PFIZER INC
Form 10-Q
May 10, 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 March 31, 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	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 May 6, 2013, 7,093,223,330 shares of the issuer's voting common stock were outstanding.

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For the Quarterly Period Ended
March 31, 2013

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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	
(MILLIONS, EXCEPT PER COMMON SHARE DATA)	March 31, 2013	April 1, 2012
Revenues	$13,500	$14,885
Costs and expenses:		
Cost of sales[(a)]	2,652	2,745
Selling, informational and administrative expenses[(a)]	3,585	3,968
Research and development expenses[(a)]	1,800	2,062
Amortization of intangible assets	1,234	1,420
Restructuring charges and certain acquisition-related costs	138	597
Other deductions—net	170	1,658
Income from continuing operations before provision for taxes on income	3,921	2,435
Provision for taxes on income	1,160	711
Income from continuing operations	2,761	1,724
Discontinued operations—net of tax	4	79
Net income before allocation to noncontrolling interests	2,765	1,803
Less: Net income attributable to noncontrolling interests	15	9
Net income attributable to Pfizer Inc.	$2,750	$1,794
Earnings per common share—basic:		
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.38	$0.23
Discontinued operations—net of tax	—	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.38	$0.24
Earnings per common share—diluted:		
Income from continuing operations attributable to Pfizer Inc. common shareholders	$0.38	$0.23
Discontinued operations—net of tax	—	0.01
Net income attributable to Pfizer Inc. common shareholders	$0.38	$0.24
Weighted-average shares—basic	7,187	7,537
Weighted-average shares—diluted	7,269	7,598
Cash dividends paid per common share	$0.24	$0.22

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

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 March 31, 2013	Three Months Ended April 1, 2012
Net income before allocation to noncontrolling interests	$2,765	$1,803
Foreign currency translation adjustments	$(292)	$263
Unrealized holding gains/(losses) on derivative financial instruments	(417)	427
Reclassification adjustments for realized (gains)/losses[a]	381	(300)
	(36)	127
Unrealized holding gains/(losses) on available-for-sale securities	11	80
Reclassification adjustments for realized (gains)/losses[a]	(13)	17
	(2)	97
Benefit plans: Actuarial gains	18	61
Reclassification adjustments related to amortization[b]	151	117
Reclassification adjustments related to curtailments and settlements, net[b]	59	60
Other	97	15
	325	253
Benefit plans: Prior service (costs)/credits and other	3	—
Reclassification adjustments related to amortization[b]	(16)	(18)
Reclassification adjustments related to curtailments and settlements, net[b]	(9)	(9)
Other	(2)	(3)
	(24)	(30)
Other comprehensive income/(loss), before tax	(29)	710
Tax provision on other comprehensive income/(loss)[c]	176	204
Other comprehensive income/(loss) before allocation to noncontrolling interests	$(205)	$506
Comprehensive income before allocation to noncontrolling interests	$2,560	$2,309
Less: Comprehensive income attributable to noncontrolling interests	12	8
Comprehensive income attributable to Pfizer Inc.	$2,548	$2,301

[a] Reclassified into Other deductions—net in the condensed consolidated statements of income.

[b] Generally reclassified, as part of net periodic pension cost, into Cost of sales, Selling, informational and 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.

[c] See Note 5C. Tax Matters: Taxes on Items of Other Comprehensive Income/(Loss).

See Notes to Condensed Consolidated Financial Statements.

