Profiting from Pain:

Where Prescription Drug Dollars Go

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INTRODUCTION

As public concern mounts about the explosion in prescription drug costs, the pharmaceutical industry argues that high drug prices are necessary. High prices are needed, the industry repeatedly contends, to finance research and development (R&D) so manufacturers can bring newer, better drugs to market. If steps are taken to rein in drug prices, so the industry argument goes, manufacturers will be forced to slash R&D.

This report belies that argument. Data gathered by Families USA demonstrate that the major pharmaceutical companies spend significantly more on marketing, advertising, and administration than they spend on R&D. The pharmaceutical industry has been the most profitable industry in America for each of the past 10 years and, in 2001, was five-and-one-half times more profitable than the average for Fortune 500 companies. The industry is also very generous to its top executives, offering them millions of dollars in annual pay, supplemented by even larger company stock options.

This is the second in a series of reports prepared by Families USA that looks at spending and profits in each of the U.S. drug companies that market (or are the parent company of the company that markets) the top 50 drugs prescribed to seniors.[1] In order of size based on annual revenue, the companies included in this report are 1) Merck & Company; 2) Pfizer, Inc.; 3) Bristol-Myers Squibb Company; 4) Abbott Laboratories; 5) Wyeth; 6) Pharmacia Corporation; 7) Eli Lilly & Co.; 8) Schering-Plough Corporation; and 9) Allergan, Inc.

Families USA examined the annual financial reports that those companies submitted to the Securities and Exchange Commission (SEC) covering operations in 2001.[2] SEC reports were selected as the basis for reviewing corporate spending and profits because these reports contain audited financial information that must comply with SEC standards. They provide a consistent basis for comparison across companies. In its analysis, Families USA looked at corporate profits and spending on R&D, executive compensation, and marketing, advertising, and administration. These are areas that each company included in its SEC filings.

SEC annual filings cover a company's fiscal year. All nine of the companies profiled use the calendar year as their fiscal year. As a result, their reported profits and spending all cover the same time period—January 1 to December 31, 2001. Mylan Laboratories, another company that markets drugs that are within the top 50 drugs prescribed to seniors, has a very different reporting period, and it was excluded from the analysis. Mylan's fiscal year runs from April 1 to March 31 and, at the time this report was written, its most recent annual SEC filing covered the period from April 1, 2000 to March 31, 2001. Only three months of Mylan's most recent annual filing overlap the period covered by the annual filings of the other nine companies. As a result, Mylan's data are non-representative of the group, particularly in light of the change in economic climate in the last two quarters of 2001.

With respect to corporate executives' compensation, in 2001, the SEC required companies to report information pertaining to the chief executive officer (CEO), regardless of level of compensation, plus the four most highly compensated executive officers. In some instances, such as when there has been a turnover among those executives, the SEC filings will include information on more than four executives.[3] The information in the SEC filings include two categories of executive remuneration: 1) total annual compensation exclusive of unexercised stock options; and 2) the value of pending, unexercised stock options. Those two types of remuneration include the following:

- **Total annual compensation exclusive of unexercised stock options in 2001.** This includes executives' salaries, bonuses, other compensation (such as retirement plans, automobiles, travel allowances, relocation expenses, and value of life insurance), restricted stock awards, long-term incentive payouts (LTIP), and exercised stock options.
- **The value of unexercised stock options.** This includes stock options awarded in 2001 or earlier that have not yet been exercised. The value of these stock options is self-reported by each company based on one of two SEC-approved methodologies, which are described more fully in the Methodology section of this report. The value reported by the companies is designed to indicate the potential value of stock options awarded in 2001 and the current market value of the unexercised options awarded in previous years.

KEY FINDINGS

Profits (Net Income) versus Spending on R&D

In 2001, the nine U.S. pharmaceutical companies in this analysis, which manufacture or market the 50 top-selling drugs for seniors, reported a profit. For six of the nine—Merck, Pfizer, Bristol-Myers Squibb, Wyeth, Lilly, and Schering-Plough—profits exceeded R&D spending (see Table 1 and Figure 1; see Appendix II for detailed information for each company).

- Merck's profits were nearly three times the amount the company spent on R&D in 2001.
- Bristol-Myers Squibb's profits were greater than twice the amount spent on R&D in 2001.
- On average, the nine companies reported profits of 18 percent of total revenues, but only 11 percent of total revenues were allocated to R&D.

