

PFIZER INC
Form 8-K
February 24, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of report: February 24, 2006
Date of earliest event reported: February 23, 2006

PFIZER INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|--|--|
| Delaware (State or other Jurisdiction of incorporation) | 1-3619 (Commission File Number) | 13-5315170 (I.R.S. Employer Identification No.) |
| 235 East 42nd Street New York, New York (Address of principal executive offices) | | 10017 (Zip Code) |

Registrant's telephone number, including area code:
(212) 573-2323

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01

ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

On February 23, 2006, the Compensation Committee of the Board of Directors of Pfizer Inc. (the "Company") approved, and the independent Directors ratified, the annual base salaries, annual incentive (i.e. cash bonus) awards, stock option grants, restricted stock unit grants, performance share grants for the period January 1, 2006 to December 31, 2008 and payment of previously awarded performance-contingent share award grants for the periods ending

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December 31, 2005 for the Named Executive Officers in our 2006 Proxy Statement. The salary information is effective as of April 1, 2006. Also on February 23, 2006, the Compensation Committee of the Board of Directors of Pfizer Inc., approved, and the independent Directors ratified, changes to the Executive Change in Control Severance Agreements for the Named Executive Officers and the Board of Directors approved changes to the compensation program for non-employee Directors.

Salary and Cash Bonus

The Compensation Committee authorized the payment of annual bonus awards to each of the Company's Named Executive Officers for the year ended December 31, 2005 under the Pfizer Inc. Executive Annual Incentive Plan. The Plan is intended to ensure the tax deductibility of the bonus for the Company. The maximum individual annual bonus under this plan is 0.3% (three tenths of one percent) of Adjusted Net Income. The Plan defines "Adjusted Net Income" to mean income before cumulative effect of accounting changes as shown on the audited Consolidated Statement of Income of the Company. If income before cumulative effect of accounting changes is not shown on the Statement, then Adjusted Net Income will mean net income as shown on the Statement. The annual incentive awards, shown on the table below, were made within the maximum established under the Plan and were based on the Committee's assessment of the Company's and each executive's performance measured against previously set financial and strategic objectives. This assessment included a review of significant accomplishments and business performance in a challenging and dynamic environment, as well as stock price performance during 2005.

The following table sets forth the annual base salaries as of April of each year and the cash bonus amounts for 2005 (which were awarded in February 2006) and for 2004 (which were awarded in February 2005) for Henry A. McKinnell, Karen Katen, David L. Shedlarz, Jeffrey B. Kindler and John L. LaMattina, who will be included as the Named Executive Officers in the Company's 2006 Proxy Statement. Please note that any changes to base salaries do not become effective until April of each year.

| Name and Position | Salary Effective Date | Base Salary (\$) | Performance Year – for Bonus | Bonus (\$) |
|--|-----------------------|------------------|------------------------------|------------|
| Dr. McKinnell Chairman and CEO | April 2006 | 2,270,500 | 2005 | 3,700,000 |
| | April 2005 | 2,270,500 | 2004 | 3,986,300 |
| Ms.Katen Vice Chairman and President - Pfizer Human Health | April 2006 | 1,235,000 | 2005 | 1,535,600 |
| | April 2005 | 1,176,200 | 2004 | 1,274,100 |
| Mr. Shedlarz Vice Chairman | April 2006 | 1,016,600 | 2005 | 1,088,000 |
| | April 2005 | 983,100 | 2004 | 1,005,200 |
| Mr. Kindler Vice Chairman and General Counsel | April 2006 | 947,500 | 2005 | 1,000,000 |
| | April 2005 | 902,200 | 2004 | 869,600 |
| Dr. LaMattina Senior V.P. and President - Pfizer Global Research and Development | April 2006 | 885,200 | 2005 | 787,300 |
| | April 2005 | 837,500 | 2004 | 705,200 |

Long-Term Incentive Award Payments

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The Compensation Committee also authorized payments to the Company's Named Executive Officers of long-term incentive awards which were previously granted. These payments were based on the performance of Pfizer versus our peer group companies with respect to both total shareholder return and earnings per share.