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PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(MILLIONS OF DOLLARS)	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$2,134	$10,389
Short-term investments	33,212	22,319
Accounts receivable, less allowance for doubtful accounts	12,735	12,378
Inventories	7,035	7,063
Taxes and other current assets	9,647	9,266
Total current assets	64,763	61,415
Long-term investments	15,392	14,149
Property, plant and equipment, less accumulated depreciation	13,950	14,461
Goodwill	43,752	44,672
Identifiable intangible assets, less accumulated amortization	44,109	46,013
Taxes and other noncurrent assets	5,432	5,088
Total assets	$187,398	$185,798
Liabilities and Equity		
Short-term borrowings, including current portion of long-term debt	$8,896	$6,424
Accounts payable	3,279	4,264
Dividends payable	5	1,734
Income taxes payable	1,158	1,010
Accrued compensation and related items	1,684	2,046
Other current liabilities	12,521	13,141
Total current liabilities	27,543	28,619
Long-term debt	31,481	31,036
Pension benefit obligations	7,733	7,830
Postretirement benefit obligations	3,470	3,493
Noncurrent deferred tax liabilities	22,445	21,593
Other taxes payable	6,761	6,610
Other noncurrent liabilities	5,138	4,939
Total liabilities	104,571	104,120
Commitments and Contingencies		
Preferred stock	38	39
Common stock	450	448
Additional paid-in capital	75,778	72,608
Employee benefit trusts	(1)	(1)
Treasury stock	(44,832)	(40,121)
Retained earnings	56,972	54,240
Accumulated other comprehensive loss	(6,155)	(5,953)
Total Pfizer Inc. shareholders’ equity	82,250	81,260
Equity attributable to noncontrolling interests	577	418
Total equity	82,827	81,678
Total liabilities and equity	$187,398	$185,798

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)	Three Months Ended March 31, 2013	Three Months Ended April 1, 2012
Operating Activities		
Net income before allocation to noncontrolling interests	$2,765	$1,803
Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	1,774	2,221
Share-based compensation expense	189	130
Gain associated with the transfer of certain product rights to an equity-method investment	(490)	—
Asset write-offs and impairment charges	513	650
Deferred taxes from continuing operations	927	(396)
Deferred taxes from discontinued operations	—	(8)
Benefit plan contributions (in excess of)/less than expense	71	(65)
Other non-cash adjustments, net	(115)	(28)
Other changes in assets and liabilities, net of acquisitions and divestitures	(3,393)	(1,533)
Net cash provided by operating activities	2,241	2,774
Investing Activities		
Purchases of property, plant and equipment	(202)	(254)
Purchases of short-term investments	(10,742)	(6,344)
Proceeds from redemptions and sales of short-term investments	6,386	8,119
Net (purchases of)/proceeds from redemptions and sales of short-term investments with original maturities of 90 days or less	(5,596)	623
Purchases of long-term investments	(2,246)	(1,184)
Proceeds from redemptions and sales of long-term investments	1,444	302
Acquisitions, net of cash acquired	—	(782)
Other investing activities	26	(29)
Net cash provided by/(used in) investing activities	(10,930)	451
Financing Activities		
Proceeds from short-term borrowings	—	1,561
Net proceeds from/(payments on) short-term borrowings with original maturities of 90 days or less	3,485	(1,791)
Proceeds from issuance of long-term debt[a]	2,624	—
Principal payments on long-term debt	(2)	(3)
Purchases of common stock	(4,626)	(1,659)
Cash dividends paid	(1,735)	(1,650)
Proceeds from exercise of stock options and other financing activities	688	35
Net cash provided by/(used in) financing activities	434	(3,507)
Effect of exchange-rate changes on cash and cash equivalents	—	34
Net decrease in cash and cash equivalents	(8,255)	(248)
Cash and cash equivalents, beginning	10,389	3,182
Cash and cash equivalents, end	$2,134	$2,934

Supplemental Cash Flow Information		
Non-cash transactions:		
Exchange of Zoetis senior notes for the retirement of Pfizer commercial paper issued in 2012[(b)]	$992	$—
Exchange of Zoetis common stock for the retirement of Pfizer commercial paper issued in 2013[(b)]	2,479	—
Transfer of certain product rights to an equity-method investment[(c)]	1,233	—
Cash paid during the period for:		
Income taxes	$554	$451
Interest	433	508

(a) Represents the issuance of senior notes by Zoetis, our Animal Health subsidiary, net of the non-cash exchange of Zoetis senior notes for the retirement of Pfizer commercial paper issued in 2012. See Note 7D. Financial Instruments: Long-Term Debt.

(b) See Note 2B. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Divestitures.

(c) See Note 2D. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Equity-Method Investment.

See Notes to Condensed Consolidated Financial Statements.