Table 1

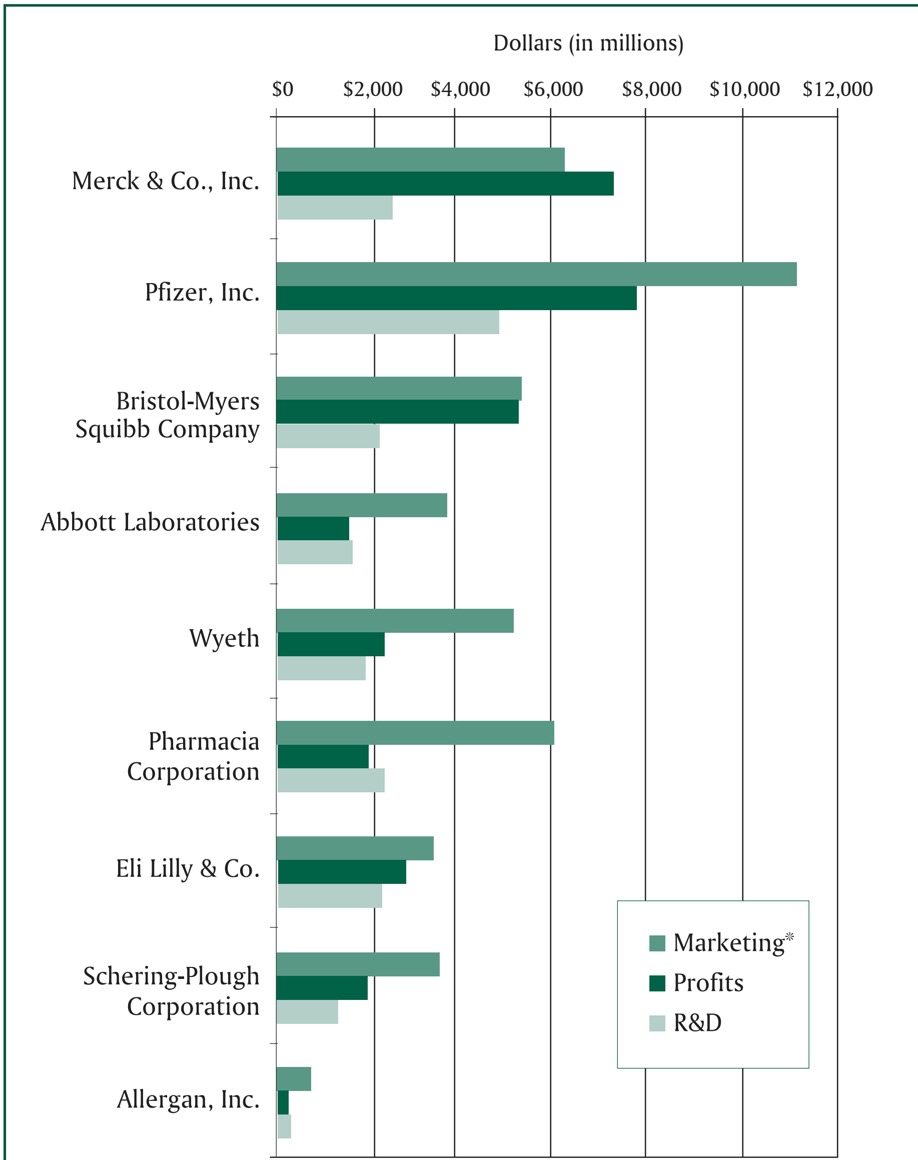
2001 Financials for U.S. Corporations Marketing the Top 50 Drugs for Seniors

Company	Revenue (Net Sales in Millions of Dollars)	Percent of Revenue Allocated to:		
		Marketing/ Advertising/ Administration	R & D	Profit (Net Income)
Merck & Co., Inc.	$47,716	13%	5%	15%
Pfizer, Inc.	$32,259	35%	15%	24%
Bristol-Myers Squibb Company	$19,423	27%	12%	27%
Abbott Laboratories	$16,285	23%	10%	10%
Wyeth	$14,129	37%	13%	16%
Pharmacia Corporation	$13,837	44%	16%	11%
Eli Lilly & Co.	$11,543	30%	19%	24%
Schering-Plough Corporation	$9,802	36%	13%	20%
Allergan, Inc.	$1,685	42%	15%	13%
Total* (Dollars in millions)	**$166,678**	**27%** $45,413	**11%** $19,076	**18%** $30,599

* Totals may not add due to rounding.

Figure 1

Drug Company Spending and Profits, 2001



* marketing/advertising/administration

Marketing, Advertising, and Administration versus R&D

Not only did most of the nine companies receive more in profits than they spent on R&D, but all nine companies spent considerably more on marketing, advertising, and administration than they spent on R&D (see Table 1 and Figure 1).

