

PFIZER INC  
Form 10-K  
March 01, 2006

---

---

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10  K**

---

**(Mark One)**

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

**For the fiscal year ended December  
31, 2005**

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

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission file number 1-3619**

**PFIZER INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

235 East 42nd Street  
New York, New York

(Address of principal executive offices)

**13-5315170**

(I.R.S. Employer  
Identification Number)

10017-5755  
(Zip Code)

**(212) 573-2323**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

---

---

**Title of each class**

**Name of each exchange  
on which registered**

Common Stock, \$.05 par value

New York Stock Exchange

---

---

**Securities registered pursuant to Section 12(g) of the Act:**

Edgar Filing: PFIZER INC - Form 10-K

**None**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, July 1, 2005, was approximately \$162 billion. The registrant has no non-voting common stock.

The number of shares outstanding of each of the registrant's classes of common stock as of February 21, 2006 was 7,357,943,810 shares of common stock, all of one class.

**DOCUMENTS INCORPORATED BY REFERENCE**

|   |                    |
|---|--------------------|
| Portions of the 2005 Annual Report to Shareholders                          | Parts I, II and IV |
| Portions of the Proxy Statement for the 2006 Annual Meeting of Shareholders | Parts I and III    |

---

---

**TABLE OF CONTENTS**

|  | <b>Page</b> |
|--|-------------|
| <b>PART I</b>  | 1           |
| <b>ITEM 1. BUSINESS</b>  | 1           |
| General  | 1           |
| Pfizer Website   | 1           |
| Business Segments  | 2           |
| Human Health Segment   | 2           |
| Consumer Healthcare Segment  | 5           |
| Animal Health Segment  | 6           |
| Research and Product Development   | 6           |
| International Operations   | 7           |
| Marketing  | 8           |
| Patents and Intellectual Property Rights   | 9           |
| Competition  | 10          |
| Raw Materials  | 12          |
| Government Regulation and Price Constraints  | 12          |
| Environmental Law Compliance   | 15          |
| Tax Matters  | 15          |
| Employees  | 15          |
| <b>ITEM 1A. RISK FACTORS AND CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS</b>   | 15          |
| <b>ITEM 1B. UNRESOLVED STAFF COMMENTS</b>  | 19          |
| <b>ITEM 2. PROPERTIES</b>  | 19          |
| <b>ITEM 3. LEGAL PROCEEDINGS</b>   | 19          |
| <b>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS EXECUTIVE OFFICERS OF THE COMPANY</b>                         | 20          |
| <b>PART II</b>   | 20          |
| <b>ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</b> | 20          |
| <b>ITEM 6. SELECTED FINANCIAL DATA</b>   | 21          |
| <b>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b>                         | 21          |
| <b>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</b>   | 21          |
| <b>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</b>   | 21          |
| <b>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</b>                          | 22          |
| <b>ITEM 9A. CONTROLS AND PROCEDURES</b>  | 22          |
| <b>ITEM 9B. OTHER INFORMATION</b>  | 22          |
| <b>PART III</b>  | 22          |
| <b>ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY</b>  | 22          |
| <b>ITEM 11. EXECUTIVE COMPENSATION</b>   | 23          |
| <b>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</b>               | 23          |

|  |    |
|--|----|
| <b>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b> | 23 |
| <b>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</b>         | 23 |
| <b>PART IV</b>   | 24 |
| <b>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</b>     | 24 |
| 15(a)(1) Financial Statements                                  | 24 |
| 15(a)(2) Financial Statement Schedules                         | 24 |
| 15(a)(3) Exhibits  | 24 |

---

## PART I

### ITEM 1. BUSINESS

#### General

Pfizer Inc. (which may be referred to as *Pfizer, the Company, we, us or our*) is a research-based, global pharmaceutical company. We discover, develop, manufacture and market leading prescription medicines for humans and animals as well as many of the world's best known consumer healthcare products.

The Company was incorporated under the laws of the State of Delaware on June 2, 1942.

We acquired Warner-Lambert Company (Warner-Lambert) in June 2000. The acquisition was accounted for as a pooling of interests. In accordance with generally accepted accounting principles in the U.S. (GAAP), we restated all consolidated financial statements of Pfizer for periods prior to the acquisition to include the results of operations and financial position of Warner-Lambert as if we had always been merged.

We acquired Pharmacia Corporation (Pharmacia) in April 2003. The acquisition was accounted for as a purchase. In accordance with GAAP, we did not restate our results of operations and financial position to reflect the historical results of operations and financial position of Pharmacia.

We acquired Esperion Therapeutics, Inc. (Esperion) in February 2004. The acquisition was accounted for as a purchase. Esperion is a biopharmaceutical company focused on the development of high density lipoprotein (HDL)-targeted (good cholesterol) therapies for the treatment of cardiovascular disease.

We acquired Idun Pharmaceuticals, Inc., a biopharmaceutical company focused on the discovery and development of therapies to control apoptosis (cell death), in April 2005. The acquisition was accounted for as a purchase. In September 2005, we acquired Vicuron Pharmaceuticals, Inc., a biopharmaceutical company focused on the development of novel anti-infectives. The acquisition was also accounted for as a purchase.

#### Pfizer Website

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website ([www.pfizer.com](http://www.pfizer.com)) under the "Who We Are - For Investors - SEC Filings by Pfizer" captions as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

Throughout this 2005 Form 10-K, we "incorporate by reference" certain information from parts of other documents filed with the SEC, including our Annual Report to Shareholders for 2005 and our Proxy Statement for the 2006 Annual Meeting of Shareholders (2006 Proxy Statement). The SEC allows us to disclose important information by referring to it in that manner. Please refer to such information. This year, our Annual Report to Shareholders is in two parts: the 2005 Annual Review (2005 Annual Review); and the 2005 Financial Report (2005 Financial Report), which is contained in Appendix A to our 2006 Proxy Statement. Portions of our 2005 Financial Report are filed as Exhibit 13 to this 2005 Form 10-K. On or about March 16, 2006, our 2005 Annual Review, our 2005 Financial Report and our 2006 Proxy Statement will be available on our website ([www.pfizer.com](http://www.pfizer.com)); the 2005 Annual Review and 2005 Financial Report will be set forth under the "Who We Are - For Investors - Financial Reports" captions, and the 2006 Proxy Statement will be set forth under the "Who We Are - For Investors - SEC Filings by Pfizer" captions.

Information relating to corporate governance at Pfizer, including our Corporate Governance Principles; Director Qualification Standards; Chief Executive Officer and Chief Financial Officer certifications; Pfizer Policies on Business Conduct (for all of our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer); Code of Business Conduct and Ethics for our Directors; as well as information concerning our Directors; e-mail communication with our Directors; Board Committees, including Committee charters; and transactions in Pfizer securities by Directors and officers, is available on our website



(www.pfizer.com) under the "Who We Are - For Investors - Corporate Governance" captions. We will provide any of the foregoing information without charge upon written request to Margaret M. Foran, Senior Vice President-Corporate Governance, Associate General Counsel and Corporate Secretary, Pfizer Inc., 235 East 42nd Street, New York, NY 10017-5755. Information relating to shareholder services, including our Shareholder Investment Program, book-entry share ownership and direct deposit of dividends, is available on our website (www.pfizer.com) under the "Who We Are - For Investors - Shareholder Services" captions.

## Business Segments

We operate in three business segments: Human Health, Consumer Healthcare and Animal Health.

We also operate several other businesses, including the manufacture of empty soft-gelatin capsules, contract manufacturing and bulk pharmaceutical chemicals. Due to the size of these businesses, they are grouped into the "Corporate/Other" category of our segment information.

Comparative segment revenues and related financial information for 2005, 2004 and 2003 are presented in the table captioned *Segment* in Note 19 to our consolidated financial statements, *Segment, Geographic and Revenue Information*, in our 2005 Financial Report and the section headed *Revenues by Therapeutic Area* in our 2005 Financial Report. The information from those sections of our 2005 Financial Report is incorporated by reference in this 2005 Form 10-K.

Our businesses are heavily regulated in most of the countries where we operate. In the U.S., the principal authority regulating our operations is the Food and Drug Administration (FDA). The FDA regulates the safety and efficacy of the products we offer and our research quality, manufacturing processes, product promotion, advertising and product labeling. Similar regulations exist in most other countries, and in many countries the government also regulates our prices. See *Government Regulation and Price Constraints* below.

## Human Health Segment

Our Human Health business is the largest pharmaceutical business in the world. This segment includes treatments for cardiovascular and metabolic diseases, central nervous system disorders, arthritis and pain, infectious and respiratory diseases, urogenital conditions, cancer, eye disease, endocrine disorders and allergies. Our portfolio of medicines includes four of the world's 25 best-selling medicines, with six medicines that lead their therapeutic areas.

In 2005, Human Health revenues declined 4%, to \$44.3 billion, primarily due to loss of U.S. exclusivity of certain key products (primarily *Neurontin*), uncertainty relating to selective COX-2 inhibitors and the suspension of sales of *Bextra*. 2005 results were also impacted by increased competition and the overall market decline as branded prescriptions in the U.S. declined 5% in 2005 compared to 2004. Revenues from this segment contributed 86% of our total revenues in 2005, and 88% in each of 2004 and 2003. We recorded product sales of more than \$1 billion for each of eight pharmaceutical products in 2005. Those eight products [*Lipitor*, *Norvasc*, *Zoloft*, *Celebrex*, *Zithromax/Zmax*, *Viagra*, *Xalatan/Xalacom* and *Zyrtec*] represented 64 % of Human Health revenues in 2005. A table captioned *Revenues - Major Human Health Products*, in our 2005 Financial Report is incorporated by reference.

