INSIDE PFIZER'S PALACE COUP

Did CEO Jeff Kindler get pushed out because he was shaking up the dysfunctional pharmaceutical giant—or because he was an ineffective leader?

By **PETER ELKIND** & **JENNIFER REINGOLD** with **Doris Burke**

Photo Illustration by DAN SAELINGER

FOR JEFF KINDLER, it was a humiliating moment. The CEO of Pfizer, the world's largest pharmaceutical company, had been summoned to the airport in Fort Myers, Fla., on Saturday, Dec. 4, 2010, for a highly unusual purpose: to plead for his job.

Three stone-faced directors, representing the company's board, sat inside a drab airport conference room as the CEO, trained as a trial lawyer, struggled to argue his most important case. Alerted to this meeting less than 24 hours earlier, Kindler detailed his accomplishments, speaking nonstop for the better part of an hour. He touted his bold reorganizations, praised his administration's sweeping cost reductions, and rhapsodized about his reinvention of Pfizer's crucial research-and-development operations.

But the three board members, Constance Horner, a former deputy secretary at the U.S. Department of Health and Human Services; George Lorch, an ex-CEO of Armstrong World Holdings; and Bill Gray, a former Philadelphia congressman, weren't there to debate the direction of the company. The board had spent a frantic week in an urgent investigation: A revolt had erupted against Kindler among a handful of senior managers, and the directors were trying to figure out what was going on. One possibility: an internal power grab. Another: a CEO who was unraveling.

BAD REVIEW
Kindler pleaded for his job in a conference room at a Florida airport last December with three Pfizer board members (from left to right: William Gray, George Lorch, and Constance Horner) who heard his case.

Led by Horner, they confronted Kindler with questions about his management and his behavior. Had he routinely berated subordinates? Did he really bring senior executives to tears? And how did he respond to charges that his leadership style, a sort of micro-micro-management, had paralyzed Pfizer?

A questioner of prosecutorial intensity, Kindler was used to being the interrogator. But this time he had to respond, and his answers seemed only to harden the board members. Kindler insisted that just two executives were truly unhappy. Most of his team thought he was a good boss and had done great things for the company. What was the directors' basis for concluding otherwise? Had they reviewed his sterling performance evaluations? Spoken to his executive coach?

As the meeting continued—it lasted more than two hours—it became clear

Illustrations by MARCOS CHIN

that Kindler had little chance of saving his job. Perhaps, he finally said, it was time for him to resign. The directors, who seemed ready for this suggestion, told Kindler they were prepared to give him a far more generous settlement package if he didn't take the fight to the full board. Kindler agreed to think it over and flew home.

A day later, in an unusual Sunday night announcement, the 55-year-old CEO retired, effective immediately. Pfizer's press release offered a surprisingly candid explanation, which was inserted by Kindler himself: "The combination of meeting the requirements of our many shareholders around the world and the 24/7 nature of my responsibilities has made this period extremely demanding on me personally."

As revealing as it was, that statement only hinted at the turmoil inside Pfizer. Indeed, what has occurred at the company—whose $68 billion in annual sales are built on blockbuster drugs such as Lipitor and Viagra—is extraordinary. Once a Wall Street darling and corporate icon, Pfizer has tumbled into disarray. In the decade that ended with Kindler's departure, its stock price sagged from a high of $49 down to $17 and its drug pipeline dried up (problems the company continues to grapple with today). Pfizer lost its way, stumbling through a frantic series of zigzags in the

CAST OF CHARACTERS

With two CEO changes in five years, Pfizer has seen more than its share of conflict in its boardroom and executive suite. A guide to the players.

JEFF KINDLER
CEO and chairman, 7/2006–12/2010

A star litigator, Kindler came to Pfizer as general counsel, than prevailed in a brutal three-way competition to succeed Hank McKinnell as CEO. A rare outsider at Pfizer's helm, he was charged with instilling new thinking at the company. Kindler made a giant acquisition and reorganized research. But his style and temperament led members of his own team to rebel. With two senior executives threatening to leave, he stepped down in December 2010.

CONSTANCE HORNER
Director since 1993; Lead Director, 2007–10

The former Health and Human Services Deputy Secretary led the inquiry into reports of problems with Kindler.

GEORGE LORCH
Chairman, December 2010–present; Director since 2000

Ex-CEO of Armstrong World Industries, Lorch was named chairman after Kindler retired at the end of last year.

HANK McKINNELL
CEO, 2001–06

McKinnell became CEO when Pfizer faced a "patent cliff." He set up his own succession race, but was removed by the board before he'd planned to go.

hopes of finding new blockbusters to sustain its prodigious profits in the future.

Meanwhile, its managers descended into behavior that would do Shakespeare—or Machiavelli—proud. There was the ex-CEO who couldn't relinquish his power and quietly maneuvered to undercut two successors he had helped install. Then there was the human resources chief who divided the staff rather than uniting it. Most of all, there was Kindler himself, a bright man with some fresh ideas for reforming Pfizer but a person who agonized over decisions even as he second-guessed everybody else's actions. The story of Jeff Kindler's tumultuous tenure at Pfizer is a saga of ambition, intrigue, backstabbing, and betrayal—all of it exacerbated by a board that allowed the problems to fester for years.

The full story of Kindler's downfall has never before been told. *Fortune* reported this article for four months, interviewing 102 people, including executives and directors who worked closely with him at Pfizer and at previous stages of his career. For their parts, both Kindler and the company say that they are bound by a confidentiality agreement they signed as part of Kindler's departure.

Kindler declined to speak about Pfizer, but a representative provided a written statement: "Pfizer is a great company I was privileged to serve for nine years. I am proud of what our team accomplished and delighted to see [new CEO Ian Read], together with the business and scientific leaders we brought together, continue to build on these achievements." In its own statement, the drug company told *Fortune*: "We thank Jeff Kindler for his many years of service to Pfizer," noting that "Jeff came into the industry at a tumultuous time and faced significant challenges such as patent expirations of some of our major products.... We wish Jeff well in all of his future endeavors."

