 2000 agreement between Wyeth and Aventis relating to the development of hormone-therapy drugs utilizing Aventis's trimegestone (TMG) progestin. Aventis alleges that the termination was improper and seeks monetary damages. In 2009, a three-judge tribunal rendered its decision in favor of Wyeth. In May 2010, the Versailles Court of Appeals reversed the Commercial Court's decision and appointed experts to hear evidence and make a recommendation to the Court of Appeals concerning damages. In August 2010, Wyeth filed a notice of appeal of the Court of Appeals' decision with the Supreme Court of France. Notwithstanding the appeal, the damage proceeding by the experts appointed by the Court of Appeals is continuing.

Environmental Matters

In 2009, we submitted to the U.S. Environmental Protection Agency (EPA) a corrective measures study report with regard to Pharmacia Corporation's discontinued industrial chemical facility in North Haven, Connecticut and a revised site-wide feasibility study with regard to Wyeth's discontinued industrial chemical facility in Bound Brook, New Jersey. In September 2010, our corrective measures study report with regard to the North Haven facility was approved

by the EPA.

We are a party to a number of other proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA or Superfund), and other state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.

In February 2011, King received notice from the U.S. Department of Justice (DOJ) advising that the U.S. Environmental Protection Agency has requested that DOJ initiate enforcement action seeking injunctive relief and penalties against King for alleged non-compliance with certain provisions of the federal Clean Air Act at its Bristol, Tennessee manufacturing facility. King has executed a tolling agreement with the DOJ in order to facilitate the possible resolution of this matter.

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D. Government Investigations

Like other pharmaceutical companies, we are subject to extensive regulation by national, state and local government agencies in the U.S. and in the other countries in which we operate. As a result, we have interactions with government agencies on an ongoing basis. Among the investigations by government agencies are those discussed below. It is possible that criminal charges and substantial fines and/or civil penalties could result from government investigations, including but not limited to those discussed below.

The Company has voluntarily provided the DOJ and the U.S. Securities and Exchange Commission (SEC) with information concerning potentially improper payments made by Pfizer and by Wyeth in connection with certain sales activities outside the U.S. We are in discussions with the DOJ and SEC regarding a resolution of these matters. In addition, certain potentially improper payments and other matters are the subject of investigations by government authorities in certain foreign countries, including a civil and criminal investigation in Germany with respect to certain tax matters relating to a wholly owned subsidiary of Pfizer.

The DOJ is conducting civil and criminal investigations regarding Wyeth's promotional practices with respect to Protonix and its practices relating to the pricing for Protonix for Medicaid rebate purposes. In connection with the pricing investigation, in 2009, the DOJ filed a civil complaint in intervention in two qui tam actions that had been filed under seal in the U.S. District Court for the District of Massachusetts. The complaint alleges that Wyeth's practices relating to the pricing for Protonix for Medicaid rebate purposes between 2001 and 2006 violated the Federal Civil False Claims Act and federal common law. The two qui tam actions have been unsealed and the complaints include substantially similar allegations. In addition, in 2009, several states and the District of Columbia filed a complaint under the same docket number asserting violations of various state laws based on allegations substantially similar to those set forth in the civil complaint filed by the DOJ. We are exploring with the DOJ various ways to resolve its civil and criminal investigations relating to Protonix.

The U.S. Attorney's Office for the Western District of Oklahoma is conducting a civil and criminal investigation with respect to Wyeth's promotional practices relating to Rapamune. In addition, in October 2010, the federal government was permitted to intervene in a qui tam action, which alleges off-label promotion of Rapamune, that was pending in the U.S. District Court for the Eastern District of Pennsylvania. In December 2010, the qui tam action was transferred to the Western District of Oklahoma, where it was consolidated with the proceedings underway there. We are exploring with the U.S. Attorney's Office various ways to resolve this matter.

We have received civil investigative demands and informal inquiries from the consumer protection divisions of several states seeking information and documents concerning the promotion of Lyrica and Zyvox. These requests appear to relate to the same past promotional practices concerning these products that were the subject of previously reported settlements in September 2009 with the DOJ and the Medicaid fraud control units of various states. We are exploring with the coalition of states various ways to resolve this matter.

E. Guarantees and Indemnifications

In the ordinary course of business and in connection with the sale of assets and businesses, we often indemnify our counterparties against certain liabilities that may arise in connection with the transaction or related to activities prior to the transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject

to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of July 3, 2011, recorded amounts for the estimated fair value of these indemnifications were not significant.

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Note 15. Segment, Product and Geographic Area Information

A. Segment Information

We manage our operations through five operating segments—Primary Care (PC), Specialty Care and Oncology (SC&O), Established Products and Emerging Markets (EP&EM), Animal Health and Consumer Healthcare (AH&CH) and Nutrition (Nutri). Each operating segment has responsibility for its commercial activities and for certain research and development activities related to in-line products and IPR&D projects that generally have achieved proof-of-concept.

Previously, we managed our operations through two operating segments—Biopharmaceutical and Diversified.

We regularly review our segments and the approach used by management to evaluate performance and allocate resources.