Our principal pharmaceutical products and certain recently approved products are as follows:

### *Cardiovascular and Metabolic Diseases*

- *Lipitor*, for the treatment of elevated cholesterol levels in the blood, is the most widely used treatment for lowering cholesterol and the best-selling pharmaceutical product of any kind in the world. In September 2005, the FDA approved the use of *Lipitor* to reduce the risk of stroke and myocardial infarction in patients with type 2 diabetes and multiple risk factors for coronary heart disease. In addition, the FDA expanded the *Lipitor* label to include data on the reduction in the incidence of stroke in patients with multiple risk factors.

- *Norvasc* is the world's most-prescribed branded medicine for treating hypertension.



## Edgar Filing: PFIZER INC - Form 10-K

*Norvasc* experienced patent expirations in many European Union (E.U.) countries. *Norvasc* maintains exclusivity in many major markets globally, including the U.S., Japan, Canada and Australia.

- *Caduet*, launched in the U.S. in 2004, is a single pill combining *Lipitor* and *Norvasc* for prevention of cardiovascular events. *Caduet* has been approved in several European countries for the prevention of cardiovascular events.
- *Accupril/Accuretic* is an angiotensin converting enzyme (ACE) inhibitor for the treatment of hypertension and congestive heart failure. *Accupril* began to face generic competition in the latter part of 2004. Subsequently, we launched our own generic version of *Accupril* in the U.S. through our Greenstone Ltd. (Greenstone) generic pharmaceutical subsidiary.
- *Cardura* is for the treatment of hypertension and benign prostatic hyperplasia (enlarged prostate gland). Currently, there are multiple generic versions of *Cardura* on the U.S. market. We expect to launch *Cardura XL*, an extended release version which has been approved by the FDA, in May 2006.
- *Inspira*, launched in the U.S. in 2004, is for the treatment of hypertension and congestive heart failure in patients who have had a heart attack. It also was launched in several E.U. member countries in 2004 for the treatment of congestive heart failure.
- *Revatio* was approved in the U.S. in June 2005 and in the E.U. in November 2005 for the treatment of pulmonary arterial hypertension, a rare, life-shortening vascular condition.

### *Central Nervous System Disorders*

- *Zoloft* is the most-prescribed antidepressant in the U.S. It is indicated for the treatment of major depressive disorder, panic disorder, obsessive-compulsive disorder in adults and children, post-traumatic stress disorder (PTSD), premenstrual dysphoric disorder (PMDD) and social anxiety disorder (SAD). *Zoloft* is approved for acute and long-term use in all of these indications, with the exception of PMDD, and is the only approved agent for the long-term treatment of PTSD and SAD, an important differentiating feature as these disorders tend to be chronic. For information concerning a labeling change implemented in the U.S. in February 2005, see the discussion under the headings *Human Health-Selected Product Descriptions*, *Zoloft* in the Financial Review section of our 2005 Financial Report, which discussion is incorporated by reference.
- *Neurontin*, for use in adjunctive therapy for epilepsy, is also approved in many countries for the treatment of a range of neuropathic pain conditions. *Neurontin* has also been approved for the management of post-herpetic neuralgia, a painful condition that affects many people in the aftermath of the viral infection commonly known as shingles. *Neurontin* began to face generic competition in the U.S. in the latter half of 2004. Subsequently, we launched our own generic version of *Neurontin* in the U.S. through our Greenstone subsidiary.
- *Geodon*, marketed in certain countries as *Zeldox*, is a treatment for the symptoms of schizophrenia and bipolar disorder, including manic and mixed episodes. Available in both an oral capsule and rapid-acting intramuscular formulation, *Geodon* is now the second- fastest-growing atypical anti-psychotic medication in the U.S.
- *Aricept*, discovered and developed by Eisai Co., Ltd., is the world's leading medicine to treat symptoms of Alzheimer's disease. We co-promote *Aricept* with Eisai in the U.S. and several other countries and have an exclusive license to sell this medicine in certain other countries.
- *Xanax* is for the treatment of generalized anxiety disorder and panic disorder. *Xanax XR*, an extended-release formulation of the drug, is a rapid-acting, once-a-day medication approved for treating

Edgar Filing: PFIZER INC - Form 10-K

panic disorder. The *Xanax XR* patent has expired in the U.S. and we anticipate generic competition in 2006. Pfizer's Greenstone subsidiary will also launch a generic version.

- *Relpax* is an oral treatment for acute migraine headaches. It has been launched in the U.S., Canada, Japan and throughout Europe.

## Edgar Filing: PFIZER INC - Form 10-K

- *Rebif*, discovered and developed by Serono S.A., is used for the treatment of relapsing forms of multiple sclerosis. We co-promote *Rebif* with Serono in the U.S.
- *Lyrica* was approved by the FDA in June 2005 for adjunctive therapy for adults with partial onset seizures. This latest indication builds on the December 2004 FDA approval of *Lyrica* for two of the most common forms of neuropathic pain □ diabetic peripheral neuropathy, a chronic neurologic condition affecting nearly three million Americans, and post-herpetic neuralgia. *Lyrica* was launched in the U.S., Canada and Italy in September 2005 and is now approved in more than 50 countries and is currently available in more than 30 markets.

### *Arthritis and Pain*

- *Celebrex* is for the treatment of osteoarthritis, adult rheumatoid arthritis, acute pain, menstrual pain and familial adenomatous polyposis. It also was approved by the FDA in July 2005 for the treatment of ankylosing spondylitis, a form of spinal arthritis. *Celebrex* has the broadest range of approved indications of any selective COX-2 inhibitor. See the discussion of labeling changes relating to *Celebrex* and the suspension of *Bextra*, another arthritis medicine, under the headings *Human Health-Selected Product Descriptions, Celebrex and Bextra*, in the Financial Review section of our 2005 Financial Report, which is incorporated by reference.

### *Infectious and Respiratory Diseases*

- *Zithromax* is for the treatment of bacterial infections. *Zithromax* is licensed to us exclusively by Pliva, a Croatian pharmaceutical company. *Zithromax* lost basic patent protection in the U.S. in November 2005. During the fourth quarter of 2005, four generic versions of the oral solid dosage form of azithromycin were launched, including one authorized generic by Pfizer's Greenstone subsidiary.
- *Zmax*, a single-dose, sustained-release form of azithromycin, was made available to patients in the U.S. beginning in August 2005. *Zmax*, which is a novel and patent-protected formulation, delivers a complete course of therapy in a single dose and helps minimize non-compliance compared to multi-dose regimens.
- *Diflucan* is a systemic antifungal. It is used to treat various fungal infections, including vaginal infections and certain infections that afflict HIV/AIDS and cancer patients with weakened immune systems. *Diflucan* lost patent protection in Japan and much of Europe in 2003, and lost marketing exclusivity in the U.S. in 2004. Subsequently, we launched our own generic version of *Diflucan* in the U.S. through our Greenstone subsidiary.
- *Vfend* is a treatment that can be administered orally or intravenously for certain serious and potentially fatal fungal infections, for the treatment of esophageal candidiasis and for the treatment of certain blood stream infections in non-neutropenic patients (those without low white blood cell counts). It is also available in an oral-suspension formulation suitable for patients unable to swallow the tablet form.
- *Zyvox* is for the treatment of bacterial infections, which increasingly are caused by drug-resistant bacteria, and the treatment of diabetic foot infections. *Zyvox* is available in intravenous, tablet and oral-suspension formulations.
- *Spiriva* is for the treatment of chronic obstructive pulmonary disease (COPD), a chronic respiratory disorder that includes bronchitis and emphysema. We co-promote *Spiriva* with Boehringer Ingelheim, which discovered and developed the medicine. *Spiriva HandiHaler* is an inhaled treatment for the long-term, once-daily maintenance treatment of bronchospasm associated with COPD.
- *Exubera* (inhaled human insulin) was approved by the FDA and the European Commission in January 2006 for the treatment of adults with type 1 and type 2 diabetes. *Exubera* is a product of a collaboration

between Pfizer and Nektar Therapeutics. We expect to launch *Exubera* in the U.S. and selected E.U. markets by mid-year. See the discussion of our pending acquisition of

## Edgar Filing: PFIZER INC - Form 10-K

worldwide rights related to *Exubera* under the heading *Acquisitions and Dispositions* [Other *Acquisitions* in the Financial Review Section of our 2005 Financial Report, which is incorporated by reference.

### *Urology*

- *Viagra* is the leading treatment for erectile dysfunction (ED), and one of the world's most recognized pharmaceutical brands. For further information on *Viagra* and the overall ED market, see the discussion under the headings *Human Health-Selected Product Descriptions, Viagra* in the Financial Review section of our 2005 Financial Report, which is incorporated by reference.
- *Detrol* is the world's leading product for the treatment of overactive bladder. *Detrol LA* is an extended-release formulation of this medicine, taken once a day.

### *Oncology*

- *Camptosar*, which is marketed under the name *Campto* in many countries outside the U.S., is one of the leading treatments for colorectal cancer. In addition to our U.S. rights, in October 2004, we acquired marketing rights to *Campto/Camptosar* in Europe and Asia (except Japan).
- *Ellence* and *Aromasin* are for the treatment of breast cancer. In 2005, *Aromasin* was approved in the U.S. and E.U. to treat early breast cancer in post-menopausal women.
- *Sutent*, a new targeted anti-cancer treatment for patients with gastrointestinal stromal tumors, a rare stomach cancer, and advanced kidney cancer, was approved by the FDA for both indications in January 2006. Applications for these indications have also been filed in Canada and the E.U. *Sutent* was available to patients in the U.S. within seven days of its approval.

### *Ophthalmology*

- *Xalatan/Xalacom* is the most-prescribed branded glaucoma medicine in the world. It is used to treat open-angle glaucoma and ocular hypertension. *Xalacom*, which consists of *Xalatan* in combination with a beta blocker, is available primarily in European markets.
- *Macugen* is a treatment for neovascular (wet) age-related macular degeneration (AMD). *Macugen*, which is jointly marketed by Pfizer and OSI Pharmaceuticals in the U.S., has become the most frequently used treatment regimen for wet AMD in the U.S. and received marketing authorization in the E.U. in January 2006. It was launched in the U.S. in January 2005 and in Canada in September 2005.