In the end, the story of Jeff Kindler's time at Pfizer provides a window into the challenges facing a mammoth company in an essential industry—and the people who aspire to govern it. Pfizer is an enterprise with the noble calling of easing pain and curing disease. Yet its leaders spent much of their time in the tawdry business of turf wars and political scheming.

JEFFREY BRUCE KINDLER has the sort of background that marked him for success—but perhaps not as CEO of a giant pharmaceutical company. He boasts a sterling résumé. The son of a New Jersey dermatologist, Kindler graduated with high honors from Tufts University and Harvard Law School and went on to clerk for the late Supreme Court Justice William Brennan. Kindler then became a litigator at the pugnacious Washington law firm Williams & Connolly, where he defended the *National Enquirer* in a libel suit and represented late oilman Marvin Davis in a contracts case.

"In our world, Jeff was a star," says Ben Heineman, the former general counsel of General Electric, who lured Kindler to that company in 1990. But Kindler was the sort of star who mostly wanted to be an even bigger star. And he wanted to be in charge.

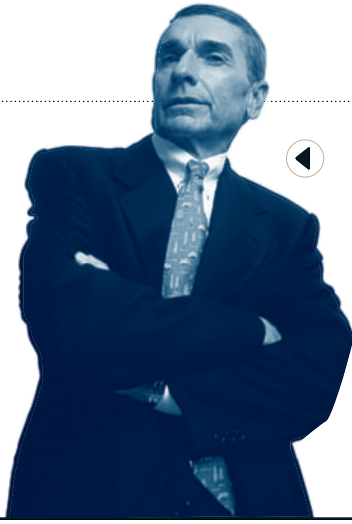
In 1996, at age 40, he became general counsel at McDonald's, with a clear eye toward moving up. Everyone at the fast-food company recognized Kindler's abilities. He juggled complex intellectual issues with ease, made dazzling presentations, wielded a self-deprecating charm, and worked longer hours than anyone else. He brought GE-style rigor to a place that lacked that sort of discipline. Says longtime board member Rick Hernandez: "McDonald's as a culture benefited from having Jeff around."

But genial as he could be, Kindler also had an aggressive, combative side. He cleaned house at McDonald's, sacking inside and outside lawyers. He rarely trusted

KINDLER: BRENDAN MCDERMID—REUTERS/CORBIS; MCKINNELL: STEPHEN CHERNIN—GETTY IMAGES

MARY McLEOD
SVP, Worldwide HR, 2007–10

A former dental hygienist, McLeod came in to help Kindler shake up Pfizer's ossified culture. She left under a cloud just days before Kindler.



BILL STEERE
CEO, 1991–2000; Director, 1992–2010

Steere ran Pfizer when Lipitor and Viagra helped make it the largest pharma company on the planet. He remained a potent force on the board through Pfizer's struggles and management crises. Steere helped install—and remove—Hank McKinnell and Jeff Kindler as chief executive and also played a key role in Ian Read's ascension to CEO last year.

IAN READ
CEO, Dec. 2010–present

A Scotsman and onetime accountant, Read took charge of the pharma division in 2006. He talked of retiring, but instead replaced Kindler as CEO.

AMY SCHULMAN
EVP, General Counsel, President, Nutrition

Kindler recruited Schulman in 2008. They worked well at first, then the relationship soured. Ultimately, Schulman outlasted her boss.

STEERE: SUZANNE OPTON—TIME LIFE PICTURES/GETTY IMAGES; READ: BLOOMBERG; SCHULMAN: JOE STEVENS—RETNA LTD./CORBIS

experienced subordinates to perform their jobs without his scrutiny. And when he was unhappy about something, he made his feelings bluntly known—sometimes through angry voicemails left late at night.

From the moment he entered management, Kindler was marked by two traits. First, he remained a confrontational trial lawyer: He sought knowledge through interrogation; he was skeptical of what he was told, even when it came from people who knew far more about a subject than he did; and he bored in relentlessly on small details, always searching for the sort of nuance that could make or break a legal case—but seemed trivial in other contexts. The second: For all Kindler's talents, he remained palpably insecure, acutely sensitive to anything or anyone he feared might undermine his standing. Some years later, after Kindler was named CEO of Pfizer, a CNBC reporter asked him on-air whether "a guy who sold chicken"—Kindler—was qualified to run a pharma company. He didn't talk to CNBC again for more than a year.

"Jeff didn't take a lot of prisoners," says Shelby Yastrow, who preceded Kindler as general counsel at McDonald's and worked with him for two years. When Yastrow retired in 1998, Kindler was master of ceremonies at his retirement dinner. "He couldn't have been funnier or more gracious," Yastrow recalls. After Kindler finished, Yastrow took the podium and jabbed: "Where has *this* Jeff Kindler been?"

Still, Kindler's behavior seemed like a minor detail in a career that was soaring. In 2000, after McDonald's purchased the Boston Market chicken chain in bankruptcy, Kindler developed a plan for reviving the business and breathed fresh life into it. He was rewarded with the presidency of McDonald's Partner Brands, the company's five nonburger chains, which included Boston Market.

Soon after, Pfizer came courting. The company offered him a job as its general counsel, overseeing 330 lawyers worldwide. Pfizer also held out the prospect that even bigger things might lie ahead for him.

THE COMPANY THAT KINDLER joined in January 2002 was just ending its golden age, though it wasn't apparent at the time. In the 1990s Pfizer, once a second-tier chemical and drug company founded in Brooklyn in 1849, had become a global pharma powerhouse.

Pfizer's greatest strength wasn't developing drugs—it was selling them. The company was a marketing juggernaut, staffed with the industry's most potent army of sales reps. Other companies began striking lucrative partnership deals for Pfizer to market their medicines. So it was with Lipitor, the mother of all blockbusters. Pfizer's aggressive promotion and pricing strategy helped Lipitor, discovered by Warner-Lambert, take off on launch in 1997 and become the world's first $10-billion-a-year drug. Lipitor was so big that Pfizer ultimately bought Warner-Lambert for $115 billion.

Every move seemed to be paying off. Pfizer was ranked among America's "best managed" and "most admired" companies. And the stock! Its price multiplied 10-fold in a decade.

