PFIZER INC
Form 10-Q
August 11, 2016
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, 2016

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

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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, 2016, 6,065,652,424 shares of the issuer's voting common stock were outstanding.

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GLOSSARY OF DEFINED TERMS

Unless the context requires otherwise, references to “Pfizer,” “the Company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q (defined below) refer to Pfizer Inc. and its subsidiaries. We also have used several other terms in this Quarterly Report on Form 10-Q, most of which are explained or defined below:

| | |
|---|---|
| 2015 Financial Report | Financial Report for the fiscal year ended December 31, 2015, which was filed as Exhibit 13 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2015 |
| 2015 Form 10-K | Annual Report on Form 10-K for the fiscal year ended December 31, 2015 |
| ACA | U.S. Patient Protection and Affordable Care Act, as amended by the Health Care Reconciliation Act |
| ACIP | Advisory Committee on Immunization Practices |
| ALK | anaplastic lymphoma kinase |
| Allergan | Allergan plc |
| Alliance revenues | revenues from alliance agreements under which we co-promote products discovered by other companies |
| AM-Pharma | AM-Pharma B.V. |
| Anacor | Anacor Pharmaceuticals, Inc. |
| ASU | Accounting Standards Update |
| Baxter | Baxter International Inc. |
| BMS | Bristol-Myers Squibb Company |
| CDC | U.S. Centers for Disease Control and Prevention |
| Developed Markets | U.S., Western Europe, Japan, Canada, Australia, Scandinavia, South Korea, Finland and New Zealand |
| DOJ | U.S. Department of Justice |
| DVT | deep vein thrombosis |
| EEA | European Economic Area |
| EH | Essential Health |
| EMA | European Medicines Agency |
| Emerging Markets | Includes, but is not limited to, the following markets: Asia (excluding Japan and South Korea), Latin America, Africa, Eastern Europe, Central Europe, the Middle East and Turkey |
| EPA | U.S. Environmental Protection Agency |
| EPS | earnings per share |
| EU | European Union |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| FDA | U.S. Food and Drug Administration |
| GAAP | Generally Accepted Accounting Principles |
| GHD | growth hormone deficiency |
| GIST | gastrointestinal stromal tumors |
| GEP | Global Established Pharmaceutical segment |
| GIP | Global Innovative Pharmaceutical segment |
| GPD | Global Product Development organization |
| GS&Co. | Goldman, Sachs & Co. |
| HER2- | human epidermal growth factor receptor 2-negative |
| hGH-CTP | human growth hormone |
| Hisun Pfizer | Hisun Pfizer Pharmaceuticals Company Limited |
| Hospira | Hospira, Inc. |
| HR+ | hormone receptor-positive |
| IH | Innovative Health |
| IPR&D | in-process research and development |
| IRC | Internal Revenue Code |

| | |
|---|---|
| IRS | U.S. Internal Revenue Service |
| LDL | low density lipoprotein |
| Lilly | Eli Lilly & Company |
| LOE | loss of exclusivity |

| | |
|---|---|
| MCO | managed care organization |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| MDV | multi-dose vial |
| Moody's | Moody's Investors Service |
| mRCC | metastatic renal cell carcinoma |
| NDA | new drug application |
| NOAC | Novel Oral Anticoagulant |
| NovaQuest | NovaQuest Co-Investment Fund II, L.P. or NovaQuest Co-Investment Fund V, L.P., as applicable |
| NSCLC | non-small cell lung cancer |
| NYSE | New York Stock Exchange |
| OPKO | OPKO Health, Inc. |
| OTC | over-the-counter |
| PBM | Pharmacy Benefit Manager |
| PDUFA | Prescription Drug User Fee Act |
| PE | pulmonary embolism |
| PGS | Pfizer Global Supply |
| Pharmacia | Pharmacia Corporation |
| PP&E | Property, plant & equipment |
| Quarterly Report on Form 10-Q | Quarterly Report on Form 10-Q for the quarterly period ended July 3, 2016 |
| RAR | Revenue Agent's Report |
| RCC | renal cell carcinoma |
| recAP | recombinant human Alkaline Phosphatase |
| R&D | research and development |
| RPI | RPI Finance Trust |
| Sandoz | Sandoz, Inc., a division of Novartis AG |
| SEC | U.S. Securities and Exchange Commission |
| SGA | small for gestational age |
| S&P | Standard and Poor's |
| Teuto | Laboratório Teuto Brasileiro S.A. |
| U.K. | United Kingdom |
| U.S. | United States |
| VAT | value added tax |
| VOC | Global Vaccines, Oncology and Consumer Healthcare segment |
| WRD | Worldwide Research and Development |
| Zoetis | Zoetis Inc. |

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 | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Revenues | $13,147 | $11,853 | $26,152 | $22,717 |
| Costs and expenses: | | | | |
| Cost of sales[(a)] | 3,174 | 2,180 | 6,026 | 4,018 |
| Selling, informational and administrative expenses[(a)] | 3,471 | 3,386 | 6,856 | 6,491 |
| Research and development expenses[(a)] | 1,748 | 1,734 | 3,478 | 3,620 |
| Amortization of intangible assets | 961 | 872 | 1,966 | 1,811 |
| Restructuring charges and certain acquisition-related costs | 316 | 86 | 457 | 146 |
| Other (income)/deductions—net | 1,068 | 55 | 1,398 | 9 |
| Income from continuing operations before provision for taxes on income | 2,410 | 3,539 | 5,971 | 6,621 |
| Provision for taxes on income | 375 | 905 | 910 | 1,610 |
| Income from continuing operations | 2,035 | 2,635 | 5,060 | 5,011 |
| Discontinued operations—net of tax | 1 | 1 | 1 | 6 |
| Net income before allocation to noncontrolling interests | 2,035 | 2,635 | 5,061 | 5,017 |
| Less: Net income attributable to noncontrolling interests | 16 | 9 | 25 | 14 |
| Net income attributable to Pfizer Inc. | $2,019 | $2,626 | $5,036 | $5,002 |
| | | | | |
| Earnings per common share—basic: | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | $0.33 | $0.43 | $0.82 | $0.81 |
| Discontinued operations—net of tax | — | — | — | — |
| Net income attributable to Pfizer Inc. common shareholders | $0.33 | $0.43 | $0.82 | $0.81 |
| | | | | |
| Earnings per common share—diluted: | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | $0.33 | $0.42 | $0.82 | $0.80 |
| Discontinued operations—net of tax | — | — | — | — |
| Net income attributable to Pfizer Inc. common shareholders | $0.33 | $0.42 | $0.82 | $0.80 |
| | | | | |
| Weighted-average shares—basic | 6,068 | 6,159 | 6,110 | 6,181 |
| Weighted-average shares—diluted | 6,137 | 6,243 | 6,176 | 6,267 |
| Cash dividends paid per common share | $0.30 | $0.28 | $0.60 | $0.56 |

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

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

| (MILLIONS OF DOLLARS) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Net income before allocation to noncontrolling interests | $2,035 | $2,635 | $5,061 | $5,017 |
| Foreign currency translation adjustments, net | 514 | (327) | 581 | (1,635) |
| | 514 | (327) | 581 | (1,635) |
| Unrealized holding gains/(losses) on derivative financial instruments, net | (571) | 452 | (845) | 137 |
| Reclassification adjustments for realized (gains)/losses[a] | 469 | (743) | 130 | (510) |
| | (102) | (291) | (714) | (373) |
| Unrealized holding gains/(losses) on available-for-sale securities, net | 350 | (200) | 479 | (527) |
| Reclassification adjustments for realized (gains)/losses[a] | (226) | 498 | (16) | 745 |
| | 124 | 299 | 463 | 218 |
| Benefit plans: actuarial gains/(losses), net | (19) | (9) | (19) | 22 |
| Reclassification adjustments related to amortization[b] | 139 | 134 | 278 | 269 |
| Reclassification adjustments related to settlements, net[b] | 22 | 22 | 48 | 62 |
| Other | (57) | (29) | (18) | 130 |
| | 85 | 118 | 288 | 483 |
| Benefit plans: prior service credits and other, net | 87 | 507 | 87 | 506 |
| Reclassification adjustments related to amortization[b] | (41) | (34) | (81) | (69) |
| Reclassification adjustments related to curtailments, net[b] | — | (7) | (6) | (17) |
| Other | 1 | (2) | 6 | (2) |
| | 48 | 464 | 6 | 418 |
| Other comprehensive income/(loss), before tax | 669 | 263 | 624 | (890) |
| Tax provision/(benefit) on other comprehensive income/(loss)[c] | 36 | 228 | (5) | 332 |
| Other comprehensive income/(loss) before allocation to noncontrolling interests | $633 | $35 | $629 | $(1,222) |
| Comprehensive income before allocation to noncontrolling interests | $2,668 | $2,670 | $5,690 | $3,795 |
| Less: Comprehensive income/(loss) attributable to noncontrolling interests | 21 | 8 | 24 | (3) |
| Comprehensive income attributable to Pfizer Inc. | $2,647 | $2,663 | $5,666 | $3,797 |

[a] Reclassified into Other (income)/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: Tax Provision/(Benefit) on Other Comprehensive Income/(Loss).

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (MILLIONS OF DOLLARS) | July 3, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 3,411 | $ 3,641 |
| Short-term investments | 17,531 | 19,649 |
| Trade accounts receivable, less allowance for doubtful accounts: 2016—$670; 2015—$384 | 9,138 | 8,176 |
| Inventories | 7,614 | 7,513 |
| Current tax assets | 3,127 | 2,662 |
| Other current assets | 3,023 | 2,163 |
| Total current assets | 43,845 | 43,804 |
| Long-term investments | 13,124 | 15,999 |
| Property, plant and equipment, less accumulated depreciation: 2016—$14,637; 2015—$13,582 | 13,609 | 13,766 |
| Identifiable intangible assets, less accumulated amortization | 43,056 | 40,356 |
| Goodwill | 50,600 | 48,242 |
| Noncurrent deferred tax assets and other noncurrent tax assets | 1,805 | 1,794 |
| Other noncurrent assets | 4,618 | 3,420 |
| Total assets | $ 170,658 | $ 167,381 |
| | | |
| Liabilities and Equity | | |
| Short-term borrowings, including current portion of long-term debt | $ 13,724 | $ 10,159 |
| Trade accounts payable | 3,261 | 3,620 |
| Dividends payable | 1,820 | 1,852 |
| Income taxes payable | 647 | 418 |
| Accrued compensation and related items | 1,594 | 2,359 |
| Other current liabilities | 11,053 | 10,990 |
| Total current liabilities | 32,099 | 29,399 |
| | | |
| Long-term debt | 30,457 | 28,740 |
| Pension benefit obligations, net | 5,224 | 6,310 |
| Postretirement benefit obligations, net | 1,877 | 1,809 |
| Noncurrent deferred tax liabilities | 28,300 | 26,877 |
| Other taxes payable | 4,116 | 3,992 |
| Other noncurrent liabilities | 5,518 | 5,257 |
| Total liabilities | 107,592 | 102,384 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Preferred stock | 25 | 26 |
| Common stock | 461 | 459 |
| Additional paid-in capital | 82,138 | 81,016 |
| Treasury stock | (84,313) | (79,252) |
| Retained earnings | 73,350 | 71,993 |
| Accumulated other comprehensive loss | (8,891) | (9,522) |
| Total Pfizer Inc. shareholders' equity | 62,769 | 64,720 |
| Equity attributable to noncontrolling interests | 297 | 278 |
| Total equity | 63,066 | 64,998 |
| Total liabilities and equity | $ 170,658 | $ 167,381 |

Amounts may not add due to rounding.
See 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, 2016 | June 28, 2015 |
|---|---|---|
| Operating Activities | | |
| Net income before allocation to noncontrolling interests | $5,061 | $5,017 |
| Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,812 | 2,461 |
| Asset write-offs and impairments | 983 | 42 |
| Deferred taxes from continuing operations | (10) | (183) |
| Share-based compensation expense | 387 | 347 |
| Benefit plan contributions in excess of expense | (857) | (842) |
| Other adjustments, net | 170 | (194) |
| Other changes in assets and liabilities, net of acquisitions and divestitures | (3,316) | (1,879) |
| Net cash provided by operating activities | 5,230 | 4,770 |
| | | |
| Investing Activities | | |
| Purchases of property, plant and equipment | (702) | (497) |
| Purchases of short-term investments | (8,744) | (16,029) |
| Proceeds from redemptions/sales of short-term investments | 14,757 | 20,483 |
| Net (purchases of)/proceeds from redemptions/sales of short-term investments with original maturities of three months or less | (249) | 3,020 |
| Purchases of long-term investments | (3,126) | (5,422) |
| Proceeds from redemptions/sales of long-term investments | 2,427 | 3,291 |
| Acquisitions of businesses, net of cash acquired | (4,616) | (679) |
| Acquisitions of intangible assets | (96) | (12) |
| Other investing activities, net | 26 | 333 |
| Net cash (used in)/provided by investing activities | (323) | 4,487 |
| | | |
| Financing Activities | | |
| Proceeds from short-term borrowings | 2,307 | 2,022 |
| Principal payments on short-term borrowings | (2,291) | (11) |
| Net proceeds from short-term borrowings with original maturities of three months or less | 2,182 | 481 |
| Proceeds from issuance of long-term debt | 5,031 | — |
| Principal payments on long-term debt | (4,317) | (2,995) |
| Purchases of common stock | (5,000) | (6,000) |
| Cash dividends paid | (3,675) | (3,483) |
| Proceeds from exercise of stock options | 696 | 981 |
| Other financing activities, net | (2) | 154 |
| Net cash used in financing activities | (5,069) | (8,852) |
| Effect of exchange-rate changes on cash and cash equivalents | (68) | (78) |
| Net increase/(decrease) in cash and cash equivalents | (230) | 327 |
| Cash and cash equivalents, beginning | 3,641 | 3,343 |
| Cash and cash equivalents, end | $3,411 | $3,670 |
| | | |
| Supplemental Cash Flow Information | | |

| | | |
|---|---|---|
| Cash paid during the period for: | | |
| Income taxes | $1,111 | $1,124 |
| Interest | 903 | 914 |

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

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

Note 1. Basis of Presentation and Significant Accounting Policies

A. Basis of Presentation

See the Glossary of Defined Terms at the beginning of this Quarterly Report on Form 10-Q for terms used throughout the condensed consolidated financial statements and related notes of this Quarterly Report on Form 10-Q.