Note 1. Basis of Presentation and Significant Accounting Policies

A. Basis of Presentation

We prepared the condensed consolidated financial statements following the requirements of the U.S. 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 months ended February 24, 2013, and February 26, 2012.

On February 6, 2013, an initial public offering (IPO) of the Class A common stock of our subsidiary, Zoetis Inc. (Zoetis), was completed, pursuant to which we sold 99.015 million shares of Class A common stock of Zoetis, which represented approximately 19.8% of the total outstanding Zoetis shares. For additional information, see Note 2B. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Divestitures.

On November 30, 2012, we completed the sale of our Nutrition business to Nestlé. The operating results of this business are reported as Discontinued operations—net of tax in the condensed consolidated statement of income for the three months ended April 1, 2012. For additional information, see Note 2B. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Divestitures.

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 Quarterly Report on Form 10-Q. The financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and results of operations.

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 2012 Annual Report on Form 10-K/A.

B. Adoption of New Accounting Standards

There were no new accounting and disclosure standards adopted as of January 1, 2013.

C. Fair Value

Our fair value methodologies depend on the following types of inputs:

- Quoted prices for identical assets or liabilities in active markets (Level 1 inputs).
- Quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable (Level 2 inputs).
- Unobservable inputs that reflect estimates and assumptions (Level 3 inputs).

A single estimate of fair value can result from a complex series of judgments about future events and uncertainties and can rely heavily on estimates and assumptions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment

A. Acquisitions

NextWave Pharmaceuticals, Inc.
In the first quarter of 2013, we finalized the allocation of the consideration transferred to the assets acquired and the liabilities assumed in the acquisition of NextWave Pharmaceuticals Incorporated (NextWave), completed on November 27, 2012. The total consideration for the acquisition was approximately $442 million, and we recorded approximately $519 million in Identifiable intangible assets, consisting of $474 million in Developed technology rights and $45 million in In-process research and development; $166 million in net deferred tax liabilities; and $89 million in Goodwill.

Alacer Corp.

On February 26, 2012, we completed our acquisition of Alacer Corp., a company that manufactures, markets and distributes Emergen-C, a line of effervescent, powdered drink mix vitamin supplements that is the largest-selling branded vitamin C line in the U.S. In connection with this Consumer Healthcare acquisition, we recorded $181 million in Identifiable intangible assets, consisting primarily of the Emergen-C indefinite-lived brand; $69 million in net deferred tax liabilities; and $192 million in Goodwill. The allocation of the consideration transferred to the assets acquired and the liabilities assumed has been finalized.

Ferrosan Holding A/S

On December 1, 2011, we completed our acquisition of the consumer healthcare business of Ferrosan Holding A/S (Ferrosan), a Danish company engaged in the sale of science-based consumer healthcare products, including dietary supplements and lifestyle products, primarily in the Nordic region and the emerging markets of Russia and Central and Eastern Europe. This acquisition is reflected in our condensed consolidated financial statements beginning in the first fiscal quarter of 2012. Our acquisition of Ferrosan's consumer healthcare business increases our presence in dietary supplements with a new set of brands and pipeline products. Also, we believe that the acquisition allows us to expand the marketing of Ferrosan's brands through Pfizer's global footprint and provide greater distribution and scale for certain Pfizer brands, such as Centrum and Caltrate, in Ferrosan's key markets. In connection with this Consumer Healthcare acquisition, we recorded $362 million in Identifiable intangible assets, consisting of indefinite-lived and finite-lived brands; $94 million in net deferred tax liabilities; and $322 million in Goodwill. The allocation of the consideration transferred to the assets acquired and the liabilities assumed has been finalized.