The following table sets forth the long-term incentive payouts for the performance periods ended December 31, 2005 (which are paid in February, 2006) and December 31, 2004 (which were paid in February, 2005) made to the Company's Named Executive Officers under the 2001 Performance-Contingent Share Award Plan or the previous Performance-Contingent Share Award Program. The 2001 Performance-Contingent Share Award Plan has been replaced by the Pfizer Inc. 2004 Stock Plan for awards with performance periods beginning on January 1, 2005 and later. Receipt of performance shares awarded under the current Plan and the previous Plan and Program may be deferred.

| Name | Performance Period | Shares Earned (#) | Value (\$) |
|---------------|--------------------|-------------------|------------|
| Dr. McKinnell | 1/1/01 - 12/31/05 | 210,000 | 5,489,400 |
| | 1/1/00 - 12/31/04 | 220,800 | 5,829,120 |
| Ms.Katen | 1/1/01 - 12/31/05 | 127,260 | 3,326,576 |
| | 1/1/00 - 12/31/04 | 125,280 | 3,307,392 |
| Mr. Shedlarz | 1/1/01 - 12/31/05 | 88,620 | 2,316,527 |
| | 1/1/00 - 12/31/04 | 95,520 | 2,521,728 |
| Mr. Kindler | 1/1/02 - 12/31/05 | 39,840 | 1,041,418 |
| | 1/1/02 - 12/31/04 | 49,980 | 1,319,472 |
| Dr. LaMattina | 1/1/01 - 12/31/05 | 62,370 | 1,630,352 |
| | 1/1/00 - 12/31/04 | 61,440 | 1,622,016 |

Stock Option, Restricted Stock Unit and Performance Share Grants

In addition, the Committee approved grants of ten-year non-qualified stock options, restricted stock units and performance shares to each of the Named Executive Officers pursuant to the Pfizer Inc. 2004 Stock Plan.

The following table sets forth information regarding stock options granted to the Named Executive Officers in 2006 and 2005.

| Name | Year | Number of Stock Options (1) | Exercise Price |
|---------------|------|--------------------------------|----------------|
| Dr. McKinnell | 2006 | 880,000 | \$26.20 |
| | 2005 | 880,000 | \$26.20 |
| Ms.Katen | 2006 | 500,000 | \$26.20 |
| | 2005 | 371,000 | \$26.20 |
| Mr. Shedlarz | 2006 | 400,000 | \$26.20 |

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| | | | |
|---------------|------|---------|---------|
| | 2005 | 301,000 | \$26.20 |
| Mr. Kindler | 2006 | 400,000 | \$26.20 |
| | 2005 | 261,000 | \$26.20 |
| Dr. LaMattina | 2006 | 300,000 | \$26.20 |
| | 2005 | 219,500 | \$26.20 |

(1) The 2006 stock options vest on February 23, 2009, the third anniversary of the grant, subject to continuous employment. The 2005 stock options vest in three equal annual installments beginning on the third anniversary of the date of grant, subject to continuous employment.

The following table sets forth information regarding restricted stock units granted to the Named Executive Officers in 2005 and 2006.

| Name | Year | Number of Restricted Stock Units(#) | Dollar Value (\$) (1) |
|---------------|------|-------------------------------------|-----------------------|
| Dr. McKinnell | 2006 | 89,180 | 2,331,165 |
| | 2005 | 0 | 0 |
| Ms. Katen | 2006 | 47,470 | 1,240,866 |
| | 2005 | 0 | 0 |
| Mr. Shedlarz | 2006 | 31,650 | 827,331 |
| | 2005 | 0 | 0 |
| Mr. Kindler | 2006 | 27,690 | 723,817 |
| | 2005 | 0 | 0 |
| Dr. LaMattina | 2006 | 23,070 | 603,050 |
| | 2005 | 0 | 0 |

(1) The dollar values shown above are based on the closing price of Pfizer's common stock (\$26.14) on February 23, 2006. These restricted stock unit awards vest on February 23, 2009. Dividends on these restricted stock units are reinvested in Pfizer common stock units.

Effective February 23, 2006, the Compensation Committee adopted the Executive Long-Term Incentive Program. This program consists of stock options and restricted stock units, as shown above, as well as performance shares. The following table sets forth information concerning the participation of the Named Executive Officers in the performance share portion of the Executive Long-Term Incentive Program for the performance period January 1, 2006 to December 31, 2008 (as well as for the January 1, 2005 to December 31, 2009 performance period under the previous 2001 Performance-Contingent Share Award Plan). Under the 2006 program, the Named Executive Officers were awarded the right to earn shares of our common stock. Actual payouts of these shares, if any, will be determined