We prepared the condensed consolidated financial statements following the requirements of the SEC for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted.

The financial information included in our condensed consolidated financial statements for subsidiaries operating outside the U.S. is as of and for the three and six months ended May 29, 2016 and May 24, 2015. The financial information included in our condensed consolidated financial statements for U.S. subsidiaries is as of and for the three and six months ended July 3, 2016 and June 28, 2015.

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 condensed consolidated balance sheets and condensed consolidated statements of income. 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 2015 Form 10-K.

Unless the context requires otherwise, references to “Pfizer,” “the Company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q refer to Pfizer Inc. and its subsidiaries.

Certain amounts in the condensed consolidated financial statements and associated notes may not add due to rounding. All percentages have been calculated using unrounded amounts.

Effective in the second quarter of 2016, our segments were reorganized to reflect that we now manage our innovative pharmaceutical and consumer healthcare operations as one business segment, Pfizer Innovative Health (IH) (previously these businesses were managed as two segments: the GIP segment and the VOC segment). Also, in the second quarter of 2016, we changed the name of our Established Products business to Pfizer Essential Health (EH). We have revised prior-period segment information to reflect the reorganization. For additional information, see Note 13.

In the condensed consolidated balance sheet as of December 31, 2015, we performed certain reclassifications to conform to the current period presentation of Other current assets, Other noncurrent assets, Short-term borrowings, including current portion of long-term debt and Long-term debt, and in the condensed consolidated statement of cash flows for the six months ended June 28, 2015, we performed certain reclassifications to conform to the current presentation of Proceeds from short-term borrowings for debt issuance costs in accordance with the adoption of a new accounting standard (for additional information, see Note 1B).

On June 24, 2016 (the acquisition date), we completed our acquisition of Anacor for $99.25 per share. The total fair value of consideration transferred for Anacor was approximately $4.9 billion in cash ($4.5 billion, net of cash

acquired), plus $698 million debt assumed. Commencing from the acquisition date, our financial statements reflect the assets, liabilities and cash flows of Anacor. The operating results for Anacor for five days from June 24, 2016 to July 3, 2016 were immaterial. See Note 2A for additional information.

On April 6, 2016, we announced that the merger agreement between Pfizer and Allergan entered into on November 22, 2015 was terminated by mutual agreement of the companies. The decision was driven by the actions announced by the U.S. Department of Treasury on April 4, 2016, which the companies concluded qualified as an "Adverse Tax Law Change" under the merger agreement. In connection with the termination of the merger agreement, on April 8, 2016 (which falls into Pfizer's second fiscal quarter), Pfizer paid Allergan $150 million (pre-tax) for reimbursement of Allergan's expenses associated with the terminated transaction (see Note 4). Pfizer and Allergan also released each other from any and all claims in connection with the merger agreement.

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

On September 3, 2015, we completed our acquisition of Hospira and, commencing from the acquisition date, our financial statements reflect the assets, liabilities, operating results and cash flows of Hospira. As a result, legacy Hospira operations are reflected in our results of operations, EH's operating results, and cash flows for the second quarter and first six months of 2016, but not for the second quarter and first six months of 2015. Legacy Hospira assets and liabilities are reflected in our balance sheets as of July 3, 2016 and December 31, 2015.

B. Adoption of New Accounting Standards

We adopted a new standard as of January 1, 2016 that changed the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying value of that associated debt, consistent with the presentation of a debt discount. The update does not impact the measurement or recognition of debt issuance costs. As of July 3, 2016, debt issuance costs were $93 million and are presented as contra-liabilities to Short-term borrowings, including current portion of long-term debt ($2 million) and Long-term debt ($91 million). In the December 31, 2015 condensed consolidated balance sheet, we have reclassified debt issuance costs of $79 million ($1 million from Other current assets and $79 million from Other noncurrent assets) and have presented them as contra-liabilities to Short-term borrowings, including current portion of long-term debt ($1 million) and Long-term debt ($79 million) to conform to the current period presentation. For additional information, see Note 7A.

We adopted a new standard as of January 1, 2016 that requires an acquirer to recognize adjustments made in the measurement period to provisional amounts of assets acquired and liabilities assumed in a business combination in the reporting period in which the adjustment amounts are determined. There was no material impact to our condensed consolidated financial statements in the second quarter and first six months of 2016 from adopting this standard. For additional information, see Note 2A.

We adopted a new standard as of January 1, 2016 related to the accounting for hybrid financial instruments issued or held as investments and there was no material impact to our condensed consolidated financial statements from adopting this standard.

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 inputs other than quoted prices that are directly or indirectly observable, or inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (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.

Note 2. Acquisitions, Research and Development and Collaborative Arrangements, Equity-Method Investments and Cost-Method Investment

A. Acquisitions

Anacor Pharmaceuticals, Inc.

On June 24, 2016 (the acquisition date), we completed our acquisition of Anacor for $99.25 per share. The total fair value of consideration transferred for Anacor was approximately $4.9 billion in cash ($4.5 billion net of cash acquired), plus $698 million debt assumed. Anacor is now a wholly-owned subsidiary of Pfizer. Anacor is a biopharmaceutical company focused on novel small-molecule therapeutics derived from its boron chemistry platform. Included within Anacor's pipeline is crisaborole, a non-steroidal topical PDE-4 inhibitor with anti-inflammatory properties. In connection with this acquisition, we recorded $698 million as the fair value of notes payable in cash, and provisionally recorded $5.0 billion in Identifiable intangible assets, primarily consisting of $4.8 billion of In-process research and development, and provisionally recorded $1.8 billion of Goodwill and $1.6 billion of net deferred tax liabilities. The allocation of the consideration transferred to the assets acquired and the liabilities assumed has not been finalized.

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

Hospira, Inc.

On September 3, 2015 (the acquisition date), we acquired Hospira, a leading provider of sterile injectable drugs and infusion technologies as well as a provider of biosimilars, for $90 per share in cash. The total fair value of consideration transferred for Hospira was approximately $16.1 billion in cash ($15.7 billion, net of cash acquired). Hospira is now a subsidiary of Pfizer. The combination of local Pfizer and Hospira entities may be pending in various jurisdictions and integration is subject to completion of various local legal and regulatory steps.

The following table summarizes the provisional amounts recognized for assets acquired and liabilities assumed as of the acquisition date, as well as adjustments made in the first six months of 2016 to the provisional amounts initially recorded in 2015 (measurement period adjustments) with a corresponding change to goodwill. Certain estimated values are not yet finalized (see below) and are subject to change. We will finalize the amounts recognized as we obtain the information necessary to complete the analyses, but no later than one year from the acquisition date.

| (MILLIONS OF DOLLARS) | Amounts Recognized as of Acquisition Date (as previously reported as of December 31, 2015) | Measurement Period Adjustments[(a)] | Amounts Recognized as of Acquisition Date (as adjusted) |
|---|---|---|---|
| Working capital, excluding inventories | $ 274 | $ (16) | $ 257 |
| Inventories | 1,924 | (23) | 1,901 |
| PP&E | 2,410 | (57) | 2,352 |
| Identifiable intangible assets, excluding IPR&D | 8,270 | 20 | 8,290 |
| IPR&D | 995 | 35 | 1,030 |
| Other noncurrent assets | 408 | (46) | 362 |
| Long-term debt | (1,928) | — | (1,928) |
| Benefit obligations | (117) | — | (117) |
| Net income tax accounts | (3,394) | 84 | (3,310) |
| Other noncurrent liabilities | (39) | — | (39) |
| Total identifiable net assets | 8,803 | (4) | 8,799 |
| Goodwill | 7,284 | 4 | 7,288 |
| Net assets acquired/total consideration transferred | $ 16,087 | $ — | $ 16,087 |

(a) The changes in the estimated fair values are primarily to better reflect market participant assumptions about facts and circumstances existing as of the acquisition date. The measurement period adjustments did not result from intervening events subsequent to the acquisition date.

The change in the provisional amounts did not have a material impact on our results of operations.

The following items are subject to change:

- Amounts for certain legal and environmental contingencies, pending receipt of certain information that could affect provisional amounts recorded.
- Amounts for intangibles and PP&E, pending finalization of valuation efforts.
- Amounts for income tax assets, receivables and liabilities, pending the filing of Hospira pre-acquisition tax returns and the receipt of information including but not limited to that from taxing authorities, which may change certain

estimates and assumptions used.

The following table provides supplemental pro forma information as if the acquisition of Hospira had occurred on January 1, 2014:

| (MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA) | Unaudited Supplemental Pro Forma Consolidated Results | |
|---|---|---|
| | Three Months Ended June 28, 2015 | Six Months Ended June 28, 2015 |
| Revenues | $13,037 | $25,075 |
| Net income attributable to Pfizer Inc. common shareholders | 2,703 | 5,079 |
| Diluted EPS attributable to Pfizer Inc. common shareholders | 0.43 | 0.81 |

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The unaudited supplemental pro forma consolidated results do not purport to reflect what the combined company's results of operations would have been had the acquisition occurred on January 1, 2014, nor do they project the future results of operations of the combined company or reflect the expected realization of any cost savings associated with the acquisition. The actual results of operations of the combined company may differ significantly from the pro forma adjustments reflected here due to many factors. The unaudited supplemental pro forma financial information includes various assumptions, including those related to the preliminary purchase price allocation of the assets acquired and the liabilities assumed from Hospira.

The unaudited supplemental pro forma consolidated results reflect the historical financial information of Pfizer and Hospira, adjusted to give effect to the acquisition of Hospira as if it had occurred on January 1, 2014, primarily for the following pre-tax adjustments:

- Elimination of Hospira's historical intangible asset amortization expense (approximately $12 million in the second quarter of 2015 and $24 million in the first six months of 2015).
- Additional amortization expense (approximately $124 million in the second quarter of 2015 and $251 million in the first six months of 2015) related to the preliminary estimate of the fair value of identifiable intangible assets acquired.
- Additional depreciation expense (approximately $21 million in the second quarter of 2015 and $43 million in the first six months of 2015) related to the preliminary estimate of the fair value adjustment to PP&E acquired.
- Adjustment related to the preliminary estimate of the non-recurring fair value adjustment to acquisition-date inventory estimated to have been sold (the addition of $5 million of charges in the second quarter of 2015 and $9 million of charges in the first six months of 2015).
- Adjustment to decrease interest expense (approximately $10 million in the second quarter of 2015 and $20 million in the first six months of 2015) related to the fair value adjustment of Hospira debt.
- Adjustment for non-recurring acquisition-related costs directly attributable to the acquisition (the elimination of $30 million of charges in the second quarter of 2015 and $44 million of charges in the first six months of 2015), reflecting non-recurring charges incurred by both Hospira and Pfizer, which would have been recorded in 2014 under the pro forma assumption that the Hospira acquisition was completed on January 1, 2014.

The above adjustments were adjusted for the applicable tax impact. The taxes associated with the adjustments related to the preliminary estimate of the fair value adjustment for acquired intangible assets, PP&E, inventory and debt reflect the statutory tax rates in the various jurisdictions where the adjustments are expected to be incurred. The taxes associated with the elimination of Hospira's historical intangible asset amortization expense and the adjustment for the acquisition-related costs directly attributable to the acquisition were based on the tax rate in the jurisdiction in which the related deductible costs were incurred.

Marketed Vaccines Business of Baxter International Inc.

On December 1, 2014 (which falls in the first fiscal quarter of 2015 for our international operations), we acquired Baxter's portfolio of marketed vaccines for a final purchase price of $648 million. The portfolio that was acquired consists of NeisVac-C and FSME-IMMUN/TicoVac. NeisVac-C is a vaccine that helps protect against meningitis caused by group C meningococcal meningitis and FSME-IMMUN/TicoVac is a vaccine that helps protect against tick-borne encephalitis. In connection with this acquisition, we recorded $376 million in Identifiable intangible assets, primarily consisting of $371 million in Developed technology rights. We also recorded $194 million of Inventories and $12 million in Goodwill. The final allocation of the consideration transferred to the assets acquired and the liabilities assumed has been completed.