B. Divestitures

Formation of Zoetis and IPO

On January 28, 2013, our then wholly owned subsidiary, Zoetis, issued $3.65 billion aggregate principal amount of senior notes, net of an original issue debt discount of $10 million. For additional information, see Note 7D. Financial Instruments: Long-Term Debt. Also, on January 28, 2013, we transferred to Zoetis substantially all of the assets and liabilities of our Animal Health business in exchange for all of the Class A and Class B common stock of Zoetis, $1.0 billion of the $3.65 billion of Zoetis senior notes, and an amount of cash equal to substantially all of the cash proceeds received by Zoetis from the remaining $2.65 billion of senior notes issued. The $1.0 billion of Zoetis senior notes received by Pfizer were exchanged by Pfizer for the retirement of Pfizer commercial paper issued in 2012, and the

cash proceeds received by Pfizer of approximately $2.5 billion were restricted to use for debt repayment, dividends and/or stock buybacks.

On February 6, 2013, an IPO of the Class A common stock of Zoetis was completed, pursuant to which we sold 99.015 million shares of Class A common stock of Zoetis (all of the Class A common stock, including shares sold pursuant to the underwriters' overallotment option to purchase additional shares, which was exercised in full) in exchange for the retirement of approximately $2.5 billion of Pfizer commercial paper issued in 2013. The Class A common stock sold in the IPO represented approximately 19.8% of the total outstanding Zoetis shares. On February 1, 2013, Zoetis shares began trading on the New York Stock Exchange under the symbol “ZTS.” The excess of the consideration received over the net book value of our divested interest was approximately $2.3 billion and was recorded in Additional paid-in capital. For additional information, see Note 6. Certain Changes in Total Equity.

In summary, as a result of the above transactions, we received approximately $6.1 billion of cash (of which approximately $2.5 billion was restricted to use for debt repayment, dividends and/or stock buybacks), and incurred approximately $3.65 billion in Zoetis long-term debt.

We continue to consolidate Zoetis, as we retain control over Zoetis. Effective February 7, 2013, the earnings attributable to the divested interest (the Net income attributable to noncontrolling interests) are excluded from Net income attributable to Pfizer Inc., Earnings per common share—basic and Earnings per common share—diluted in the condensed consolidated statement of income. As of March 31, 2013, the noncontrolling interests associated with Zoetis are reflected in Equity attributable to noncontrolling interests in the condensed consolidated balance sheet. For additional information, see Note 6. Certain Changes in Total Equity.

Nutrition Business

On November 30, 2012, we completed the sale of our Nutrition business to Nestlé for $11.85 billion in cash, and recognized a gain of approximately $4.8 billion, net of tax. The divested business includes:

- our former Nutrition operating segment and certain prenatal vitamins previously commercialized by the Pfizer Consumer Healthcare operating segment; and
- other associated amounts, such as direct manufacturing costs, enabling support functions and other costs not charged to the business, purchase-accounting impacts, acquisition-related costs, impairment charges, restructuring charges and implementation costs associated with our cost-reduction/productivity initiatives, all of which are reported outside our operating segment results.

The operating results of this business are classified as Discontinued operations—net of tax in the condensed consolidated statement of income for the three months ended April 1, 2012.

The following table provides the components of Discontinued operations—net of tax, virtually all of which relate to our former Nutrition business:

(MILLIONS OF DOLLARS)	Three Months Ended April 1, 2012
Revenues	$520
Pre-tax income from discontinued operations	117
Provision for taxes on income[a]	38
Discontinued operations—net of tax	$79

[a] Includes a deferred tax benefit of $8 million.

The net cash flows of our discontinued operations for each of the categories of operating, investing and financing activities are not significant for the three months ended April 1, 2012.

C. Collaborative Arrangement

Collaboration for ertugliflozin

On April 29, 2013, we announced that we had entered into a worldwide, except Japan, collaboration agreement with Merck & Co., Inc. (“Merck”) for the development and commercialization of Pfizer's ertugliflozin (PF-04971729), an

investigational oral sodium glucose cotransporter (SGLT2) inhibitor being evaluated for the treatment of type 2 diabetes. Under the terms of the agreement, we will collaborate with Merck on the clinical development and commercialization of ertugliflozin, and ertugliflozin-containing fixed-dose combinations with metformin and Januvia (sitagliptin) tablets. Merck will continue to retain the rights to its existing portfolio of sitagliptin-containing products. In 2013, we received payments totaling $60 million and we will be eligible for additional payments associated with the achievement of future clinical, regulatory and commercial milestones. The payments received to date have been deferred and will be recognized in Other deductions—net over a multi-year period. We will share potential revenues and certain costs with Merck on a 60%/40% basis, with Pfizer having the 40%

share. Each party has the right to terminate the agreement at certain times under certain circumstances, with various resulting rights and obligations depending on the nature of the termination. In addition, Merck has the right to terminate the agreement at any time up to the commencement of the first Phase III clinical trial.