- Eight of the nine companies—Merck, Pfizer, Bristol-Myers Squibb, Abbott, Wyeth, Pharmacia, Schering-Plough, and Allergan—spent more than twice as much on marketing, advertising, and administration as they did on R&D (see Table 1).
- The remaining company, Eli Lilly, spent over one-and-one-half times as much on marketing, advertising, and administration as it did on R&D.
- On average, the nine companies spent 11 percent of revenue on R&D and 27 percent of revenue on marketing, advertising, and administration (see Table 1).
- No company spent as much as 20 percent of revenue on R&D, whereas every company except Merck spent more than 20 percent of revenue on marketing, advertising, and administration.

Annual Compensation, *Exclusive of Unexercised Stock Options,* for the Highest-Paid Executive in Each of the Nine Pharmaceutical Companies

- For the highest-paid executive in each of the nine companies, the average annual income, exclusive of unexercised stock options, was nearly $21 million in 2001. The median income was over $11 million (see Table 2).

Table 2

Highest Compensation Package in Each Company, *Exclusive of Unexercised Stock Options*

Company	Executive	Total Compensation
Abbott Laboratories	Miles D. White, Chairman, CEO, and Director	$ 10,631,733
Allergan, Inc.	Francis R. Tunney, Jr., Former Corp. VP, Admin. and Sec.	$ 12,306,468
Bristol-Myers Squibb Company	C.A. Heimbold, Jr., Former Chairman and CEO	$ 74,890,918
Eli Lilly & Co.	Sidney Taurel, Chairman, President, and CEO	$ 4,326,006
Merck & Co., Inc.	Raymond V. Gilmartin, Chairman, President, and CEO	$ 2,890,988
Pfizer Inc.	William C. Steere, Former Chairman	$ 28,264,282
Pharmacia Corporation	Fred Hassan, Chairman and CEO	$ 3,633,733
Schering-Plough Corporation	Raul E. Cesan, Former President and COO	$ 11,308,409
Wyeth	John R. Stafford, Chairman	$ 40,521,011
Total		**$ 188,773,548**
Average		**$ 20,974,839**

- The highest-paid of these executives was C.A. Heimbold, Jr., who, in 2001, retired as Chairman and CEO of Bristol-Myers Squibb. In 2001, his compensation, exclusive of unexercised stock options, was $74,890,918.
- The total amount of compensation, exclusive of unexercised stock options, received by the highest-paid executive in the nine companies was approximately $189 million.

Value of Unexercised Stock Options for the Executive in Each of the Nine Pharmaceutical Companies with the Largest Value of Unexercised Stock Options

- The executive with the largest value of unexercised stock options in each of the nine companies had stock options worth, on average, $48 million in 2001, with a median value of almost $42 million (see Table 3).
- For the executives with the largest unexercised stock options, the total reported value of those options was approximately $432 million in 2001.

Table 3

Largest Value of Unexercised Stock Options Reported by Each Company

Company	Executive	Total Value
Abbott Laboratories	Miles D. White, Chairman, CEO, and Director	$ 41,553,447
Allergan, Inc.	David E. I. Pyott, Chairman, President, and CEO	$ 37,004,801
Bristol-Meyers Squibb Co.	C.A. Heimbold. Jr., Former Chairman and CEO	$ 76,095,611
Eli Lilly & Co.	Sidney Taurel, Chairman, President, and CEO	$ 46,159,538
Merck & Co., Inc.	Raymond V. Gilmartin, Chairman, President, and CEO	$ 93,256,774
Pfizer Inc.	William C. Steere, Former Chairman	$ 60,187,019
Pharmacia Corp.	Fred Hassan, Chairman and CEO	$ 23,627,331
Schering-Plough Corp.	Joseph C. Connors, Executive VP and General Counsel	$ 13,121,499
Wyeth	John R. Stafford, Chairman	$ 40,629,459
Total		**$ 431,635,479**
Average		**$ 47,959,498**

The 10 Highest-Paid Executives in 2001, *Exclusive of Unexercised Stock Options,* for the U.S. Pharmaceutical Companies Marketing the Top 50 Drugs Sold to Seniors

- The 10 highest-paid executives across the nine companies received a total of $236 million in compensation in 2001, *exclusive of unexercised stock options* (see Table 4).
- Compensation ranged from a high of nearly $75 million to a "low" of almost $9 million, with the executives receiving, on average, nearly $24 million, exclusive of unexercised stock options.