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by a non-discretionary formula, which measures our performance over a three-year period using total shareholder return (including reinvestment of dividends) (“TSR”), measured over the performance period relative to the industry peer group. If our minimum TSR performance is below the threshold level relative to the peer group, then no shares will be earned. If our TSR over the performance period is above the threshold level relative to the peer group but is negative, then the payout will be no greater than the target award. To the extent the Company's performance exceeds the threshold performance level relative to the peer group and is positive, a varying amount of shares of common stock up to the maximum will be earned as follows:

| <u>Pfizer's Relative Performance</u> | <u>Payout as a % of Target</u> |
|--------------------------------------|--------------------------------|
| 1 (highest) | 200% |
| 2 | 200% |
| 3 | 175% |
| 4 | 150% |
| 5 | 125% |
| 6 | 100% |
| 7 | 75% |
| 8 | 50% |
| 9 | 25% |
| 10 | 0% |
| 11 (lowest) | 0% |

Estimated Future Payouts -
Performance Shares

| Name | Number of Shares (1) | Performance Period (or Other Period Until Maturation or Payment) | Threshold (#) (2) | Target (#) | Maximum (#) |
|---------------|----------------------|--|-------------------|------------|-------------|
| Dr. McKinnell | * | 1/1/06 - 12/31/08 | 22,295 | 89,180 | 178,360 |
| | | 1/1/05 - 12/31/09 | 28,820 | 172,920 | 288,200 |
| Ms.Katen | * | 1/1/06 - 12/31/08 | 11,868 | 47,470 | 94,940 |
| | | 1/1/05 - 12/31/09 | 13,889 | 83,330 | 138,890 |
| Mr. Shedlarz | * | 1/1/06 - 12/31/08 | 7,913 | 31,650 | 63,300 |
| | | 1/1/05 - 12/31/09 | 11,112 | 66,670 | 111,120 |
| Mr. Kindler | * | 1/1/06 - 12/31/08 | 6,923 | 27,690 | 55,380 |
| | | 1/1/05 - 12/31/09 | 9,722 | 58,330 | 97,220 |
| Dr. LaMattina | * | 1/1/06 - 12/31/08 | 5,768 | 23,070 | 46,140 |
| | | 1/1/05 - 12/31/09 | 8,333 | 50,000 | 83,330 |

(1) The actual number of shares that will be paid out at the end of the performance period, if any, cannot be determined because the shares earned by the Named Executive Officers will be based upon our future performance compared to the future performance of the peer group, but will be set forth in a subsequent Form 8-K filed with the SEC.

(2) If our performance is below the threshold level relative to the peer group, then no shares will be earned. To the extent the Company's performance exceeds the threshold performance level relative to the peer group, a varying amount of shares of common stock up to the maximum will be earned.

Amendment to Executive Change-in-Control Severance Agreements for Named Executive Officers

On February 23, 2006, the Compensation Committee approved an amendment to the Change-in-Control Severance Agreements for the Named Executive Officers that had been voluntarily agreed to in writing by the Named Executive Officers. The amendment provides that, if the Named Executive Officer is terminated by the Company without Cause or by the executive for Good Reason following a Change in Control of the Company, amounts in respect of outstanding performance-contingent share awards (or any successor long-term compensation plan or award in effect as of the date of such termination) shall be determined and paid based on the target number of shares that the executive could have received pursuant to all such outstanding awards. Prior to this amendment, such Agreements provided that such payments would be based on the maximum, instead of the target, number of shares that the executive could have received.

The Company intends to provide additional information regarding the compensation awarded to the Named Executive Officers in respect of and during the year ended December 31, 2005, in the 2006 Proxy Statement, which is expected to be filed with the Securities and Exchange Commission on or about March 16, 2006.

Compensation of Non-Employee Directors

Effective March 1, 2006, the compensation for non-employee Directors has been modified to eliminate meeting fees and Committee retainers and consists solely of the following:

- an annual retainer of \$75,000; and
- an award of 5,000 Pfizer stock units to each Director upon joining the Board and to each Director upon election at each Annual Meeting of Shareholders.

If a Director attends less than 80% of Board and Committee meetings in a year, the Director's annual retainer will be pro-rated.

In addition, the Chairs of Board Committees and the Lead Independent Director will receive annual retainers as follows:

| | | | |
|-----------------|--|--------------------------|---|
| | Chairs of Compensation and Corporate Governance Committees | Chair of Audit Committee | Lead Independent Director and Chair of Science & Technology Committee |
| Capacity | | | |
| Retainer | \$15,000 | \$20,000 | \$25,000 |

SIGNATURE

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Under the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the authorized undersigned.

PFIZER INC.

By: /s/ Margaret M. Foran

Margaret M. Foran

Title: Senior Vice President-Corporate

Governance, Associate General Counsel and Corporate
Secretary

Dated: February 24, 2006