D. Equity-Method Investment

Investment in Hisun Pfizer Pharmaceuticals Company Limited

On September 6, 2012, we and Zhejiang Hisun Pharmaceuticals Co., Ltd., a leading pharmaceutical company in China, formed a new company, Hisun Pfizer Pharmaceuticals Company Limited (Hisun Pfizer), to develop, manufacture, market and sell pharmaceutical products, primarily branded generic products, predominately in China. Hisun Pfizer was established with registered capital of $250 million, of which our portion was $122.5 million. On January 1, 2013, both parties transferred selected employees to Hisun Pfizer and contributed, among other things, certain rights to commercialized products and products in development, intellectual property rights, and facilities, equipment and distribution/customer contracts. Our contributions in 2013 constituted a business, as defined by U.S. GAAP, and included, among other things, the China rights to certain commercialized products and other products not yet commercialized and all associated intellectual property rights. As a result of the contributions from both parties, Hisun Pfizer holds a broad portfolio of branded generics covering cardiovascular disease, infectious disease, oncology, mental health, and other therapeutic areas. We hold a 49% equity interest in Hisun Pfizer.

We also entered into certain transition agreements designed to ensure and facilitate the orderly transfer of the business operations to Hisun Pfizer, primarily the Pfizer Products Transition Period Agreement and a related supply and promotional services agreement. These agreements provide for a profit margin on the manufacturing services provided by Pfizer to Hisun Pfizer and govern the supply, promotion and distribution of Pfizer products until Hisun Pfizer begins its own manufacturing and distribution. While intended to be transitional, these agreements may be extended by mutual agreement of the parties for several years and, possibly, indefinitely. These agreements are not material to Pfizer, and none confers upon us any additional ability to influence the operating and/or financial policies of Hisun Pfizer.

In connection with our contributions in the first quarter of 2013, we recognized a pre-tax gain of approximately $490 million in Other deductions—net, reflecting the transfer of the business to Hisun Pfizer (including an allocation of goodwill from our Emerging Markets reporting unit as part of the carrying amount of the business transferred). Since we hold a 49% interest in Hisun Pfizer, we have an indirect retained interest in the contributed assets; as such, 49% of the gain, or $240 million, represents the portion of the gain associated with that indirect retained interest.

In valuing our investment in Hisun Pfizer (which includes the indirect retained interest in the contributed assets), we used discounted cash flow techniques, utilizing a 11.5% discount rate, reflecting our best estimate of the various risks inherent in the projected cash flows, and a nominal terminal year growth factor. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected net cash flows, which include the expected impact of competitive, legal and/or regulatory forces on the products; the long-term growth rate, which seeks to project the sustainable growth rate over the long-term; and the discount rate, which seeks to reflect the various risks inherent in the projected cash flows, including country risk.

We are accounting for our interest in Hisun Pfizer as an equity-method investment, due to the significant influence we have over the operations of Hisun Pfizer through our board representation, minority veto rights and 49% voting interest. Our investment in Hisun Pfizer is reported as a private equity investment in Long-term investments, and our

share of Hisun Pfizer's income and expenses is recorded in Other deductions—net. As of March 31, 2013, the carrying value of our investment in Hisun Pfizer is approximately $1.3 billion, and the amount of our underlying equity in the net assets of Hisun Pfizer is approximately $686 million. The excess of the carrying value of our investment over our underlying equity in the net assets of Hisun Pfizer has been allocated, within the investment account, to goodwill and other intangible assets. The other intangible assets are being amortized into Other deductions—net over an average useful life of 25 years.