Table 4

The 10 Highest Paid Executives' 2001 Annual Compensation, Exclusive of *Unexercised Stock Options*

Executive Name	Title	Company	Annual Compensation
1. C.A. Heimbold, Jr.	Former Chairman and CEO	Bristol-Myers Squibb Co.	$ 74,890,918
2. John R. Stafford	Chairman	Wyeth	$ 40,521,011
3. William C. Steere	Former Chairman	Pfizer Inc.	$ 28,264,282
4. Henry A. McKinnell	Chairman and CEO	Pfizer Inc.	$ 23,759,405
5. John F. Niblack	Vice Chairman	Pfizer Inc.	$ 15,920,178
6. Francis R. Tunney, Jr.	Corporate VP, Admin. and Sec.	Allergan, Inc.	$ 12,306,468
7. Raul E. Cesan	Former President and COO	Schering-Plough Corp.	$ 11,308,409
8. Miles D. White	Chairman, CEO, and Director	Abbott Laboratories	$ 10,631,733
9. David L. Shedlarz	Executive VP and CFO	Pfizer Inc.	$ 9,497,231
10. Karen L. Katen	ExecutiveVP, Pres. Pfizer Pharm Grp, Pres. US Pharm.	Pfizer Inc.	$ 8,972,162
Total			**$ 236,071,797**
Average			**$ 23,607,180**

The 10 Executives of the U.S. Pharmaceutical Companies Marketing the Top-50 Drugs Sold to Seniors with the Largest Value of Unexercised Stock Options in 2001

- Across the nine companies, the value of unexercised stock options that the companies reported in 2001 for the top 10 most highly compensated executives ranged from a high of over $93 million for the Chairman, President, and CEO of Merck to a "low" of almost $29 million for Merck's Executive Vice-President and CFO (see Table 5).

- The average value of unexercised stock options for the 10 most highly compensated executives was $52 million, with a total reported value of over $520 million.

Table 5

The 10 Executives with the Largest Value of Unexercised Stock Options in 2001

	Executive Name	Title	Company	Value of Stock Options
1.	Raymond V. Gilmartin	Chairman, President, and CEO	Merck & Co., Inc.	$ 93,256,774
2.	C.A. Heimbold, Jr.	Former Chairman and CEO	Bristol-Myers Squibb Co.	$ 76,095,611
3.	William C. Steere	Former Chairman	Pfizer Inc.	$ 60,187,019
4.	Henry A. McKinnell	Chairman and CEO	Pfizer Inc.	$ 56,491,000
5.	Sidney Taurel	Chairman, President, and CEO	Eli Lilly & Co.	$ 46,159,538
6.	Miles D. White	Chairman, CEO, and Director	Abbott Laboratories	$ 41,553,447
7.	John R. Stafford	Chairman	Wyeth	$ 40,629,459
8.	Robert Essner	President and CEO	Wyeth	$ 40,004,347
9.	David E. I. Pyott	Chairman, President, and CEO	Allergan, Inc.	$ 37,004,801
10.	Judy C. Lewent	Executive VP and CFO	Merck & Co., Inc.	$ 28,780,562
	Total			**$ 520,162,558**
	Average			**$ 52,016,256**

Table 6

Average and Total Compensation for Highest-Paid Executives, *Exclusive of Unexercised Stock Options*

Company	Average Compensation	Total Compensation for Highest-Paid Executives
Pfizer Inc.	$ 15,688,335	$ 94,130,007
Bristol-Myers Squibb Co.	$ 14,874,834	$ 89,249,005
Wyeth	$ 9,144,196	$ 54,865,177
Allergan, Inc.	$ 4,536,450	$ 27,218,697
Abbott Laboratories	$ 4,247,409	$ 21,237,047
Schering-Plough Corp.	$ 3,724,997	$ 22,349,981
Pharmacia Corp.	$ 2,568,125	$ 12,840,623
Eli Lilly & Co.	$ 2,344,902	$ 11,724,511
Merck & Co., Inc.	$ 1,971,055	$ 9,855,273
Total		**$ 343,470,321**

Company-by-Company Comparisons of Annual Remuneration for Top Executives in 2001

- In 2001, the *average* compensation, exclusive of unexercised stock options, paid by each company to its four to five most highly paid executives ranged from a high of nearly $16 million for executives at Pfizer to nearly $2 million for executives at Merck (see Table 6).
- In total, compensation, exclusive of unexercised stock options, that the nine pharmaceutical companies provided to their highest-paid executives exceeded $343 million.
- The average value of unexercised stock options held by the most highly compensated executives in each company ranged from a high of nearly $36 million for executives of Merck to nearly $8.3 million for executives of Schering-Plough (see Table 7).