### *Endocrine Disorders*

- *Genotropin* is the world's leading human recombinant growth hormone. It is used for the treatment of various growth disorders in children and adults. Novo Nordisk has granted us a non-exclusive license to sell *Genotropin* in the U.S.

### *Other*

- *Zyrtec* is for the treatment of year-round indoor and seasonal outdoor allergies and hives in adults and children. *Zyrtec* is the most-prescribed antihistamine in the U.S. *Zyrtec-D 12 Hour* treats both year-round indoor and outdoor allergies as well as nasal congestion. *Zyrtec* is licensed to us by the Belgian company UCB S.A. We co-promote *Zyrtec* as a prescription medicine in the U.S. with a subsidiary of UCB S.A. and we have a license to sell *Zyrtec* under various trade names as an OTC medicine in Canada, Europe, Mexico and Australia.

## **Consumer Healthcare Segment**

Our Consumer Healthcare business is one of the largest in the world. We market many of the world's best-known OTC, or self-medications, for oral care, upper respiratory health, tobacco dependence, gastrointestinal health, skin care, eye care and hair growth.

In 2005, Consumer Healthcare revenues increased 10%, to \$3.9 billion, due to the strong performance of Listerine mouthwash, which has benefited from recent product extensions and broader sales of the product outside the U.S.; growth from upper-respiratory products, *Zantac* and tobacco dependence products; inclusion of

Purell sales, following the acquisition of the Purell brand in November 2004; and the favorable impact of foreign exchange. Revenues from this segment contributed 7.6% of our total revenues in 2005, 6.7% of our total revenues in 2004 and 6.6% of our total revenues in 2003.

Consumer Healthcare's principal products include:

- *Listerine* mouthwash
- *Listerine PocketPaks* oral care strips
- *Nicorette* for tobacco dependence
- *Benadryl* antihistamine for allergies
- *Sudafed* for sinus congestion
- *Rogaine* for hair growth
- *Zantac* for prevention and relief of heartburn
- *Roloids* antacid tablets
- *Neosporin* antibiotic ointment
- *Visine* eye drops
- *Lubriderm* moisturizing lotions
- *Purell* instant hand sanitizer

Consumer Healthcare can extend the life of some of our prescription medications by converting them to OTC products, or "self-medications". For example, *Nicorette*, *Benadryl*, *Sudafed* and *Zantac* were all previously prescription products. As market conditions permit, and when we have necessary approval from drug regulatory authorities, we plan to pursue similar launches for other products.

On February 7, 2006, we announced that we will be exploring strategic alternatives for our Consumer Healthcare business, including spinning off or selling the business. We expect to make a decision in the third quarter of 2006.

## **Animal Health Segment**

Our Animal Health business is one of the largest in the world. We discover, develop and sell products for the prevention and treatment of diseases in livestock and companion animals. In 2005, Animal Health revenues increased 13%, to \$ 2.2 billion, due to strong performances by *Excede* (a long acting anti-infective) in the U.S., *Draxxin* (for treatment of respiratory disease in cattle and swine) in the U.S. and Europe, the launch of *Spectramast* in the U.S., double digit growth in sales of *Revolution* (a parasiticide for dogs and cats) and *Clavamox* (an antibiotic for dogs and cats) for companion animals, the launch of *Simplicef* (small animal anti-infective) in the U.S. in the fourth quarter of 2004, and the favorable impact of foreign exchange. Revenues from this segment contributed 4.3% of our revenue in 2005, 3.7% of our total revenues in 2004 and 3.6% of total revenues in 2003.

Among the products we market are parasiticides, anti-inflammatories, vaccines, antibiotics and related medicines, including the products discussed below.

Parasiticides constitute the largest segment of the animal health market for companion animals, consisting mainly of medicines for the control of parasites such as fleas and heartworm. Our product, *Revolution*, is our largest-selling parasiticide for companion animals.

*Spectramast*, an antibiotic formulated to treat clinical mastitis, was launched in the U.S. in May 2005.

*Rimadyl* relieves pain and inflammation associated with canine osteoarthritis and soft tissue orthopedic surgery. *Rimadyl* is the only arthritis pain medication prescribed by veterinarians available in chewable tablets, regular caplets and in an injectable formulation.

*Clavamox/Synulox* is an antibiotic for skin and soft tissue infections in dogs and cats.

Our vaccine portfolio for livestock is extensive and includes *RespiSureOne/StellamuneOne*, a single-dose vaccine used to prevent pneumonia in swine, and *Bovi-Shield Gold*, a cattle vaccine for reproductive and respiratory protection.

*Dectomax* injectable and pour-on formulations remove and control internal and external parasites in beef cattle.

*Naxcel/Excenel RTU* is an antibiotic used to treat respiratory and internal infections in cattle and swine.

## **Research and Product Development**

Innovation by our research and development operations is very important to the Company's success. Our goal is to discover, develop and bring to market innovative products that address major unmet medical needs. This goal has been supported by our substantial research and development investments. We spent \$7.4 billion in 2005, \$7.7 billion in 2004 and \$7.5 billion in 2003



on research and development in support of Pfizer's human, animal and consumer healthcare businesses.

We conduct research internally and also through contracts with third parties, through collaborations with universities and biotechnology companies and in cooperation with other pharmaceutical firms. We also seek out innovative technologies developed by third parties to incorporate into our discovery or development processes or projects, as well as our product lines, through acquisition, licensing or other arrangements.

Drug discovery and development is time consuming, expensive and unpredictable. On average, only one out of many thousands of chemical compounds discovered by researchers proves to be both medically effective and safe enough to become an approved medicine. The process from early discovery to development to regulatory approval can take more than ten years. Drug candidates can fail at any stage of the process. Candidates may not receive regulatory approval even after many years of research.

We believe that our investments in research have been rewarded by the number of pharmaceutical compounds we have in all stages of development. We currently are working on 235 projects in development, including 152 new molecular entities and 83 product-line extensions. In addition, we have more than 400 projects in discovery research. In recent years, our discovery scientists have delivered dozens of new chemical compounds to early development. While these new candidates may or may not eventually receive regulatory approval, new drug candidates entering development are the foundation for future products.

In addition to discovering and developing new products, our research operations add value to our existing products by improving their effectiveness and by discovering new uses for them. In 2005, for example, we received approval for a new indication for our COX-2 inhibitor *Celebrex* for the treatment of ankylosing spondylitis, a form of arthritis that affects the spine. We also received approval for the use of *Lipitor* to reduce the risk of stroke and heart attack in people with type 2 diabetes and multiple risk factors for coronary heart disease.

Information concerning several of our drug candidates in development as well as supplemental filings for existing products is set forth under the heading *Product Developments* in our 2005 Financial Report. That information is incorporated by reference.

Our competitors also devote substantial funds and resources to research and development. In addition, the consolidation that has occurred in our industry has created companies with substantial research and development resources. We also compete against numerous small biotechnology companies in developing potential drug candidates. The extent to which our competitors are successful in their research could result in erosion of the sales of our products and unanticipated product obsolescence.

## **International Operations**

We have significant operations outside the United States. They are managed through the same business segments as our U.S. operations - Human Health, Consumer Healthcare and Animal Health.

Revenues from operations outside the U.S. of \$24.6 billion accounted for 48% of our total revenues in 2005. Revenues exceeded \$500 million in each of 12 countries outside the U.S. in 2005. The U.S. was the only country to contribute more than 10% of our total revenues, comprising 52% of revenues in 2005, 56% of revenues in 2004 and 60% of revenues in 2003. Japan is our second-largest national market, with 7% of our revenues in 2005 and 6% in each of 2004 and 2003.

For a geographic breakdown of revenues and changes in revenues, see the table captioned *Geographic* in Note 19 to our consolidated financial statements, *Segment, Geographic and Revenue Information*, in our 2005 Financial Report and the table captioned *Change in Geographic Revenues* in our 2005 Financial Report. Those tables are incorporated by reference.

Our international businesses are subject, in varying degrees, to a number of risks inherent in carrying on business in other countries. These include currency fluctuations, capital and exchange control regulations, expropriation and other restrictive government actions. Our international businesses are also subject to government-imposed constraints, including laws on pricing or reimbursement for use of products.



See *Government Regulation and Price Constraints* below for discussion of these matters.

Depending on the direction of change relative to the U.S. dollar, foreign currency values can increase or decrease the reported dollar value of our net assets and results of operations. In 2005, revenues were favorably impacted by foreign exchange, as foreign currency movements relative to the U.S. dollar increased our reported revenues in many countries. While we cannot predict with certainty future changes in foreign exchange rates or the effect they will have on us, we attempt to mitigate their impact through operational means and by using various financial instruments. See the discussion under Note 9-D to our consolidated financial statements, *Financial Instruments: Derivative Financial Instruments and Hedging Activities* in our 2005 Financial Report. That discussion is incorporated by reference. Related information about valuation and risks associated with such financial instruments in parts E and F of that same Note is also incorporated by reference.

## Marketing

In our global Human Health business, we promote our products to healthcare providers and patients. Through our marketing organizations, we explain the approved uses, benefits and risks of our products to healthcare providers, such as doctors, nurse practitioners, physician assistants, pharmacists, hospitals, Pharmacy Benefit Managers (PBMs), Managed Care Organizations (MCOs) and government agencies. We also market directly to consumers in the U.S., through direct-to-consumer print and television advertising that communicates the approved uses, benefits, and risks of our products while continuing to motivate people to have meaningful conversations with their doctors. In addition, we sponsor general advertising to educate the public on disease awareness, important public health issues, and our patient assistance programs in all major markets.

