The Choice:

Health Care for People or Drug Industry Profits

A REPORT BY

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INTRODUCTION

As work on the federal budget for fiscal year 2006 moves into the final stretch, Congress is weighing options for cutting federal Medicaid spending by $10 billion over the next five years. The choices that Congress makes will have a profound effect on the 53 million vulnerable children, elderly, people with disabilities, and other adults—all with low incomes—who depend on Medicaid for health insurance coverage.

Interested parties—legislators, providers, non-governmental organizations—have been examining alternatives for achieving these savings. Some, arguing that Medicaid is a bloated program that needs to be trimmed, have supported proposals to cut back on the number of people covered by Medicaid and/or the services available to those who are enrolled. Some even suggest that part of the savings should come from making the poor pay more for their health care.

A growing number of stakeholders are promoting a very different alternative: modernizing and reforming the way Medicaid pays for prescription drugs. Medicaid's prescription drug spending increased by 19 percent annually from 2000 to 2002, making it the fastest-growing component of Medicaid.[1] Reducing Medicaid's drug costs would result in significant program savings. Unlike many other options being considered, this approach could save Medicaid billions of dollars[2]—without reducing access to critical medications for people who rely on Medicaid. While support for reducing payments to drug companies is broad, including AARP, the AFL-CIO, and the National Governors Association, the drug industry is lobbying hard against this option.

To find out if payments to drug companies could be reduced without harming either Medicaid enrollees' access to medications or the companies' ability to conduct necessary research and development, Families USA examined industry profits and spending patterns. Our conclusion is that the industry can well withstand a reduction in Medicaid payments. Traditionally, the drug industry has argued that any reduction in its revenues will come at the expense of research and development.[3] As this report shows, these companies spend more on marketing, advertising, and administration than they spend on research and development. Overall, the industry is extremely profitable: One-year profits for the leading company alone exceed the total five-year savings target for Medicaid. The industry is also exceedingly generous to its top executives. The argument that all cuts in revenue must come at the expense of research is not supported by the numbers.

The choice could not be clearer: Congress can leave the drug companies unscathed and cut back on health care for the poor, or it can reduce payments to drug companies and protect the health of the most vulnerable Americans.

Methodology

This report examines data from the seven U.S.-based research pharmaceutical companies that are among the Fortune 500's top 200 companies. These seven companies lead the industry in revenues. Their combined 2004 revenues totaled more than $190 billion. In order of size (based on 2004 revenue), the companies included in this report are: Pfizer Inc.; Johnson & Johnson; Merck & Co., Inc.; Abbott Laboratories; Bristol-Myer Squibb Company; Wyeth; and Eli Lilly and Company.[4]

Families USA examined the annual financial reports that these companies submitted to the Securities and Exchange Commission (SEC) covering company operations in 2004. SEC reports were selected as the basis for examining corporate spending because these reports contain audited financial information that must comply with SEC standards, thus providing a consistent basis for comparison. In its analysis, Families USA looked at companies' consolidated financial statements (SEC form 10-K) and filings related to the most highly compensated executives (form DEF 14A). The SEC filings used cover one fiscal year. All of the companies use the calendar year as their fiscal year, so all of the data we analyzed were for 2004.

With respect to executive compensation, the SEC requires companies to report information pertaining to the chief executive officer (CEO), regardless of his or her level of compensation, plus the next four most highly compensated executives. (In one case, due to the death of a top executive during the year, the company reported information for the CEO and five other executives.) In this report, we looked at compensation for all of these executives. In each case, the CEO was the most highly compensated executive in the company.

The SEC filings on executive compensation include information on 1) total compensation, exclusive of unexercised stock options, and on 2) the value of pending, unexercised stock options. These two types of remuneration include:

- **Total annual compensation exclusive of unexercised stock options in the year 2004.** This compensation includes executives' salaries, bonuses, other compensation (such as travel allowances, relocation expenses, use of company aircraft and automobiles, and the value of life insurance), restricted stock awards, long-term incentive payouts (LTIP), and exercised stock options.
- **The value of unexercised stock options.** This includes stock options awarded in 2004 or earlier that have not yet been exercised. The value of these stock options is self-reported by each company based on one of two SEC-approved methodologies, which are described more fully in the Methodology on page 19. The value reported by the companies is designed to indicate the potential value of stock options awarded in 2004 and the current market value of the unexercised options awarded in previous years.

See Appendix I: Methodology for a more detailed discussion.

KEY FINDINGS

This report examines data from the top seven U.S.-based pharmaceutical companies, with combined 2004 revenues of more than $190 billion. In order of size (based on 2004 revenue), these companies are: Pfizer Inc.; Johnson & Johnson; Merck & Co., Inc.; Abbott Laboratories; Bristol-Myers Squibb Company; Wyeth; and Eli Lilly and Company.[5]

Profits (Net Income)

In 2004, these seven drug companies together reported over $34 billion in profits. (See Table 1 and Appendix II for details on each company.)

- Pfizer reported profits of over $11 billion, which represented 22 percent of the company's reported revenue.
- Johnson & Johnson reported over $8.5 billion in profits.
- Wyeth, which reported the "lowest" profits, still had profits of more than $1 billion.

Table 1

2004 Financials for U.S. Pharmaceutical Companies within the Top 200 U.S. Corporations

Company	Revenue (Net Sales in Millions of Dollars)	Amount and Percent of Revenue Allocated to:					
		Marketing, Advertising, and Administration*		R&D*		Profit (Net Income)*	
		$	%	$	%	$	%
Pfizer Inc.	$52,516	$16,903	32%	$7,684	15%	$11,361	22%
Johnson & Johnson	$47,348	$15,860	33%	$5,203	11%	$8,509	18%
Merck & Co., Inc.	$22,939	$7,346	32%	$4,010	17%	$5,813	25%
Abbott Laboratories	$19,680	$4,922	25%	$1,697	9%	$3,236	16%
Bristol-Myers Squibb Company[1]	$19,380	$6,427	33%	$2,500	13%	$2,388	12%
Wyeth	$17,358	$5,800	33%	$2,461	14%	$1,234	7%
Eli Lilly and Company	$13,858	$4,284	31%	$2,691	19%	$1,810	13%
Total*	**$193,079**	**$61,542**		**$26,246**		**$34,351**	
Average			**32%**		**14%**		**18%**

Source: The 2004 SEC form 10-K for each company.

* Dollars in millions.

[1] Marketing, advertising, and administration for Bristol-Myers is the sum of two line items: "Marketing, Selling, and Administrative" and "Advertising and Product Promotion"; the other companies report marketing and advertising spending together.