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B. Research and Development and Collaborative Arrangements

Research and Development Arrangement with NovaQuest Co-Investment Fund II, L.P.
In May 2016, our agreement with NovaQuest became effective, under which NovaQuest will fund up to $250 million in development costs related to certain Phase III clinical trials of Pfizer's bococizumab compound and Pfizer will use commercially reasonable efforts to develop and obtain regulatory approvals for such compound. Following potential regulatory approval, NovaQuest will be eligible to receive a combination of fixed milestone payments of up to $195 million in total based on achievement of first commercial sale and certain levels of cumulative net sales as well as royalties on bococizumab net sales over approximately nine years. NovaQuest's development funding is expected to cover up to 40% of the development costs and will be received over five quarters during 2016 and 2017. As there is a substantive and genuine transfer of risk to NovaQuest, the development funding is recognized by us as an obligation to perform contractual services and therefore is a reduction of Research and development expenses as incurred. The reduction to Research and development expenses for the second quarter and first six months of 2016 totaled $69.3 million. Fixed sales-based milestone payments will be recorded as intangible assets and amortized to Amortization of intangible assets over the estimated commercial life of the bococizumab product and royalties on net sales will be recorded as Cost of sales when incurred.
Research and Development Arrangement with NovaQuest Co-Investment Fund V, L.P.
In April 2016, Pfizer entered into an agreement with NovaQuest under which NovaQuest will fund up to $200 million in development costs related to certain Phase III clinical trials of Pfizer's rivipansel compound and Pfizer will use commercially reasonable efforts to develop and obtain regulatory approvals for such compound. Following potential regulatory approval, NovaQuest will be eligible to receive a combination of fixed milestone payments of up to approximately $267 million in total based on achievement of first commercial sale and certain levels of cumulative net sales as well as royalties on rivipansel net sales over approximately eight years. NovaQuest's development funding is expected to cover up to 100% of the development costs and will be received over approximately twelve quarters from 2016 to 2019. As there is a substantive and genuine transfer of risk to NovaQuest, the development funding is recognized by us as an obligation to perform contractual services and therefore is a reduction of Research and development expenses as incurred. The reduction to Research and development expenses for the second quarter and first six months of 2016 totaled $15.0 million. Fixed sales-based milestone payments will be recorded as intangible assets and amortized to Amortization of intangible assets over the estimated commercial life of the rivipansel product and royalties on net sales will be recorded as Cost of sales when incurred.

Research and Development Arrangement with RPI Finance Trust

In January 2016, Pfizer entered into an agreement with RPI, a subsidiary of Royalty Pharma, under which RPI will fund up to $300 million in development costs related to certain Phase III clinical trials of Pfizer's Ibrance (palbociclib) product primarily for adjuvant treatment of hormone receptor positive early breast cancer (the Indication). If successful and upon approval of Ibrance in the U.S. or certain major markets in the EU for the Indication based on the applicable clinical trials, RPI will be eligible to receive a combination of approval-based fixed milestone payments of up to $250 million dependent upon results of the clinical trials and royalties on certain Ibrance sales over approximately seven years. RPI's development funding is expected to cover up to 100% of the costs primarily for the applicable clinical trials through 2021. As there is a substantive and genuine transfer of risk to RPI, the development funding is recognized by us as an obligation to perform contractual services and therefore is a reduction of Research and development expenses as incurred. The reduction to Research and development expenses for the second quarter of 2016 totaled $12.9 million and for the first six months of 2016 totaled $21.7 million. Fixed milestone payments due upon approval will be recorded as intangible assets and amortized to Amortization of intangible assets over the estimated commercial life of the Ibrance product and sales-based royalties will be recorded as Cost of sales when

incurred.

Collaboration with Eli Lilly & Company

In October 2013, we entered into a collaboration agreement with Lilly to jointly develop and globally commercialize Pfizer's tanezumab, which provides that Pfizer and Lilly will equally share product-development expenses as well as potential revenues and certain product-related costs. Following the decision by the FDA in March 2015 to lift the partial clinical hold on the tanezumab development program, we received a $200 million upfront payment from Lilly in accordance with the collaboration agreement between Pfizer and Lilly, which is recorded as deferred income in our condensed consolidated balance sheet and is being recognized into Other (income)/deductions—net over a multi-year period beginning in the second quarter of 2015. Pfizer and Lilly resumed the Phase 3 chronic pain program for tanezumab in July 2015, which will consist of six studies in approximately 7,000 patients across osteoarthritis, chronic low back pain and cancer pain. Under the collaboration agreement

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with Lilly, we are eligible to receive additional payments from Lilly upon the achievement of specified regulatory and commercial milestones.

Collaboration with OPKO Health, Inc.

We entered into a collaborative agreement with OPKO, which closed in January 2015, to develop and commercialize OPKO's long-acting hGH-CTP for the treatment of GHD in adults and children, as well as for the treatment of growth failure in children born SGA who fail to show catch-up growth by two years of age. hGH-CTP has the potential to reduce the required dosing frequency of human growth hormone to a single weekly injection from the current standard of one injection per day. We have received the exclusive license to commercialize hGH-CTP worldwide. OPKO will lead the clinical activities and will be responsible for funding the development programs for the key indications, which include Adult and Pediatric GHD and Pediatric SGA. We will be responsible for all development costs for additional indications, all postmarketing studies, manufacturing and commercialization activities for all indications, and we will lead the manufacturing activities related to product development. In February 2015, we made an upfront payment of $295 million to OPKO, which was recorded in Research and development expenses, and OPKO is eligible to receive up to an additional $275 million upon the achievement of certain regulatory milestones. OPKO is also eligible to receive royalty payments associated with the commercialization of hGH-CTP for Adult GHD, which is subject to regulatory approval. Upon the launch of hGH-CTP for Pediatric GHD, which is subject to regulatory approval, the royalties will transition to tiered gross profit sharing for both hGH-CTP and our product, Genotropin.

C. Equity-Method Investments

Investment in Hisun Pfizer Pharmaceuticals Company Limited

In the first quarter of 2016 and in the second quarter of 2016, we determined that we had other-than-temporary declines in the value of Hisun Pfizer, our 49%-owned equity-method investment in China, and, therefore, we recognized a loss of $81 million in the first quarter of 2016 and a loss of $130 million in the second quarter of 2016 in Other (income)/deductions—net (see Note 4). The declines in value resulted from lower expectations as to the future cash flows to be generated by Hisun Pfizer, primarily as a result of an increase in risk due to the continued slowdown in the Chinese economy and changes in the expected timing and number of new product introductions by Hisun Pfizer. As of July 3, 2016, the carrying value of our investment in Hisun Pfizer is $530 million, which is included in Long-term investments.

In valuing our investment in Hisun Pfizer, we used discounted cash flow techniques, utilizing a 13.0% 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, economic 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. Changes in economic conditions or other factors underlying these assumptions could negatively impact the value of our investment in Hisun Pfizer in future periods.

Investment in Laboratório Teuto Brasileiro S.A.

In the first quarter of 2016, we determined that we had an other-than-temporary decline in the value of Teuto, a 40%-owned generics company in Brazil, and, therefore, we recognized a loss of $50 million in Other (income)/deductions—net (see Note 4) related to our equity-method investment. The decline in value resulted from lower expectations as to the future cash flows to be generated by Teuto, primarily due to a slowdown in Brazilian

economic conditions, which have been impacted by political risk, higher inflation, and the depreciation of the Brazilian Real.

In valuing our investment in Teuto, we used discounted cash flow techniques, utilizing a 17.5% 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, economic 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.

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We have an option to acquire the remaining 60% of Teuto, and Teuto's shareholders have an option to sell their 60% stake in the company to us. Under the terms of our agreement with Teuto's other shareholders, 2016 is the final year in which the call and put options may be exercised. Our investment in Teuto is accounted for under the equity method due to the significant influence we have over the operations of Teuto through our board representation, minority veto rights and 40% voting interest.

D. Cost-Method Investment

AM-Pharma B.V.

In April 2015, we acquired a minority equity interest in AM-Pharma, a privately-held Dutch biopharmaceutical company focused on the development of recAP for inflammatory diseases, and secured an exclusive option to acquire the remaining equity in the company. The option becomes exercisable upon delivery of the clinical trial report after completion of a Phase II trial of recAP in the treatment of Acute Kidney Injury related to sepsis, which is expected to read out in 2017. Under the terms of the agreement, we paid $87.5 million for both the exclusive option and the minority equity interest, which was recorded as a cost-method investment in Long-term investments, and we may make additional payments of up to $512.5 million upon exercise of the option and potential launch of any product that may result from this investment.

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:

- 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 R&D, as well as groups such as information technology, shared services and corporate operations.

In connection with our acquisition of Hospira, we are focusing our efforts on achieving an appropriate cost structure for the combined company. For up to a three-year period post-acquisition, we expect to incur costs of approximately $1 billion (not including costs of $215 million in 2015 associated with the return of acquired in-process research and development rights as described in the Current-Period Key Activities section of Notes to Consolidated Financial Statements—Note 3. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives in our 2015 Financial Report) associated with the integration of Hospira.

In early 2014, we announced that we would be incurring costs in 2014-2016 related to new programs: our new global commercial structure reorganization and additional cost-reduction/productivity initiatives. We have the following initiatives underway associated with these programs:

- Manufacturing plant network rationalization and optimization, where execution timelines are necessarily long. Our plant network strategy is expected to result in the exit of six sites over the next several years. In connection with these

activities, during 2014-2016, we expect to incur costs of approximately $400 million associated with prior acquisition activity and costs of approximately $1.0 billion associated with new non-acquisition-related cost-reduction initiatives. Through July 3, 2016, we incurred approximately $364 million and $685 million, respectively, associated with these initiatives.

- The 2014 global commercial structure reorganization, which primarily includes the streamlining of certain functions, the realignment of regional locations and colleagues to support the businesses, as well as implementing the necessary system changes to support different reporting requirements. Through July 3, 2016, we incurred costs of approximately $219 million and have completed this initiative.
- Other new cost-reduction/productivity initiatives, primarily related to commercial property rationalization and consolidation. In connection with these cost-reduction activities, during 2014-2016, we expect to incur costs of approximately $800 million. Through July 3, 2016, we incurred approximately $657 million associated with these initiatives.

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The costs expected to be incurred during 2014-2016, of approximately $2.4 billion in total for the above-mentioned programs (but not including expected costs associated with the Hospira integration), include restructuring charges, implementation costs and additional depreciation—asset restructuring. Of this amount, we expect that about a quarter of the charges will be non-cash.

Current-Period Key Activities

In the first six months of 2016, we incurred approximately $625 million in cost-reduction and acquisition-related costs (excluding transaction costs) primarily in connection with the integration of Hospira and the aforementioned manufacturing plant network rationalization and optimization program.

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

| (MILLIONS OF DOLLARS) | Three Months Ended July 3, 2016 | Three Months Ended June 28, 2015 | Six Months Ended July 3, 2016 | Six Months Ended June 28, 2015 |
|---|---|---|---|---|
| Restructuring charges[a]: | | | | |
| Employee terminations | $93 | $ 34 | $117 | $ 65 |
| Asset impairments | 16 | 5 | 18 | 11 |
| Exit costs | 31 | 4 | 35 | 10 |
| Total restructuring charges | 141 | 43 | 170 | 85 |
| Transaction costs[b] | 36 | 1 | 60 | 6 |
| Integration costs[c] | 139 | 42 | 227 | 54 |
| Restructuring charges and certain acquisition-related costs | 316 | 86 | 457 | 146 |
| Additional depreciation—asset restructuring recorded in our condensed consolidated statements of income as follows[d]: | | | | |
| Cost of sales | 52 | 28 | 99 | 45 |
| Research and development expenses | 1 | 1 | 5 | 2 |
| Total additional depreciation—asset restructuring | 53 | 28 | 104 | 47 |
| Implementation costs recorded in our condensed consolidated statements of income as follows[e]: | | | | |
| Cost of sales | 38 | 28 | 81 | 41 |
| Selling, informational and administrative expenses | 20 | 13 | 33 | 39 |
| Research and development expenses | 5 | 3 | 9 | 12 |
| Other (income)/deductions—net | 1 | 1 | 1 | 1 |
| Total implementation costs | 64 | 45 | 124 | 93 |
| Total costs associated with acquisitions and cost-reduction/productivity initiatives | $433 | $ 159 | $685 | $ 286 |

(a) In the six months ended July 3, 2016, Employee terminations represent the expected reduction of the workforce by approximately 600 employees, mainly in manufacturing, sales and research. 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.

The restructuring charges for 2016 are associated with the following:

- For the second quarter of 2016, the IH segment ($5 million); the EH segment ($11 million income); WRD, GPD and Medical (M) (WRD/GPD/M) ($49 million); manufacturing operations ($59 million); and Corporate ($39 million).
- For the first six months of 2016, IH ($14 million); EH ($8 million income); WRD/GPD/M ($52 million); manufacturing operations ($73 million); and Corporate ($40 million).

The restructuring charges for 2015 are associated with the following:

- For the second quarter of 2015, IH ($21 million); EH ($2 million income); WRD/GPD/M ($4 million); manufacturing operations ($14 million); and Corporate ($6 million).
- For the first six months of 2015, IH ($46 million); EH ($8 million); WRD/GPD/M ($16 million); manufacturing operations ($8 million income); and Corporate ($24 million).

(b) Transaction costs represent external costs for banking, legal, accounting and other similar services, most of which in the second quarter of 2016 are directly related to the acquisition of Anacor, and most of which in the first six months of 2016 includes costs related to the Anacor acquisition, as well as costs associated with our terminated transaction with Allergan.

(c) 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. In the second quarter and first six months of 2016, integration

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costs primarily relate to our acquisition of Hospira and the terminated transaction with Allergan. Integration costs in 2015 represent external incremental costs directly related to our acquisition with Hospira.

(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/productivity initiatives.

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

| (MILLIONS OF DOLLARS) | Employee Termination Costs | Asset Impairment Charges | Exit Costs | Accrual |
|---|---|---|---|---|
| Balance, December 31, 2015[a] | $ 1,109 | $ — | $ 48 | $ 1,157 |
| Provision | 117 | 18 | 35 | 170 |
| Utilization and other[b] | (248) | (18) | (43) | (309) |
| Balance, July 3, 2016[c] | $ 978 | $ — | $ 40 | $ 1,018 |

(a) Included in Other current liabilities ($776 million) and Other noncurrent liabilities ($381 million).

(b) Includes adjustments for foreign currency translation.

(c) Included in Other current liabilities ($541 million) and Other noncurrent liabilities ($477 million).