Table 7
Average Value of Stock Options for Highest-Paid Executives

Company	Value of Stock Options
Merck & Co., Inc.	$ 35,686,300
Pfizer, Inc.	$ 34,409,534
Bristol-Myers Squibb Co.	$ 22,213,255
Eli Lilly & Co.	$ 18,951,814
Abbott Laboratories	$ 17,299,385
Wyeth	$ 17,196,186
Allergan, Inc.	$ 12,248,042
Pharmacia Corp.	$ 9,524,488
Schering-Plough Corp.	$ 8,285,756

DISCUSSION

The nine companies profiled in this report are industry leaders. All nine are on *Fortune* magazine's list of the 1,000 largest companies in the U.S. for 2001,[4] and eight are among the 10 largest U.S.-based drug companies.[5]

The spending and profit patterns of these industry leaders, as represented in the annual financial statements they filed with the SEC for 2001, undercut the industry's argument that any moderation in prices would result in a decrease in R&D spending. R&D is not the only area where these companies could make reductions. In fact, it is unlikely that R&D *would* be the area where companies would make reductions. Additionally, when the companies' financial data are viewed in conjunction with their annual reports and findings from other studies, it is clear that leading drug companies are marketing machines much more than they are pharmaceutical research houses.

Spending on R&D

For the companies profiled in this report, R&D spending averaged 11 percent of revenues. In contrast, the companies allocated an average of 27 percent of revenues to marketing, advertising, and administration. While the SEC filings show that spending on marketing, advertising, and administration overshadows spending on R&D, those numbers do not tell the full story of the industry's research investments.

The drug industry benefits from several federal tax breaks; some of these encourage research by allowing companies to deduct qualified research expenses and receive research and experimentation tax credits.[6] Because research-related tax credits are reported along with other tax credits as "general business tax credits," there are no publicly available data showing the exact amount of tax relief that the industry receives for its investment in research.[7] However, the effect of tax credits is clear. In 1999, the Congressional Research Service (CRS) studied industry taxation for the years 1990 to 1996. CRS found that the drug industry was taxed relatively lightly; total tax credits, many related to research investments, lowered the industry's effective tax rate from 35.2 percent to 17.1 percent.[8] Given the favorable tax treatment of R&D, it is unlikely that the industry would turn to R&D first for spending reductions.

The drug industry has lobbied hard for the R&D tax credit, arguing that "the credit supports the development of new and innovative medicines, technologies, products, and services, which benefit all Americans."[9] While favorable tax treatment does encourage industry investment in R&D, there is a question of what pharmaceutical company research dollars are funding. As the industry demands high drug prices and special tax concessions to fund R&D, studies show that it is providing the public with fewer and fewer new drugs that offer significant clinical improvements over existing therapies.

From 1989 to 2000, the vast majority of new drugs approved by the FDA—65 percent—were for drugs that contained active ingredients available in products that were already on the market.[10] Those approvals were mostly for incremental changes to existing drugs, such as changes in dosing or method of administration. Only 24 percent of FDA approvals from 1989 to 2000 were eligible for FDA's priority review, a review process for drugs that offer a significant clinical advance over products already on the market.[11]

Schering-Plough's Clarinex illustrates the industry's increasingly common practice of developing drugs that offer only marginal improvements over existing products. Clarinex is a "next-generation" non-sedating antihistamine. It is very similar to Claritin, Schering's blockbuster antihistamine, which is losing patent protection. Schering's marketing strategy is to get physicians to switch patients from Claritin to patent-protected prescription Clarinex, which the FDA approved in December 2001. The difference between Claritin and Clarinex is that Clarinex is a longer-lasting reformulation of Claritin and is approved for outdoor and indoor allergies, whereas Claritin is approved only for outdoor allergies.[12] Schering-Plough reported combined Claritin/Clarinex sales of $3.2 billion in 2001.[13]

The industry is focusing on developing reformulations of existing products, in part, because it is not discovering new drugs as quickly as it did in the 1990s—the "easy" compounds have been discovered.[14] With fewer new discoveries, the industry has focused resources on developing "knock-offs" of successful products and on aggressive marketing of existing products.

Marketing, Advertising, and Administration

Company spending on marketing, advertising, and administration both highlights the industry's attention to marketing and deflates its argument that R&D would necessarily be the area to suffer if drug prices were lowered.

To examine resources that the industry spends on marketing, Families USA looked at reported spending on marketing, advertising, and administration in the SEC filings of the nine companies profiled in this report. Companies consistently aggregated these items in their SEC filings. While a few companies reported money spent on advertising separately, advertising comprises only a small percent of total marketing spending; none reported spending on marketing separately from spending on administration. Although spending on "marketing, advertising, and administration" includes administrative costs that are not related to marketing, when contrasted with R&D spending, it provides some insight into corporate priorities. Furthermore, when spending on "marketing, advertising and administration" is viewed in conjunction with other data on the companies' operations and other studies, the importance of marketing in relation to R&D becomes even clearer.