Profits and Spending Patterns

Not only did the seven companies all record substantial profits, but all spent more on marketing, advertising, and administration than they did on R&D. Four of the seven companies reported more in profits than they spent on R&D. And five of the seven companies spent more than twice as much on marketing, advertising, and administration as they did on R&D. (See Table 1.)

- The seven companies together reported nearly $62 billion in spending on marketing, advertising, and administration.
- No company spent more than 19 percent of its revenue on R&D, whereas all the companies spent 25 percent or more of their revenues on marketing, advertising, and administration.
- On average, spending on marketing, advertising, and administration represented 32 percent of company revenues, whereas spending on R&D represented 14 percent of company revenues.
- On average, these companies reported 18 percent of revenue as profits, compared to 14 percent of revenue reported as going to R&D.

Annual Compensation, *Exclusive of Unexercised Stock Options*, for the Chief Executives in Each of the Seven Pharmaceutical Companies

- The average annual income, *exclusive of unexercised stock options*, of the chief executives of the seven companies was more than $13 million in 2004. The median income was nearly $9 million (see Table 2 on page 6).
- The highest-paid of these executives was Raymond V. Gilmartin, Chairman, President, and CEO of Merck & Company. In 2004, his compensation, *exclusive of unexercised stock options*, was $37,786,981.
- The total compensation, *exclusive of unexercised stock options*, received by these seven executives was more than $91 million.

Table 2

CEO Compensation Package in Each Company, Exclusive of Unexercised Stock Options, 2004

Company	Executive	Total Compensation
Abbott Laboratories	Miles D. White, Chairman, CEO, and Director	$ 6,818,555
Bristol-Myers Squibb Company	Peter R. Dolan, Chairman and CEO	$ 6,028,910
Johnson & Johnson	William C. Weldon, Chairman and CEO	$ 10,109,979
Eli Lilly and Company	Sidney Taurel, Chairman, President, and CEO	$ 8,811,184
Merck & Co., Inc.	Raymond V. Gilmartin, Chairman, President, and CEO	$ 37,786,981
Pfizer Inc.	Henry A. McKinnell, Chairman and CEO	$ 16,659,437
Wyeth	Robert Essner, Chairman, President, and CEO	$ 5,265,745
Total		**$ 91,480,791**
Average		**$ 13,068,684**

Annual Compensation, *Exclusive of Unexercised Stock Options,* for the 36 Highest-Paid Executives

- The average annual income, *exclusive of unexercised stock options,* received by the 36 most highly compensated executives of the seven companies was more than $5 million in 2004.
- The total compensation, *exclusive of unexercised stock options*, received by these 36 executives was nearly $188 million in 2004 (see Table 3).

Value of Unexercised Stock Options for the Chief Executives of the Seven Companies

- The value of unexercised stock options for the chief executive of each of the seven companies was, on average, more than $19 million in 2004, with a median value of nearly $24 million (see Table 4).
- The largest value of unexercised stock options received by the chief executives of the seven companies was worth more than $30 million in 2004.
- The total reported value of unexercised stock options for these seven executives was almost $135 million in 2004.

Table 3

The Highest-Paid Executives' 2004 Annual Compensation, Exclusive of Unexercised Stock Options

Name	Title	Company	Compensation
Raymond V. Gilmartin	Chairman, President, and CEO	Merck & Co., Inc.	$ 37,786,981
Henry A. McKinnell	Chairman and CEO	Pfizer Inc.	$ 16,659,437
William C. Weldon	Chairman and CEO	Johnson & Johnson	$ 10,109,979
Sidney Taurel	Chairman, President, and CEO	Eli Lilly and Company	$ 8,811,184
Karen Katen	Vice Chairman and President, Pfizer Human Health	Pfizer Inc.	$ 8,191,220
Miles D. White	Chairman, CEO, and Director	Abbott Laboratories	$ 6,818,555
David L. Shedlarz	Vice Chairman	Pfizer Inc.	$ 6,468,591
Peter R. Dolan	Chairman and CEO	Bristol-Myers Squibb Co.	$ 6,028,910
David W. Anstice	President, Human Health	Merck & Co., Inc.	$ 5,523,210
Per A. Peterson	Chairman, R&D Pharmaceuticals Group	Johnson & Johnson	$ 5,413,273
Robert Essner	Chairman, President, and CEO	Wyeth	$ 5,265,745
Robert J. Darretta	Vice Chairman and CFO	Johnson & Johnson	$ 4,456,710
John L. LaMattina	Senior VP and President, Pfizer Global Research and Development	Pfizer Inc.	$ 4,414,827
Per Wold-Olsen	President, Human Health-Europe, Middle East, & Africa	Merck & Co., Inc.	$ 4,101,946
Jeffrey M. Leiden	President and Chief Operating Officer, Pharmaceutical Products Group	Abbott Laboratories	$ 4,081,474
Jeffrey Kindler	Vice Chairman and General Counsel	Pfizer Inc.	$ 3,956,817
Richard A. Gonzalez	President and Chief Operating Officer, Medical Products Group	Abbott Laboratories	$ 3,818,888
Russell C. Deyo	Vice President, General Counsel, and Chief Compliance Officer	Johnson & Johnson	$ 3,635,238
John C. Lechleiter	Executive VP and President, Pharmaceutical Operations	Eli Lilly and Company	$ 3,561,745
Christine A. Poon	Vice Chairman and Worldwide Chairman, Medicines and Nutritionals	Johnson & Johnson	$ 3,483,826
Peter S. Kim	President, Merck Research Laboratories	Merck & Co., Inc.	$ 2,942,820
Robert Ruffolo, Jr.	Senior VP	Wyeth	$ 2,901,049
John L. McGoldrick	Executive VP and General Counsel	Bristol-Myers Squibb Co.	$ 2,766,176
Steven M. Paul	Executive VP, Science & Technology	Eli Lilly and Company	$ 2,745,240
Judy C. Lewent	Executive VP, CFO, and President, Human Health Asia	Merck & Co., Inc.	$ 2,620,707
Thomas C. Freyman	Executive VP, Finance and CFO	Abbott Laboratories	$ 2,500,996
Bernard J. Poussot	Executive VP	Wyeth	$ 2,466,889
Kenneth J. Martin	Executive VP and CFO	Wyeth	$ 2,079,258
Andrew R. J. Bonfield	Senior VP and CFO	Bristol-Myers Squibb Co.	$ 2,070,370
William G. Dempsey	Senior VP, Pharmaceutical Operations	Abbott Laboratories	$ 2,002,299
Donald J. Hayden, Jr.	Executive VP and President, Americas	Bristol-Myers Squibb Co.	$ 1,971,860
James B.D. Palmer	Former President, Pharmaceutical Research Institute and Chief Scientific Officer	Bristol-Myers Squibb Co.	$ 1,957,851
Charles E. Golden	Executive VP and CFO	Eli Lilly and Company	$ 1,915,637
Joseph M. Mahady	Senior VP	Wyeth	$ 1,694,333
Robert A. Armitage	Senior VP and General Counsel	Eli Lilly and Company	$ 1,265,243
Elliott Sigal	President, Pharmacuetical Research Institute and Chief Scientific Officer	Bristol-Myers Squibb Co.	$ 1,255,353
Total Compensation for Top Executives:			**$ 187,877,925**
Average Compensation for Top Executives:			**$ 5,218,831**