Note 4. Other (Income)/Deductions—Net

The following table provides components of Other (income)/deductions—net:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Interest income[a] | $(122) | $ (119) | $(234) | $ (211) |
| Interest expense[a] | 292 | 278 | 598 | 587 |
| Net interest expense | 170 | 159 | 363 | 375 |
| Royalty-related income | (274) | (257) | (461) | (479) |
| Certain legal matters, net[b] | 261 | 99 | 534 | 99 |
| Net gains on asset disposals[c] | (31) | (19) | (39) | (195) |
| Certain asset impairments[d] | 816 | 25 | 947 | 25 |
| Business and legal entity alignment costs[e] | 60 | 63 | 111 | 164 |
| Other, net[f] | 66 | (15) | (57) | 20 |
| Other (income)/deductions—net | $1,068 | $ 55 | $1,398 | $ 9 |

(a) Interest income increased in the second quarter and first six months of 2016, primarily due to higher investment returns. Interest expense increased in the second quarter and first six months of 2016, primarily due to interest on legacy Hospira debt acquired in September 2015 and the addition of new fixed rate debt in the second quarter of 2016, partially offset by the maturity of other fixed rate debt.

(b) In the second quarter and first six months of 2016, primarily includes amounts to resolve a Multi-District Litigation relating to Celebrex and Bextra pending against the Company in New York federal court for $486 million, which is subject to the negotiation of a final settlement agreement and court approval, a portion of which was accrued for during the first quarter of 2016 and the full amount of which was accrued for during the first six months of 2016, partially offset by the reversal of a legal accrual where a loss is no longer deemed probable. In addition, the first six months of 2016 includes a settlement related to a patent matter. See Note 12A2 for additional information.

(c)

In the first six months of 2016, primarily includes gains on sales/out-licensing of product and compound rights (approximately $31 million). In the first six months of 2015, primarily includes gains on sales/out-licensing of product and compound rights (approximately $69 million) and gains on sales of investments in equity securities (approximately $125 million).

(d) In the second quarter and first six months of 2016, primarily includes intangible asset impairment charges of $641 million, reflecting (i) $331 million related to developed technology rights for a generic injectable antibiotic product for the treatment of bacterial infections; (ii) $265 million related to an IPR&D compound for the treatment of anemia; and (iii) $45 million of other IPR&D assets, all acquired in connection with our acquisition of Hospira and associated with the EH segment. In addition, 2016 includes an impairment loss of $130 million in the second quarter and $211 million in the first six months related to Pfizer's 49%-owned equity-method investment with Zhejiang Hisun Pharmaceuticals Co., Ltd. in China, Hisun Pfizer, and the first six months of 2016 includes an impairment loss of $50 million related to Pfizer's 40%-owned equity-method investment in Teuto. For additional information concerning Hisun Pfizer and Teuto, see Note 2C.

The intangible asset impairment charge for the IPR&D compound for the treatment of anemia reflects, among other things, the impact of regulatory delays, including delays resulting from a recent court ruling, requiring a 180-day waiting period after approval before a biosimilar product can be launched. The intangible asset impairment charges for 2016 for developed technology rights and other IPR&D

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assets reflect, among other things, the impact of new scientific findings, updated commercial forecasts, changes in pricing, and an increased competitive environment.

(e) In the second quarter and first six months of 2016 and 2015, represents expenses for changes to our infrastructure to align our commercial operations, including costs to internally separate our businesses into distinct legal entities, as well as to streamline our intercompany supply operations to better support each business.

(f) In the second quarter and first six months of 2016, primarily includes among other things, $150 million paid to Allergan for reimbursement of Allergan's expenses associated with the terminated transaction (see Note 1A). The first six months of 2016, also includes income of $116 million from resolution of a contract disagreement.

The following table provides additional information about the intangible assets that were impaired during 2016 in Other (income)/deductions—net:

| | Fair Value[a] | | | | Six Months Ended July 3, 2016 |
|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | Amount | Level 1 | Level 2 | Level 3 | Impairment |
| Intangible assets—IPR&D[b] | $35 | $ — | $ — | $35 | $ 310 |
| Intangible assets—Developed technology rights[b] | 66 | — | — | 66 | 331 |
| Total | $101 | $ — | $ — | $101 | $ 641 |

(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.

(b) Reflects intangible assets written down to fair value in the first six months of 2016. 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 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 and the impact of technological risk associated with IPR&D assets; 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 15.6% for the second quarter of 2016, compared to 25.6% for the second quarter of 2015 and was 15.2% for the first six months of 2016, compared to 24.3% for the first six months of 2015.

The lower effective tax rate for the second quarter of 2016 in comparison with the same period in 2015 was primarily due to:

- a favorable change in the jurisdictional mix of earnings as a result of operating fluctuations in the normal course of business; as well as
- an increase in benefits associated with the U.S. R&D tax credit, which was not in effect in the prior year quarter but was permanently extended on December 18, 2015.

The lower effective tax rate for the first six months of 2016 in comparison with the same period in 2015 was primarily due to:

- benefits related to the final resolution of an agreement in principle reached in February 2016 to resolve certain claims related to Protonix, which resulted in the receipt of information that raised our assessment of the likelihood of prevailing on the technical merits of our tax position;
- a favorable change in the jurisdictional mix of earnings as a result of operating fluctuations in the normal course of business;
- benefits associated with our Venezuela operations;
- an increase in benefits associated with the U.S. R&D tax credit, which was not in effect in the first six months of the prior year but was permanently extended on December 18, 2015; as well as
- an increase in tax benefits associated with the resolution of certain tax positions pertaining to prior years primarily with various foreign tax authorities, and the expiration of certain statutes of limitations.

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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, as we treat these events as discrete items in the period of resolution.

The U.S. is one of our major tax jurisdictions, and we are regularly audited by the IRS:

- With respect to Pfizer, the IRS has issued a RAR for tax years 2009-2010. We are not in agreement with the RAR and are currently appealing certain disputed issues. Tax years 2011-2013 are currently under audit. Tax years 2014-2016 are open, but not under audit. All other tax years are closed.
- With respect to Hospira, the federal income tax audit of tax years 2010-2011 was effectively settled in the second quarter of 2016. The IRS is currently auditing tax years 2012-2013. Tax years 2014-2015 (through date of acquisition) are open but not under audit. All other tax years are closed. The open tax years and audits for Hospira are not considered material to Pfizer.
- With respect to Anacor, the open tax years are not considered material to Pfizer.

In addition to the open audit years in the U.S., we have open audit years in other major tax jurisdictions, such as Canada (2010-2016), Japan (2015-2016), Europe (2007-2016, primarily reflecting Ireland, the United Kingdom, France, Italy, Spain and Germany), Latin America (1998-2016, primarily reflecting Brazil) and Puerto Rico (2010-2016).

C. Tax Provision/(Benefit) on Other Comprehensive Income/(Loss)

The following table provides the components of Tax provision/(benefit) on other comprehensive income/(loss):

| (MILLIONS OF DOLLARS) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Foreign currency translation adjustments, net[a] | $(1) | $ 12 | $(15) | $ 97 |
| Unrealized holding gains/(losses) on derivative financial instruments, net | (157) | 120 | (193) | (103) |
| Reclassification adjustments for realized (gains)/losses | 122 | (155) | 49 | 28 |
| | (35) | (34) | (144) | (75) |
| Unrealized holding gains/(losses) on available-for-sale securities, net | 49 | (37) | 65 | (69) |
| Reclassification adjustments for realized (gains)/losses | (28) | 63 | (2) | 62 |
| | 21 | 25 | 63 | (7) |
| Benefit plans: actuarial gains/(losses), net | (8) | (4) | (8) | 8 |
| Reclassification adjustments related to amortization | 47 | 45 | 93 | 90 |
| Reclassification adjustments related to settlements, net | 8 | 8 | 17 | 23 |
| Other | (9) | 1 | (9) | 38 |
| | 38 | 49 | 93 | 159 |
| Benefit plans: prior service credits and other, net | 31 | 192 | 31 | 191 |
| Reclassification adjustments related to amortization | (15) | 7 | (30) | (6) |
| Reclassification adjustments related to curtailments, net | — | (22) | (2) | (26) |
| Other | (2) | (1) | (1) | (1) |

| | | | | |
|---|---|---|---|---|
| | 14 | 176 | (3 ) | 159 |
| Tax provision/(benefit) on other comprehensive income/(loss) | $36 | $ 228 | $(5 ) | $ 332 |

(a) Taxes are not provided for foreign currency translation adjustments relating to investments in international subsidiaries that will be held indefinitely.

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Note 6. Accumulated Other Comprehensive Loss, Excluding Noncontrolling Interests
The following table provides the changes, net of tax, in Accumulated other comprehensive loss:

| (MILLIONS OF DOLLARS) | Net Unrealized Gains/(Losses) | | | Benefit Plans | | |
|---|---|---|---|---|---|---|
| | Foreign Currency Translation Adjustments | Derivative Financial Instruments | Available-For-Sale Securities | Actuarial Gains/(Losses) | Prior Service (Costs)/Credits and Other | Accumulated Other Comprehensive Loss |
| Balance, December 31, 2015 | $(5,863) | $ 421 | $ (227) | $(4,733) | $ 880 | $ (9,522) |
| Other comprehensive income/(loss)[(a)] | 598 | (571) | 399 | 196 | 9 | 630 |
| Balance, July 3, 2016 | $(5,265) | $ (150) | $ 172 | $(4,538) | $ 889 | $ (8,891) |

(a) Amounts do not include foreign currency translation adjustments attributable to noncontrolling interests of $1 million loss for the first six months of 2016.

As of July 3, 2016, with respect to derivative financial instruments, the amount of unrealized pre-tax losses estimated to be reclassified into income within the next 12 months is $79 million (which is expected to be offset primarily by gains resulting from reclassification adjustments related to foreign currency exchange-denominated intercompany sales).

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Note 7. Financial Instruments

A. Selected Financial Assets and Liabilities
The following table provides additional information about certain of our financial assets and liabilities:

| (MILLIONS OF DOLLARS) | July 3, 2016 | December 31, 2015 |
|---|---|---|
| Selected financial assets measured at fair value on a recurring basis[a] | | |
| Trading funds[b] | $240 | $ 287 |
| Available-for-sale debt securities[c] | 27,374 | 32,078 |
| Money market funds | 1,113 | 934 |
| Available-for-sale equity securities[c] | 584 | 603 |
| Derivative financial instruments in a receivable position[d]: | | |
| Interest rate swaps | 1,978 | 837 |
| Foreign currency swaps | 92 | 135 |
| Foreign currency forward-exchange contracts | 188 | 559 |
| | 31,569 | 35,433 |
| Other selected financial assets | | |
| Held-to-maturity debt securities, carried at amortized cost[c], [e] | 1,166 | 1,388 |
| Private equity securities, carried at equity-method or at cost[e], [f] | 1,027 | 1,336 |
| | 2,193 | 2,724 |
| Total selected financial assets | $33,762 | $ 38,157 |
| Selected financial liabilities measured at fair value on a recurring basis[a] | | |
| Derivative financial instruments in a liability position[g]: | | |
| Interest rate swaps | $4 | $ 139 |
| Foreign currency swaps | 1,432 | 1,489 |
| Foreign currency forward-exchange contracts | 366 | 81 |
| | 1,802 | 1,709 |
| Other selected financial liabilities | | |
| Short-term borrowings: | | |
| Principal amount | 13,442 | 10,160 |
| Net fair value adjustments related to hedging and purchase accounting | 290 | 2 |
| Net unamortized discounts, premiums and debt issuance costs[h] | (8) | (3) |
| Total short-term borrowings, carried at historical proceeds, as adjusted[e] | 13,724 | 10,159 |
| Long-term debt: | | |
| Principal amount | 28,113 | 27,573 |
| Net fair value adjustments related to hedging and purchase accounting | 2,432 | 1,294 |
| Net unamortized discounts, premiums and debt issuance costs[h] | (87) | (127) |
| Total long-term debt, carried at historical proceeds, as adjusted[i] | 30,457 | 28,740 |
| | 44,181 | 38,899 |
| Total selected financial liabilities | $45,983 | $ 40,608 |

(a) We use a market approach in valuing financial instruments on a recurring basis. For additional information, see Note 1C. 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 less than 1% that use Level 1 inputs and money market funds measured at net asset value.

(b)

As of July 3, 2016, trading funds are composed of $184 million of trading equity funds and $57 million of trading debt funds. As of December 31, 2015, trading funds are composed of $185 million of trading equity funds and $102 million of trading debt funds. As of July 3, 2016 and December 31, 2015, trading equity funds of $66 million and $85 million, respectively, are held in trust for benefits attributable to the former Pharmacia Savings Plus Plan.

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

(d) Designated as hedging instruments, except for certain contracts used as offsets; namely, foreign currency forward-exchange contracts with fair values of $77 million as of July 3, 2016; and foreign currency forward-exchange contracts with fair values of $136 million as of December 31, 2015.

(e) The differences between the estimated fair values and carrying values of held-to-maturity debt securities, private equity securities at cost and short-term borrowings not measured at fair value on a recurring basis were not significant as of July 3, 2016 or December 31, 2015. The fair value measurements of our held-to-maturity debt securities and our short-term borrowings are based on Level 2 inputs, using a market approach. The fair value measurements of our private equity securities carried at cost are based on Level 3 inputs. Short-term borrowings include foreign currency short-term borrowings with fair values of $547 million as of December 31, 2015, which are used as hedging instruments.

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(f) Our private equity securities represent investments in the life sciences sector.

(g) Designated as hedging instruments, except for certain contracts used as offsets; namely, foreign currency swaps with fair values of $213 million and foreign currency forward-exchange contracts with fair values of $116 million as of July 3, 2016; and foreign currency swaps with fair values of $234 million and foreign currency forward-exchange contracts with fair values of $59 million as of December 31, 2015.

(h) We adopted a new standard as of January 1, 2016 that changed the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying value of that associated debt, consistent with the presentation of a debt discount. See Note 1B for additional information.