Note 3. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

We incur significant costs in connection with acquiring, integrating and restructuring businesses and in connection with our global cost-reduction/productivity initiatives. For example:

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- In connection with acquisition activity, we typically incur costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company); and
- In connection with our cost-reduction/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.

All of our businesses and functions may be impacted by these actions, including sales and marketing, manufacturing and research and development, as well as groups such as information technology, shared services and corporate operations. Since the acquisition of Wyeth on October 15, 2009, our cost-reduction initiatives announced on January 26, 2009, but not completed as of December 31, 2009, were incorporated into a comprehensive plan to integrate Wyeth's operations to generate cost savings and to capture synergies across the combined company. In addition, among our ongoing cost-reduction/productivity initiatives, on February 1, 2011, we announced a new productivity initiative to accelerate our strategies to improve innovation and productivity in R&D by prioritizing areas that we believe have 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.

The following table provides the components of costs associated with acquisitions and cost-reduction/productivity initiatives:

	Three Months Ended	
(MILLIONS OF DOLLARS)	March 31, 2013	April 1, 2012
Integration costs[a]	$39	$100
Restructuring charges:[b]		
Employee terminations	(20)	267
Asset impairments	105	218
Exit costs	14	12
Restructuring charges and certain acquisition-related costs	138	597
Additional depreciation—asset restructuring recorded in our condensed consolidated statements of income as follows:[c]		
Cost of sales	33	79
Selling, informational and administrative expenses	12	2
Research and development expenses	90	259
Total additional depreciation—asset restructuring	135	340
Implementation costs recorded in our condensed consolidated statements of income as follows:[d]		
Cost of sales	6	—
Selling, informational and administrative expenses	30	15
Research and development expenses	3	48
Total implementation costs	39	63
Total costs associated with acquisitions and cost-reduction/productivity initiatives	$312	$1,000

(a) Integration costs represent external, incremental costs directly related to integrating acquired businesses, and primarily include expenditures for consulting and the integration of systems and processes.

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(b) From the beginning of our cost-reduction/productivity initiatives in 2005 through March 31, 2013, Employee termination costs represent the expected reduction of the workforce by approximately 62,000 employees, mainly in manufacturing and sales and research, of which approximately 54,000 employees have been terminated as of March 31, 2013. For the three months ended March 31, 2013, the credit to employee terminations reflects a change in estimate related to the number of employees to be terminated and the expected total cost of planned terminations.

The restructuring charges for the three months ended March 31, 2013 are associated with the following:

- Primary Care operating segment ($5 million income), Specialty Care and Oncology operating segment ($6 million), Established Products and Emerging Markets operating segment ($11 million), other operating segments ($2 million), research and development operations ($2 million), manufacturing operations ($4 million) and Corporate ($79 million).

The restructuring charges for the three months ended April 1, 2012 are associated with the following:

- Primary Care operating segment ($3 million), Specialty Care and Oncology operating segment ($3 million), Established Products and Emerging Markets operating segment ($3 million), other operating segments ($6 million), research and development operations ($12 million), manufacturing operations ($152 million) and Corporate ($318 million).

(c) Additional depreciation—asset restructuring represents the impact of changes in the estimated useful lives of assets involved in restructuring actions.

(d) Implementation costs represent external, incremental costs directly related to implementing our non-acquisition-related cost-reduction/productivity initiatives.

The following table provides the components of and changes in our restructuring accruals:

(MILLIONS OF DOLLARS)	Employee Termination Costs/(Credits)	Asset Impairment Charges	Exit Costs	Accrual
Balance, December 31, 2012[(a)]	$ 1,793	$—	$157	$1,950
Provision	(20)	105	14	99
Utilization and other[(b)]	(340)	(105)	(33)	(478)
Balance, March 31, 2013[(c)]	$ 1,433	$—	$138	$1,571

(a) Included in Other current liabilities ($1.2 billion) and Other noncurrent liabilities ($731 million).
(b) Includes adjustments for foreign currency translation.
(c) Included in Other current liabilities ($919 million) and Other noncurrent liabilities ($652 million).

Total restructuring charges incurred from the beginning of our cost-reduction/productivity initiatives in 2005 through March 31, 2013 were $15.7 billion.