The executive who led Pfizer through the Lipitor and Viagra glory years was William Campbell Steere Jr. A biology major at Stanford, he joined the company in 1959 as a drug salesman. Lean and wily, Steere didn't have the extroverted personality of a salesman. He was quiet and hated confrontation—indeed, Pfizer itself had a genteel culture that frowned on open disputation—but he found ways to build alliances and influence people.

Starting as CEO in 1991, Steere placed all his chips on pharmaceuticals, selling off dozens of unrelated businesses, pouring money into R&D, and audaciously declaring his intention to make Pfizer the industry giant. The company thrived by relying on a handful of billion-

THE FONDUE SUMMIT
As jockeying intensified in the 2006 race to become CEO, rivals Shedlarz, Katen, and Kindler met to spear bread.

dollar-a-year blockbusters: By 2001 just eight drugs generated more than half its revenues. The Warner-Lambert deal assured Pfizer's rise to No. 1.

In January 2001, Steere, by then 64 and a company legend, retired as CEO. He handed the job to his hand-picked No. 2, Hank McKinnell. Steere stepped aside—but not out. He received a consulting contract, with an office and secretary at Pfizer headquarters. Most important, Steere was granted the title of chairman emeritus and retained his seat on the Pfizer board. Governance experts widely regard such lingering as a recipe for trouble. Steere would remain a potent influence for another decade, outlasting his two successors.

WHEN HENRY "HANK" MCKINNELL JR. took over in 2001, Pfizer was perched on the mountaintop. It seemed the company had nowhere to go but down. A fit, cerebral British Columbia native, McKinnell joined Pfizer in 1971 and earned a reputation as a brilliant but brusque leader. He favored lightning-fast meetings—"What's next?" was his trademark line—set ambitious goals for the company, and refused to dwell on setbacks.

He would face many of them. Pfizer's pipeline simply couldn't support the growth the company had promised investors. Three of its blockbusters were about to lose patent protection and face generic competition, meaning their profits would plummet. The biggest issue, of course, was Lipitor—by 2005, it was bringing in a staggering $12 billion a year, more than a quarter of Pfizer's revenues. The company wouldn't lose its exclusive rights to Lipitor until late 2011, but already Wall Street was wondering how Pfizer could possibly replace it.

McKinnell kept boosting R&D budgets, maintaining Pfizer's "shots on goal" approach—the more compounds you explored, in theory, the more drugs you'd generate. But drugs can take a full decade to be developed and approved, and nothing big would be ready for years.

So McKinnell fell back on the refuge of the desperate pharma CEO: In July 2002 he announced the acquisition of Pharmacia, the industry's seventh-largest company, for $60 billion in stock. But even as Pfizer struggled to digest this latest meal, McKinnell seemed to spend less and less time at headquarters, becoming head of industry trade groups, funding an institute in Africa to combat AIDS, even writing a book about reforming health care.

That left a power vacuum, and Bill Steere, the former CEO, seemed more than willing to fill it. He was a familiar figure at Pfizer's New York headquarters, where he worked out in the basement fitness center and ate lunch in the cafeteria. Steere was always happy to lend an ear and share his views. His retired status and public reserve concealed tremendous influence. "He says almost nothing," says a person familiar with Pfizer's board. "But people look to him to see how he nods and how he moves, because he knows the company better than anyone."

With Pfizer no longer soaring, internal squabbling intensified. Vexed by what he viewed as Steere's meddling, McKinnell even tried to terminate his consulting contract. Steere fended off that move. Support for him ran deep on the board: Later, when Steere turned 72, the mandatory retirement age for directors, the board raised it to 73 so he could stick around, then amended the provision again when he hit that limit.

Steere and McKinnell, former friends and colleagues, became mortal enemies. "You've got a guy who's absent from the office, and you've got a guy who can't let go," says former senior vice president Greg Vahle, who retired in 2008 after 32 years at Pfizer. "It's a disaster."

By 2005, McKinnell was already making plans for his succession. He promoted three executives to vice chairman, setting off what would become a long and increasingly bitter contest to choose the next CEO. Two names were no surprise: Karen Katen and David Shedlarz. Both were longtime Pfizer stars. Katen, then 55, had run Pfizer's global pharmaceutical business since 2001. Shedlarz, 56, was a numbers man and a keen strategist; he'd been CFO since 1995. The winner was to take over in 2008, when McKinnell turned 65.

There was also a dark horse: Kindler. He had been at Pfizer, an insular organization whose leaders typically spent their entire careers at the company, for only three years. Unlike Katen and Shedlarz, he was a pharma neophyte.

But with Steere's help, Kindler outmaneuvered both rivals. He had plenty going for him. Kindler was outgoing, energetic, and a quick study. Aware that colleagues snickered at his fast-food background, he joked that he'd gone from causing America's cholesterol problem to trying to solve it.

But Kindler's less appealing traits had also begun to show, including his ultra-hands-on style. For example, with his promotion to vice chairman in 2005, he assumed oversight of Pfizer's communications department. After phone conversations about one impending press statement, Kindler suddenly appeared on the floor to join the discussion—then sat down at the keyboard and started typing, telling his startled media team: "I've got to do this myself."

That turned out to be a succinct statement of Kindler's management philosophy. "Jeff seemed to believe he was the only smart guy in the room," says Kent Bernard, a Pfizer lawyer for 28 years.

The CEO horserace divided Pfizer into camps. Each contender huddled regularly with a circle of advisers, plotting strategy. Kindler conducted his campaign the way he did everything: methodically and aggressively. About 100 pages of campaign strategy notes—everything from how he planned to woo various directors to his view that he should acknowledge his lack of operating experience—were later found in Kindler's files.

In an attempt to defuse growing tensions, McKinnell's chief of staff took the three contenders to Maria's Mont Blanc, a Manhattan restaurant, for a fondue dinner. There, they sat around a bubbling pot, making awkward small talk while stabbing their forks into chunks of meat and bread.

