

PFIZER INC
Form 10-Q
November 08, 2013
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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 September 29, 2013

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-3619

PFIZER INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

13-5315170
(I.R.S. Employer Identification No.)

235 East 42nd Street, New York, New York 10017
(Address of principal executive offices) (zip code)
(212) 733-2323
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

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Large Accelerated filer ☒
reporting company ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ☐ NO ☒

At November 4, 2013, 6,481,070,845 shares of the issuer's voting common stock were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(MILLIONS, EXCEPT PER COMMON SHARE DATA)	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Revenues	\$12,643	\$12,953	\$38,026	\$40,766
Costs and expenses:				
Cost of sales ^(a)	2,287	2,309	6,792	7,068
Selling, informational and administrative expenses ^(a)	3,395	3,491	10,203	10,834
Research and development expenses ^(a)	1,627	1,887	4,867	5,461
Amortization of intangible assets	1,117	1,211	3,476	3,889
Restructuring charges and certain acquisition-related costs	233	312	547	1,085
Other (income)/deductions—net	411	937	(514	) 3,264
Income from continuing operations before provision for taxes on income	3,573	2,806	12,655	9,165
Provision/(benefit) for taxes on income	985	(183	) 3,876	1,622
Income from continuing operations	2,588	2,989	8,779	7,543
Discontinued operations:				
Income from discontinued operations—net of tax	36	225	326	734
Gain on disposal of discontinued operations—net of tax	(25	) —	10,393	—
Discontinued operations—net of tax	11	225	10,719	734
Net income before allocation to noncontrolling interests	2,599	3,214	19,498	8,277
Less: Net income attributable to noncontrolling interests	9	6	63	22
Net income attributable to Pfizer Inc.	\$2,590	\$3,208	\$19,435	\$8,255
Earnings per common share—basic ^(b)				
Income from continuing operations attributable to Pfizer Inc. common shareholders	\$0.39	\$0.40	\$1.26	\$1.00
Discontinued operations—net of tax	—	0.03	1.54	0.10
Net income attributable to Pfizer Inc. common shareholders	\$0.39	\$0.43	\$2.80	\$1.10
Earnings per common share—diluted ^(b)				
Income from continuing operations attributable to Pfizer Inc. common shareholders	\$0.39	\$0.40	\$1.25	\$1.00
Discontinued operations—net of tax	—	0.03	1.52	0.10
Net income attributable to Pfizer Inc. common shareholders	\$0.39	\$0.43	\$2.77	\$1.09
Weighted-average shares—basic	6,581	7,436	6,938	7,483

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Weighted-average shares—diluted	6,656	7,508	7,016	7,550
Cash dividends paid per common share	\$0.24	\$0.22	\$0.72	\$0.66

(a) Excludes amortization of intangible assets, except as disclosed in Note 9B. Goodwill and Other Intangible Assets:
Other Intangible Assets.

(b) EPS amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

(MILLIONS OF DOLLARS)	Three Months Ended		Nine Months Ended	
	September 29, 2013	September 30, 2012	September 29, 2013	September 30, 2012
Net income before allocation to noncontrolling interests	\$2,599	\$3,214	\$19,498	\$8,277
Foreign currency translation adjustments	\$(21	) \$153	\$(1,068	) \$(1,565
Reclassification adjustments ^(a)	—	—	171	—
	(21	) 153	(897	) (1,565
Unrealized holding gains on derivative financial instruments	490	455	336	242
Reclassification adjustments for realized gains ^(b)	(313	) (221	) (64	) (94
	177	234	272	148
Unrealized holding gains/(losses) on available-for-sale securities	(156	) 26	(57	) 101
Reclassification adjustments for realized (gains)/losses ^(b)	(15	) (9	) (46	) 24
	(171	) 17	(103	) 125
Benefit plans: actuarial gains/(losses), net	(13	) (88	) 34	(592
Reclassification adjustments related to amortization ^(c)	137	122	438	351
Reclassification adjustments related to curtailments/settlements, net ^(c)	54	48	147	160
Foreign currency translation adjustments and other	(28	) (37	) 112	18
	150	45	731	(63
Benefit plans: prior service (costs)/credits and other	—	(3	) 3	23
Reclassification adjustments related to amortization ^(c)	(16	) (20	) (45	) (54
Reclassification adjustments related to curtailments/settlements, net ^(c)	—	(4	) (9	) (86
Other	2	5	(4	) 1
	(14	) (22	) (55	) (116
Other comprehensive income/(loss), before tax	121	427	(52	) (1,471
Tax provision on other comprehensive income/(loss) ^(d)	80	73	443	72
Other comprehensive income/(loss) before allocation to noncontrolling interests	\$41	\$354	\$(495	) \$(1,543
Comprehensive income before allocation to noncontrolling interests	\$2,640	\$3,568	\$19,003	\$6,734
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(32	) 5	(2	) 3
Comprehensive income attributable to Pfizer Inc.	\$2,672	\$3,563	\$19,005	\$6,731

(a) Primarily reclassified into Gain on disposal of discontinued operations—net of tax in the condensed consolidated statements of income.