Table 4
Value of Unexercised Stock Options for the CEO of Each Company

Company	Executive	Total Value
Abbott Laboratories	Miles D. White, Chaiman, CEO, and Director	$ 25,930,283
Bristol-Myers Squibb Company	Peter R. Dolan, Chairman and CEO	$ 4,238,914
Johnson & Johnson	William C. Weldon, Chairman and CEO	$ 30,210,894
Eli Lilly and Company	Sidney Taurel, Chairman, President, and CEO	$ 23,911,533
Merck & Co., Inc.	Raymond V. Gilmartin, Chairman, President, and CEO	$ 12,567,101
Pfizer Inc.	Henry A. McKinnell, Chairman and CEO	$ 27,362,615
Wyeth	Robert Essner, Chairman, President, and CEO	$ 10,778,190
Total		**$ 134,999,530**
Average		**$ 19,285,647**

Value of Unexercised Stock Options for the 36 Highest-Paid Executives in 2004

- The value of unexercised stock options for the 36 most highly compensated executives was, on average, more than $8 million in 2004 (see Table 5).
- The total reported value of unexercised stock options for the 36 most highly compensated executives was nearly $297 million in 2004.

Table 5

The Highest-Paid Executives' Unexercised Stock Options in 2004

Name	Title	Company	Value
William C. Weldon	Chairman and CEO	Johnson & Johnson	$ 30,210,894
Henry A. McKinnell	Chairman and CEO	Pfizer Inc.	$ 27,362,615
Miles D. White	Chairman, CEO, and Director	Abbott Laboratories	$ 25,930,283
Sidney Taurel	Chairman, President, and CEO	Eli Lilly and Company	$ 23,911,533
Robert J. Darretta	Vice Chairman and CFO	Johnson & Johnson	$ 18,514,760
Russell C. Deyo	Vice President, General Counsel, and Chief Compliance Officer	Johnson & Johnson	$ 14,772,860
Richard A. Gonzalez	President and Chief Operating Officer, Medical Products Group	Abbott Laboratories	$ 12,614,154
Jeffrey M. Leiden	President and Chief Operating Officer, Pharmaceutical Products Group	Abbott Laboratories	$ 12,594,319
Raymond V. Gilmartin	Chairman, President, and CEO	Merck & Co., Inc.	$ 12,567,101
Karen Katen	Vice Chairman and President, Pfizer Human Health	Pfizer Inc.	$ 12,197,562
Robert Essner	Chairman, President, and CEO	Wyeth	$ 10,778,190
Per A. Peterson	Chairman, R&D Pharmaceuticals Group	Johnson & Johnson	$ 10,331,676
Christine A. Poon	Vice Chairman and Worldwide Chairman, Medicines and Nutritionals	Johnson & Johnson	$ 9,487,350
Charles E. Golden	Executive Vice President and CFO	Eli Lilly and Company	$ 8,208,600
David L. Shedlarz	Vice Chairman	Pfizer Inc.	$ 6,763,855
John C. Lechleiter	Executive Vice President and President, Pharmaceutical Operations	Eli Lilly and Company	$ 5,686,452
Jeffrey Kindler	Vice Chairman and General Counsel	Pfizer Inc.	$ 5,256,773
Steven M. Paul	Executive Vice President, Science and Technology	Eli Lilly and Company	$ 4,587,300
Peter R. Dolan	Chairman and CEO	Bristol-Myers Squibb Co.	$ 4,238,914
John L. LaMattina	Senior VP and President, Pfizer Global Research and Development	Pfizer Inc.	$ 4,208,523
William G. Dempsey	Senior Vice President, Pharmaceutical Operations	Abbott Laboratories	$ 3,549,934
Judy C. Lewent	Executive VP, CFO, and President, Human Health Asia	Merck & Co., Inc.	$ 3,476,280
Thomas C. Freyman	Executive VP, Finance and CFO	Abbott Laboratories	$ 3,264,730
Peter S. Kim	President, Merck Research Laboratories	Merck & Co., Inc.	$ 3,033,788
John L. McGoldrick	Executive VP and General Counsel	Bristol-Myers Squibb Co.	$ 2,792,623
Bernard J. Poussot	Executive VP	Wyeth	$ 2,716,185
Kenneth J. Martin	Executive VP and CFO	Wyeth	$ 2,699,620
Robert Ruffolo, Jr.	Senior VP	Wyeth	$ 2,653,597
David W. Anstice	President, Human Health	Merck & Co., Inc.	$ 2,236,093
Robert A. Armitage	Senior VP and General Counsel	Eli Lilly and Company	$ 2,158,400
Per Wold-Olsen	President, Human Health-Europe, Middle East, & Africa	Merck & Co., Inc.	$ 2,093,002
Joseph M. Mahady	Senior VP	Wyeth	$ 2,007,780
Andrew R. J. Bonfield	Senior VP and CFO	Bristol-Myers Squibb Co.	$ 1,282,232
Donald J. Hayden, Jr.	Executive VP and President, Americas	Bristol-Myers Squibb Co.	$ 1,282,107
James B.D. Palmer	Former President, Pharmaceutical Research Institute and Chief Scientific Officer	Bristol-Myers Squibb Co.	$ 960,182
Elliott Sigal	President, Pharmacuetical Research Institute and Chief Scientific Officer	Bristol-Myers Squibb Co.	$ 435,242
Total Value of Unexercised Stock Options for Top Executives:			**$ 296,865,509**
Average Value of Unexercised Stock Options for Top Executives:			**$ 8,246,264**

DISCUSSION

The seven companies profiled in this report are the leading pharmaceutical companies in the U.S. All of these industry giants rank in the top 200 on *Fortune's* list of the 500 leading companies in America.

As Congress debates where to find $10 billion in savings in the Medicaid program, many stakeholders have suggested that these savings be realized through reducing the amount that Medicaid pays drug companies. The drug industry, however, has a history of opposing Medicaid rebate increases[6]—despite the fact that the rebate formula used to calculate the way Medicaid pays for drugs has not been updated in years[7] (see "How Medicaid Pays for Prescription Drugs" on page 14 for a discussion of the rebate program). Although the industry can be expected to argue, as it has in the past, that it cannot afford a reduction in Medicaid payments and that any reduction in revenue will be at the expense of R&D,[8] the financial statements and spending patterns of industry leaders undercut that argument.