To curb campaigning, the board and McKinnell decreed that none of the contenders could have discussions about the succession with any Pfizer director. But Kindler and Steere blithely ignored the rule, meeting for dinner at Oceana, a seafood restaurant in Midtown. The secret summit came to light only after a company driver tattled. Katen and Shedlarz were livid. But the board brushed the matter aside.

By 2006, Steere had grown increasingly disenchanted with the drift of the company—and the steady decline in value of his 2 million Pfizer shares (and 4.4 million options). In his view, Katen's marketing operation had sputtered, and she seemed unwilling to fire anyone. Shedlarz, skeptical about pharma's prospects, was advocating a diversification strategy that Steere had never liked. Kindler's relative outsider status was starting to look like an advantage.

Steere threw his support to Kindler, the change candidate. He also began to wonder whether McKinnell's retirement, still two years off, was too far away.

This feeling crystallized at Pfizer's annual meeting that April in Lincoln, Neb. The central issue: Pfizer stock was down 46% since McKinnell had taken over—and the company had disclosed that the CEO's would receive an $83 million pension. As shareholders walked in, they were buzzed by an airplane flying overhead, pulling a banner that read: "Give it back, Hank." Protesters picketed. Pfizer's CEO had become the latest public example of excessive executive compensation.

By July 2006, the Pfizer board was ready to give McKinnell the boot, though he didn't realize it. But in the days before it met to decide who would succeed him later that month, the board received an anonymous letter castigating Kindler from someone who identified himself as a senior Pfizer employee. A second anonymous letter, claiming to be from "responsible, long and loyal Legal Division employees," arrived on the very day of the board meeting. It complained of "micromanagement," "constant" internal reorganization, and a "chaotic" decision-making process. "A decision is made, then reconsidered and changed. Decisions, even minor ... are picked apart and often directed to be undone. Then re-studied. Then the decision-making group expands. Paranoia results. Autonomy is sapped." These were some of the very complaints that would become the subject of board alarm in late 2010.

The board dismissed any warnings. "You almost always get these kinds of letters," says University of Illinois president emeritus Stanley Ikenberry, then Pfizer's lead director. "We did a careful analysis of that, and did not see any reason to abort the course." Kindler got the job, and McKinnell left the board seven months later. "It was a very tough choice," recalls Ikenberry. "It was the desire of the board to chart a new direction."

Kindler's selection came as a shock. One of his direct reports had a particularly dramatic reaction. George Evans was a low-key, respected lawyer who had worked at Pfizer 26 years. He'd been a candidate for the top legal job when Kindler was hired, and was general counsel for the pharmaceutical division. On Saturday, Evans read of his boss's elevation in the *New York Times*. On Monday he resigned. "At the end of the day, you have to have some level of respect for the person you are working for," Evans tells *Fortune*. "Having watched Jeff in action over a number of years, I just couldn't work for a company that had him as its CEO."

WHEN KINDLER TOOK the helm as CEO in July 2006, the board wasn't fretting about a few disaffected lawyers. Pfizer faced much graver challenges. Yes, it was still generating billions in profits. But the company was bitterly divided, its business model imperiled, its stock in the dumps. Everyone wanted action.

Kindler, it seemed, might be just the man to reenergize Pfizer. He promised to "transform virtually every aspect of how we do business." He had laudable goals: to modernize the company and, most of all, improve its ability to develop profitable new drugs.

That was ever harder to do, in part because generic drugs now made up 63% of the U.S. prescription market. It would take a major advance to persuade consumers and insurers to pony up for an expensive brand-name drug. All of Big Pharma faced this problem, but Lipitor's heft meant it was especially acute at Pfizer.

Kindler had inherited McKinnell's two foremost new-drug hopes. But both would end in disaster. The biggest disappointment was torcetrapib, a medication aimed at boosting "good cholesterol." Pfizer had spent $800 million to develop the drug and another $90 million on a plant expansion to manufacture the pill.

In November 2006, Kindler declared that torcetrapib "will be one of the most important compounds of our generation." Two days later it was history. Ongoing trials revealed that patients taking the drug suffered a 60% increase in deaths compared with a control group. After being roused early on a Saturday morning with a call about the calamitous results, Kindler acted decisively, immediately canceling the drug.

The second big hope was Exubera, an inhalable delivery system for insulin. Pfizer had for years touted Exubera as a future blockbuster, spending $1.4 billion to buy out its partner, Sanofi-Aventis. But consumers rejected the cumbersome inhaler, which had an unfortunate resemblance to a bong, and 2007 sales were a measly $12 million. Kindler finally put the project out of its misery, accepting a $2.8 billion write-off.

These failures placed the new CEO in an even tighter vise. Suddenly desperate to shrink the company—which had just completed two giant mergers—Kindler announced plans for brutal layoffs that included axing 20% of the vaunted U.S. sales force.

Yet even as he was making massive cuts, Kindler was also pondering acquisitions, toying with alternative strategies. The first was a "string of pearls" approach—a handful of smaller purchases, each aimed at filling a single strategic gap, such as biotech. The second strategy was yet another megadeal—namely, buying Wyeth. That company had $23 billion in sales, strength in vaccines and biotech, a large over-the-counter products division, and several blockbusters of its own, including Prevnar, an antibacterial vaccine for children.

But after more than a year of on-and-off debate, Kindler just couldn't make up his mind. "Jeff was

"IF YOU DON'T THINK I'M CHALLENGING OUR PEOPLE ENOUGH," Kindler shouted at Pfizer director Bob Burt as party guests and other directors looked on, "I'll quit and you can run the company."

really afraid of making a mistake," says one person who worked on the deal. "Everything had to be analyzed and re-analyzed. You'd close a meeting and he'd say, 'Okay, here's what we're going to do.' You'd sharpen your swords. And the next morning, it'd be off." Finally, in January 2009, Kindler announced a $68 billion deal to buy Wyeth. Pfizer, the company he'd been working to shrink, was now going to be bigger than ever.