Our operations include several pharmaceutical sales organizations. Our structure aligns the sales, marketing, and medical functions to work closely in tandem along the same therapeutic groups of products, reinforcing common coordination, focus, and accountability across the organizations.

Our prescription pharmaceutical products are sold principally to wholesalers, but we also sell directly to retailers, hospitals, clinics, government agencies and pharmacies. We seek to gain access to health authority, PBM and MCO formularies (lists of recommended, approved, and/or reimbursed medicines and other products) by demonstrating the clinical and economic value of our products. We also work with MCOs and PBMs and other appropriate healthcare providers to assist them with disease management, patient education and other tools that help their medical treatment routines. In 2005, for instance, we were awarded a Center for Medicare/Medicaid Studies (□CMS□) contract to provide the Green Ribbon Health Initiative, a joint-partnership with the MCO Humana designed to improve the health and quality of life for beneficiaries with multiple chronic conditions in Central Florida.

Our Consumer Healthcare business primarily uses its own representatives to directly promote its products, including marketing certain products directly to professionals using a professional detail force. We also use print and television consumer advertising and offer sales incentives such as coupons. Our consumer healthcare products are sold through various channels.

Our Animal Health business also uses its own sales organization to promote its products. Its advertising and promotion are generally targeted to health professionals, directly and through veterinary journals. Animal health and nutrition products are sold through veterinarians, drug wholesalers, distributors and retail outlets as well as directly to users. Where appropriate, these products are also marketed through print and television advertising.

During 2005, sales to our three largest customers were as follows:

- McKesson, Inc. □ 18% of our total revenues;
- Cardinal Health, Inc. □ 13% of our total revenues; and
- AmerisourceBergen Corporation □ 10% of our total revenues.

Sales to these wholesalers were concentrated in the Human Health segment. Apart from these instances, none of our business segments is dependent on any one customer or group of related customers.



## Patents and Intellectual Property Rights

Our products are sold around the world under brand-name, logo and certain product design trademarks that we consider in the aggregate to be of material importance. Trademark protection continues in some countries for as long as the mark is used and, in other countries, for as long as it is registered. Registrations generally are for fixed, but renewable, terms.

We own or license a number of U.S. and foreign patents. These patents cover pharmaceutical and other products and their uses, pharmaceutical formulations, product manufacturing processes and intermediate chemical compounds used in manufacturing.

Patents for individual products extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country.

In the aggregate, our patent and related rights are of material importance to our businesses in the U.S. and most other countries. Based on current product sales, and considering the vigorous competition with products sold by others, the patent rights we consider significant in relation to our business as a whole, together with the year in which the U.S. basic product patent expires (including, where applicable, the additional six-month pediatric exclusivity period), are those for the drugs set forth in the table below. The table also includes patent expiration information relating to certain recently approved drugs.

| <b><u>Drug</u></b> | <b><u>U.S. Basic Product Patent<br/>Expiration Year</u></b> |
|--------------------|---|
| <i>Zoloft</i>      | 2006  |
| <i>Norvasc</i>     | 2007  |
| <i>Zyrtec</i>      | 2007  |
| <i>Camptosar</i>   | 2008  |
| <i>Aricept</i>     | 2010  |
| <i>Lipitor</i>     | 2010  |
| <i>Xalatan</i>     | 2011  |
| <i>Viagra</i>      | 2012  |
| <i>Detrol</i>      | 2012  |
| <i>Celebrex</i>    | 2013  |
| <i>Lyrica</i>      | 2013  |
| <i>Sutent</i>      | 2021  |

## Edgar Filing: PFIZER INC - Form 10-K

In some instances, there are later-expiring patents relating to our products directed to particular forms or compositions of the drug or to methods of manufacturing or using the drug in the treatment of particular diseases or conditions. However, in some cases, such patents may not protect the Company's drug from generic competition after the expiration of the basic patent.

The U.S. basic product patent for *Zithromax* expired in November 2005.

*Zyrtec* is patented by the Belgian company UCB S.A. and is licensed to us for sales in the U.S., Canada, Europe, Mexico and Australia. We co-promote *Zyrtec* as a prescription medicine in the U.S. with a subsidiary of UCB S.A. and have a license to sell *Zyrtec* under various trade names as an OTC medicine in the other markets.

*Aricept* is patented by Eisai Co., Ltd. We co-promote *Aricept* with Eisai in the U.S. and several other countries and have an exclusive license to sell the drug in certain other countries.

In addition to our U.S. basic product patent for *Lipitor*, which (including the pediatric exclusivity period) expires in March 2010, we have a patent covering specifically the enantiomeric form of the drug, which (including the pediatric exclusivity period) expires in June 2011.

We market *Genotropin* in the U.S. under a non-exclusive license from Novo-Nordisk.

Companies have filed applications with the FDA seeking approval of products that we believe infringe our patents covering, among other products, *Lipitor*, *Norvasc*, *Celebrex* and *Detrol*.

We also have other patent rights covering additional products that have lesser revenues.

The expiration of a basic product patent or loss of patent protection resulting from a legal challenge normally results in significant competition from generic products against the originally patented product and can result in a significant reduction in sales of that product in a very short period. In some cases, however, we can continue to obtain commercial benefits from product manufacturing trade secrets; patents on uses for products; patents on processes and intermediates for the economical manufacture of the active ingredients; patents for special formulations of the product or delivery mechanisms; and conversion of the active ingredient to OTC products.

One of the main limitations on our operations in some countries outside the U.S. is the lack of effective intellectual property protection for our products. Under international agreements in recent years, global protection of intellectual property rights is improving. The General Agreement on Tariffs and Trade requires participant countries to amend their intellectual property laws to provide patent protection for pharmaceutical products by the end of a ten-year transition period. A number of countries are doing this. We have experienced significant growth in our businesses in some of those nations, and our continued business expansion in those countries depends to a large degree on further patent protection improvement.

## **Competition**

Our businesses are conducted in intensely competitive and often highly regulated markets. Many of our human pharmaceutical products face competition in the form of branded drugs or generic drugs that treat similar diseases or indications. The principal forms of competition include efficacy, safety, ease of use, and cost effectiveness. Though the means of competition vary among product categories and business groups, demonstrating the value of our products is a critical factor for success in all of our principal businesses.

Our Human Health business is the largest in the world. Our competitors include other worldwide research-based drug companies, smaller research companies with more limited therapeutic focus, and generic drug manufacturers. We compete with other companies that manufacture and sell products that treat similar diseases or indications as our major products.

Such competition affects our core product innovation business, focused on discovering and marketing products that satisfy unmet medical needs and providing therapeutic improvements. Our emphasis on innovation is underscored by our multi-billion-dollar investment in research and development over the past decade, resulting in one of the strongest product pipelines in the industry. We also continue to enhance the organizational effectiveness of our pharmaceutical sales and marketing functions, coordinating support for our salespeople's efforts to launch and promote our products to our customers.

Operating conditions have become more challenging under the mounting global pressures of competition, industry regulation and cost containment. We are taking important measures to address this business environment. We continue to evaluate, adapt, and improve our business practices to better meet customer and public needs. For instance, we have taken an industry-leading role in evolving our approaches to direct-to-consumer advertising and medical education grants. We have also restructured our U.S. sales organization to streamline customer interactions with our field force, ensuring that each doctor will interface with no more than two sales representatives per therapeutic area. Finally, we continue to sponsor programs to address patient affordability and access barriers, as we strive to advance fundamental health system change through campaigns for better healthcare solutions.

Our Consumer Healthcare business is one of the largest in the world. However, many other companies, large and small, manufacture and sell one or more products that are similar to our consumer healthcare products, including major retail customers that sell "private label" or "house" brands. Sources of competitive advantage include product quality and efficacy, including differentiated claims, brand identity, advertising and promotion, product innovation, broad distribution capabilities and price. Significant expenditures for advertising, promotion and marketing are generally required to achieve and maintain both consumer and trade acceptance of consumer healthcare products.

While our Animal Health business is one of the largest in the world, many other companies offer competitive products. Altogether, there are hundreds of producers of animal health products throughout the world. The principal methods of competition vary somewhat depending on the particular product. They include product innovation, quality, price, service and effective promotion to veterinary professionals and consumers.

### *Managed Care Organizations*

The growth of MCOs in the U.S. has been a major factor in the competitive make-up of the healthcare marketplace. Approximately 180 million people in the U.S. now participate in some version of managed care. Because of the size of





the patient population covered by MCOs, marketing of prescription drugs to them and the PBMs that serve many of those organizations has become important to our business.

MCOs can include medical insurance companies, medical plan administrators, health-maintenance organizations, alliances of hospitals and physicians and other physician organizations. The purchasing power of MCOs has been increasing in recent years due to their growing numbers of enrolled patients. At the same time, those organizations have been consolidating into fewer, even larger entities. This enhances their purchasing strength and importance to us.

The growth of MCOs has increased pressure on drug prices. A major objective of MCOs is to contain and, where possible, reduce healthcare expenditures. They typically use formularies, volume purchases and long-term contracts to negotiate discounts from pharmaceutical providers. They use their purchasing power to bargain for lower supplier prices. They also emphasize primary and preventive care, out-patient treatment and procedures performed at doctors' offices and clinics. Hospitalization and surgery, typically the most expensive forms of treatment, are carefully managed. Since the use of certain drugs can prevent the need for hospitalization, professional therapy or even surgery, such drugs can become favored first-line treatments for certain diseases.

As discussed above in *Marketing*, MCOs and PBMs typically develop formularies to reduce their cost for medications. Formularies can be based on the prices and therapeutic benefits of the available products. Due to their generally lower cost, generic medicines are often favored. The breadth of the products covered by formularies can vary considerably from one MCO to another and many formularies include alternative and competitive products for treatment of particular medical problems. MCOs use a variety of means to encourage patients' use of products listed on their formularies.