Why Focus on Drug Company Payments?

As Congress searches for ways to reduce federal spending on Medicaid, there are several reasons for focusing on payments to drug companies:

- Drug costs are rising, and there is great potential for savings in this area.
- The Medicaid payment formula is overdue for an update.
- Medicaid may be paying too much for prescription drugs.
- Savings could be realized without hurting beneficiaries.

Rising Drug Costs and the Great Potential for Savings: Prescription drugs comprise an ever-growing component of Medicaid spending. Medicaid drug spending grew at an annual average rate of 19 percent from fiscal year 2000 to 2002, in contrast with overall program spending, which grew by 12 percent over that period.[9] This rapid increase was due to greater use of prescription drugs and rising drug prices. It is likely that increasing prescription drug costs will continue to put pressure on Medicaid budgets. Not only is the use of prescription drugs not abating, but drug prices are continuing to rise as well, and they are rising rapidly. In 2004 alone, the price of the top brand-name drugs used by older Americans increased by 7.1 percent, which is more than two-and-one-half times the rate of inflation.[10] This overall price increase is consistent with price increases seen over the past several years, and there is no reason to expect such annual increases will not continue.[11]

Under the Medicare Modernization Act, beginning on January 1, 2006, individuals who are eligible for both Medicaid and Medicare will receive their prescription drugs through Medicare instead of Medicaid. Although the drug industry argues that switching drug coverage for these individuals from Medicaid to Medicare will reduce the growing burden of drug prices on the Medicaid program, the Congressional Budget Office (CBO) projects that billions of dollars in *additional* savings could be realized by changing the way Medicaid pays manufacturers.[12] In fact, CBO maintains that upward pressure on prescription drug spending—a large portion of which is due to increasing drug prices—will continue to pose budgetary challenges for state Medicaid programs even after the Medicare drug benefit has kicked in.[13]

The Medicaid Payment Formula Is Long Overdue for an Update: The potential for substantial savings is not the only reason to consider adjusting the way Medicaid pays manufacturers for prescription drugs. Another reason is that the Medicaid payment formula has not been updated in years, even though the drug industry has changed dramatically. In 1990, the Omnibus Budget Reconciliation Act established a drug rebate program to ensure that Medicaid would pay a fair price for prescription drugs. The formula that is used to calculate the basic rebate has not changed since 1996. In fact, the basic rebate is less today than it was at the end of 1992.[14] At the same time, profits for the industry have soared, and the industry has routinely outperformed all other industries on Fortune 500 measures.[15]

The industry structure has changed as well. Pharmacy Benefit Managers (PBMs) have emerged as a major force in the prescription drug market, beginning in 1990. Yet the Medicaid rebate program does not adequately take into account price reductions that PBMs receive from manufacturers.[16] (See "How Medicaid Pays for Prescription Drugs" on page 14 for a discussion of the Medicaid rebate program.)

The Amount Medicaid Pays for Drugs: Another reason to look at what Medicaid pays to drug companies is the concern that Medicaid overpays for prescription drugs. The Congressional Budget Office examined what Medicaid paid for prescription drugs and found that the net prices Medicaid paid for brand-name drugs was "significantly lower on average than the lowest prices paid to manufacturers by private-sector purchasers *as reported by manufacturers under Medicaid's rebate program* [emphasis added]." The last part of that statement is critical. The Government Accountability Office, in a study of Medicaid's drug rebate program, found that manufacturer reporting was inconsistent and not adequately verified. This means that states may not have been receiving the full amounts of the rebates they were due, raising concerns that Medicaid may be overpaying for prescription drugs.[17] This concern has been echoed on many fronts.

Several individual state Medicaid programs have been able to negotiate *additional* price reductions—supplemental rebates.[18] The federal Medicaid agency is a much larger buyer with considerably more purchasing power than individual states. The fact that states, acting on their own, were able to negotiate additional rebate payments suggests that the federal government is not taking full advantage of the rebate program's potential. And the tremendous industry profits discussed in this report underscore that there is room for Medicaid to negotiate for greater savings.

Finding Savings without Hurting Beneficiaries: Finally, perhaps the most compelling rationale for looking to the pharmaceutical industry for Medicaid savings is that reducing what Medicaid pays manufacturers would save Medicaid money without harming the low-income Americans who rely on Medicaid. The same cannot be said for some of the other program changes, such as increased cost-sharing, that Congress is considering to meet its savings target.

The Industry's R&D Scare Tactics

If history is any guide, the drug industry will argue that any reductions in Medicaid payments for prescription drugs will have a chilling impact on research and development. The findings in this report show that this argument is simply not true.

The industry's spending patterns and profits indicate that there are many areas other than R&D where these companies could absorb modest reductions in Medicaid payments:

- Virtually all of the seven drug manufacturers spend more on marketing, advertising, and administration than they do on R&D. These companies spend an average of 32 percent of their revenues on marketing, advertising, and administration, versus an average of 14 percent of their revenue on R&D.
- Compensation for just the chief executives—not including other highly compensated employees—for the seven companies amounted to more than $91 million in 2004.
- One-year profits for just one company, Pfizer Inc., exceeded the five-year Medicaid spending reduction target of $10 billion.
- Not only does the industry spend heavily on marketing and lavish compensation for its executives, but it spends considerable amounts on lobbying Congress. In 2004, industry lobbying costs totaled $123 million, and over the past seven years, the industry has spent more on lobbying at both the state and federal levels than any other industry.[19]

The drug industry repeatedly implies that any reduction in revenue will inevitably come at the expense of R&D. Together, these data show that the industry need not pare back its R&D budgets to absorb modest revenue reductions from Medicaid.

How Medicaid Pays for Prescription Drugs

What Medicaid pays for prescription drugs is a function of how much states pay pharmacies and what is paid back to the states in rebates under the Medicaid rebate program. This program, which was established by the Omnibus Budget Reconciliation Act of 1990, was designed to ensure that Medicaid paid a fair price for drugs. In this discussion, we briefly describe how Medicaid payments are calculated. (For a more detailed description, see the July 20, 2005 testimony of Douglas Holtz-Eakin, Director of the Congressional Budget Office, before the Special Committee on Aging in the U.S Senate.*) This discussion applies to fee-for-service Medicaid, not Medicaid managed care.

Each state Medicaid agency establishes a formula for paying pharmacies for the drugs that are dispensed to Medicaid beneficiaries. Although these formulas must follow some federal guidelines, generally, states have considerable discretion in setting the amount that they will reimburse pharmacies.