Kindler's attempts to figure out what to do about research were even more anguished. He was right that the old Pfizer model wasn't working. Bigger wasn't better when it came to producing new drugs. Studies by Bernard Munos, a retired strategist at Eli Lilly, show that both massive increases in research spending and corporate mergers have failed to increase R&D productivity. Between 2000 and 2008, according to Munos, Pfizer spent $60 billion on research and generated nine drugs that won FDA approval—an average cost of $6.7 billion per product. At that rate, Munos concluded, the company's internal pipeline simply couldn't sustain its profits.

Kindler thought the era of the big blockbuster was over. He came to recognize the need to streamline the company's internal research operation and supplement it by exploiting partnerships with biotech companies and academic centers.

But the process of overhauling R&D was a messy one. Kindler shuffled through three research chiefs during his 4½ years as CEO. He closed six R&D sites, then halted research in 10 disease areas even while setting a new goal of launching four new internally developed drugs a year by 2010. He split the research operation in two—setting up a separate unit for biologic drugs (and launching an expensive new facility in San Francisco)—only to reverse the decision 30 months later after taking on Wyeth's big biotech operation.

Among the shuttered Pfizer sites was one at Ann Arbor, the birthplace of Lipitor. Says Bruce Roth, the scientist known as "the father of Lipitor," who lost his job when the Ann Arbor site closed and now works for Genentech: "When every 18 months you throw the organization up in the air and are shifting therapeutic areas or closing sites, you have this period of turmoil when everybody in the organization is paralyzed. You need some continuity to do science."

Kindler was struggling for answers in a complex industry where his own experience was limited. In an effort to bring in fresh thinking, Kindler spun his leadership team like a top. Company veterans Shedlarz, chief medical officer Dr. Joseph Feczko, and CFO Alan Levin departed. Frank D'Amelio, Kindler's new CFO, arrived from Lucent. Sally Susman, his new communications chief, had worked at Estée Lauder. His new general counsel, Allen Waxman, resigned abruptly for "personal reasons" after just one year; replacing him was Amy Schulman, a high-profile litigator at DLA Piper.

For all of Kindler's lack of pharma experience, he didn't seem to trust Pfizer veterans that did have it. He often turned to outsiders, including experts and former colleagues, for counsel on business issues. And he employed swarms of consultants, working on initiatives to reorganize Pfizer into business units (instead of geographical regions), change reporting lines, and trim bureaucracy. As long-time staffers saw it, everything—and everyone—associated with the old Pfizer was under attack.

PERHAPS THE ONLY THING as destructive to Kindler as his inability to trust his colleagues was the one Pfizer executive in whom he did place his trust: Mary McLeod. The head of human resources under Kindler, McLeod would leverage her relationship to the CEO to become both his emissary and a power in her own right. Kindler's loyalty to her would undercut him at a crucial moment.

McLeod, 51 when she joined Pfizer, had an unusual career trajectory. She had started as a dental hygienist before going back to school and pursuing a career in human resources. She had worked with GE Capital, Cisco, and Charles Schwab. She was a no-nonsense type who seemed to relish difficult environments.

Her tenure at Schwab had ended disastrously, though there's no sign Kindler knew that when he brought McLeod in. As Schwab's head of HR and chief of staff to CEO David Pottruck in the early 2000s, McLeod had proved toxic, according to six members of Pottruck's executive team. They say she isolated him from other points of view and went to extraordinary lengths to remove rivals. Meanwhile she criticized him behind his back and bragged that she had the CEO under her thumb.

After an internal investigation, Pottruck fired McLeod in 2004, he confirms. In an e-mail sent to McLeod the day of her termination, read aloud to *Fortune*, Pottruck wrote: "The issues are about the perceptions others have of you around character, integrity and divisiveness ... There is a perception that you do not tell the truth."

Nine days later, Pottruck himself was gone, forced out by the board over strategic differences. The McLeod situation, says one executive, "affected his credibility dramatically." Says Pottruck, who still sounds stung years later:

HELICOPTER EXECUTIVE
HR chief Mary McLeod's use of Pfizer choppers to commute to New York raised eyebrows inside and outside the company.

"Why purposely undermine me and our entire team? Mary's behavior and motivations are hard to understand, even to this day." McLeod says *Fortune*'s account of her time at Schwab is "false" but declines to offer any specifics, noting that she is bound by a confidentiality agreement with the company.

McLeod managed to rebound from her firing and make her way back up the corporate ladder. By the time she became Pfizer's HR chief in early 2007, the company was preparing for wholesale layoffs. McLeod's job was critical.

Although she moved rapidly to shrink the bloated HR group, McLeod seemed uninterested in the details of how the streamlined department would actually function. Even top deputies say she was virtually unapproachable, preferring to communicate by e-mail and quarterly videocast.

McLeod's primary focus was the care and feeding of the CEO. She became Kindler's protector and surrogate, whispering in his ear, controlling access to him, delivering his blunt messages. Kindler admiringly called her "Neutron Mary," after his hero, Jack Welch. McLeod seemed to encourage his harshest nature, telling him, according to a person who was present, that one senior executive was "a B player," another too ambitious, someone else a "crybaby."

McLeod also publicly denigrated her employees, announcing at one town hall meeting in 2008 that two big positions would have to be filled from outside because no one inside Pfizer was capable of doing the job. Another episode, in which one of McLeod's lieutenants unsuccessfully attempted to make an outside consultant turn over so-called 360° reviews of Pfizer's top brass—which were intended only for the executives' personal development, not to assess performance—fed paranoia in the senior ranks. Says a former Pfizer HR exec: "There were a lot of comments to the effect of 'What is Jeff thinking?' Everybody questioned his judgment." (McLeod would not discuss any events at Pfizer, citing a confidentiality agreement with the drug company.)

Even as McLeod alienated staffers with her behavior, she was attracting notice for her perks. McLeod had negotiated a special deal, personally approved by Kindler and later ratified by the Pfizer board. First, she received a $125,000 cost-of-living adjustment to compensate for moving to the New York area from her home in Delaware (while getting another $238,000 to cover a loss on the sale of a second home she owned on Long Island).