- All of the companies examined in this study spent considerably more on "marketing, advertising and administration" than on R&D in 2001; for eight of the nine companies, this was by a factor of two or more. If a moderation in drug prices forced spending reductions, these expenditures, which include high executive compensation, could well be reduced ahead of R&D spending.
- Some of the companies profiled reported advertising spending separately in their annual reports or SEC filings. Advertising is only a small portion of a pharmaceutical company's marketing budget—most marketing is direct-to-physician selling rather than advertising[15]—yet the amounts that some of the companies spent just on advertising were staggering. For example, Pfizer reported that it spent nearly $2.9 billion on advertising alone in 2001.[16] Bristol-Myers Squibb reported spending slightly over $1.4 billion on advertising and promotion; the company spent an additional $3.9 billion on "marketing, selling and administrative" costs.[17]
- Beyond spending patterns, staff allocation reflects an organization's focus. Staffing patterns reported by some of the companies in this study confirm the industry's focus on marketing over research and development.
  - In 2001, Merck added 1,000 sales representatives to its U.S. operations alone. Of the company's 78,100 employees, 85 percent were engaged in non-research activities.[18]
  - Allergan reported that it had 1,700 employees in sales representative positions, which represents only a portion of all employees engaged

in marketing-related activities. In comparison, 1,100 people were involved in the company's research and development efforts.[19]

- These staffing patterns are consistent across the industry. A report released in December 2001 found that brand-name drug makers in the U.S. employ 81 percent more people in marketing than in research. This study also found that marketing staffs increased by 59 percent between 1995 and 2000, while research staffs declined by 2 percent.[20]

The drug industry pumps huge sums of money into marketing because it works. Advertising and marketing help drive sales, and top-selling drugs can generate large revenues.[21] For example, Pfizer had eight drugs with sales of over $1 billion in 2001. One drug alone, Lipitor, had sales of $6.4 billion.[22] Bristol-Myers marketed two drugs with sales over $2 billion each: Pravachol and Glucophage.[23] Vioxx, Merck's second largest-selling product, exceeded $2 billion in sales.[24] Sales of successful drugs more than compensate for R&D costs, as evidenced by the industry's consistent profitability.

Industry Profits

The drug industry has been the most profitable in the U.S., as measured by median return on revenue, for each of the last 10 years. Over that time period, the industry's profitability (as measured by return on revenue) was, on average, one-and-one-half times that of the next most profitable industry (see Table 8).[25] The industry has also been good to investors. For the last five years, shareholders have received an annual rate of return of 18.4 percent, twice the 9.2 percent median return to shareholders for the Fortune 500.[26]

Executives in the leading drug companies expect the high levels of profitability they have enjoyed over the past decade to continue. In its annual report, Pfizer projects "double-digit annual revenue growth through 2004 at current exchange rates."[27] Merck also has an optimistic outlook: The company, according to its annual report, "expects double-digit earnings per share growth in 2003."[28]

The industry argues that high drug prices are needed to help maintain current levels of profitability, which are necessary to attract investors. However, drug industry profitability is so high compared to other industries that, even with a reduction in profits, it would likely still be attractive to investors.

Table 8

Pharmaceutical Industry Fortune 500 Ranking

Year	Return on Revenues[1]				
	Drug Industry		Industry Ranked #2		Fortune 500 Median[2]
	Rank	% Return	Industry	% Return	% Return
1991	1	12.8	beverages	5.5	3.2
1992	1	11.5	toys, sporting goods	6.5	2.4
1993	1	12.5	publishing, printing	6.4	2.9
1994	1	16.1	commercial banks	13.5	4.6
1995	1	14.4	commercial banks	13.3	4.8
1996	1	17.1	commercial banks	13.9	5.0
1997	1	16.1	commercial banks	13.6	4.9
1998	1	18.5	commercial banks	13.2	4.4
1999	1	18.6	commercial banks	15.8	5.0
2000	1	18.6	commercial banks	14.1	4.5
2001	1	18.5	commercial banks	13.5	3.3

Source: *Fortune* magazine's annual rating of the industries, 1992-2002.

[1] Prior to 1993, Return on Sales.
[2] Median return on revenues for all Fortune 500 companies.