A description of each of our five operating segments follows:

Primary Care operating segment (PC)—includes revenues and earnings, as defined by management, from human pharmaceutical products primarily prescribed by primary-care physicians, and may include products in the following therapeutic and disease areas: Alzheimer's disease, diabetes, cardiovascular (excluding pulmonary arterial hypertension), major depressive disorder, genitourinary, osteoporosis, pain and respiratory. Examples of products in this unit include Celebrex, Lipitor, Lyrica, Premarin, Pristiq and Viagra. All revenues and earnings for such products are allocated to the Primary Care unit, except those generated in emerging markets and those that are managed by the Established Products unit.

Specialty Care and Oncology operating segment (SC&O)—comprises the Specialty Care business unit and the Oncology business unit.

Specialty Care—includes revenues and earnings, as defined by management, from human pharmaceutical products primarily prescribed by physicians who are specialists, and may include products in the following therapeutic and disease areas: antibacterials, antifungals, antivirals, bone, inflammation, growth hormones, multiple sclerosis, ophthalmology, pulmonary arterial hypertension, psychosis and vaccines. Examples of products in this unit include Enbrel, Genotropin, Geodon, the Prevnar/Prevenar franchise, Xalatan and Zyvox. All revenues and earnings for such products are allocated to the Specialty Care unit, except those generated in emerging markets and those that are managed by the Established Products unit.

Oncology—includes revenues and earnings, as defined by management, from human pharmaceutical products addressing oncology and oncology-related illnesses. Examples of products in this unit include Aromasin, Sutent and Torisel. All revenues and earnings for such products are allocated to the Oncology unit, except those generated in emerging markets and those that are managed by the Established Products unit.

Established Products and Emerging Markets operating segment (EP&EM)—comprises the Established Products business unit and the Emerging Markets business unit.

Established Products—generally includes revenues and earnings, as defined by management, from human pharmaceutical products that have lost patent protection or marketing exclusivity in certain countries and/or

regions. Typically, products are transferred to this unit in the beginning of the fiscal year following losing patent protection or marketing exclusivity. In certain situations, products may be transferred to this unit at a different point than the beginning of the fiscal year following losing patent protection or marketing exclusivity in order to maximize their value. This unit also excludes revenues and earnings generated in emerging markets. Examples of products in this unit include Arthrotec, Effexor XR, Medrol, Norvasc, Protonix, Relpax and Zosyn/Tazocin.

Emerging Markets—includes revenues and earnings, as defined by management, from all human pharmaceutical products sold in emerging markets, including Asia (excluding Japan and South Korea), Latin America, Middle East, Africa, Central and Eastern Europe and Turkey.

Animal Health and Consumer Healthcare operating segment (AH&CH)—comprises the Animal Health business unit and the Consumer Healthcare business unit.

Animal Health—includes worldwide revenues and earnings, as defined by management, from products to prevent and treat disease in livestock and companion animals, including vaccines, paraciticides and anti-infectives.

Consumer Healthcare—generally includes worldwide revenues and earnings, as defined by management, from non-prescription medicines and vitamins, including products in the following therapeutic categories: GI-topicals, dietary supplements, pain management and respiratory. Examples of products in Consumer Healthcare are Advil, Caltrate, Centrum, ChapStick and Robitussin.

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(UNAUDITED)

Nutrition operating segment (Nutri)—generally includes revenues and earnings, as defined by management, from a full line of infant and toddler nutritional products sold outside of the U.S. and Canada.

Our chief operating decision maker uses the revenues and earnings of the five operating segments, among other factors, for performance evaluation and resource allocation. For the operating segments that comprise more than one business unit, a single segment manager is responsible for target setting, performance evaluation and resource allocation among those business units.

Certain costs are not allocated to our operating segment results, such as costs associated with the following:

Worldwide Research and Development (WRD), which is generally responsible for human health research projects until proof-of-concept is achieved and then for transitioning those projects to the appropriate business unit for possible clinical and commercial development. R&D spending may include upfront and milestone payments for intellectual property rights. This organization also has responsibility for certain science-based platform services, which provide technical expertise and other services to the various research and development projects.

Pfizer Medical, which is responsible for all human-health-related regulatory submissions and interactions with regulatory agencies. This organization is also responsible for the collection, evaluation and reporting of all safety event information related to our human health products and for conducting clinical trial audits and readiness reviews and for providing Pfizer-related medical information to healthcare providers.

Corporate, which is responsible for platform functions such as finance, global real estate operations, human resources, legal, science and technology, worldwide procurement, worldwide public affairs and policy and worldwide technology. These costs include payroll charges and associated operating expenses, as well as interest income and expense.

Certain transactions and events such as (1) purchase accounting adjustments, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and property, plant and equipment; (2) acquisition-related activities, where we incur costs for restructuring, integration, implementation and executing the transaction; and (3) certain significant items, which include non-acquisition-related restructuring costs, as well as costs incurred for legal settlements, asset impairments and sales of assets or businesses.

We manage our assets on a total company basis, not by operating segment, as many of our operating assets are shared (such as our plant network assets) or commingled (such as accounts receivable, as many of our customers are served by multiple operating segments). Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment. Total assets were approximately $196 billion at July 3, 2011 and approximately $195 billion at December 31, 2010.

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Certain information by operating segment follows:

	Revenues		R&D Expenses		Earnings(a)	
(millions of dollars)	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010	July 3, 2011	July 4, 2010
Three Months Ended:						
Primary Care	$5,870	$5,923	$304	$413	$3,811	$4,054
Specialty Care and Oncology	4,038					