But McLeod didn't move—at least not anytime soon. Instead, she began traveling back and forth regularly on a company helicopter from Delaware to Manhattan. Under Pfizer policy, top executives such as McLeod were entitled to business travel on company aircraft and 20 hours of free personal use each year of both jets and helicopters. But McLeod's employment agreement, signed by Kindler, was more generous. It allowed her to commute on a "weekend" basis between Delaware and Manhattan for a three-month period starting in April 2007. When McLeod failed to move to New York during that period, Kindler extended the deal through the end of 2007. Ultimately, even after buying a house in New Jersey, she continued using company helicopters for business travel into and out of Delaware until she left the company.

Apart from the terrible impression conveyed by an HR chief choppering to work in the midst of massive layoffs, someone soon realized that this arrangement posed another problem: McLeod's emoluments were so lavish they might make her one of the company's five most compensated employees, which would require Pfizer to disclose the details in its annual proxy statement. In early 2008 company governance chief Peggy Foran investigated the issue and tallied nearly $1 million in payments to McLeod, including those relating to her various houses, the helicopter use, and a large bonus to buy her out of a consulting partnership. Then there was McLeod's salary and regular bonus of $900,000 and restricted stock and options.

The prospect of revealing those details was disturbing for the board, which had been pilloried for McKinnell's severance package. Foran and Kindler were called before an executive session to discuss the aviation policy. The compensation committee reviewed McLeod's package in detail before ratifying Kindler's approval of exceptions to Pfizer's compensation policies. Ultimately Pfizer concluded that it did not need to disclose McLeod's pay.

Still, rumors of McLeod's perks spread around the company. Word also leaked to Pharmalot, an industry blog, and a cartoon circulated on the web showing a sinking Pfizer ocean liner and a helicopter hovering overhead. Asks the pilot: "Ms. McLeod, are you ready to head home?"

LIFE AT THE TOP OF PFIZER had become increasingly stressful. In September 2009 the company paid a $2.3 billion civil and criminal fine for the illegal marketing of the pain medication Bextra and other drugs. Kindler had been Pfizer's general counsel and chief compliance officer or CEO during the period when some of this behavior occurred. It was the largest criminal sanction in U.S. history, in part because companies that Pfizer acquired had committed previous violations. "These were viewed as individual in-

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stances until it dawned on everybody that this was more pervasive," says Feczko, Pfizer's chief medical officer until 2009. But few at the company held Kindler responsible for this particular problem.

Still, with Pfizer floundering, Kindler turned up the heat on his deputies even higher. He bombarded them with long BlackBerry messages filled with questions at all hours of the day and night. He regularly scheduled conference calls on weekends. He seemed oblivious to executive vacations. He expected immediate responses to his questions, making no distinctions between urgent matters and routine ones.

All that didn't just make life miserable for Kindler's team; it also clogged the company's decision-making process. Kindler was a voracious consumer of information—often a strength but increasingly a weakness. "Jeff heard something or read something," one former HR executive recounts, "and there would be a barrage of e-mails in the middle of the night." The next morning, staffers would have to divvy up the directives. "It was triage."

Kindler's friends defend his style. "He's very demanding" says Matthew Paull, a friend who worked with him at McDonald's and served as its CFO, "but he demands less from others than he would from himself." Paull and others say they view what some, in Pfizer's nonconfrontational culture, saw as anger instead as passion or intensity. (They say that same intensity helped Kindler play a key role in persuading Big Pharma to back President Obama's health care plan.)

Still, Kindler's tendency to grill people in public made other team members cringe. At a 2008 retreat he browbeat Ian Read, head of the pharma division, in front of colleagues. "He was just crushing onto Ian in a way that made everybody feel uncomfortable," recalls one witness. Kindler had an issue with the budget, the witness recalls, but his cross-examination seemed aimed at "breaking" Read. "That *can't* be true!" Kindler insisted. "You just said something different to me two minutes ago."

Bill Ringo, a retired Eli Lilly strategist whom Kindler added to his executive team in 2008, says Kindler's "prosecutor mindset" impaired his "ability to listen ... If he did wait for the answer, he didn't always hear it."

Kindler could be remorseful after letting loose—he'd send women flowers the day after bringing them to tears—but that didn't prevent the next explosion. Says an executive who worked closely with him: "Don't call me at five o'clock in the morning and rip my face off, then call me at 11 o'clock at night and tell me how much you love me."

Kindler even unloaded on a Pfizer board member at a party celebrating the retirement of another director in early 2010. The target that night was Bob Burt, retired CEO of a chemicals company called FMC. Burt had pressed Read on whether his division's cost targets were aggressive enough. Read mentioned it to Kindler.

In the middle of the retirement party, Kindler made a beeline for Burt. "If you don't think I'm challenging our people enough," Kindler shouted, according to one director present, "I'll quit and *you* can run the company." Witnesses were flabbergasted. Kindler later apologized. But everyone heard about the incident.

Steere had been Kindler's biggest fan. He'd helped him become CEO and regularly counseled him on everything from acquisitions to his weight. Steere had warned him early on that his temper was "a silent weakness." After the Burt incident, Steere took him aside again. "You can't do that," he told him. "Screaming at board members is not a good business plan."

ULTIMATELY IT WASN'T JUST the board that would prove Kindler's undoing. It was that loyalty to the CEO among members of his "executive leadership team," or ELT, was growing tenuous. One catalyst for the disaffection was Mary McLeod. With the CEO's support, she had become feared inside Pfizer. Kindler seemed blind to her shortcomings, opening up a divide within the ELT. Says one executive: "There was Mary and Jeff, and then there was the rest of us."

Two of the 11 members of the ELT would play key roles in what a retired director would later call "just a tragedy." The first was general counsel Amy Schulman. She was a master networker and litigator who'd handled Pfizer cases at DLA Piper, where she'd been the top-paid lawyer. She actively courted media attention, and had even been the subject of an 18-page Harvard Business School case study.

Shortly after hiring her in 2008, Kindler started to sour on Schulman. He criticized her knowledge of corporate law, her attentiveness to his requests, and her preparation for board presentations. He refused to award her a bonus for the Wyeth deal, saying she didn't deserve it. Schulman was deeply upset by this snub. (Kindler rewarded only CFO D'Amelio, Read—and McLeod, who got $600,000.)