Payments to pharmacies, however, are just one part of the drug cost equation. Drug manufacturers must agree to pay state Medicaid programs a rebate if they want their drugs to be covered by Medicaid. The size of that rebate is determined by two confidential prices that manufacturers report quarterly to the Centers for Medicare and Medicaid Services (CMS). The first confidential price is the average manufacturer price (AMP)—the average price the manufacturer received for sales to retail pharmacies. The second confidential price is the lowest price, or "best price," the manufacturer charged to any buyer in the private market (excluding sales at "nominal" prices, e.g., small charges to charities). The "best price" is supposed to take into account rebates and discounts, although a recent study by the Government Accountability Office found inconsistent instructions from CMS on how manufacturers should report rebates to PBMs.**

For generic drugs and over-the-counter drugs, manufacturers pay a flat rebate of 11 percent of the AMP.

For brand-name drugs, there are two rebate components: (1) the **basic rebate**, and (2) an **additional rebate**. The **basic rebate** is the larger of: (a) a flat amount (currently 15.1 percent of the AMP), or (b) the difference between the AMP and the best price. Manufacturers may also have to pay an **additional rebate** based on drug price inflation. This additional rebate is calculated from a base price that Medicaid sets for every drug it covers. That base price, determined by the drug's original market price, is adjusted quarterly to reflect inflation in the Consumer Price Index. If a drug's AMP goes up more than its inflation-adjusted base price, the manufacturer will owe an **additional rebate**. Rebate payments are shared between states and the federal government.

* Available online at www.cbo.gov/ftpdocs/65xx/doc6564/07-20-MedicaidRx.pdf.

** Government Accountability Office, *Medicaid Drug Rebate Program: Inadequate Oversight Raises Concerns about Rebates Paid to States* (Washington: Government Accountability Office, February 2005).

CONCLUSION

The nation's pharmaceutical giants would have members of Congress believe that it is better to cut essential health care services for America's poorest citizens than it is to reduce the payments these companies receive from Medicaid. And the industry's efforts to protect its bottom line may well succeed. We can hope that Congress chooses to protect the health care safety net for millions of the country's poorest citizens and looks to the drug industry for Medicaid savings.

ENDNOTES

[1] Government Accountability Office, *Medicaid Drug Rebate Program: Inadequate Oversight Raises Concerns about Rebates Paid to States* (Washington: Government Accountability Office, February 2005).

[2] The Congressional Budget Office estimates that increasing the flat rebate from 15.1 to 20 percent would result in a savings of $3.2 billion by 2010. See Congressional Budget Office, *The Rebate Medicaid Receives on Brand-Name Prescription Drugs* (Washington: Congressional Budget Office, June 21, 2005). See the Discussion section of this report for more information about the Medicaid rebate program.

[3] PhRMA, *Why Do Prescription Drugs Cost So Much and Other Questions About Your Medicines* (Washington: PhRMA, June 2000), and PhRMA, *Tough Questions, Straight Answers: A Discussion of Today's Pharmaceutical Issues* (Washington: PhRMA, Summer 2004).

[4] "Industry Snapshot—Pharmaceuticals," *Fortune*, *Annual Special Edition*, 2005 Fortune 500, April 18, 2005.

[5] Ibid.

[6] It is the position of PhRMA, the drug industry lobby, that the industry already pays too much in rebates. And PhRMA has unsuccessfully sued states that have passed legislation instituting state-level supplemental Medicaid rebates. For example, PhRMA sued Florida and Michigan when these states passed legislation creating a supplemental rebate program. See PhRMA, *Pharmaceutical Industry Profile 2003* (Washington: PhRMA, 2003).

[7] The rebate formula has not been updated since 1996. Congressional Budget Office, *The Rebate Medicaid Receives on Brand-Name Prescription Drugs*, op. cit.

[8] PhRMA, *Why Do Prescription Drugs Cost So Much and Other Questions about Your Medicines*, op. cit., and PhRMA, *Tough Questions, Straight Answers: A Discussion of Today's Pharmaceutical Issues,* op. cit.

[9] Government Accountability Office, *Medicaid Drug Rebate Program: Inadequate Oversight Raises Concerns about Rebates Paid to States*, op. cit.

[10] AARP, *Brand-Name Drug Prices Reach Five-Year High* (Washington: AARP, 2005).

[11] Dee Mahan, *Sticker Shock: Rising Prescription Drug Prices for Seniors* (Washington: Families USA, June 2004); Dee Mahan, *Out of Bounds: Rising Prescription Drug Prices for Seniors* (Washington: Families USA, July 2003).

[12] In January 2006, individuals eligible for Medicare and Medicaid, so-called "dual eligibles," will no longer receive their prescription drugs through Medicaid. As of that date, their drug benefit will be delivered through Medicare. The savings estimated from the Congressional Budget Office that are referenced in this report take that transition into consideration.

[13] Douglas Holtz-Eakin, *Payments for Prescription Drugs Under Medicaid*, Testimony before the Special Committee on Aging, United States Senate (Washington: Congressional Budget Office, July 20, 2005).

[14] Congressional Budget Office, *The Rebate Medicaid Receives on Brand-Name Prescription Drugs,* op. cit.

[15] Since 1991, the drug industry has consistently been among the top three industries in the United States based on Fortune 500 ratings. From 1991 to 2002, this industry ranked number one based on return on revenues. In 2003 and 2004, it ranked third.

[16] Government Accountability Office, *Medicaid Drug Rebate Program: Inadequate Oversight Raises Concerns about Rebates Paid to States*, op. cit., and Kathleen King, *Medicaid Drug Rebate Program—Inadequate Oversight Raises Concerns about Rebates Paid to States,* Testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives (Washington: Government Accountability Office, June 22, 2005).

[17] Ibid.

[18] Thirty-three states have supplemental rebates in place. See Centers for Medicare and Medicaid Services, *Safe and Effective Approaches to Lowering State Prescription Drug Costs: Best Practices Among State Medicaid Programs* (Washington: The Centers for Medicare and Medicaid Services, September 9, 2004).

[19] M. Asif Ismael, *Drug Lobby Second to None—How the Pharmaceutical Industry Gets Its Way in Washington* (Washington: The Center for Public Integrity, July 2005).

APPENDIX I: METHODOLOGY

METHODOLOGY

For this report, Families USA analyzed spending patterns and compensation for the most highly compensated executives from the seven publicly traded research pharmaceutical companies that were among Fortune 500's top 200 companies in 2004.

Families USA examined the annual reports that these seven U.S. pharmaceutical companies submitted to the Securities and Exchange Commission (SEC). The fiscal year of all seven companies runs from January 1 to December 31.