Exclusion of a product from a formulary or other restrictions, such as requiring prior authorizations, can lead to its sharply reduced usage in the MCO patient population. Consequently, pharmaceutical companies compete aggressively to have their products included. Where possible, companies compete for inclusion based upon unique features of their products, such as greater efficacy, better patient ease of use or fewer side effects. A lower overall cost of therapy is also an important factor. Products that demonstrate fewer therapeutic advantages must compete for inclusion based primarily on price. We have been generally, although not universally, successful in having our major products included on most MCO formularies.

The impact of MCOs on drug prices and volumes may increase as the result of their role in negotiating on behalf of Medicare beneficiaries in connection with the new Medicare out-patient Prescription Drug Benefit, Medicare Part D, effective January 1, 2006. MCOs and PBMs negotiate on behalf of the federal government as Prescription Drug Plans or PDPs. We have been generally, although not universally, successful in having our major products that are used by the senior population included on the formularies of the new Medicare PDPs.

Another way we demonstrate the value of pharmaceuticals in the context of an appropriate approach to the management of healthcare is by developing disease management programs. These programs can improve patient care by improving patient communications and compliance with dosage directions. They can also help show that a comprehensive approach to healthcare management, which includes prevention, diagnosis and treatment of certain conditions, and appropriate use of pharmaceuticals, can improve the quality of care and lower costly complications of chronic diseases. As noted above in *Marketing*, in 2005 we were awarded a CMS contract to provide the Green Ribbon Health Initiative, a joint-partnership with the MCO Humana, designed to improve the health and quality of life for beneficiaries with multiple chronic conditions in Central Florida. Additionally, we sponsor a program offered by the State of Florida Agency for Health Care Administration to help manage chronic diseases among Florida's Medicaid population.

#### *Generic Products*

One of the biggest competitive challenges that we face in the U.S., which is also growing internationally, is from generic pharmaceutical manufacturers. Upon the expiration or loss of

patent protection for a product, we can lose the major portion of sales of that product in a very short period. Several such competitors make a regular practice of challenging our product patents before their expiry. Generic competitors operate without our large research and development expenses and our costs of conveying medical information about the product to the medical community. In addition, the FDA approval process exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy data of the innovator product. Generic products, however, need only demonstrate a level of availability in the bloodstream equivalent to that of the innovator product. This means that generic competitors can market a competing version of our product after the expiration or loss of our patent and charge much less.

In addition, our patent-protected products can face competition in the form of generic versions of branded products of competitors that lose their market exclusivity. For example, *Lipitor* will begin to face competition from generic pravastatin (Pravachol) and generic simvastatin (Zocor) during 2006.

As noted above, MCOs that focus primarily on the immediate cost of drugs often favor generics over brand-name drugs. Many governments also encourage the use of generics as alternatives to brand-name drugs in their healthcare programs, including Medicaid in the U.S. Laws in the U.S. generally allow, and in some cases require, pharmacists to substitute generic drugs that have been rated under government procedures to be therapeutically equivalent to brand-name drugs. The substitution must be made unless the prescribing physician expressly forbids it. In the U.S., Pfizer's Greenstone subsidiary sells generic versions of Pfizer's pharmaceutical products upon loss of exclusivity, as appropriate.

## Raw Materials

Raw materials essential to our businesses are purchased worldwide in the ordinary course of business from numerous suppliers. In general, these materials are available from multiple sources. No serious shortages or delays were encountered in 2005, and none are expected in 2006.

## Government Regulation and Price Constraints

### *In the United States*

General. Pharmaceutical companies are subject to extensive regulation by national, state and local agencies in the countries in which they do business. Of particular importance is the FDA in the U.S. It has jurisdiction over our human pharmaceutical business and administers requirements covering the testing, safety, effectiveness, manufacturing, labeling, marketing, advertising and post-marketing surveillance of our pharmaceutical products. The FDA also regulates most of our consumer healthcare products and, along with the U.S. Department of Agriculture and the U.S. Environmental Protection Agency, our animal health products.

In addition, many of our activities are subject to the jurisdiction of various other federal regulatory and enforcement departments and agencies, such as the Department of Health and Human Services, the Federal Trade Commission and the Department of Justice. Individual states, acting through their attorneys general, have become active as well, seeking to regulate the marketing of prescription drugs under state consumer protection and false advertising laws.

We are subject to possible administrative and legal proceedings and actions by these various regulatory bodies (see Note 18 to our consolidated financial statements, *Legal Proceedings and Contingencies*, in our 2005 Financial Report). Such actions may include product recalls, seizures and other civil and criminal sanctions.

The FDA is considering changes to its approach to "follow-on biological" products (which are the biological product equivalent to generic pharmaceutical products). Changes that would facilitate the approval of such products could have an adverse impact on the Company's business.

Medicare. In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the 2003 Medicare Act) was enacted. Medicare beneficiaries are now eligible to obtain subsidized prescription drug coverage from a private sector provider. It remains difficult to predict the impact of the 2003



Medicare Act on pharmaceutical companies. Usage of pharmaceuticals may increase as the result of the expanded access to medicines afforded by the partial reimbursement under Medicare. Such potential sales increases, however, may be offset by increased pricing pressures due to the enhanced purchasing power of the private sector providers that negotiate on behalf of Medicare beneficiaries. Effective January 1, 2007, reimbursement under Medicare for ED medicines, including *Viagra*, will end.

Pfizer is committed to helping those without coverage gain access to Pfizer products. To that end, in 2004, we implemented our Helpful Answers program, an umbrella program that includes existing Pfizer patient assistance programs, as well as Pfizer Pfriends, a new prescription discount card offering savings on Pfizer prescription medicines to all uninsured Americans, regardless of age or income. In January 2005, we also joined Together Rx Access with nine other pharmaceutical companies to offer savings on over 275 medicines to Medicare-ineligible, uninsured individuals under 65 who fall below certain income thresholds. Pfizer also participates in another industry program, the Partnership for Prescription Assistance, a single point of access to more than 475 public and private patient assistance programs.

Importation of Drugs. There is considerable political pressure to allow the importation into the U.S. of prescription drugs that are marketed outside the U.S. and sold at prices that are regulated by the governments of various foreign countries. In addition to raising safety concerns, such importation could impact pharmaceutical prices in the U.S. While the 2003 Medicare Act maintains the current prohibition on such imports, it would allow importation from Canada if the Secretary of Health and Human Services certifies that such importation is safe and would result in savings to consumers. Before the 2003 Medicare Act, federal law would have permitted importation of medicines into the U.S. from a considerably larger group of developed countries, provided the Secretary of Health and Human Services made the same safety and cost-savings certifications. On December 21, 2004, the Department of Health and Human Services (HHS) and the Department of Commerce issued their reports on drug importation and foreign price controls. The HHS report noted that it would be "extraordinarily difficult to ensure that drugs personally imported by individual consumers" could meet the standards of safety that would support certifying as safe such importation. While the report also concluded that the U.S. could establish a feasible basis for commercial drug importation, such a change in the law would require "new legal authorities, substantial additional resources and significant restrictions on the types of drugs that could be imported." The report also noted that the total savings to be expected from such a commercial importation regime would be relatively small "1% or 2% of total drug spending in the U.S. The Commerce Department report confirmed that the lower prices in many countries result from governmental price controls, and these price controls adversely affect the amount of funding that is available for the discovery of new drugs.

Medicaid and Related Matters. Federal law requires us to give rebates to state Medicaid agencies based on each state's reimbursement of pharmaceutical products under the Medicaid program. In recent years, various proposals have been offered at the federal and state levels that would bring about major changes in the Medicaid program. A national commission is currently studying changes to the Medicaid program. In the short term, driven by budget concerns, many states have implemented restrictive drug lists and state supplemental rebate programs under the Medicaid program. These programs require deeper rebate payments by Pfizer in order to have our products listed on formularies in states with such rebate programs. More than 35 states have implemented some form of formulary restrictions in their Medicaid programs. Currently, Pfizer enjoys relatively good formulary access in state Medicaid programs.

Effective January 1, 2006, federal funds may not be used for reimbursement of erectile dysfunction medications by the Medicaid program. In addition, effective January 1, 2007, changes to treatment of authorized generics for purposes of calculating Medicaid rebates will increase the amount of rebates we are required to pay on brand name drug sales after loss of exclusivity and on authorized generic sales to the Medicaid program.

If changes are implemented under the Medicaid program that further restrict the access of a significant number of patients to our products

and require significantly deeper rebate payments, our business could be adversely affected. The impact of any such changes on Pfizer would be mitigated by the shrinking size of the Medicaid market. Those people who are eligible for both Medicaid and Medicare (often called "dual eligibles") had been receiving their drug benefits under the Medicaid program. Beginning in 2006, their coverage is being transferred to the new Medicare Part D program. This will reduce the number of enrollees in Medicaid drug programs by about 14% but reduce the amount of spending on pharmaceuticals under Medicaid by approximately 57%. While the Medicaid market is now smaller, changes at the state level could impact larger federal and commercial accounts.

In addition, some states are considering price-control regimes that would apply to broader segments of their populations that are not Medicaid eligible, as well as various approaches to controlling pharmaceutical marketing. A sweeping price control ballot proposal was defeated in California during 2005.

We also must give discounts or rebates on purchases or reimbursements of pharmaceutical products by certain other federal and state agencies and programs. See the discussion regarding rebates in the Revenues section of our 2005 Financial Report and in Note 1-G to our consolidated financial statements, *Significant Accounting Policies, Revenues*, in our 2005 Financial Report, which discussions are incorporated by reference.

#### *Outside the United States*

We encounter similar regulatory and legislative issues in most other countries. In Europe and some other international markets, the government provides healthcare at low direct cost to consumers and regulates pharmaceutical prices or patient reimbursement levels to control costs for the government-sponsored healthcare system. This international patchwork of price regulation has led to different prices and some third-party trade in our products from markets with lower prices. Such trade exploiting price differences between countries can undermine our sales in markets with higher prices.