(i) The fair value of our long-term debt (not including the current portion of long-term debt) was $34.6 billion as of July 3, 2016 and $32.7 billion as of December 31, 2015. The fair value measurements for our long-term debt are based on Level 2 inputs, using a market approach. Generally, the difference between the fair value of our long-term debt and the amount reported on the condensed consolidated balance sheet is due to a decline in relative market interest rates since the debt issuance.

The following table provides the classification of these selected financial assets and liabilities in our condensed consolidated balance sheets:

| (MILLIONS OF DOLLARS) | July 3, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $848 | $ 978 |
| Short-term investments | 17,531 | 19,649 |
| Long-term investments | 13,124 | 15,999 |
| Other current assets[a] | 304 | 587 |
| Other noncurrent assets[b] | 1,954 | 944 |
| | $33,762 | $ 38,157 |
| Liabilities | | |
| Short-term borrowings, including current portion of long-term debt[c] | $13,724 | $ 10,159 |
| Other current liabilities[d] | 606 | 645 |
| Long-term debt[c] | 30,457 | 28,740 |
| Other noncurrent liabilities[e] | 1,196 | 1,064 |
| | $45,983 | $ 40,608 |

(a) As of July 3, 2016, derivative instruments at fair value include interest rate swaps ($58 million), foreign currency swaps ($71 million) and foreign currency forward-exchange contracts ($175 million) and, as of December 31, 2015, include interest rate swaps ($2 million), foreign currency swaps ($46 million) and foreign currency forward-exchange contracts ($538 million).

(b) As of July 3, 2016, derivative instruments at fair value include interest rate swaps ($1.9 billion), foreign currency swaps ($21 million) and foreign currency forward-exchange contracts ($14 million) and, as of December 31, 2015, include interest rate swaps ($835 million), foreign currency swaps ($89 million) and foreign currency forward-exchange contracts ($20 million).

(c) We adopted a new standard as of January 1, 2016 that changed the presentation of debt issuance costs related to a recognized debt liability as a direct deduction from the carrying value of that associated debt, consistent with the presentation of a debt discount. See Note 1B for additional information.

(d) As of July 3, 2016, derivative instruments at fair value include interest rate swaps ($3 million), foreign currency swaps ($265 million) and foreign currency forward-exchange contracts ($338 million) and, as of December 31, 2015, include interest rate swaps ($5 million), foreign currency swaps ($560 million) and foreign currency forward-exchange contracts ($80 million).

(e)

As of July 3, 2016, derivative instruments at fair value include interest rate swaps ($1 million), foreign currency swaps ($1.2 billion) and foreign currency forward-exchange contracts ($28 million) and, as of December 31, 2015, include interest rate swaps ($134 million), foreign currency swaps ($928 million) and foreign currency forward-exchange contracts ($1 million).

There were no significant impairments of financial assets recognized in any period presented.

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B. Investments in Debt Securities

The following table provides the contractual maturities, or as necessary, the estimated maturities, of the available-for-sale and held-to-maturity debt securities:

| | Years | | | | July 3, 2016 |
|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | Within 1 | Over 1 to 5 | Over 5 to 10 | Over 10 | Total |
| Available-for-sale debt securities | | | | | |
| Corporate debt[a] | $4,136 | $4,623 | $1,707 | $ 33 | $10,499 |
| Western European, Asian, Scandinavian and other government debt[b] | 7,063 | 666 | 8 | — | 7,738 |
| Federal Home Loan Mortgage Corporation and Federal National Mortgage Association asset-backed securities | 78 | 2,196 | 58 | — | 2,332 |
| U.S. government debt | 1,302 | 508 | 210 | — | 2,020 |
| Western European, Scandinavian and other government agency debt[b] | 1,700 | 162 | — | — | 1,862 |
| Supranational debt[b] | 804 | 375 | — | — | 1,179 |
| Other asset-backed debt[c] | 411 | 592 | 31 | 3 | 1,037 |
| Government National Mortgage Association and other U.S. government guaranteed asset-backed securities | 620 | 69 | 17 | — | 706 |
| Held-to-maturity debt securities | | | | | |
| Time deposits and other | 1,149 | 1 | — | — | 1,151 |
| Western European government debt[b] | 15 | — | — | — | 15 |
| Total debt securities | $17,279 | $9,193 | $2,031 | $ 36 | $28,539 |

(a) Issued by a diverse group of corporations, largely consisting of financial institutions, virtually all of which are investment-grade.

(b) Issued by governments, government agencies or supranational entities, as applicable, all of which are investment-grade.

(c) Includes loan-backed, receivable-backed, and mortgage-backed securities, all of which are investment-grade and in senior positions in the capital structure of the security. Loan-backed securities are collateralized by senior secured obligations of a diverse pool of companies or student loans, and receivable-backed securities are collateralized by credit cards receivables. Mortgage-backed securities are collateralized by diversified pools of residential and commercial mortgages. These securities are valued by third party models that use significant inputs derived from observable market data like prepayment rates, default rates, and recovery rates.

C. Short-Term Borrowings

Short-term borrowings include amounts for commercial paper of $8.0 billion as of July 3, 2016 and $4.9 billion as of December 31, 2015.

Our short-term debt increased due to the addition of legacy Anacor debt, recorded at the June 24, 2016 acquisition date fair value of $698 million. This debt is redeemable into cash at that amount by August 12, 2016, and otherwise redeemable through the maturity date by the note holders in accordance with the terms of the relevant indenture. As of July 3, 2016, $239 million of the debt has been redeemed.

The following table provides the components of unsecured short-term debt assumed from Anacor:

| (MILLIONS OF DOLLARS) | As of |
|---|---|

| | July 3, 2016 |
|---|---|
| 2.00% Notes (Maturity Date 2021) | $184 |
| 2.00% Notes (Maturity Date 2023) | 275 |
| Total short-term debt assumed from Anacor | $459 |

D. Long-Term Debt

On June 3, 2016, we completed a public offering of $5.0 billion aggregate principal amount of senior unsecured notes. The notes are redeemable, in whole or in part, at any time at our option, at a redemption price equal to the greater of 100% of the principal amount of the notes or the sum of the present value of the remaining scheduled payments of principal and interest

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discounted at the U.S. Treasury rate, plus an incremental spread ranging between 0.5% and 0.15%, depending on the maturity; plus, in each case, accrued and unpaid interest. Interest is payable semi-annually.

The following table provides the principal amounts and components of unsecured long-term debt issued in the second quarter of 2016:

| (MILLIONS OF DOLLARS) | Maturity Date | As of July 3, 2016 |
|---|---|---|
| 1.20% Notes (2018 Notes) | June 1, 2018 | $1,250 |
| 1.45% Notes (2019 Notes) | June 3, 2019 | 850 |
| 1.95% Notes (2021 Notes) | June 3, 2021 | 1,150 |
| 2.75% Notes (2026 Notes) | June 3, 2026 | 1,250 |
| 4.40% Notes (2044 Notes) | May 15, 2044 | 500 |
| Total long-term debt issued in the second quarter of 2016 | | $5,000 |

The following table provides the maturity schedule of our Long-term debt outstanding as of July 3, 2016:

| (MILLIONS OF DOLLARS) | 2017 | 2018 | 2019 | 2020 | After 2020 | Total |
|---|---|---|---|---|---|---|
| Maturities | $ — | $3,628 | $5,710 | $385 | $20,735 | $30,457 |

E. Derivative Financial Instruments and Hedging Activities

Foreign Exchange Risk

As of July 3, 2016, the aggregate notional amount of foreign exchange derivative financial instruments hedging or offsetting foreign currency exposures was $31.5 billion. The derivative financial instruments primarily hedge or offset exposures in the euro, Japanese yen and U.K. pound. The maximum length of time over which we are hedging future foreign exchange cash flow relates to our 2.0 billion U.K. pound debt maturing in 2038.

Interest Rate Risk

As of July 3, 2016, the aggregate notional amount of interest rate derivative financial instruments was $19.7 billion. The derivative financial instruments primarily hedge U.S. dollar and euro fixed-rate debt.

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The following table provides information about the gains/(losses) incurred to hedge or offset operational foreign exchange or interest rate risk:

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Amount of Gains/(Losses) Recognized in OID[a], [b], [c] | | Amount of Gains/(Losses) Recognized in OCI (Effective Portion)[a], [d] | | Amount of Gains/(Losses) Reclassified from OCI into OID (Effective Portion)[a], [d] | |
| (MILLIONS OF DOLLARS) | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Derivative Financial Instruments in Cash Flow Hedge Relationships: | | | | | | |
| Foreign currency swaps | $— | $— | $(345) | $ 234 | $(243) | $ 240 |
| Foreign currency forward-exchange contracts | (2) | — | (227) | 204 | (226) | 502 |
| Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency forward-exchange contracts | 3 | — | (3) | 10 | — | — |
| Derivative Financial Instruments Not Designated as Hedges: | | | | | | |
| Foreign currency forward-exchange contracts | (46) | (73) | — | — | — | — |
| Foreign currency swaps | (3) | (2) | — | — | — | — |
| Non-Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency short-term borrowings | — | — | — | 21 | — | — |
| All other net | — | — | — | 14 | — | — |
| | $(48) | $(75) | $(575) | $ 483 | $(470) | $ 743 |

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Amount of Gains/(Losses) Recognized in OID[a], [b], [c] | | Amount of Gains/(Losses) Recognized in OCI (Effective Portion)[a], [d] | | Amount of Gains/(Losses) Reclassified from OCI into OID (Effective Portion)[a], [d] | |
| (MILLIONS OF DOLLARS) | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Derivative Financial Instruments in Cash Flow Hedge Relationships: | | | | | | |
| Foreign currency swaps | $— | $— | $(290) | $(498) | $(126) | $(365) |
| Foreign currency forward-exchange contracts | (1) | — | (558) | 621 | (8) | 875 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency forward-exchange contracts | 1 | 2 | (15) | 259 | — | — |
| | | | | | | |
| Derivative Financial Instruments Not Designated as Hedges: | | | | | | |
| Foreign currency forward-exchange contracts | (69) | (113) | — | — | — | — |
| Foreign currency swaps | (4) | (2) | — | — | — | — |
| | | | | | | |
| Non-Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency short-term borrowings | — | — | (26) | 19 | — | — |
| All other net | — | — | — | 14 | — | — |
| | $(73) | $(113) | $(889) | $416 | $(134) | $510 |

(a) OID = Other (income)/deductions—net, included in Other (income)/deductions—net in the condensed consolidated statements of income. OCI = Other comprehensive income/(loss), included in the condensed consolidated statements of comprehensive income.

(b) Also, includes gains and losses attributable to derivative instruments designated and qualifying as fair value hedges, as well as the offsetting gains and losses attributable to the hedged items in such hedging relationships.

(c) There was no significant ineffectiveness for any period presented.

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(d) For derivative financial instruments in cash flow hedge relationships, the effective portion is included in Other comprehensive income/(loss)—Unrealized holding losses on derivative financial instruments, net. 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)—Foreign currency translation adjustments, net.

For information about the fair value of our derivative financial instruments, and the impact on our condensed consolidated balance sheets, see Note 7A above. 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. As of July 3, 2016, the aggregate fair value of these derivative instruments that are in a net liability position was $805 million, for which we have posted collateral of $806 million in the normal course of business. If there had been a downgrade to below an A rating by S&P or the equivalent rating by Moody's, on July 3, 2016, we would have been required to post an additional $4 million of collateral to our counterparties. The collateral advanced receivables are reported in Short-term investments.

F. 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, 2016, we had $2.1 billion due from a well-diversified, highly rated group (S&P ratings of mostly A or better) of bank counterparties around the world. For details about our investments, see Note 7B above.

In general, there is no requirement for collateral from customers. However, derivative financial instruments are executed under credit-support agreements that provide for the ability to request collateral payments depending on levels of exposure. As of July 3, 2016, we received cash collateral of $859 million from various counterparties. The collateral primarily supports the approximate fair value of our derivative contracts. With respect to the collateral received, the obligations are reported in Short-term borrowings, including current portion of long-term debt.

Note 8. Inventories

The following table provides the components of Inventories:

| (MILLIONS OF DOLLARS) | July 3, 2016 | December 31, 2015 |
|---|---|---|
| Finished goods | $2,734 | $ 2,714 |
| Work-in-process | 3,931 | 3,932 |
| Raw materials and supplies | 950 | 867 |
| Inventories | $7,614 | $ 7,513 |
| Noncurrent inventories not included above[(a)] | $594 | $ 594 |

(a) Included in Other noncurrent assets. There are no recoverability issues associated with these amounts.

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Note 9. Identifiable Intangible Assets and Goodwill

A. Identifiable Intangible Assets

Balance Sheet Information
The following table provides the components of Identifiable intangible assets:

| | July 3, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| (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 | $77,444 | $ (48,875) | $ 28,569 | $77,613 | $ (47,193) | $ 30,419 |
| Brands | 1,997 | (980) | 1,016 | 1,973 | (928) | 1,044 |
| Licensing agreements and other | 1,801 | (962) | 839 | 1,619 | (918) | 701 |
| | 81,242 | (50,817) | 30,425 | 81,205 | (49,040) | 32,165 |
| Indefinite-lived intangible assets | | | | | | |
| Brands and other | 7,025 | | 7,025 | 7,021 | | 7,021 |
| In-process research and development | 5,606 | | 5,606 | 1,171 | | 1,171 |
| | 12,631 | | 12,631 | 8,192 | | 8,192 |
| Identifiable intangible assets[(a)] | $93,874 | $ (50,817) | $ 43,056 | $89,396 | $ (49,040) | $ 40,356 |

(a) The increase in Identifiable intangible assets, less accumulated amortization, is primarily related to assets acquired as part of the acquisition of Anacor (see Note 2A), the impact of foreign exchange and the impact of measurement period adjustments related to our acquisition of Hospira (see Note 2A), partially offset by amortization and impairments. For information about impairments, see Note 4.