The asset impairment charges included in restructuring charges for the three months ended March 31, 2013 primarily relate to assets held for sale and are based on an estimate of fair value, which was determined to be lower than the carrying value of the assets prior to the impairment charge.

The following table provides additional information about the long-lived assets that were impaired during the first quarter of 2013 in Restructuring charges and certain acquisition-related costs:

(MILLIONS OF DOLLARS)	Fair Value[(a)] Amount	Level 1	Level 2	Level 3	Three Months Ended March 31, 2013 Impairment

Assets held for sale[b]	$84	$—	$84	$—	$64
Assets abandoned/demolished	—	—	—	—	41
Long-lived assets	$84	$—	$84	$—	$105

(a) The fair value amount is presented as of the date of impairment, as these assets are not measured at fair value on a recurring basis. See also Note 1C. Basis of Presentation and Significant Accounting Policies: Fair Value.

(b) Reflects property, plant and equipment and other long-lived held-for-sale assets written down to their fair value of $84 million, less costs to sell of $2 million (a net of $82 million), in the first three months of 2013. Fair value was determined primarily using a market approach, with various inputs, such as recent sales transactions.

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Note 4. Other Deductions—Net

The following table provides components of Other deductions—net:

(MILLIONS OF DOLLARS)	Three Months Ended March 31, 2013	Three Months Ended April 1, 2012
Interest income[a]	$(95)	$(81)
Interest expense[a]	391	390
Net interest expense	296	309
Royalty-related income	(71)	(97)
Gain associated with the transfer of certain product rights to an equity-method investment[b]	(490)	—
Net gain on asset disposals	(26)	(7)
Certain legal matters, net[c]	(83)	814
Certain asset impairment charges[d]	399	432
Costs associated with the separation of Zoetis[e]	17	32
Other, net	128	175
Other deductions—net	$170	$1,658

(a) Interest income increased in the first quarter of 2013 due to higher cash equivalents and investment balances. Interest expense was virtually unchanged in the first quarter of 2013 compared to the first quarter of 2012 as the impact of the Zoetis debt issuance on January 28, 2013 was offset by otherwise lower debt balances.

(b) Represents the gain associated with the transfer of certain product rights to our equity-method investment in China. For additional information, see Note 2D. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Equity-Method Investment.

(c) In the first quarter of 2013, primarily includes an $80 million insurance recovery related to a certain litigation matter. In the first quarter of 2012, primarily relates to a $450 million charge in connection with an agreement-in-principle to settle a lawsuit by Brigham Young University related to Celebrex (which was ultimately settled for that amount), and charges for hormone-replacement therapy litigation. For additional information, see Note 12. Commitments and Contingencies.

(d) In the first quarter of 2013, includes intangible asset impairment charges of $395 million, of which $394 million relates to developed technology, for use in the development of bone and cartilage, acquired in connection with our acquisition of Wyeth. The intangible asset impairment charges for 2013 reflect, among other things, updated commercial forecasts. The impairment charges for the first quarter of 2013 are associated with the following: Specialty Care ($394 million) and Animal Health (Zoetis) ($1 million).

In the first quarter of 2012, includes intangible asset impairment charges of approximately $395 million, reflecting (i) $297 million of in-process research and development (IPR&D) assets that targeted autoimmune and inflammatory diseases, (ii) $45 million related to our Consumer Healthcare indefinite-lived brand, Robitussin, and (ii) $53 million of developed technology rights comprising the impairment of two assets. Substantially all of these impairment charges relate to intangible assets that were acquired as part of our acquisition of Wyeth. The intangible asset impairment charges reflect, among other things, the impact of new scientific findings for IPR&D and an increased competitive environment for Robitussin. The impairment charges for the first quarter of 2012 are associated with the following: Specialty Care ($316 million); Consumer Healthcare ($45 million); and Primary Care ($34 million).

(e) Costs incurred in connection with the IPO of an approximate 19.8% ownership interest in Zoetis. Includes expenditures for banking, legal, accounting and similar services. For additional information, see Note 2B. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Divestitures.