The approval of new drugs across the E.U. may only be achieved using the Mutual Recognition Procedure/Decentralized Procedure or E.U. Commission/EMA's Central Approval Process, which applies in the 25 E.U. member states (ten new member states joined the E.U. in May 2004, which has extended the scope of these procedures), plus Norway and Iceland which are full participants in these registration processes. The use of these procedures provides a more rapid and consistent approval across the member states than was the case when the approval processes were operating independently within each country.

Since the E.U. does not have jurisdiction over patient reimbursement or pricing matters in its member states, we continue to deal with individual countries on such matters across the region.

During 2004, a comprehensive package of reforms was adopted (called New Medicines Legislation) amending E.U. law on the regulation of medicinal products in many areas, including approval procedures and safety reporting. Of particular note, the data exclusivity periods during which innovative companies' regulatory data are protected are required to be harmonized in all member states and implementation is underway in most member states, which will facilitate the approval and launch of generic medicines. In addition, these reforms introduced a clear legal basis for the approval of "biosimilar" or "follow-on biological" products in the E.U. Following a positive scientific assessment announced in January 2006, we expect that the first such product, a biosimilar version of *Genotropin*, will be approved in the E.U. this year. This new set of regulations, which took effect in November 2005, also shortens certain approval timelines and introduces fast-track and conditional centralized authorizations.

## **Environmental Law Compliance**

Most of our operations are affected by federal, state and/or local environmental laws. We have made, and intend to continue to make, necessary expenditures for compliance with applicable laws. We also are cleaning up environmental contamination from past industrial activity at certain sites (see Note 18 to our consolidated financial statements, *Legal Proceedings and Contingencies*, in our 2005 Financial Report). As a result, we incurred capital and operational expenditures in 2005 for environmental

compliance purposes and for the clean-up of certain past industrial activity as follows:

- environment-related capital expenditures \$87 million
- other environment-related expenses \$287million

While we cannot predict with certainty future capital expenditures or operating costs for environmental compliance, we do not believe they will have a material effect on our capital expenditures or competitive position.

## **Tax Matters**

The discussion of tax-related matters in Note 7 to our consolidated financial statements, *Taxes on Income*, in our 2005 Financial Report, is incorporated by reference.

## **Employees**

In our innovation-intensive business, our employees are vital to our success. We believe we have good relationships with our employees. As of December 31, 2005, we employed approximately 106,000 people in our operations throughout the world.

## **ITEM 1A. RISK FACTORS AND CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS**

The statements in this Section describe the major risks to our business and should be considered carefully. In addition, these statements constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995.

*Our disclosure and analysis in this 2005 Form 10-K and in our 2005 Annual Report to Shareholders contain some forward-looking statements that set forth anticipated results based on management's plans and assumptions. From time to time, we also provide forward-looking statements in other materials we release to the public as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will," "target", "forecast" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, the outcome of contingencies, such as legal proceedings, and financial results.*

*We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements.*

*We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports to the SEC. Also note that we provide the following cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties.*

## **Government Regulation and Managed Care Trends**

U.S. and foreign governmental regulations mandating price controls and limitations on patient access to our products impact our business, and our future results could be adversely affected by changes in such regulations. In the U.S., many of

our pharmaceutical products are subject to increasing pricing pressures. Such pressures may increase as the result of the 2003 Medicare Act. In addition, MCOs as well as Medicaid and other government agencies continue to seek price discounts. Government efforts to reduce Medicaid expenses may continue to increase the use of MCOs. This may result in managed care's influencing prescription decisions for a larger segment of the population and a corresponding constraint on prices for our products. In addition, some states have implemented and other states are considering price controls or patient-access constraints under the Medicaid program and some states are considering price-control regimes that would apply to broader segments of their populations that are not Medicaid eligible. Other matters also could be the subject of U.S. federal or state legislative or regulatory action that could adversely affect our business, including the importation of prescription drugs that are marketed outside the U.S. and sold at prices that are regulated by the governments of various foreign countries

The prohibition on the use of federal funds for reimbursement of ED medications by the Medicaid program, which became effective January 1, 2006, and the similar federal funding prohibition for the Medicare program which is scheduled to take effect January 1, 2007, may adversely affect our business. Any prohibitions on the use of federal funds for reimbursement of other classes of drugs in the future may also have an adverse effect.

We encounter similar regulatory and legislative issues in most other countries. In Europe and some other international markets, the government provides healthcare at low direct cost to consumers and regulates pharmaceutical prices or patient reimbursement levels to control costs for the government-sponsored healthcare system. This international patchwork of price regulation has led to different prices and some third-party trade in our products from markets with lower prices. Such trade exploiting price differences between countries can undermine our sales in markets with higher prices. As a result, it is expected that pressures on the pricing component of operating results will continue.

## Generic Competition

Competition from manufacturers of generic drugs is a major challenge for us in the U.S. and is growing internationally. Upon the expiration or loss of patent protection for one of our products, or upon the "at-risk" launch (despite pending patent infringement litigation against the generic product) by a generic manufacturer of a generic version of one of our products, we can lose the major portion of sales of that product in a very short period, which can adversely affect our business. The U.S. basic patent for *Zithromax* expired in 2005, and the U.S. basic patent for *Zoloft* will expire in 2006 and for each of *Norvasc* and *Zyrtec* will expire in 2007. Also, the patents covering several of our most important medicines, including *Lipitor*, *Norvasc*, *Celebrex* and *Detrol*, are being challenged by generic manufacturers. In addition, our patent-protected products can face competition in the form of generic versions of branded products of competitors that lose their market exclusivity. For example, *Lipitor* will begin to face competition from generic pravastatin (Pravachol) and generic simvastatin (Zocor) during 2006.

Changes by the FDA to its approach to "follow-on biologics" could subject *Genotropin* to generic competition.

## Competitive Products

We cannot predict with accuracy the timing or impact of the introduction of competitive products or their possible effect on our sales. Products that compete with our drugs, including some of our best-selling medicines, are launched from time to time. Launches of a number of competitive products have occurred recently, and certain potentially competitive products are in various stages of development, some of which have been filed for approval with the FDA and with regulatory authorities in other countries.

## Dependence on Key In-Line and New Products

We recorded product sales of more than \$1 billion for each of eight pharmaceutical products in 2005: *Lipitor*, *Norvasc*, *Zoloft*, *Celebrex*, *Zithromax/Zmax*, *Viagra*, *Zyrtec*, and *Xalatan/Xalacom*. Those products accounted for 55% of our total 2005 revenues. *Lipitor* sales in



2005 exceeded \$12 billion, accounting for 24% of our total 2005 revenues. If these or any of our other major products were to become subject to a problem such as loss of patent protection, changes in prescription growth rates, material product liability litigation, unexpected side effects, regulatory proceedings, publicity affecting doctor or patient confidence or pressure from existing competitive products, or if a new, more effective treatment should be introduced, the adverse impact on our revenues could be significant. As noted, patents covering several of our best-selling medicines recently have expired or will expire this year or next year, and patents covering a number of our best-selling medicines are the subject of pending legal challenges. In addition, our revenues could be significantly impacted by the timing and rate of commercial acceptance of key new products, including *Lyrica*, *Exubera*, *Sutent* and the product candidate *Champix*.

## **Uncertainty Relating to COX-2 Medicines**

Our goal is to make *Celebrex* available to increased numbers of patients. However, our ability to increase *Celebrex* sales may be limited significantly by the uncertainty concerning COX-2 medicines related to the regulatory actions involving those medicines that were taken last year.

## **Research and Development Investment**

The discovery and development of new products as well as the development of additional uses for existing products is very important to the success of the Company. However, balancing current growth and investment for the future remains a major challenge. Our ongoing investments in new product introductions and in research and development for new products and existing product extensions could exceed corresponding sales growth. This could produce higher costs without a proportional increase in revenues.

## **Development, Regulatory Approval and Marketing of Products**

Risks and uncertainties particularly apply with respect to product-related, forward-looking statements. The outcome of the lengthy and complex process of identifying new compounds and developing new products is inherently uncertain. There can be no assurance as to whether or when we will receive regulatory approval for new products or for new indications or dosage forms for existing products. Decisions by regulatory authorities regarding labeling and other matters could adversely affect the availability or commercial potential of our products. There also are many considerations that can affect marketing of pharmaceutical products around the world. Regulatory delays, the inability to successfully complete clinical trials, claims and concerns about safety and efficacy, new discoveries, patent disputes and claims about adverse side effects are a few of the factors that could adversely affect the realization of research and development and product-related, forward-looking statements.

## **Research Studies**

Decisions about research studies made early in the development process of a drug candidate can have a substantial impact on the marketing strategy once the drug receives approval. More detailed studies may demonstrate additional benefits that can help in the marketing, but they consume time and resources and can delay submitting the drug candidate for initial approval. We try to plan clinical trials prudently, but there is no guarantee that a proper balance of speed and testing will be made in each case. The quality of our decisions in this area could affect our future results.

## **Interest Rate and Foreign Exchange Risk**

48% of our 2005 revenues were derived from international operations, including 18% from countries in the euro zone and 7% from Japan. These international-based revenues as well as our substantial international assets expose our revenues and earnings to foreign currency exchange rate changes. In addition, our interest-bearing investments, loans and borrowings are subject to risk from changes in interest rates. These risks and the measures we have taken to help contain them are discussed in the section entitled Financial Risk Management in our 2005 Financial Report. For additional details, see Note 9-D to our consolidated financial statements, *Financial Instruments: Derivative Financial Instruments and Hedging Activities*, in our 2005



Financial Report. Those sections of our 2005 Financial Report are incorporated by reference.