Our identifiable intangible assets are associated with the following, as a percentage of total identifiable intangible assets, less accumulated amortization:

| | July 3, 2016 | | |
|---|---|---|---|
| | IH | EH | WRD |
| Developed technology rights | 51% | 49% | —% |
| Brands, finite-lived | 81% | 19% | —% |
| Brands, indefinite-lived | 70% | 30% | —% |
| In-process research and development | 88% | 11% | 1 % |

Amortization

Amortization expense related to finite-lived 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 these intangible assets benefit multiple business functions. Amortization expense related to intangible assets that are associated with a single function is included in Cost of sales, Selling, informational and administrative expenses and/or Research and development expenses, as appropriate. Total amortization expense for finite-lived intangible assets was $977 million for the second quarter of 2016 and $884 million for the second quarter of 2015, and $2.0 billion for the first six months of 2016 and $1.8 billion for the first six months of 2015.

In-Process Research and Development

For IPR&D assets, the risk of failure is significant and there can be no certainty that these assets ultimately will yield successful products. The nature of the biopharmaceutical business is high-risk and, as such, we expect that many of these IPR&D assets will become impaired and be written off at some time in the future.

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B. Goodwill

The following table provides the components of and changes in the carrying amount of Goodwill:

| (MILLIONS OF DOLLARS) | IH | EH | Total |
|---|---|---|---|
| Balance, December 31, 2015 | $23,809 | $24,433 | $48,242 |
| Additions[(a)] | 1,822 | 4 | 1,826 |
| Other[(b)] | 305 | 227 | 532 |
| Balance, July 3, 2016 | $25,936 | $24,664 | $50,600 |

(a) IH additions relate to our acquisition of Anacor and are subject to change until we complete the valuation of assets acquired and liabilities assumed from Anacor (see Note 2A).

(b) Primarily reflects the impact of foreign exchange.

Effective in the second quarter of 2016, our segments were reorganized to reflect that we now manage our innovative pharmaceutical and consumer healthcare operations as one business segment, IH (previously these businesses were managed as two segments: the GIP segment and the VOC segment). As IH leadership assesses how to most efficiently manage the IH segment operations, we will assess the impact, if any, that any such changes may have on our reporting units.

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Note 10. Pension and Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost:

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Pension Plans | | | | | | | |
| | U.S. Qualified[a] | | U.S. Supplemental (Non-Qualified)[b] | | International[c] | | Postretirement Plans[d] | |
| (MILLIONS OF DOLLARS) | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Net periodic benefit cost/(credit): | | | | | | | | |
| Service cost[e] | $62 | $ 72 | $ 5 | $ 6 | $ 43 | $ 46 | $ 10 | $ 14 |
| Interest cost[e] | 134 | 168 | 11 | 13 | 60 | 76 | 22 | 32 |
| Expected return on plan assets | (240) | (270) | — | — | (98) | (103) | (8) | (13) |
| Amortization of: | | | | | | | | |
| Actuarial losses | 99 | 82 | 9 | 11 | 24 | 31 | 7 | 9 |
| Prior service costs (credits) | 1 | (2) | — | — | (1) | (2) | (41) | (31) |
| Curtailments | 1 | — | — | — | (1) | — | (1) | (7) |
| Settlements | 16 | 19 | 6 | 2 | — | 1 | — | — |
| | $73 | $ 69 | $ 31 | $ 32 | $ 27 | $ 50 | $ (11) | $ 5 |

| | Six Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Pension Plans | | | | | | | |
| | U.S. Qualified[a] | | U.S. Supplemental (Non-Qualified)[b] | | International[c] | | Postretirement Plans[d] | |
| (MILLIONS OF DOLLARS) | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| Net periodic benefit cost/(credit): | | | | | | | | |
| Service cost[e] | $125 | $ 144 | $ 9 | $ 11 | $ 85 | $ 94 | $ 20 | $ 27 |
| Interest cost[e] | 268 | 337 | 23 | 27 | 119 | 155 | 44 | 64 |
| Expected return on plan assets | (481) | (542) | — | — | (196) | (209) | (17) | (26) |
| Amortization of: | | | | | | | | |
| Actuarial losses | 199 | 165 | 18 | 23 | 46 | 63 | 15 | 18 |
| Prior service costs (credits) | 2 | (3) | (1) | (1) | (1) | (3) | (82) | (62) |
| Curtailments | 3 | 1 | — | — | (1) | — | (6) | (17) |
| Settlements | 31 | 45 | 16 | 17 | 1 | 1 | — | — |
| | $146 | $ 147 | $ 66 | $ 77 | $ 53 | $ 101 | $ (27) | $ 6 |

[a] The increase in net periodic benefit costs for the three months ended July 3, 2016, compared to the three months ended June 28, 2015, is due primarily to (i) a lower expected return on plan assets resulting from a lower expected rate of return as well as a net decrease of approximately $1.1 billion in the asset base due in part to lump-sum payments made in 2015 to certain terminated vested colleagues to settle Pfizer's pension obligation, partially offset by a voluntary contribution of $1.0 billion made at the beginning of January 2016, and (ii) an increase in the amounts amortized for actuarial losses as a result of the addition of Hospira qualified plans. The aforementioned increases were partially offset by (i) lower service and interest costs, resulting from a change in our approach for

measuring service and interest costs (see (e) below) and (ii) lower settlement activity. The slight decrease in net periodic benefit costs for the six months ended July 3, 2016, compared to the six months ended June 28, 2015, for our U.S. qualified pension plans was primarily driven by (i) lower service and interest costs, resulting from a change in our approach for measuring service and interest costs (see (e) below) and (ii) lower settlement activity. The aforementioned decreases were largely offset by (i) a lower expected return on plan assets resulting from a lower expected rate of return as well as a net decrease of approximately $1.1 billion in the asset base due in part to lump-sum payments made in 2015 to certain terminated vested colleagues to settle Pfizer's pension obligation, partially offset by a voluntary contribution of $1.0 billion made at the beginning of January 2016, and (ii) an increase in the amounts amortized for actuarial losses as a result of the addition of Hospira qualified plans.

(b) The decrease in net periodic benefit costs for the three and six months ended July 3, 2016, compared to the three and six months ended June 28, 2015, for our U.S. non-qualified pension plans was primarily driven by (i) a decrease in the amounts amortized for actuarial losses resulting from the increase, in 2015, in the discount rate used to determine the benefit obligation and (ii) lower service and interest costs resulting from a change in our approach for measuring service and interest costs (see (e) below). For the three months ended July 3, 2016, compared to the three months ended June 28, 2015, the aforementioned decreases were largely offset by an increase in settlement activity

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due to timing of settlement payments made; for the six months ended July 3, 2016, compared to the six months ended June 28, 2015, settlement activity was consistent with the prior year.

(c) The decrease in net periodic benefit costs for the three and six months ended July 3, 2016, compared to the three and six months ended June 28, 2015, for our international pension plans was primarily driven by (i) lower service and interest costs, resulting from favorable foreign exchange rate changes and a change in our approach for measuring service and interest costs (see (e) below), and (ii) a decrease in the amounts amortized for actuarial losses resulting from large gains in 2015, which decreased the plan net loss position, partially offset by a decrease in the expected return on plan assets due to a lower expected rate of return on plan assets, and favorable foreign exchange rates changes.

(d) The change from net periodic benefit costs to net periodic benefit credits for the three and six months ended July 3, 2016, compared to the three and six months ended June 28, 2015, for our postretirement plans was primarily driven by (i) lower service and interest costs, resulting from a change in our approach for measuring service and interest costs (see (e) below) and (ii) an increase in prior service credits due to the postretirement medical plan cap changes during 2015. The aforementioned changes were partially offset by (i) a decrease in expected return on plan assets, primarily resulting from a decrease in plan assets reflecting payments by the plan for IRC 401(h) reimbursements to Pfizer for eligible 2014 and 2015 prescription drug expenses for certain retirees, and (ii) lower curtailment gains.

(e) Effective January 1, 2016, the Company changed the approach used to measure service and interest costs for U.S. and certain international pension and other postretirement benefits. For fiscal 2015, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the bond model or yield curve used to measure the respective plan obligations. For fiscal 2016, we elected to measure service and interest costs by applying the spot rates along the yield curve for certain international plans, or a yield curve implied from our specific detailed bond model for U.S. plans, to the plans' liability cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of our plan obligations. We have accounted for this change as a change in accounting estimate and, accordingly, have accounted for it on a prospective basis. The expected reduction in expense for 2016 associated with this change in estimate is $191 million, including $42 million from international plans, which is expected to be recognized evenly over each quarter of the year.

As of and for the six months ended July 3, 2016, we contributed and expect to contribute from our general assets as follows:

| | Pension Plans | | | |
|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | U.S. Qualified | U.S. Supplemental (Non-Qualified) | International | Postretirement Plans |
| Contributions from/(reimbursements of) our general assets for the six months ended July 3, 2016[a] | $1,000 | $ 100 | $ 95 | $ (100) |
| Expected contributions from our general assets during 2016[b] | $1,000 | $ 149 | $ 181 | $ (4) |

(a) Contributions to the postretirement plans reflect IRC 401(h) reimbursements totaling $198 million received for eligible 2014 and 2015 prescription drug expenses for certain retirees.

(b) Contributions expected to be made for 2016 are inclusive of amounts contributed during the six months ended July 3, 2016, including the $1.0 billion voluntary contribution that was made in January 2016 for the U.S. qualified plans, which was considered pre-funding for future anticipated mandatory contributions and is also expected to reduce Pension Benefit Guaranty Corporation variable rate premiums. The U.S. supplemental (non-qualified) pension plan, international pension plan and the postretirement plan contributions from our general assets include direct employer benefit payments.

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Note 11. Earnings Per Common Share Attributable to Common Shareholders

The following table provides the detailed calculation of Earnings per common share (EPS):

| (IN MILLIONS) | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 3, 2016 | June 28, 2015 | July 3, 2016 | June 28, 2015 |
| EPS Numerator—Basic | | | | |
| Income from continuing operations | $2,035 | $2,635 | $5,060 | $5,011 |
| Less: Net income attributable to noncontrolling interests | 16 | 9 | 25 | 14 |
| Income from continuing operations attributable to Pfizer Inc. | 2,019 | 2,626 | 5,035 | 4,996 |
| Less: Preferred stock dividends—net of tax | — | — | 1 | 1 |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | 2,018 | 2,625 | 5,034 | 4,996 |
| Discontinued operations—net of tax | 1 | 1 | 1 | 6 |
| Less: Discontinued operations—net of tax, attributable to noncontrolling interests | — | — | — | — |
| Discontinued operations—net of tax, attributable to Pfizer Inc. common shareholders | 1 | 1 | 1 | 6 |
| Net income attributable to Pfizer Inc. common shareholders | $2,019 | $2,626 | $5,035 | $5,002 |
| EPS Numerator—Diluted | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders and assumed conversions | $2,018 | $2,626 | $5,035 | $4,996 |
| Discontinued operations—net of tax, attributable to Pfizer Inc. common shareholders and assumed conversions | 1 | 1 | 1 | 6 |
| Net income attributable to Pfizer Inc. common shareholders and assumed conversions | $2,019 | $2,626 | $5,035 | $5,002 |
| EPS Denominator | | | | |
| Weighted-average number of common shares outstanding—Basic | 6,068 | 6,159 | 6,110 | 6,181 |
| Common-share equivalents: stock options, stock issuable under employee compensation plans, convertible preferred stock and accelerated share repurchase agreements | 69 | 83 | 67 | 86 |
| Weighted-average number of common shares outstanding—Diluted | 6,137 | 6,243 | 6,176 | 6,267 |
| Stock options that had exercise prices greater than the average market price of our common stock issuable under employee compensation plans[(a)] | 45 | 56 | 65 | 45 |

(a) These common stock equivalents were outstanding for the six months ended July 3, 2016 and June 28, 2015, but were not included in the computation of diluted EPS for those periods because their inclusion would have had an anti-dilutive effect.

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Note 12. Commitments and Contingencies

We and certain of our subsidiaries are subject to numerous contingencies arising in the ordinary course of business. For a discussion of our tax contingencies, see Note 5B.

On March 8, 2016, we entered into an accelerated share repurchase agreement with Goldman, Sachs & Co. (GS&Co.) to repurchase $5 billion of our common stock. Pursuant to the terms of the agreement, on March 10, 2016, we paid $5 billion to GS&Co. and received an initial delivery of approximately 136 million shares of our common stock from GS&Co. based on a price of $29.36 per share, which represented, based on the closing share price of our common stock on the NYSE on March 8, 2016, approximately 80% of the notional amount of the accelerated share repurchase agreement. On June 20, 2016, the accelerated share repurchase agreement with GS&Co. was completed, which, per the terms of the agreement, resulted in GS&Co. owing us a certain number of shares of Pfizer common stock. Pursuant to the agreement's settlement terms, we received an additional 18 million shares of our common stock from GS&Co. on June 20, 2016. The average price paid for all of the shares delivered under the accelerated share repurchase agreement was $32.38 per share. The common stock received is included in Treasury stock. This agreement was entered into pursuant to our previously announced share repurchase authorization. After giving effect to the accelerated share repurchase agreement, our remaining share-purchase authorization is approximately $11.4 billion at July 3, 2016.

A. Legal Proceedings

Our non-tax contingencies include, but are not limited to, the following:

- Patent litigation, which typically involves challenges to the coverage and/or validity of our patents on various products, processes or dosage forms. We are the plaintiff in the vast majority of these actions. An adverse outcome in actions in which we are the plaintiff could result in a loss of patent protection for the drug at issue, a significant loss of revenues from that drug and impairments of any associated assets.
- Product liability and other product-related litigation, which can include personal injury, consumer, off-label promotion, securities, antitrust and breach of contract claims, among others, often involves highly complex issues relating to medical causation, label warnings and reliance on those warnings, scientific evidence and findings, actual, provable injury and other matters.
- Commercial and other matters, which can include merger-related and product-pricing claims and environmental claims and proceedings, can involve complexities that will vary from matter to matter.
- Government investigations, which often are related to the extensive regulation of pharmaceutical companies by national, state and local government agencies in the U.S. and in other countries.