The data used in this study were taken from the Web sites of the seven companies. These companies are required to submit both annual reports (form 10-K) and yearly proxy statements (form DEF 14-A) to the SEC. The companies' annual reports provide information on revenue, expenditures, and profit. Proxy statements report the compensation—including salaries, bonuses, stock options, and other compensation—of the companies' chief executive officers (CEOs) and the four most highly compensated executive officers.

Families USA downloaded SEC filings for each company's 2004 fiscal year that pertain to financial data and to compensation for the most highly compensated executives of each company.

How Financial Data Were Computed

- **Total Revenue**: reported as either "net sales" or "revenues."
- **Marketing/Administration**: reported as "marketing, selling and administrative;" "marketing and administrative;" "selling, general and administrative;" or "selling, informational and administrative expenses." One company, Bristol-Myers Squibb, reported advertising costs in a separate category, "advertising and product promotion." In this case, the total marketing, advertising, and administration costs were computed by adding the two reported figures.
- **Research and Development**: reported as "research and development expenses."
- **Profit**: reported as "net income" or "net earnings."

How Remuneration Was Computed

Total Annual Compensation Exclusive of Unexercised Stock Options: This amount was computed for each executive by adding together the following information from the company's SEC filing:

- **Salary**: annual wages paid to the executive for the fiscal year.
- **Bonus**: bonuses paid to the executive for the fiscal year.

- **Other Annual Compensation and All Other Compensation:** additional compensation with a total value of $50,000 or more given to the executive, which could include the company's contributions to a savings plan, tax reimbursements, transportation, relocation fees, a signing bonus, and life insurance plans.
- **Restricted Stock Awards:** the value of shares given to the executive by the company during its 2004 fiscal year. These shares are usually subject to restrictions—for example, the executive may not be able to sell them for a specified period of time. The dollar value is what was reported in the proxy statements for the fiscal year and was not adjusted to reflect any of the stock restrictions.
- **Long-Term Incentive Plan Payouts:** taxable payments in cash or stock to the executive for reaching a specified performance goal over a period longer than a year.
- **Value of Shares Acquired on Exercise:** the value of stock options the executive exercised during fiscal year 2004. The company computes this value by multiplying the number of shares acquired by the difference between the market price and the "exercise price."

The Value of Unexercised Stock Options: This amount was computed by adding together figures from the SEC filings regarding the stock option grants awarded to each executive that were reported in those filings. Stock option grants give these executives the right—but not the obligation—to buy or sell a specific amount of the company's stock at a specified price ("exercise price") during some specific time period in the future. The IRS allows companies to deduct the transaction from taxable income.

Stock options are only valuable to the executive when the market price of the company's stock exceeds the exercise price of the option. For example, if an executive is awarded 100 stock options at an exercise price of $10 a share and the market price is $30 a share, then the executive could buy 100 shares at $10 a share, reaping the $20 difference between the exercise price and the market price for each share—or a total of $2,000. However, if the market price of the share is less than the exercise price, the stock options have no value. The value of unexercised stock options was computed for each executive by adding together the following:

- **Value of Unexercised In-The-Money Options/SARS (Exercisable):** the value of the "in-the-money" stock option grants the executive has been awarded in the past that are fully vested and, thus, could be exercised in fiscal year 2004. This value is the difference between the current market price and the exercise price.

- **Value of Unexercised In-The-Money Options/SARS (Unexercisable):** the value of the "in-the-money" stock option grants that are not yet vested and that the executive can choose to exercise in the future. This value is the difference between the current market price and the exercise price for stock options that have not yet vested. For example, this would include options that an executive has held for two years but whose terms require three years to pass before the options are available.

The SEC permits companies to estimate the potential value of stock options awarded to executives in one of two ways: the Grant Date Present Value or the Potential Realizable Value.

- **Grant Date Present Value:** This value is estimated using the Black and Scholes Model, an option pricing model. Used by market professionals to calculate the value of an option, it includes such variables as the stock price, the exercise price, and the expiration date.
- **Potential Realizable Value:** This value is calculated at hypothetical annual growth rates of 5 percent and 10 percent for the stock price over the term of the option—usually 5 or 10 years. The company reports potential realizable value at both 5 percent and 10 percent in its proxy statements. For the purposes of this study, the more conservative value of 5 percent was reported.

APPENDIX II:

COMPENSATION AND FINANCIAL INFORMATION, BY COMPANY

ABBOTT LABORATORIES

2004 Financial Data

Total Revenue	$ 19,680,000,000
Marketing/Advertising/Administration	$ 4,922,000,000
Research and Development	$ 1,697,000,000
Net Profit	$ 3,236,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 19,222,212**	**$ 3,844,442**	**$ 3,818,888**
Total Value of Unexercised Stock Options:	**$ 57,953,420**	**$ 11,590,684**	**$ 12,594,319**

Executive Name and Title	Miles D. White Chairman, CEO, and Director	Jeffrey M. Leiden President and COO, Pharmaceutical Products Group	Richard A. Gonzalez President and COO, Medical Products Group	Thomas C. Freyman Executive VP, Finance and CFO	William G. Dempsey Senior VP, Pharmaceutical Operations
Salary	1,551,846	875,385	875,385	617,308	565,769
Bonus	2,700,000	1,100,000	1,100,000	685,000	567,500
Other Annual Compensation	87,817	64,752	53,334	8,318	84,594
Restricted Stock Awards	2,401,300	1,746,400	1,746,400	349,280	349,280
Long-Term Incentive Plan Payouts	nr	nr	nr	nr	nr
All Other Compensation [1]	77,592	43,769	43,769	30,866	28,289
Values of Shares Acquired on Exercise/ Value Realized [2]	0	251,168	0	810,224	406,867
Total Compensation	**$6,818,555**	**$4,081,474**	**$3,818,888**	**$2,500,996**	**$2,002,299**
Value of Unexercised In-The-Money Options/ SARS (E)	13,134,098	3,171,312	3,533,400	766,029	1,249,488
Value of Unexercised In-The-Money Options/ SARS (U)	8,316,098	5,964,838	5,897,536	1,287,610	1,293,357
Grant Date Present Value	4,480,087	3,458,169	3,183,218	1,211,091	1,007,089
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**$25,930,283**	**$12,594,319**	**$12,614,154**	**$3,264,730**	**$3,549,934**

Notes

[1] Represents employer contribution to the Stock Retirement Plan and additional amounts accrued in the 401(k) Supplemental Plan.
[2] Hospira, Inc. spun off from Abbott Laboratories on April 30, 2004. The number of shares shown has been adjusted to reflect this.

nr = Not reported in the SEC filing

BRISTOL-MYERS SQUIBB COMPANY

2004 Financial Data

Total Revenue	$ 19,380,000,000
Marketing/Advertising/Administration	$ 6,427,000,000
Research and Development	$ 2,500,000,000
Net Profit	$ 2,388,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 16,050,520**	**$ 2,675,087**	**$ 2,021,115**
Total Value of Unexercised Stock Options:	**$ 10,991,300**	**$ 1,831,883**	**$ 1,282,170**