Notwithstanding our efforts to foresee and mitigate the effects of changes in fiscal circumstances, we cannot predict with certainty changes in currency and interest rates, inflation or other related factors affecting our businesses.

### **Risks Affecting International Operations**

Our international operations also could be affected by changes in intellectual property legal protections and remedies, trade regulations and procedures and actions affecting approval, production, pricing, reimbursement and marketing of products, as well as by unstable governments and legal systems and inter-governmental disputes. Any of these changes could adversely affect our business.

### **Product Manufacturing and Marketing Risks**

Difficulties or delays in product manufacturing or marketing, including, but not limited to, the inability to increase production capacity commensurate with demand, or the failure to predict market demand for, or to gain market acceptance of, approved products, could affect future results.

### **Cost and Expense Control/Unusual Events**

Growth in costs and expenses, changes in product, segment and geographic mix and the impact of acquisitions, divestitures, restructurings, product withdrawals and other unusual events that could result from evolving business strategies, evaluation of asset realization and organizational restructuring could adversely affect future results. Such risks and uncertainties include, in particular, the impact of the possible sale or spin-off of our Consumer Healthcare business and our ability to realize the projected benefits of our Adapting to Scale multi-year productivity initiative.

### **Changes in Laws and Accounting Standards**

Our future results could be adversely affected by changes in laws and regulations, including changes in accounting standards, taxation requirements (including tax-rate changes, new tax laws and revised tax law interpretations), competition laws and environmental laws in the U.S. and other countries.

### **Terrorist Activity**

Our future results could be adversely affected by changes in business, political and economic conditions, including the cost and availability of insurance, due to the threat of future terrorist activity in the U.S. and other parts of the world and related U.S. military action overseas.

### **Legal Proceedings**

We and certain of our subsidiaries are involved in various patent, product liability, consumer, commercial, securities, environmental and tax litigations and claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of our business. Litigation is inherently unpredictable, and excessive verdicts do occur. Although we believe we have substantial defenses in these matters, we could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

Patent claims include challenges to the coverage and/or validity of our patents on various products or processes. Although we believe we have substantial defenses to these challenges with respect to all our material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our corporate headquarters and the headquarters of our Human Health and Animal Health businesses are located at our world

headquarters, which includes several owned and leased buildings in New York City.

For our Human Health business, we own and lease space around the world for sales and marketing, administrative support and customer service functions.

Our Global Research and Development division is headquartered in owned facilities in New London, Connecticut. We have major pharmaceutical research and development operations in owned facilities in Ann Arbor, Kalamazoo and Portage, Michigan; Cambridge, Massachusetts; La Jolla, California; Groton, Connecticut; St. Louis, Missouri; Sandwich, England, U.K.; Amboise, France; and Nagoya, Japan. More efficient use of our R&D facilities is a component of Pfizer's Adapting to Scale initiative.

We have veterinary medicine research and development operations in owned facilities in Henrietta and Richland Township, Michigan; Lincoln, Nebraska; and Sandwich, England, U.K., and in leased facilities in Melbourne, Australia.

The headquarters and the research and U.S. operations of our Consumer Healthcare business are located in Morris Plains, New Jersey, where we own five buildings and lease a smaller amount of space nearby. Consumer Healthcare's sales and marketing offices in the U.S. are located in leased facilities. In most markets outside of the U.S., Consumer Healthcare's sales and marketing operations as well as administrative support are located in owned or leased facilities shared with our Human Health and other businesses.

Our Global Manufacturing division is headquartered in New York, N.Y. and in Peapack, N.J. and operates plants in 81 locations around the world that manufacture products for our Human Health, Consumer Healthcare and Animal Health businesses. Major facilities are located in Belgium, Brazil, China, France, Germany, Ireland, Italy, Japan, Mexico, Puerto Rico, Singapore, Sweden, the United Kingdom and the United States. The Global Manufacturing division also operates numerous distribution facilities in major markets around the world. As part of Pfizer's Adapting to Scale productivity initiative, fifteen of the manufacturing facilities are scheduled to be closed in the next three years as Global Manufacturing continues to optimize its plant network. Studies are underway to further consolidate the distribution network.

In general, our properties are well maintained, adequate and suitable to their purposes. Note 11 to our consolidated financial statements, *Property, Plant and Equipment*, in our 2005 Financial Report, which discloses amounts invested in land, buildings and equipment, is incorporated by reference. See also the discussion under Note 16 to our consolidated financial statements, *Lease Commitments*, in our 2005 Financial Report, which also is incorporated by reference.

### **ITEM 3. LEGAL PROCEEDINGS**

Certain legal proceedings in which we are involved are discussed in Note 18 to our consolidated financial statements, *Legal Proceedings and Contingencies*, in our 2005 Financial Report, which is incorporated by reference.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

**EXECUTIVE OFFICERS OF THE COMPANY**

The executive officers of the Company are set forth in this table. Each holds the offices indicated until his or her successor is chosen and qualified at the regular meeting of the Board of Directors to be held immediately following the 2006 Annual Meeting of Shareholders. Each of the executive officers is a member of the Pfizer Executive Committee.

| <b><u>Name</u></b> | <b><u>Age</u></b> | <b><u>Position</u></b>                            |
|--------------------|-------------------|---|
| Karen L. Katen     | 57                | Vice Chairman; President □ Human Health           |
| Jeffrey B. Kindler | 50                | Vice Chairman and General Counsel                 |
| Henry A. McKinnell | 63                | Chairman of the Board and Chief Executive Officer |
| David L. Shedlarz  | 57                | Vice Chairman                                     |

Information concerning Ms. Katen, Mr. Kindler, Dr. McKinnell and Mr. Shedlarz is incorporated by reference from the discussion under the headings *Nominees For Directors* and *Named Executive Officers Who Are Not Directors* in our 2006 Proxy Statement.

**PART II****ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The principal market for our Common Stock is the New York Stock Exchange. Our stock is also listed on the London, Euronext and Swiss Stock Exchanges and is traded on various United States regional stock exchanges. Additional information required by this item is incorporated by reference from the table captioned *Quarterly Consolidated Financial Data (Unaudited)* in our 2005 Financial Report.

## Edgar Filing: PFIZER INC - Form 10-K

This table provides certain information with respect to our purchases of shares of the Company's Common Stock during the fiscal fourth quarter of 2005:

### Issuer Purchases of Equity Securities(a)

| Period   | Total Number of<br>Shares Purchased(b) | Average Price<br>Paid per Share(b) | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan(a) | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Plan(a) |
|--|--|------------------------------------|---|--|
| October 3, 2005<br>through<br>October 31, 2005   | 1,987,413                              | \$21.20                            | 1,981,700   | \$4,847,380,777  |
| November 1, 2005<br>through<br>November 30, 2005 | 9,599,067                              | \$21.77                            | 9,585,228   | \$4,638,739,412  |
| December 1, 2005<br>through<br>December 31, 2005 | 6,227,826                              | \$21.52                            | 6,134,300   | \$4,506,758,855  |
| <b>Total</b>                                     | <b>17,814,306</b>                      | <b>\$21.62</b>                     | <b>17,701,228</b>   |  |

(a) On June 23, 2005, Pfizer announced that the Board of Directors had authorized a \$5 billion share- purchase plan (the "2005 Stock Purchase Plan").

(b) In addition to purchases under the 2005 Stock Purchase Plan, this column reflects the following transactions during the fiscal fourth quarter of 2005: (i) the deemed surrender to Pfizer of 22,708 shares of common stock to pay the exercise price and to satisfy tax withholding obligations in connection with the exercise of employee stock options, (ii) the open-market purchase by the trustee of 68,590 shares of common stock in connection with the reinvestment of dividends paid on common stock held in trust for employees who were granted performance-contingent share awards and who deferred receipt of such awards and (iii) the surrender to Pfizer of 21,780 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

### ITEM 6. SELECTED FINANCIAL DATA

Information required by this item is incorporated by reference from the *Financial Summary* in our 2005 Financial Report.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item is incorporated by reference from the Financial Review section of our 2005 Financial Report.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this item is incorporated by reference from the discussion under the heading *Financial Risk Management* in our 2005 Financial Report.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information required by this item is incorporated by reference from the *Report of*



*Independent Registered Public Accounting Firm on the Consolidated Financial Statements* in our 2005 Financial Report and from the consolidated financial statements, related notes and supplementary data in our 2005 Financial Report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls**

As of the end of the period covered by this 2005 Form 10-K, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC.

#### **Internal Control over Financial Reporting**

Management's report on the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), and the related report of our independent public accounting firm, are included in our 2005 Financial Report under the headings *Management's Report on Internal Control Over Financial Reporting* and *Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting*, respectively, and are incorporated by reference.

#### **Changes in Internal Controls**

During our most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information about our Directors is incorporated by reference from the discussion under Item 1 of our 2006 Proxy Statement. Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading *Section 16(a) Beneficial Ownership Reporting Compliance* in our 2006 Proxy Statement. Information about our Audit Committee, including the members of the Committee, and our Audit Committee financial experts, is incorporated by reference from the discussion under the headings *The Audit Committee* and *Audit Committee Financial Experts* in our 2006 Proxy Statement. Information about the Pfizer Policies on Business Conduct governing our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, and the Code of Business Conduct and Ethics governing our Directors, is incorporated by reference from the discussion under the heading *Pfizer Policies on Business Ethics and Conduct* in our 2006 Proxy Statement. The balance of the information required by this item is contained in the discussion entitled *Executive Officers of the Company* in Part I of this 2005 Form 10-K.