- (b) Reclassified into Other (income)/deductions—net in the condensed consolidated statements of income.
Generally reclassified, as part of net periodic pension cost, into Cost of sales, Selling, informational and
- (c) administrative expenses, and/or Research and development expenses, as appropriate, in the condensed consolidated statements of income. For additional information, see Note 10. Pension and Postretirement Benefit Plans.
- (d) See Note 5C. Tax Matters: Taxes on Items of Other Comprehensive Income/(Loss).

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS)

	September 29, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	\$2,052	\$10,081
Short-term investments	31,627	22,318
Accounts receivable, less allowance for doubtful accounts	11,371	11,456
Inventories	6,482	6,076
Taxes and other current assets	7,835	8,956
Assets of discontinued operations and other assets held for sale	133	5,944
Total current assets	59,500	64,831
Long-term investments	15,731	14,149
Property, plant and equipment, less accumulated depreciation	12,359	13,213
Goodwill	42,400	43,661
Identifiable intangible assets, less accumulated amortization	40,549	45,146
Taxes and other noncurrent assets	4,982	4,798
Total assets	\$175,521	\$185,798
Liabilities and Equity		
Short-term borrowings, including current portion of long-term debt	\$4,738	\$6,424
Accounts payable	2,287	2,921
Dividends payable	1	1,733
Income taxes payable	802	979
Accrued compensation and related items	1,750	1,875
Other current liabilities	10,774	13,812
Liabilities of discontinued operations	21	1,442
Total current liabilities	20,373	29,186
Long-term debt	31,812	31,036
Pension benefit obligations	7,588	7,782
Postretirement benefit obligations	3,423	3,491
Noncurrent deferred tax liabilities	22,432	21,193
Other taxes payable	7,024	6,581
Other noncurrent liabilities	4,515	4,851
Total liabilities	97,167	104,120
Commitments and Contingencies		
Preferred stock	35	39
Common stock	452	448
Additional paid-in capital	76,756	72,608
Treasury stock	(63,272)	(40,122)
Retained earnings	70,381	54,240
Accumulated other comprehensive loss	(6,383)	(5,953)
Total Pfizer Inc. shareholders' equity	77,969	81,260
Equity attributable to noncontrolling interests	385	418
Total equity	78,354	81,678

Total liabilities and equity	\$ 175,521	\$ 185,798
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See Notes to Condensed Consolidated Financial Statements.

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

(MILLIONS OF DOLLARS)	Nine Months Ended	
	September 29, 2013	September 30, 2012
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 19,498	\$ 8,277
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	4,818	5,548
Share-based compensation expense	418	362
Gain associated with the transfer of certain product rights to an equity-method investment	(459)) —
Asset write-offs and impairment charges	926	865
Gain on disposal of discontinued operations	(10,501)) —
Deferred taxes from continuing operations	1,667	130
Deferred taxes from discontinued operations	(23)	) (10)
Benefit plan expense in excess of contributions	258	86
Other non-cash adjustments, net	(311)	) (118)
Other changes in assets and liabilities, net of acquisitions and divestitures	(4,312)	) (3,342)
Net cash provided by operating activities	11,979	11,798
Investing Activities		
Purchases of property, plant and equipment	(789)	) (833)
Purchases of short-term investments	(33,927)	) (14,587)
Proceeds from redemptions and sales of short-term investments	29,008	19,377
Net (purchases of)/proceeds from redemptions and sales of short-term investments with original maturities of 90 days or less	(2,177)	) 1,483
Purchases of long-term investments	(8,746)	) (8,694)
Proceeds from redemptions and sales of long-term investments	5,943	3,357
Acquisitions, net of cash acquired	(15)	) (782)
Other investing activities	(2)	) (4)
Net cash used in investing activities	(10,705)	) (683)
Financing Activities		
Proceeds from short-term borrowings	3,723	5,700
Principal payments on short-term borrowings	(3,776)	) (5,882)
Net proceeds from/(payments on) short-term borrowings with original maturities of 90 days or less	1,831	(176)
Proceeds from issuance of long-term debt ^(a)	6,618	—
Principal payments on long-term debt	(2,396)	) (14)
Purchases of common stock	(11,643)	) (4,834)
Cash dividends paid	(5,026)	) (4,915)
Proceeds from exercise of stock options and other financing activities	1,438	355
Net cash used in financing activities	(9,231)	) (9,766)
Effect of exchange-rate changes on cash and cash equivalents	(72)) (25)
Net increase/(decrease) in cash and cash equivalents	(8,029)) 1,324

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Cash and cash equivalents, beginning	10,081	3,182
Cash and cash equivalents, end	\$2,052	\$4,506

Supplemental Cash Flow Information

Non-cash transactions:

Sale of Zoetis (our Animal Health business) for Pfizer common stock ^(b)	\$11,408	\$—
Exchange of Zoetis common stock for the retirement of Pfizer commercial paper issued in 2013 ^(b)	2,479	—
Exchange of Zoetis senior notes for the retirement of Pfizer commercial paper issued in 2012 ^(b)	992	—
Transfer of certain product rights to an equity-method investment ^(c)	1,233	—
Cash paid during the period for:		
Income taxes	\$1,799	\$1,895
Interest	1,512	1,675

^(a) Includes \$2.6 billion from the issuance of senior notes by Zoetis, our former Animal Health subsidiary, net of the non-cash exchange of Zoetis senior notes for the retirement of Pfizer commercial paper issued in 2012. See