Kindler also criticized Schulman for being overly ambitious and for her desire to gain operating experience in addition to her legal duties. Kindler, of course, had followed just such a path at McDonald's. But he wouldn't expand Schulman's portfolio. He told her she needed to learn to be a good general counsel first. (Counters one former director: “Amy is a great general counsel.”)

The second principal in the drama was Ian Read. Born and raised in Scotland, the 56-year-old Read was an accountant, not a revolutionary. A short, bald, bespectacled man, he'd begun his career at Pfizer in 1978 as an auditor, and had run the core pharmaceutical business since 2006. He had a reputation as a steady, astute operator.

That November, Read knew, he'd reach the “rule of 90,” where the combination of his age and years at Pfizer meant he could retire with a hefty pension. Read was tired of the Kindler treatment; his wife wanted him to quit. He began talking about leaving, even mentioning it to Kindler before the CEO went on a rare vacation to Vietnam in July.

Kindler returned from that trip with what a friend called “an epiphany.” He needed to run the company in a less frenetic manner. He now realized Pfizer couldn't afford to lose Read. The Scotsman was in charge of businesses that accounted for 90% of Pfizer's sales, and the pharmaceutical division, after years of bloodletting, didn't have anyone ready to replace him. Kindler also needed to develop a succession plan.

Working closely with McLeod, he hatched a scheme to share power—but not too much. He would promote Read into a newly established “office of the chairman,” but he wouldn't officially designate him as the company's No. 2. That role would be shared with CFO D'Amelio, who was closer to Kindler.

Kindler resolved to present this plan to the board at its September meeting in La Jolla, Calif. But first he and McLeod had much work to do with his two lieutenants, who were both on long-planned vacations. The executives began what seemed like an endless string of discussions about Kindler's complex vision, dubbed “Project Jett,” as spelled out in PowerPoint decks with tables and charts. Both had issues about their proposed duties, insisting on more autonomy than Kindler offered. They were furious that these discussions, much of them involving arcane organizational matters, repeatedly intruded on their vacations. For his part, Kindler thought Read and D'Amelio were seeking to turn him into a figurehead. He fumed about their reluctance to interrupt their vacations to do the detailed work required for their promotions.

By the time of the September board meeting, one big issue remained unresolved. Kindler had agreed to name Read chief operating officer, but wouldn't give him control over Pfizer's R&D, which Read wanted. The directors, recognizing Read's value, liked the plan. Some, including Steere, wanted Read named COO quickly. But Kindler insisted he couldn't make the move before February—there were far too many details to work out.

Read's growing unhappiness was no secret to members of Pfizer's board. After 32 years with the company, he knew all of them. Read's Florida vacation home was less than three miles from the residences of Steere and two other directors in Bonita Springs, where he sometimes played golf with the former Pfizer CEO.

There was another area of conflict in La Jolla: Kindler's new plan to slash the research budget. Even with the billions in cost cutting, Pfizer's research spending had continued to grow; it stood at a staggering $9.4 billion for 2010. So Kindler created a secret project to examine big R&D reductions, code-named Project Copernicus. He ultimately proposed shrinking the budget to as little as $6.5 billion. This angered the board's two medical researchers, Nobel Prize–winner Dr. Michael Brown and Dr. Dennis Ausiello, who insisted it was too much. They accused Kindler of mortgaging Pfizer's future for short-term profits. Brown even stormed out of the La Jolla meeting where Kindler was discussing the cuts.

As this was happening, Schulman began letting her own feelings about Kindler be known. She told colleagues (with perhaps a touch of melodrama) that she felt like “a battered housewife.” Weighing the option of leaving Pfizer, Schulman secretly interviewed for the general counsel's job at PepsiCo.

Then, on Nov. 9, something happened that amplified the growing sense of disarray at Pfizer, setting in motion the events that would lead to Kindler's departure: Mary McLeod sent out an e-mail. The HR director had recently received the abysmal results of a survey of her direct subordinates. More than a third of them rated her performance as a 1 or 2 out of 5 in key areas.

She reacted by writing a strange, meandering e-mail to her top staff. “I just wanted to say how sad and embarrassed I am by these results,” McLeod began. “I'm sad for all of you that you work in an environment that clearly is making you so unhappy.” One option she proposed: “I can leave the company and/or this particular job ... This will allow Jeff to hire someone that is more in sync with all of you and a better leader for you.” She added: “... if any one of you spent 48 hours in my job, you would understand.”

On Nov. 14, someone forwarded McLeod's e-mail to both Kindler and the Pfizer board, with a detailed (but unsigned) cover note. While McLeod's e-mail was itself “troubling,” the author wrote, the state of the Pfizer HR department should be “cause for serious concern ... The real issue is Mary's leadership. She has very little interest in the HR function itself, offers little guidance and focuses mainly on the CEO and his needs." The writer urged a thorough investigation, conducted by someone independent because McLeod's deputies feared retaliation.

The letter was discussed at a board call on Nov. 16. Given the retaliation assertion, Schulman wanted to name an independent outside investigator. Kindler defended McLeod, praising her for connecting HR to the company's businesses instead of focusing on "touchy-feely" stuff. But he went along with Schulman's recommendation.

The two-week investigation was conducted by Bart Friedman, an attorney with Cahill Gordon & Reindel who specializes in corporate governance work. After interviewing all of McLeod's direct reports, Friedman found nothing illegal. He did, however, conclude that HR was thoroughly dysfunctional, and riven by inept management. In his view, this was a simple case of incompetence.

On Wednesday, Dec. 1, Pfizer's executive team gathered for a day of meetings with the CEO. Mary McLeod was missing. After hearing Friedman's report, Kindler had finally parted ways with his controversial HR chief—though not without a generous severance package.

Now it was Kindler whose job was threatened.

THE PROBLEMS WITH Pfizer's HR chief had sharpened board concern about its CEO. Why had Kindler defended McLeod? How could he be so blind to all the trouble that she was causing? Just as had happened at Schwab, McLeod's issues had morphed into a crisis for her boss.