Executive Name and Title	Peter R. Dolan Chairman and CEO	Andrew R. J. Bonfield Senior VP and CFO	Donald J. Hayden, Jr. Executive VP and President, Americas	John L.. McGoldrick Executive VP and General Counsel	Elliott Sigal President, Pharmaceutical Research Institute and Chief Scientific Officer [1]	James B. D. Palmer Former President, Pharmaceutical Research Institute and Chief Scientific Officer [2]
Salary	1,255,961	774,858	705,817	768,960	558,426	613,738
Bonus	2,125,000	673,264	718,757	609,045	393,844	705,372
Other Annual Compensation [3]	99,999	56,220	0	74,413	51,419	107,582
Restricted Stock Awards	2,491,432	531,159	515,524	400,710	226,535	531,159
Long-Term Incentive Plan Payouts	nr	nr	nr	nr	nr	nr
All Other Compensation [4]	56,518	34,869	31,762	34,603	25,129	0
Values of Share Acquired on Exercise/ Value Realized	0	0	0	878,445	0	0
Total Compensation	**$6,028,910**	**$2,070,370**	**$1,971,860**	**$2,766,176**	**$1,255,353**	**$1,957,851**
Value of Unexercised In-The-Money Options/ SARS (E)	452,270	235,125	368,143	2,319,807	41,990	333,450
Value of Unexercised In-The-Money Options/ SARS (U)	1,018,875	420,375	305,663	0	125,970	0
Grant Date Present Value	2,767,769	626,732	608,301	472,816	267,282	626,732
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**$4,238,914**	**$1,282,232**	**$1,282,107**	**$2,792,623**	**$435,242**	**$960,182**

Notes

[1] Dr. Sigal was appointed Chief Scientific Officer of the Pharmaceutical Research Institute on October 28, 2004.

[2] Dr. Palmer passed away on October 26, 2004.

[3] Includes private travel on company aircraft and relocation assistance.

[4] Consists of matching payments to the Savings and Investment Plan (SIP) and the Benefit Equalization Plan for the SIP.

nr = Not reported in the SEC filing

JOHNSON & JOHNSON

2004 Financial Data

Total Revenue	$ 47,348,000,000
Marketing/Advertising/Administration	$ 15,860,000,000
Research and Development	$ 5,203,000,000
Net Profit	$ 8,509,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 27,099,026**	**$ 5,419,805**	**$ 4,456,710**
Total Value of Unexercised Stock Options:	**$ 83,317,540**	**$ 16,663,508**	**$ 14,772,860**

Executive Name and Title	William C. Weldon Chairman and CEO	Robert J. Darretta Vice Chairman and CFO	Christine A. Poon Vice Chairman and Worldwide Chairman, Medicines & Nutritionals	Per A. Peterson Chairman, R&D Pharmaceuticals Group	Russell C. Deyo Vice President, General Counsel, and Chief Compliance Officer
Salary	1,459,231	950,000	792,308	761,808	668,007
Bonus	2,500,000	874,500	856,000	798,750	689,000
Other Annual Compensation[1]	1,626,386	1,012,660	420,164	493,044	699,088
Restricted Stock Awards	nr	nr	nr	nr	nr
Long-Term Incentive Plan Payouts[2]	3,942,000	1,576,800	1,379,700	1,281,150	1,182,600
All Other Compensation[3]	65,665	42,750	35,654	34,281	30,063
Values of Shares Acquired on Exercise/ Value Realized	516,697	nr	nr	2,044,240	366,480
Total Compensation	**$10,109,979**	**$4,456,710**	**$3,483,826**	**$5,413,273**	**$3,635,238**
Value of Unexercised In-The-Money Options/ SARS (E)	12,050,644	12,178,560	2,526,400	4,150,476	9,792,260
Value of Unexercised In-The-Money Options/ SARS (U)	11,805,250	3,856,200	4,093,450	3,856,200	3,043,100
Grant Date Present Value	6,355,000	2,480,000	2,867,500	2,325,000	1,937,500
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**$30,210,894**	**$18,514,760**	**$9,487,350**	**$10,331,676**	**$14,772,860**

Notes

[1] This includes dividend equivalents paid under the Certification of Extra Compensation Program, amounts reimbursed for the payment of taxes, life insurance premiums, and other costs, such as personal use of company aircraft.

[2] Johnson & Johnson operates a long-term incentive plan in which stock options award are granted upon retirement or termination of employment. The value shown is for the amount vested under the plan in 2004, based on the value of Johnson & Johnson stock at the end of the fiscal year. The value shown does not reflect awards granted in 2004 that have not yet vested.

[3] Consists of the company's matching contribution to the 401(k) plan and related supplemental plan.

nr = Not reported in the SEC filing

ELI LILLY AND COMPANY

2004 Financial Data

Total Revenue	$ 13,858,000,000
Marketing/Advertising/Administration	$ 4,284,000,000
Research and Development	$ 2,691,000,000
Net Profit	$ 1,810,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 18,299,049**	**$ 3,659,810**	**$ 2,745,240**
Total Value of Unexercised Stock Options:	**$ 44,552,285**	**$ 8,910,457**	**$ 5,686,452**

Executive Name and Title	Sidney Taurel Chairman, President, and CEO	John C. Lechleiter Executive VP, Pharmaceutical Operations	Charles E. Golden Executive VP and CFO	Steven M. Paul Executive VP, Science and Technology	Robert A. Armitage Senior VP and General Counsel
Salary	1,501,050	894,000	813,210	763,020	578,175
Bonus	1,486,040	603,450	548,917	515,039	338,232
Other Annual Compensation [1]	70,524	2,894	3,366	3,099	3,060
Restricted Stock Awards	1,590,120	795,060	511,110	511,110	318,024
Long-Term Incentive Plan Payouts	0	0	0	0	0
All Other Compensation [2]	72,050	42,912	39,034	36,625	27,752
Values of Shares Acquired on Exercise/ Value Realized	4,091,400	1,223,429	0	916,347	0
Total Compensation	**$8,811,184**	**$3,561,745**	**$1,915,637**	**$2,745,240**	**$1,265,243**
Value of Unexercised In-The-Money Options/ SARS (E)	13,119,533	290,452	4,971,000	1,349,700	0
Value of Unexercised In-The-Money Options/ SARS (U)	0	0	0	0	0
Grant Date Present Value	10,792,000	5,396,000	3,237,600	3,237,600	2,158,400
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**$23,911,533**	**$5,686,452**	**$8,208,600**	**4,587,300**	**$2,158,400**

Notes

[1] Includes personal use of company aircraft for Mr. Taurel.