The asset impairment charges included in Other deductions—net for the first quarter of 2013 primarily relate to identifiable intangible assets and are based on estimates of fair value.

The following table provides additional information about one of the intangible assets that was impaired during the first quarter of 2013 in Other deductions—net:

(MILLIONS OF DOLLARS)	Fair Value[(a)] Amount	Level 1	Level 2	Level 3	Three Months Ended March 31, 2013 Impairment
Intangible asset—Developed Technology[(b)]	$564	$—	$—	$564	$394

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(a) The fair value amount is presented as of the date of impairment, as this asset is not measured at fair value on a recurring basis. See also Note 1C. Basis of Presentation and Significant Accounting Policies: Fair Value.

(b) Reflects an intangible asset written down to its fair value of $564 million in the first quarter of 2013. Fair value was determined using the income approach, specifically the multi-period excess earnings method, also known as the discounted cash flow method. We started with a forecast of all the expected net cash flows associated with the asset and then we applied an asset-specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected net cash flows, which includes the expected impact of competitive, legal and/or regulatory forces on the product; the discount rate, which seeks to reflect the various risks inherent in the projected cash flows; and the tax rate, which seeks to incorporate the geographic diversity of the projected cash flows.

Note 5. Tax Matters

A. Taxes on Income from Continuing Operations

Our effective tax rate for continuing operations was 29.6% for the first quarter of 2013, compared to 29.2% for the first quarter of 2012. The effective tax rate for the first quarter of 2013 was unfavorably impacted by the non-deductibility of the goodwill derecognized and the jurisdictional mix of the other intangible assets divested as part of the transfer of certain product rights to our equity-method investment in China, largely offset by the change in the jurisdictional mix of earnings as a result of operating fluctuations in the normal course of business, as well as the extension of the U.S. R&D tax credit which was signed into law in January 2013, resulting in the full-year benefit of the 2012 R&D tax credit and a portion of the 2013 R&D tax credit being recorded in the first quarter of 2013. For additional information about the transfer of certain product rights, see Note 2D. Acquisitions, Divestitures, Collaborative Arrangement and Equity-Method Investment: Equity-Method Investment.

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. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire. We treat these events as discrete items in the period of resolution.

The United States is one of our major tax jurisdictions, and we are regularly audited by the U.S. Internal Revenue Service (IRS):

- With respect to Pfizer Inc., tax years 2009 and 2010 are currently under audit. Tax years 2011-2013 are not under audit. All other tax years are closed.
- With respect to Wyeth, tax years 2006 through the Wyeth acquisition date (October 15, 2009) are currently under audit. All other tax years are closed.
- With respect to King, tax years 2009 and 2010 are currently under audit. Tax year January 1, 2011 through the date of acquisition (January 31, 2011) is open, but not under audit. All other tax years are closed. The open tax years and audits for King and its subsidiaries are not material to Pfizer Inc.

In addition to the open audit years in the U.S., we have open audit years in other major tax jurisdictions, such as Canada (2001-2013), Japan (2007-2013), Europe (2007-2013, primarily reflecting Ireland, the United Kingdom, France, Italy, Spain and Germany), Latin America (1998-2013, primarily reflecting Brazil and Mexico) and Puerto Rico (2007-2013).

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C. Taxes on Items of Other Comprehensive Income/(Loss)

The following table provides the components of tax provision on Other comprehensive income/(loss):

(MILLIONS OF DOLLARS)	Three Months Ended March 31, 2013	Three Months Ended April 1, 2012
Foreign currency translation adjustments[a]	$71	$67
Unrealized holding gains/(losses) on derivative financial instruments	(157)	159
Reclassification adjustments for realized (gains)/losses	144	(115)
	(13)	44
Unrealized holding gains/(losses) on available-for-sale securities	13	14
Reclassification adjustments for realized (gains)/losses	(2)	7
	11	21
Benefit plans: Actuarial gains	6	20
Reclassification adjustments related to amortization	54	44
Reclassification adjustments related to curtailments and settlements, net	20	23
Other	37	(1)
	117	86