Now Pfizer's board shifted into action. Around Thanksgiving, Steere and Connie Horner, the lead outside director, began speaking to a few of Kindler's deputies to assess the situation. By this point, Schulman had a formal job offer from PepsiCo. Read also had let it be known that he was planning to retire—COO job or no COO job.

All this created a nightmare scenario for the board. Were Read and Schulman threatening to leave so that the directors would oust Kindler? The board didn't think so. But could it really afford to find out? Investors were already howling; Pfizer's stock had dropped 36% since Kindler had taken over. Imagine the uproar if both Read and Schulman suddenly left.

Over Thanksgiving weekend, Horner called the other board members. "She told me that she and one or two other directors had heard very disturbing things about Jeff and we talked about what we should do about it," says one former director.

That Sunday, Horner contacted Wachtell Lipton lawyer Marty Lipton, the go-to man for corporate boards in a giant mess. Lipton agreed to advise them, and the entire board convened in secret in his office the following Wednesday, Dec. 1. Half the directors were there in person; half participated by phone. Horner reported what she knew. She pointed out that, in addition to Read and Schulman, a third senior executive, communications chief Sally Susman, was deeply frustrated and might also leave Pfizer.

One former board member summed up the issue this way: "Do we have three brave souls who have risked their lives to come forward, or do we have three disgruntled employees?"

To many of the directors, the stories about Kindler's management style rang true. They remembered how he'd lost it with Burt at the board retirement party. And there were reports that other top executives were unhappy. Even D'Amelio, the even-keeled CFO, seemed to think Jeff's behavior was a big problem. Or did he? Another director had spoken to him too, and provided a conflicting account, leading to a debate about the accuracy of the incoming reports.

Lipton advised them that they needed to make absolutely sure they weren't responding to one or two executives. The board resolved to survey all 11 members of Kindler's management.

Kindler's ELT was in a horribly awkward situation. On Wednesday, they had spent the day meeting with their boss about the business. Mary McLeod had disappeared. Hours later, they were getting calls from the board's lead director, swearing them to secrecy, questioning them about incidents involving Kindler.

Kindler had caught wind of what was up. He'd begun making his own calls, desperately trying to assess his support. Steere, his longtime ally, didn't return his call. D'Amelio anguished about being in the middle of it all. He refused his boss's request that he tell the board he would resign if Kindler were fired, according to a person who spoke to D'Amelio. (A source close to Kindler denies this.)

When Horner had completed her inquiries, she passed on her conclusion: No one was standing 100% behind Kindler. All confirmed the situation was untenable. A few of the 11 executives made it explicitly clear that they believed Jeff needed to go. The directors agreed to summon Kindler down to the airport conference room in Florida for a private reckoning.

At that meeting, Kindler talked and talked, blaming others for the entire imbroglio. That evening, after he returned home to Westport, Conn., Kindler arranged for Judd Burstein, a close friend and trial lawyer, to represent him. Kindler briefly considered whether to fight on.

The next morning, Sunday, Dec. 5, 2010, Kindler and Pfizer quickly agreed on a generous exit package. He was getting $16 million in cash and stock, another $6.9 million in retirement benefits, and various other forms of stock compensation. Burstein made one final request: Could Kindler stay on till the end of the year? The directors said no.

At noon, Pfizer's board convened in Lipton's office to replace the company's CEO for the second time in five years. "Basically, everybody was quite sympathetic to Jeff," says one participant. "They just felt he was no longer capable of leading the company."

The Kindler era at Pfizer had ended the way it had begun—with turmoil, backstage maneuvering, and trauma. The latest CEO was gone, leaving Pfizer once again in search of a cure.

EPILOGUE

IN THE EIGHT MONTHS SINCE Jeff Kindler departed, Pfizer has worked hard to set a new course. For starters, the company is getting smaller. New CEO Ian Read has announced the sale of Capsugel, its capsule manufacturing business, and put the animal health and pediatric nutrition businesses on the block, saying that Pfizer will now focus more on its "innovative core."

The deep research cuts and outside collaborations that Kindler supported are becoming a reality: Read announced in February that R&D spending will plummet from $9.4 billion in 2010 to between $6.5 billion and $7 billion by 2012.

After the latest wave of layoffs, Pfizer's flagship Groton, Conn., research site will soon employ 3,400 people, down from a high of 5,000 in the area during the glory days. A few jobs have moved to Pfizer's center in Cambridge, Mass., a small, bustling building that exemplifies its new collaborations with outsiders. The head of the orphan and genetic disease project there isn't a Pfizer veteran, but instead a young doctor and ex-McKinsey consultant, Alvin Shih, who has worked at Pfizer for a year. "This is a time for the industry to step forward in humility," he says, "and acknowledge that we can't do it all."

While pursuing such new approaches, Pfizer is preparing for the loss, in November, of sole rights to Lipitor. It anxiously awaits news about possible future successes, including a lung cancer drug and a medicine for rheumatoid arthritis, both championed by Kindler. It's still too early to tell whether the ex-CEO's vision was right. Says retired HR chief Rob Norton, who left in 2003: "The trouble with research is you don't know whether you've done the right thing for 10 years."

Since Read took the helm, Pfizer's stock has risen some 20%, to $20 per share. That's more than double the increase of the S&P 500 during the same period. Internally, there seems to be relief that Read—the ultimate insider—is at the helm. Although he lacks Kindler's charisma, some say he's the right fit after so much drama. "He's the antithesis of Jeff," says Feczko, Pfizer's former medical director. "The biggest concern was whether he might put someone to sleep." No sophisticated vision statements here. Instead, the company has unveiled a "Thank goodness it's Monday" program to try to get people fired up about coming to work.

General counsel Amy Schulman rejected PepsiCo's offer and now also runs Pfizer's nutrition business, after Read awarded her the role that Kindler wouldn't give her. Kindler is interviewing for a new job.

Confident that Pfizer is in good hands, ex-CEO Bill Steere finally stepped down from the board last April at age 74. His neighbor George Lorch is now Pfizer's nonexecutive chairman. Steere retains his office in the Pfizer building, where he now spends a few days a month—just in case anybody needs him.

+ FEEDBACK *jreingold@fortune.com*