Why Price Moderation Is Necessary

Rising drug prices hurt everyone who pays for health care—especially the estimated 65 million Americans who lack insurance coverage for prescription drugs and must shoulder these price increases on their own.[29] Price increases are a particular hardship for Medicare beneficiaries. As a group, Medicare beneficiaries use more drugs than any other segment of the population, yet Medicare has no outpatient prescription drug coverage.[30] Although some have other sources of drug coverage, 50 percent of Medicare beneficiaries are without prescription drug insurance at some point in time during the year, and nearly 30 percent have no drug coverage at all.[31] Those individuals, many of whom are on fixed incomes, must pay for increasingly expensive drugs themselves. All the research and drug development in the world means little if drugs are priced out of the reach of those who need them.

Rising drug prices also make a Medicare prescription drug benefit less affordable.[32] Continued double-digit increases in prescription drug spending raise the price tag for a prescription drug benefit in Medicare, which makes it more difficult to afford a benefit that will provide Medicare beneficiaries with real relief from prescription drug costs. Price moderation would help reduce drug spending increases, making a real benefit in Medicare more attainable.

It is unlikely that the industry will moderate prices on its own. However, price moderation could be accomplished through greater competition in the industry. Real competition in the drug industry comes when generics enter the market. Generic drugs are about half the price of brand-name drugs in the first year after a generic enters the market.[33] Access to generics could be increased by removing existing legal loopholes that allow brand-name drug manufacturers to extend their monopolies through manipulation of the patent system.

Moderating drug prices might have another effect as well. The industry appears to be maintaining its high level of profitability in part by focusing resources on developing “knock-offs” of successful products and on marketing, reaping greater and greater revenues by simply increasing prices for drugs already on the market. Although expedient, these practices do not give the public real innovation, and they keep drugs priced out of the reach of millions. If some of these more expedient approaches to making money were tempered, the drug industry might be forced to compete through greater real innovation and, to do that, would devote more resources to R&D.

CONCLUSION

The drug industry argues that any moderation in prices would, of necessity, mean less investment in R&D and fewer new drugs for patients. That argument is fallacious for several reasons.

The SEC filings of industry leaders clearly show that, if drug prices were reduced, there are areas of discretionary spending other than R&D that drug companies could reduce, such as spending on marketing, advertising, and administration or high executive compensation. In fact, it is likely that other areas of spending would be reduced before R&D. R&D investments are attractive because of their favorable tax treatment. They are also necessary to the industry—new products are essential for the industry to maintain current levels of profitability. At a time when the industry itself is complaining of limited new blockbusters in development, it is unlikely that it would take money away from R&D.

The most profitable industry in America should not be allowed to frighten the public into tolerating excessive drug prices with the threat that any moderation in drug prices will necessarily result in a slowdown in R&D.

ENDNOTES

[1] Amanda McCloskey, *Bitter Pill: The Rising Prices of Prescription Drugs for Older Americans* (Washington: Families USA, July 2002).

[2] Publicly traded companies are required to submit financial data to the SEC on an annual basis; this is not required of privately held companies. Different reporting requirements apply to foreign companies doing business in the U.S.; therefore, those companies are excluded from this report.

[3] Due to changes among companies' CEOs and their most highly compensated executives, the following companies reported compensation for more than five executives: Allergan, Bristol-Myers, Pfizer, Schering-Plough, and Wyeth.

[4] "America's Largest Corporations: Fortune 500," *Fortune*, Annual Special Edition, April 2002.

[5] Ibid.

[6] Internal Revenue Service Code, section 174.

[7] The research and experimentation tax credit is reported under a general business tax credit, and there is no estimate of the amount of research expenses that the industry claims for deductions. Gary Guenther, "Federal Taxation of the Drug Industry from 1990 to 1996," Memorandum to the Joint Economic Committee, Congressional Research Service (Washington: Library of Congress, December 13, 1999).

[8] The effective tax rate is the amount that is actually paid in taxes after all deductions and credits. The drug industry realizes significant tax savings from five tax provisions: the deduction of qualified research expenses; the research and experimentation tax credit; the foreign tax credit, which is intended to prevent double-taxation of foreign-source income; the possessions tax credit, which encourages firms to locate manufacturing facilities in Puerto Rico and other U.S. territorial possessions and which is being phased out; and the orphan drug tax credit, which encourages development of drugs to treat rare diseases. Ibid.

[9] Pharmaceutical Industry 2001 Profile, *Pharmaceutical Research and Manufacturers of America* (Washington: PhRMA, 2001).

[10] Michie Hunt, *Changing Patterns of Pharmaceutical Innovation* (Washington: National Institute for Health Care Management Research and Education Foundation, May 2002).

[11] Ibid.