## **ITEM 11. EXECUTIVE COMPENSATION**

Information about Director and executive compensation is incorporated by reference from the discussion under the headings *2005 Compensation of Non-Employee Directors, Compensation Committee Report and Executive Compensation, Pfizer Inc. Retirement Annuity Plan, Pension Plan Table, and Employment Agreement for Chief Executive Officer and Severance Agreements* in our 2006 Proxy Statement.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item is incorporated by reference from the discussion under the headings *Securities Ownership of Officers and Directors and Equity Compensation Plan Information* in our 2006 Proxy Statement.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information about certain relationships and transactions with related parties is incorporated by reference from the discussion under the heading *Related Party Transactions* in our 2006 Proxy Statement.

## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information about the fees for professional services rendered by our independent auditors in 2005 and 2004 is incorporated by reference from the discussion under the heading *Audit and Non-Audit Fees* in Item 2 of our 2006 Proxy Statement. Our Audit Committee's policy on pre-approval of audit and permissible non-audit services of our independent auditors is incorporated by reference from the section captioned *Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm* in Item 2 of our 2006 Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**15(a)(1) Financial Statements.** The following consolidated financial statements, related notes, report of independent registered public accounting firm and supplementary data from our 2005 Financial Report are incorporated by reference into Item 8 of Part II of this 2005 Form 10-K:

- Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements
- Consolidated Statements of Income
- Consolidated Balance Sheets
- Consolidated Statements of Shareholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Quarterly Consolidated Financial Data (Unaudited)

**15(a)(2) Financial Statement Schedules.** Schedules are omitted because they are not required or because the information is provided elsewhere in the financial statements. The financial statements of unconsolidated subsidiaries are omitted because, considered in the aggregate, they would not constitute a significant subsidiary.

**15(a)(3) Exhibits.** These exhibits are available upon request. Requests should be directed to Margaret M. Foran, Senior Vice President-Corporate Governance, Associate General Counsel and Corporate Secretary, Pfizer Inc., 235 East 42nd Street, New York, NY 10017-5755. The exhibit numbers preceded by an asterisk (\*) indicate exhibits physically filed with this 2005 Form 10-K. All other exhibit numbers indicate exhibits filed by incorporation by reference. Exhibit numbers 10(1) through 10(24) are management contracts or compensatory plans or arrangements.

- 2 Agreement and Plan of Merger dated as of July 13, 2002 among Pfizer Inc., Pilsner Acquisition Sub Corp. and Pharmacia Corporation is incorporated by reference from Amendment No. 2 to our Registration Statement on Form S-4 as filed with the SEC on October 17, 2002.<sup>1</sup>
- 3(1) Our Restated Certificate of Incorporation dated April 12, 2004, is incorporated by reference from our 10-Q report for the period ended March 28, 2004.
- 3(2) Our By-laws as amended February 24, 2005, are incorporated by reference from our 2004 10-K report.
- 4(1) Indenture, dated as of January 30, 2001, between us and The Chase Manhattan Bank, is incorporated by reference from our 8-K report filed on January 30, 2001.
- 4(2) Except as set forth in Exhibit 4(1) above, the instruments defining the rights of holders of long-term debt securities of the Company and its subsidiaries have been omitted.<sup>2</sup>
- 10(1) 2001 Stock and Incentive Plan is incorporated by reference from our Proxy Statement for the 2001 Annual Meeting of Shareholders.

---

<sup>1</sup> We agree to furnish to the SEC, upon request, a copy of each exhibit to this Agreement and Plan of Merger.

<sup>2</sup> We agree to furnish to the SEC, upon request, a copy of each instrument with respect to issuances of long-term debt of the Company and its subsidiaries.

## Edgar Filing: PFIZER INC - Form 10-K

- 10(2) Pfizer Inc. 2004 Stock Plan is incorporated by reference from our Proxy Statement for the 2004 Annual Meeting of Shareholders.
- 10(3) Form of Stock Option Grant Notice and Summary of Key Terms is incorporated by reference from our 10-Q report for the period ended September 26, 2004.
- 10(4) Form of Restricted Stock Grant Notice is incorporated by reference from our 10-Q report for the period ended September 26, 2004.
- 10(5) Form of Performance-Contingent Share Award Grant Notice is incorporated by reference from our 10-Q report for the period ended September 26, 2004.
- 10(6) Stock and Incentive Plan, as amended through July 1, 1999, is incorporated by reference from our 1999 10-K report.
- 10(7) Pfizer Retirement Annuity Plan, as amended through November 6, 1997, is incorporated by reference from our 1997 10-K report.
- 10(8) Nonfunded Supplemental Retirement Plan is incorporated by reference from our 1996 10-K report.
- 10(9) Nonfunded Deferred Compensation and Supplemental Savings Plan, as amended and restated as of February 1, 2002, is incorporated by reference from our 2002 10-K report.
- 10(10) Executive Annual Incentive Plan is incorporated by reference from our Proxy Statement for the 1997 Annual Meeting of Shareholders.
- 10(11) Summary of Annual Incentive Plan is incorporated by reference from our 2000 10-K report.
- 10(12) 2001 Performance-Contingent Share Award Plan is incorporated by reference from our Proxy Statement for the 2001 Annual Meeting of Shareholders.
- 10(13) Performance-Contingent Share Award Program is incorporated by reference from our 10-Q report for the period ended September 29, 1996.
- 10(14) Deferred Compensation Plan is incorporated by reference from our 1997 10-K report.
- 10(15) Non-Employee Directors' Retirement Plan (frozen as of October 1996) is incorporated by reference from our 1996 10-K report.
- 10(16) Annual Retainer Unit Award Plan (for Non-Employee Directors) (frozen as of March 1, 2006) is incorporated by reference from our 10-Q report for the period ended September 29, 1996.
- \*10(17) Nonfunded Deferred Compensation and Unit Award Plan for Non-Employee Directors, as amended effective March 1, 2006.
- 10(18) Restricted Stock Plan for Non-Employee Directors is incorporated by reference from our 1996 10-K report.
- 10(19) The form of change-of-control/severance agreement with each of the Named Executive Officers identified in our 2006 Proxy Statement is incorporated by reference from our 1994 10-K report.

Edgar Filing: PFIZER INC - Form 10-K

- \*10(20) The form of Amendment, dated as of February 23, 2006, to change of control/severance agreements with each of the Named Executive Officers identified in our 2006 Proxy Statement.
- 10(21) The form of Indemnification Agreement with each of our non-employee Directors is incorporated by reference from our 1996 10-K report.
- 10(22) The form of Indemnification Agreement with each of the Named Executive Officers identified in our 2006 Proxy Statement is incorporated by reference from our 1997 10-K report.
- 10(23) Post-Retirement Consulting Agreement, dated as of April 20, 2000, between us and William C. Steere, Jr., is incorporated by reference from our 10-Q report for the period ended April 2, 2000.

Edgar Filing: PFIZER INC - Form 10-K

- 10(24) Employment Agreement, dated as of January 1, 2001, between us and Henry A. McKinnell is incorporated by reference from our 8-K report filed on February 2, 2001.
- \*12 Computation of Ratio of Earnings to Fixed Charges.
- \*13 Portions of the 2005 Financial Report, which, except for those sections incorporated by reference, are furnished solely for the information of the SEC and are not to be deemed filed.
- \*21 Subsidiaries of the Company.
- \*23 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- \*24 Power of Attorney (included as part of signature page).
- \*31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- \*32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*32.2 Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



**SIGNATURES**

Under the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report was signed on behalf of the Registrant by the authorized person named below.

Pfizer Inc.

Dated: February 28, 2006

By: /s/ Margaret M. Foran


---

Margaret M. Foran,  
Senior Vice President-Corporate  
Governance, Associate General Counsel  
and Corporate Secretary

We, the undersigned directors and officers of Pfizer Inc., hereby severally constitute Margaret M. Foran and Jeffrey B. Kindler, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Under the requirements of the Securities Exchange Act of 1934, this report was signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| <b><u>Signature</u></b>                                   | <b><u>Title</u></b>  | <b><u>Date</u></b> |
|---|--|--------------------|
| <u>/s/ Henry A. McKinnell</u><br>Henry A. McKinnell       | Chairman of the Board and<br>Chief Executive Officer and Director<br>(Principal Executive Officer) | February 28, 2006  |
| <u>/s/ Alan G. Levin</u><br>Alan G. Levin                 | Senior Vice President and<br>Chief Financial Officer<br>(Principal Financial Officer)              | February 28, 2006  |
| <u>/s/ Loretta V. Cangialosi</u><br>Loretta V. Cangialosi | Vice President - Controller<br>(Principal Accounting Officer)                                      | February 28, 2006  |
| <u>/s/ Michael S. Brown</u><br>Michael S. Brown           | Director   | February 28, 2006  |
| <u>/s/ M. Anthony Burns</u><br>M. Anthony Burns           | Director   | February 28, 2006  |
| <u>/s/ Robert N. Burt</u><br>Robert N. Burt               | Director   | February 28, 2006  |
| <u>/s/ W. Don Cornwell</u><br>W. Don Cornwell             | Director   | February 28, 2006  |
| <u>/s/ William H. Gray III</u><br>William H. Gray III     | Director   | February 28, 2006  |
| <u>/s/ Constance J. Horner</u>                            | Director   | February 28, 2006  |

Constance J. Horner

---

Edgar Filing: PFIZER INC - Form 10-K

|   |          |                   |
|---|----------|-------------------|
| <u>/s/ William R. Howell</u><br>William R. Howell           | Director | February 28, 2006 |
| <u>/s/ Stanley O. Ikenberry</u><br>Stanley O. Ikenberry     | Director | February 28, 2006 |
| <u>/s/ George A. Lorch</u><br>George A. Lorch               | Director | February 28, 2006 |
| <u>/s/ Dana G. Mead</u><br>Dana G. Mead                     | Director | February 28, 2006 |
| <u>/s/ Ruth J. Simmons</u><br>Ruth J. Simmons               | Director | February 28, 2006 |
| <u>/s/ William C. Steere, Jr.</u><br>William C. Steere, Jr. | Director | February 28, 2006 |

---