Certain of these contingencies could result in losses, including damages, fines and/or civil penalties, and/or criminal charges, which could be substantial.

We believe that our claims and defenses in these matters are substantial, but litigation is inherently unpredictable and excessive verdicts do occur. We do not believe that any of these matters will have a material adverse effect on our financial position. However, we could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid.

We have accrued for losses that are both probable and reasonably estimable. Substantially all of our contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any

loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Amounts recorded for legal and environmental contingencies can result from a complex series of judgments about future events and uncertainties and can rely heavily on estimates and assumptions.

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

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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. As a result of considering qualitative factors in our determination of principal matters, there are some matters discussed below with respect to which management believes that the likelihood of possible loss in excess of amounts accrued is remote.

A1. Legal Proceedings—Patent Litigation

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 drug manufacturer. Also, counterclaims, as well as various independent actions, have been filed alleging that our assertions of, or attempts to enforce, our patent rights with respect to certain products constitute unfair competition and/or violations of 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 are being challenged in various other countries. We are also party to other patent damages suits in various jurisdictions pursuant to which generic drug manufacturers, payers, governments or other parties are seeking damages from us for alleged delay of generic entry related to patent enforcement litigation. Additionally, our licensing and collaboration partners face challenges by generic drug manufacturers to patents covering several of their products that may impact our licenses or co-promotion rights to such products. We are also subject to patent litigation pursuant to which one or more third parties is seeking damages and/or injunctive relief to compensate for the alleged infringement of its patents due to our commercial or other activities. For example, our subsidiary, Hospira, is involved in patent and patent-related disputes over its attempts to bring generic pharmaceutical and biosimilar products to market. If the marketed product is ultimately found to infringe the valid patent rights of a third party, such third party may be awarded significant damages, or we may be prevented from further sales of such product. Such damages may be enhanced as much as three-fold in the event that we or one of our subsidiaries, like Hospira, is found to have willfully infringed the valid patent rights of a third party.

Actions In Which We Are The Plaintiff
EpiPen
In July 2010, King Pharmaceuticals, Inc. (King), which we acquired in 2011 and is a wholly owned subsidiary, brought a patent-infringement action against Sandoz, Inc., a division of Novartis AG (Sandoz), in the U.S. District Court for the District of New Jersey in connection with Sandoz's abbreviated new drug application filed with the FDA seeking approval to market an epinephrine injectable product. Sandoz is challenging patents, which expire in 2025, covering the next-generation autoinjector for use with epinephrine that is sold under the EpiPen brand name.

Toviaz (fesoterodine)
We have an exclusive, worldwide license to market Toviaz from UCB Pharma GmbH (UCB), which owns the patents relating to Toviaz.

Beginning in May 2013, several generic drug manufacturers notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Toviaz and asserting the invalidity,

unenforceability and/or non-infringement of all of our patents for Toviaz that are listed in the FDA's list of Approved Drug Products with Therapeutic Equivalence Evaluations, commonly referred to as the "Orange Book". Beginning in June 2013, we filed actions against all of those generic drug manufacturers in the U.S. District Court for the District of Delaware, asserting the infringement of five of the patents for Toviaz: three composition-of-matter patents and a method-of-use patent that expire in 2019, and a patent covering salts of fesoterodine that expires in 2022. In June and July 2015, we settled with four of the eight generic defendants. The trial relating to the remaining defendants occurred in July 2015. In April 2016, the District Court held that the patents that were the subject of the lawsuit were valid and infringed. The defendants' deadline to appeal this decision expired in June 2016.

In December 2014, Mylan Pharmaceuticals, Inc. (Mylan Pharmaceuticals) notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Toviaz and asserting the invalidity, unenforceability and/or non-infringement of all of our patents for Toviaz that are listed in the Orange Book. In January 2015, we filed action against Mylan Pharmaceuticals in the U.S. District Court for the District of Delaware, asserting the infringement of five of the patents for Toviaz: three composition-of-matter patents and a method-of-use patent that expire in 2019, and a patent covering salts of fesoterodine that expires in 2022.

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Tygacil (tigecycline)

In October 2013, we received notice of a Section 505(b)(2) new drug application filed by Fresenius Kabi USA LLC (Fresenius) for a tigecycline injectable product. Fresenius asserts the invalidity and non-infringement of the basic patent for Tygacil that expired in April 2016, the formulation patent for Tygacil that expires in 2029 and the polymorph patent for Tygacil that expires in 2030. In November 2013, we filed suit against Fresenius in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patents that are the subject of the lawsuit. In November 2015, we settled our claims against Fresenius on terms that permit Fresenius to launch a tigecycline injectable product in the U.S. prior to the expiration of certain of the patents that were the subject of the challenge.

In November 2014, Mylan Laboratories Limited (formerly Agila Specialties Private Limited) (Mylan Laboratories) notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Tygacil. Mylan Laboratories asserts the invalidity and non-infringement of the polymorph patent for Tygacil and the formulation patent for Tygacil. Mylan Laboratories has not challenged the basic patent. In January 2015, we filed suit against Mylan Laboratories in the U.S. District Court for the District of Delaware, asserting the validity and infringement of the polymorph patent and the formulation patent for Tygacil.

In addition, in September 2015 and December 2015, we received notices of Section 505(b)(2) new drug applications filed by each of Mylan Laboratories and Accord Healthcare Inc. (Accord) for tigecycline injectable products. Mylan Laboratories and Accord assert the invalidity and non-infringement of the polymorph patent for Tygacil, and two formulation patents for Tygacil that expire in 2028 and 2029, respectively. In October 2015, we filed suit against Mylan Laboratories in the U.S. District Court for the District of Delaware and in the U.S. District Court for the District of West Virginia asserting the validity and infringement of the patents that are the subject of the lawsuit. In February 2016, we filed suit against Accord in the U.S. District Court for the District of Delaware and in the U.S. District Court for the Middle District of North Carolina asserting the validity and infringement of the patents that are the subject of the lawsuit.

Precedex Premix

In June 2014, Ben Venue Laboratories, Inc. (Ben Venue) notified our subsidiary, Hospira, that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that a patent relating to the use of Precedex in an intensive care unit setting, which expires in March 2019, was invalid or not infringed. In August 2014, Hospira and Orion Corporation (co-owner of the patent that is the subject of the lawsuit) filed suit against Ben Venue, Hikma Pharmaceuticals PLC (Hikma), and West-Ward Pharmaceutical Corp. in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patent that is the subject of the lawsuit. In October 2014, Eurohealth International Sarl was substituted for Ben Venue and Hikma. In June 2016, this case was settled on terms not material to Pfizer.

In June 2015, Amneal Pharmaceuticals LLC (Amneal) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that four patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In August 2015, Hospira filed suit against Amneal in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patents that are the subject of the lawsuit.

In December 2015, Fresenius notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that four patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In January 2016, Hospira filed suit against Fresenius in the U.S. District Court for the Northern District

of Illinois asserting the validity and infringement of the patents that are the subject of the lawsuit.

Matters Involving Our Collaboration/Licensing Partners

Nexium 24HR (esomeprazole)

We have an exclusive license from AstraZeneca PLC (AstraZeneca) to market in the U.S. the over-the-counter (OTC) version of Nexium (Nexium 24HR). Beginning in October 2014, Actavis Laboratories FL, Inc., and subsequently Andrx Labs, LLC (Andrx), Perrigo Company plc (Perrigo), Lupin Limited and, in October 2015, Dr. Reddy's Laboratories, Inc. & Ltd. (Dr. Reddy's) notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Nexium 24HR prior to the expiration of one or more of AstraZeneca's patents listed in the Orange Book for Nexium 24HR. From November 2014 through November 2015, AstraZeneca filed actions against each of Actavis Laboratories FL, Inc., Andrx, Perrigo, Lupin Limited and Dr. Reddy's in the U.S. District Court for the District of New Jersey asserting the infringement of the challenged patents. We are not a party to AstraZeneca's patent-infringement actions.

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Toviaz (fesoterodine) - Inter-Partes Reviews
In January 2016, Mylan Pharmaceuticals and Mylan Laboratories filed petitions with the U.S. Patent & Trademark Office requesting Inter Partes Reviews of five of the patents covering fesoterodine, the active ingredient in Toviaz: three composition-of-matter patents and a method-of-use patent that expire in 2019, and a patent covering salts of fesoterodine that expires in 2022. The patents are owned by UCB and we have an exclusive, worldwide license to market Toviaz from UCB. In July 2016, the Patent Trial and Appeal Board agreed to institute Inter Partes Reviews of all five patents.
Action In Which We Are The Defendant

Effexor XR (venlafaxine HCl)
In 2006, Wyeth and Wyeth Canada Limited (the Wyeth companies) filed an action in the Federal Court in Canada against Ratiopharm Inc. (Ratiopharm) seeking to prevent Ratiopharm from obtaining approval in Canada for its generic version of Effexor XR prior to the expiration of one of the Wyeth companies' patents. As a result of that action, Ratiopharm was enjoined from obtaining regulatory approval for its generic product. However, in August 2007, the Federal Court of Appeal in Canada ruled that the patent at issue could not be asserted against Ratiopharm under the applicable Canadian regulations governing approvals, and it dismissed the Wyeth companies' action.

Following the dismissal, in 2007, Ratiopharm filed an action in the Federal Court in Canada seeking damages from the Wyeth companies for preventing Ratiopharm from marketing its generic version of Effexor XR in Canada from January 2006 through August 2007. The Federal Court dismissed Ratiopharm's action in 2011, but the Federal Court of Appeal reinstated it in 2012. In 2011 and 2012, Pfizer made payments to Teva Canada Limited, which had acquired Ratiopharm, totaling Canadian dollars 52.5 million in partial settlement of this action.

The trial in this action was held in January 2014, and the Federal Court issued various findings in March 2014. On June 30, 2014, the Federal Court issued a judgment based on those findings, awarding Teva Canada Limited damages of approximately Canadian dollars 125 million, consisting of compensatory damages, pre-judgment interest and legal costs. This judgment was satisfied by Pfizer Canada Inc., as successor to the Wyeth companies, in July 2014. In September 2014, Pfizer Canada Inc. appealed the judgment and, in May 2016, the Federal Court of Appeal vacated the lower court's decision and remanded the case to the lower court for further proceedings.

A2. Legal Proceedings—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
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 July 3, 2016, approximately 55,620 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 was acquired by Pfizer in 2000 and is now a wholly owned subsidiary of Pfizer. Warner-Lambert is actively engaged in the defense of, and will continue to explore various means of resolving, these claims.

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 products containing small amounts of asbestos until the early 1970s.

There also are 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

Beginning in late 2004, several purported class actions were filed in federal and state courts alleging that Pfizer and certain of our current and former officers violated federal securities laws by misrepresenting the safety of Celebrex and Bextra. In June 2005, the federal 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. In March 2012, the court in the Multi-District Litigation certified a class consisting of all persons who purchased or acquired Pfizer stock between October 31, 2000 and October 19, 2005. In May 2014, the court in the Multi-District Litigation granted Pfizer's motion to exclude the testimony of the plaintiffs' loss causation and damages expert. We subsequently filed a motion

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for summary judgment seeking dismissal of the litigation, and the plaintiffs filed a motion for leave to submit an amended report by their expert. In July 2014, the court denied the plaintiffs' motion for leave to submit an amended report, and granted our motion for summary judgment, dismissing the plaintiffs' claims in their entirety. In August 2014, the plaintiffs appealed the District Court's decision to the U.S. Court of Appeals for the Second Circuit. In April 2016, the U.S. Court of Appeals for the Second Circuit reversed the District Court's decision and remanded the case to the District Court for further proceedings. In July 2016, the parties reached an agreement in principle to resolve this matter for all defendants for $486 million, a portion of which was recorded in Other (income)/deductions—net for the three months ended July 3, 2016, and the full amount of which was recorded in Other (income)/deductions—net for the six months ended July 3, 2016. The agreement in principle is subject to the negotiation of a final settlement agreement and court approval, and the payment will be made in accordance with the terms of the settlement agreement.

Effexor

- Personal Injury Actions

A number of individual lawsuits and multi-plaintiff lawsuits have been filed against us and/or our subsidiaries in various federal and state courts alleging personal injury as a result of the purported ingestion of Effexor. Among other types of actions, the Effexor personal injury litigation includes actions alleging a variety of birth defects as a result of the purported ingestion of Effexor by women during pregnancy. Plaintiffs in these birth-defect actions seek compensatory and punitive damages. In August 2013, the federal birth-defect cases were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Effexor (Venlafaxine Hydrochloride) Products Liability Litigation MDL-2458) in the U.S. District Court for the Eastern District of Pennsylvania. Almost all plaintiffs have voluntarily dismissed their actions. The Multi-District Litigation, as well as the coordinated state court proceedings in California, have been administratively stayed.

- Antitrust Actions

Beginning in May 2011, actions, including purported class actions, were filed in various federal courts against Wyeth and, in certain of the actions, affiliates of Wyeth and certain other defendants relating to Effexor XR, which is the extended-release formulation of Effexor. The plaintiffs in each of the class actions seek to represent a class consisting of all persons in the U.S. and its territories who directly purchased, indirectly purchased or reimbursed patients for the purchase of Effexor XR or generic Effexor XR from any of the defendants from June 14, 2008 until the time the defendants' allegedly unlawful conduct ceased. The plaintiffs in all of the actions allege delay in the launch of generic Effexor XR in the U.S. and its territories, in violation of federal antitrust laws and, in certain of the actions, the antitrust, consumer protection and various other laws of certain states, as the result of Wyeth fraudulently obtaining and improperly listing certain patents for Effexor XR in the Orange Book, enforcing certain patents for Effexor XR and entering into a litigation settlement agreement with a generic drug manufacturer with respect to Effexor XR. Each of the plaintiffs seeks treble damages (for itself in the individual actions or on behalf of the putative class in the purported class actions) for alleged price overcharges for Effexor XR or generic Effexor XR in the U.S. and its territories since June 14, 2008. All of these actions have been consolidated in the U.S. District Court for the District of New Jersey.