[2] Consists of the company's contribution to the employee savings plan.

nr = Not reported in the SEC filing

MERCK & CO., INC.

2004 Financial Data

Total Revenue	$ 22,939,000,000
Marketing/Advertising/Administration	$ 7,346,000,000
Research and Development	$ 4,010,000,000
Net Profit	$ 5,813,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 52,975,664**	**$ 10,595,133**	**$ 4,101,946**
Total Value of Unexercised Stock Options:	**$ 23,406,264**	**$ 4,681,253**	**$ 3,033,788**

Executive Name and Title	Raymond V. Gilmartin Chairman, President, and CEO	Judy C. Lewent Executive VP, CFO, and President, Human Health Asia	Peter S. Kim President, Merck Research Laboratories	Per Wold-Olsen President, Human Health - Europe, Middle East, & Africa	David W. Anstice President, Human Health
Salary	1,600,008	750,000	685,008	615,004	626,668
Bonus	1,375,000	625,000	625,000	580,000	520,000
Other Annual Compensation	nr	nr	133,288[1]	nr	nr
Restricted Stock Awards	0	621,049	1,490,299	520,850	540,900
Long-Term Incentive Plan Payouts	nr	nr	nr	nr	nr
All Other Compensation [2]	9,225	9,225	9,225	9,225	9,225
Values of Shares Acquired on Exercise/ Value Realized [2]	34,802,748	615,433	0	2,376,867	3,826,417
Total Compensation	**$37,786,981**	**$2,620,707**	**$2,942,820**	**$4,101,946**	**$5,523,210**
Value of Unexercised In-The-Money Options/ SARS (E)	4,982,632	1,125,095	0	121,040	188,286
Value of Unexercised In-The-Money Options/ SARS (U)	0	0	0	0	0
Grant Date Present Value	nr	nr	nr	nr	nr
Potential Realizable Value at 5% Growth	7,584,469	2,351,185	3,033,788	1,971,962	2,047,807
Total Unexercised Stock Options	**$12,567,101**	**$3,476,280**	**$3,033,788**	**$2,093,002**	**$2,236,093**

Notes

[1] Includes $100,000 of principal on a $500,000 loan being forgiven over five years to offset the balance of Dr. Kim's mortgage.

[2] Represents company contribution to Merck & Co., Inc. Employee Savings and Security Plan.

nr = Not reported in the SEC filing

PFIZER INC.

2004 Financial Data

Total Revenue	$ 52,516,000,000
Marketing/Advertising/Administration	$ 16,903,000,000
Research and Development	$ 7,684,000,000
Net Profit	$ 11,361,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 39,690,892**	**$ 7,938,178**	**$ 6,468,591**
Total Value of Unexercised Stock Options:	**$ 55,789,328**	**$ 11,157,866**	**$ 6,763,855**

Executive Name and Title	Henry A. McKinnell Chairman and CEO	Karen L. Katen Chairman and Vice President, Pfizer Human Health	David L. Shedlarz Vice Chairman	Jeffrey Kindler Vice Chairman and General Counsel	John L. LaMattina Senior VP and President, Pfizer Research and Development
Salary	2,224,900	1,158,300	966,500	887,300	820,000
Bonus	3,986,300	1,274,100	1,005,200	869,600	705,200
Other Annual Compensation [1]	19,482	7,459	11,405	7,388	512
Restricted Stock Awards	4,292,181	2,326,218	1,873,326	792,561	1,024,154
Long-Term Incentive Plan Payouts	5,829,120	3,307,392	2,521,728	1,319,472	1,622,016
All Other Compensation [2]	307,454	117,751	90,432	80,496	63,760
Values of Shares Acquired on Exercise/ Value Realized [2]	0	0	0	0	179,185
Total Compensation	**$16,659,437**	**$8,191,220**	**$6,468,591**	**$3,956,817**	**$4,414,827**
Value of Unexercised In-The-Money Options/ SARS (E)	15,096,811	4,020,360	338,910	0	119,922
Value of Unexercised In-The-Money Options/ SARS (U)	0	0	0	0	0
Grant Date Present Value	nr	nr	nr	nr	nr
Potential Realizable Value at 5% Growth	12,265,804	8,177,202	6,424,945	5,256,773	4,088,601
Total Unexercised Stock Options	**$27,362,615**	**$12,197,562**	**$6,763,855**	**$5,256,773**	**$4,208,523**

Notes

[1] Represents tax payments, personal use of company aircraft, and payments for a holiday gift.

[2] Consists of company matching funds under Pfizer Savings Plan and related Supplemental Plan.

nr = Not reported in the SEC filing

WYETH

2004 Financial Data

Total Revenue	$ 17,358,000,000
Marketing/Advertising/Administration	$ 5,800,000,000
Research and Development	$ 2,461,000,000
Net Profit	$ 1,234,000,000

	Total	Average	Median
Annual Compensation for Top Executives:	**$ 14,407,274**	**$ 2,881,455**	**$ 2,466,889**
Total Value of Unexercised Stock Options:	**$ 20,855,372**	**$ 4,171,074**	**$ 2,699,620**

Executive Name and Title	Robert Essner Chairman, President, and CEO	Bernard J. Poussot Executive VP	Kenneth J. Martin Executive VP and CFO	Joseph M. Mahady Senior VP	Robert Ruffolo, Jr. Senior VP
Salary	1,515,000	800,000	680,000	635,600	617,600
Bonus	2,500,000	1,200,000	1,020,000	794,500	833,760
Other Annual Compensation [1]	114,300	0	0	0	0
Restricted Stock Awards	nr	nr	nr	nr	1,212,900
Long-Term Incentive Plan Payouts	946,133	331,161	295,680	201,062	211,765
All Other Compensation [2]	190,312	135,728	83,578	63,171	25,024
Values of Shares Acquired on Exercise/ Value Realized [2]	nr	nr	nr	nr	nr
Total Compensation	**$5,265,745**	**$2,466,889**	**$2,079,258**	**$1,694,333**	**$2,901,049**
Value of Unexercised In-The-Money Options/ SARS (E)	2,525,390	99,725	83,160	64,680	370,596
Value of Unexercised In-The-Money Options/ SARS (U)	1,753,600	531,300	531,300	399,540	549,881
Grant Date Present Value	6,499,200	2,085,160	2,085,160	1,543,560	1,733,120
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**$10,778,190**	**$2,716,185**	**$2,699,620**	**$2,007,780**	**$2,653,597**

Notes

[1] Includes tax and financial planning services, private use of company automobiles, and private use of corporate aircraft.

[2] Represents company contributions to Savings Plan and Supplemental Employee Savings Plan.

nr = Not reported in the SEC filing

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