In October 2014, the District Court dismissed the direct purchaser plaintiffs' claims based on the litigation settlement agreement, but declined to dismiss the other direct purchaser plaintiff claims. In January 2015, the District Court entered partial final judgments as to all settlement agreement claims, including those asserted by direct purchasers and end-payer plaintiffs, which plaintiffs have appealed to the U.S. Court of Appeals for the Third Circuit. Motions to dismiss remain pending as to the end-payer plaintiffs' remaining claims.

Zoloft

A number of individual lawsuits and multi-plaintiff lawsuits have been filed against us and/or our subsidiaries in various federal and state courts alleging personal injury as a result of the purported ingestion of Zoloft. Among other types of actions, the Zoloft personal injury litigation includes actions alleging a variety of birth defects as a result of

the purported ingestion of Zoloft by women during pregnancy. Plaintiffs in these birth-defect actions seek compensatory and punitive damages and the disgorgement of profits resulting from the sale of Zoloft. In April 2012, the federal birth-defect cases were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Zoloft Products Liability Litigation MDL-2342) in the U.S. District Court for the Eastern District of Pennsylvania. A number of plaintiffs have voluntarily dismissed their actions. In April 2016, the District Court granted our motion for summary judgment, dismissing the claims of almost all of the remaining plaintiffs. In May 2016, the plaintiffs appealed the District Court's decision to the U.S. Court of Appeals for the Third Circuit.

Lipitor

- Whistleblower Action

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 off-label

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promotion of Lipitor in violation of the Federal Civil False Claims Act and the false claims acts of certain states, and he seeks treble damages and civil penalties on behalf of the federal government and the specified states as the result of 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 applicable federal and New York law, and he seeks damages and the reinstatement of his employment. In 2009, the District Court dismissed without prejudice the off-label promotion claims and, in 2010, plaintiff filed an amended complaint containing off-label promotion allegations that are substantially similar to the allegations in the original complaint. In November 2012, the District Court dismissed the amended complaint. In December 2012, plaintiff appealed the District Court's decision to the U.S. Court of Appeals for the Second Circuit. In August 2014, the U.S. Court of Appeals for the Second Circuit dismissed the appeal for lack of jurisdiction and sent the case back to the District Court for clarification of its ruling regarding the plaintiff's employment claims. In November 2014, the District Court granted plaintiff's motion for a partial final judgment certifying the dismissal of the false claims counts, and plaintiff appealed the order dismissing those claims to the U.S. Court of Appeals for the Second Circuit. In May 2016, the U.S. Court of Appeals for the Second Circuit affirmed the District Court's dismissal of the false claims counts.

- Antitrust Actions

Beginning in November 2011, purported class actions relating to Lipitor were filed in various federal courts against, among others, Pfizer, certain affiliates of Pfizer, and, in most of the actions, Ranbaxy, Inc. (Ranbaxy) and certain affiliates of Ranbaxy. The plaintiffs in these various actions seek to represent nationwide, multi-state or statewide classes consisting of persons or entities who directly purchased, indirectly purchased or reimbursed patients for the purchase of Lipitor (or, in certain of the actions, generic Lipitor) from any of the defendants from March 2010 until the cessation of the defendants' allegedly unlawful conduct (the Class Period). The plaintiffs allege delay in the launch of generic Lipitor, in violation of federal antitrust laws and/or state antitrust, consumer protection and various other laws, resulting from (i) the 2008 agreement pursuant to which Pfizer and Ranbaxy settled certain patent litigation involving Lipitor, and Pfizer granted Ranbaxy a license to sell a generic version of Lipitor in various markets beginning on varying dates, and (ii) in certain of the actions, the procurement and/or enforcement of certain patents for Lipitor. Each of the actions seeks, among other things, treble damages on behalf of the putative class for alleged price overcharges for Lipitor (or, in certain of the actions, generic Lipitor) during the Class Period. In addition, individual actions have been filed against Pfizer, Ranbaxy and certain of their affiliates, among others, that assert claims and seek relief for the plaintiffs that are substantially similar to the claims asserted and the relief sought in the purported class actions described above. These various actions have been consolidated for pre-trial proceedings in a Multi-District Litigation (MDL) (In re Lipitor Antitrust Litigation MDL-2332) in the U.S. District Court for the District of New Jersey.

In September 2013 and 2014, the District Court dismissed with prejudice the claims by direct purchasers. In October and November 2014, the District Court dismissed with prejudice the claims of all other MDL plaintiffs. All plaintiffs have appealed the District Court's orders dismissing their claims with prejudice to the United States Court of Appeals for the Third Circuit. In addition, the direct purchaser class plaintiffs appealed the order denying their motion to amend the judgment and for leave to amend their complaint to the U.S. Court of Appeals for the Third Circuit.

Also, in January 2013, the State of West Virginia filed an action in West Virginia state court against Pfizer and Ranbaxy, among others, that asserts claims and seeks relief on behalf of the State of West Virginia and residents of that state that are substantially similar to the claims asserted and the relief sought in the purported class actions described above.

- Personal Injury Actions

A number of individual and multi-plaintiff lawsuits have been filed against us in various federal and state courts alleging that the plaintiffs developed type 2 diabetes as a result of the purported ingestion of Lipitor. Plaintiffs seek compensatory and punitive damages.

In February 2014, the federal actions were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Lipitor (Atorvastatin Calcium) Marketing, Sales Practices and Products Liability Litigation (No. II) MDL-2502) in the U.S. District Court for the District of South Carolina.

Viagra

A number of individual and multi-plaintiff lawsuits have been filed against us in various federal and state courts alleging that the plaintiffs developed melanoma and/or the exacerbation of melanoma as a result of the purported ingestion of Viagra. Plaintiffs seek compensatory and punitive damages.

In April 2016, the federal actions were transferred for coordinated pre-trial proceedings to a Multi-District Litigation (In Re: Viagra (Sildenafil Citrate) Products Liability Litigation, MDL-2691) in the U.S. District Court for the Northern District of California.

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Chantix/Champix

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. In June 2012, the Ontario Superior Court of Justice certified the Ontario proceeding as a class action, defining the class as consisting of the following: (i) all persons in Canada who ingested Champix during the period from April 2, 2007 to May 31, 2010 and who experienced at least one of a number of specified neuropsychiatric adverse events; (ii) all persons who are entitled to assert claims in respect of Champix pursuant to Canadian legislation as the result of their relationship with a class member; and (iii) all health insurers who are entitled to assert claims in respect of Champix pursuant to Canadian legislation. The Ontario Superior Court of Justice certified the class against Pfizer Canada Inc. only and ruled that the action against Pfizer should be stayed until after the trial of the issues that are common to the class members. The actions in Quebec, Alberta and British Columbia have been stayed in favor of the Ontario action, which is proceeding on a national basis.

Celebrex

Beginning in July 2014, purported class actions were filed in the U.S. District Court for the Eastern District of Virginia against Pfizer and certain subsidiaries of Pfizer relating to Celebrex. The plaintiffs seek to represent U.S. nationwide or multi-state classes consisting of persons or entities who directly purchased from the defendants, or indirectly purchased or reimbursed patients for some or all of the purchase price of, Celebrex or generic Celebrex from May 31, 2014 until the cessation of the defendants' allegedly unlawful conduct. The plaintiffs allege delay in the launch of generic Celebrex in violation of federal antitrust laws or certain state antitrust, consumer protection and various other laws as a result of Pfizer fraudulently obtaining and improperly listing a patent on Celebrex, engaging in sham litigation, and prolonging the impact of sham litigation through settlement activity that further delayed generic entry. Each of the actions seeks treble damages on behalf of the putative class for alleged price overcharges for Celebrex since May 31, 2014. In December 2014, the District Court granted the parties' joint motions to consolidate the direct purchaser and end-payer cases, and all such cases were consolidated as of March 2015. In October 2014 and March 2015, we filed motions to dismiss the direct purchasers' and end-payers' amended complaints, respectively. In November 2015, the District Court denied in part and granted in part our motion to dismiss the direct purchasers' amended complaint. In February 2016, the District Court denied in part and granted in part our motion to dismiss the end-payers' amended complaint.

A3. Legal Proceedings—Commercial and Other Matters

Average Wholesale Price Litigation

Pfizer, certain of its subsidiaries and other pharmaceutical manufacturers were sued in various state courts by a number of states alleging that the defendants provided average wholesale price (AWP) information for certain of their products that was higher than the actual average 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. All but one of those actions have been resolved through settlement, dismissal or final judgment. The plaintiff state in the one remaining action claims 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. The action alleges, among other things, fraud and violation of the state's unfair trade practices and consumer protection statutes, and seeks monetary and other relief, including civil penalties and treble damages.

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 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 in connection with 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 relating to Former Monsanto's chemical businesses are limited to sites that Solutia has owned or

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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. Solutia and New Monsanto are defending and indemnifying Pharmacia in connection with various claims and litigation arising out of, or related to, Former Monsanto's chemical businesses.

Environmental Matters
In 2009, we submitted to the U.S. Environmental Protection Agency (EPA) a corrective measures study report with regard to Pharmacia's discontinued industrial chemical facility in North Haven, Connecticut and a revised site-wide feasibility study with regard to Wyeth Holdings Corporation'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, and we commenced construction of the site remedy in late 2011 under an Updated Administrative Order on Consent with the EPA. In July 2011, Wyeth Holdings Corporation finalized an Administrative Settlement Agreement and Order on Consent for Removal Action (the 2011 Administrative Settlement Agreement) with the EPA with regard to the Bound Brook facility. In May 2012, we completed construction of an interim remedy to address the discharge of impacted groundwater from that facility to the Raritan River. In September 2012, the EPA issued a final remediation plan for the Bound Brook facility's main plant area, which is generally in accordance with one of the remedies evaluated in our revised site-wide feasibility study. In March 2013, Wyeth Holdings Corporation (now Wyeth Holdings LLC) entered into an Administrative Settlement Agreement and Order on Consent with the EPA to allow us to undertake detailed engineering design of the remedy for the main plant area and to perform a focused feasibility study for two adjacent lagoons. In September 2015, the U.S., on behalf of the EPA, lodged a complaint and consent decree with the federal District Court for the District of New Jersey that will allow Wyeth Holdings LLC to complete the design and to implement the remedy for the main plant area. In December 2015, the consent decree (which supersedes the 2011 Administrative Settlement Agreement) was entered by the District Court. The estimated costs of the site remedy for the North Haven facility and the site remediation for the Bound Brook facility are covered by accruals previously taken by us.

In August 2016, Pfizer Pharmaceuticals LLC (PPLLC) and the EPA began negotiations to resolve alleged past deviations from certain administrative provisions of the federal Clean Air Act at our Barceloneta, Puerto Rico manufacturing facility. PPLLC is cooperating with the EPA to resolve this matter and the civil penalties, if any, resulting from the resolution of this matter will not have a material impact to Pfizer.

We are a party to a number of other proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, and other state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.
A4. Legal Proceedings—Government Investigations

Like other pharmaceutical companies, we are subject to investigations and extensive regulation by government agencies in the U.S., other developed markets and multiple emerging markets in which we operate. As a result, we have interactions with government agencies on an ongoing basis. Criminal charges, and substantial fines and/or civil penalties, as well as limitations on our ability to conduct business in applicable jurisdictions, could result from government investigations. Among the investigations by government agencies is the matter discussed below.

In 2012, Pfizer sold the U.K. Marketing Authorisation for phenytoin sodium capsules to a third party, but retained the right to supply the finished product to that third party. In May 2013, the U.K. Competition & Markets Authority (CMA) informed us that it had launched an investigation into the supply of phenytoin sodium capsules in the U.K. market. In August 2015, the CMA issued a Statement of Objections alleging that Pfizer and Pfizer Limited, a U.K. subsidiary, engaged in conduct that violates U.K. and EU antitrust laws.

A5. Legal Proceedings—Matters Resolved During the First Six Months of 2016

During the first six months of 2016, certain matters, including the matters discussed below, were resolved or were the subject of definitive settlement agreements or settlement agreements-in-principle.

Sutent (sunitinib malate)

In May 2010, Mylan Pharmaceuticals 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

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2021, and two other patents that expire in 2020 and 2021, respectively. In June 2010, we filed suit against Mylan Pharmaceuticals in the U.S. District Court for the District of Delaware asserting the infringement of those three patents. The patent expiring in 2020 was dismissed from the case prior to trial. In October 2014, the court held that the two patents expiring in 2021 were valid and infringed. In October 2014, Mylan Pharmaceuticals appealed the decision to the U.S. Court of Appeals for the Federal Circuit. In January 2016, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court's decision upholding the validity and infringement of the two patents expiring in 2021.

Protonix
In 2009, the U.S. Department of Justice (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, prior to Wyeth's acquisition by Pfizer, 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 in the U.S. District Court for the District of Massachusetts asserting violations of various state laws based on allegations substantially similar to those set forth in the civil complaint filed by the DOJ. On February 12, 2016, Wyeth and the DOJ reached an agreement in principle to resolve the actions pending in the U.S. District Court for the District of Massachusetts for $784.6 million, which was recorded in Other (income)/deductions—net for the year ended December 31, 2015 and paid on April 29, 2016. In April 2016, the agreement was finalized. The final agreement does not include an admission of liability by Wyeth.

B. 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 m