[12] Kaiser Family Foundation, "Most Medications Approved in the 1990s Not New, But Modified Versions of Older Drugs, Report States" (May 29, 2002), available online at (http://www.kaisernetwork.org/Daily_reports/rep_index.cfm?DR_ID=11414).

[13] Schering-Plough Corporation, "Management's Discussion and Analysis of Operations and Financial Condition, 2001," available online at (http://www.sec.gov/Archives/edgar/data/310158/000031015802000002/ex13ar2001.htm).

[14] Theresa Agovino, "Drug Makers: New Challenges Present Obstacles to Growth," *AP/Nando Times*, April 8, 2002.

[15] Meredith B. Rosenthal, et al. "Promotion of Prescription Drugs to Consumers," *New England Journal of Medicine*, vol. 346, no. 7 (February 14, 2002): 498-505.

[16] Pfizer Inc., *2001 Annual Report to Shareholders*, available online at (http://www.sec.gov/Archives/edgar/data/78003/000095012302003116/y58494ex13.htm).

[17] Bristol Myers Squibb, *Form 10-K for the Fiscal Year Ending December 31, 2001*, available online at (http://www.sec.gov/Archives/edgar/data/14272/000091205702013034/2074555z10-k405.htm).

[18] Merck & Co., Inc., *2001 Annual Report to Stockholders*, available online at (http://www.sec.gov/Archives/edgar/data/64978/000095013002001788/dex13.txt).

[19] Allergan, Inc., *Form 10-K for the Fiscal Year Ending December 31, 2001*, available online at (http://www.sec.gov/Archives/edgar/data/850693/000089256902000444/a79438e10-k405.htm).

[20] At the end of 2000, U.S. brand-name drug companies employed 48,527 people in research and 87,810 in marketing. Alan Sanger and Deborah Socolar, *Drug Industry Marketing Staff Soars While Research Staffing Stagnates* (Boston: Health Reform Program, Boston University School of Public Health, December 6, 2001).

[21] An increase in sales of the 50 drugs most heavily advertised to consumers was responsible for almost half of the increase in retail drug spending from 1999 to 2000. Steve Findlay, *Prescription Drugs and Mass Media Advertising: 1999-2000* (Washington: National Institute for Health Care Management Research and Education Foundation, September 20, 2000).

[22] Pfizer markets eight human pharmaceutical products that each had sales over $1 billion in 2001—Lipitor, Norvasc, Zoloft, Neurontin, Viagra, Zithromax, Celebrex, and Diflucan. Pfizer Inc., *2001 Annual Report to Shareholders*, op. cit.

[23]Bristol Myers Squibb, *Form 10-K for the Fiscal Year Ending December 31*, *2001*, op. cit.

[24] Merck & Co., Inc., *2001 Annual Report to Stockholders*, op. cit.

[25] "America's Largest Corporations," *Fortune*, Annual Special Editions, 1992-2002.

[26] Percent represents 1996 to 2001 annual rate of return to shareholders for various industries. "America's Largest Corporations," *Fortune*, Annual Special Edition, 2002.

[27] Pfizer, Inc., *2001 Annual Report to Shareholders*, op. cit.

[28] Merck & Co., Inc., *2001 Annual Report to Stockholders*, op. cit.

[29] Steve Findlay, *Prescription Drug Expenditures in 2000: The Upward Trend Continues* (Washington: The National Institute for Health Care Management Research and Education Foundation, May 2001).

[30] Medicare beneficiaries comprise only 14 percent of the population yet account for 43 percent of the nation's expenditures on prescription drugs. *The Medicare Program: Medicare and Prescription Drugs* (Washington: The Henry J. Kaiser Family Foundation, May 2001).

[31] Ibid.

[32] U.S. spending on prescription drugs has risen 15 percent or more per year over the past several years and rose over 17 percent in 2001 alone. Over one-third of spending increases in 2001 was attributable to increasing drug prices, which rose over 10 percent last year. Steve Findlay, *Prescription Drug Expenditures in 2001: Another Year of Escalating Costs* (Washington: National Institute for Health Care Management Research and Education Foundation, May 2002).

[33] *How Increased Competition for Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry* (Washington: Congressional Budget Office, July 1998).

APPENDIX I: METHODOLOGY

METHODOLOGY

For this report, Families USA analyzed spending patterns and compensation for the top executives during the 2001 fiscal year of nine publicly traded U.S. pharmaceutical companies that manufacture the 50 drugs most used by seniors.

Several of the top 50 drugs used by seniors are marketed by subsidiaries of larger parent companies. However, only the parent companies file financial data with the Securities and Exchange Commission (SEC). Therefore, the analysis for these subsidiary manufacturers is presented through the parent company. The following table lists subsidiaries and their parent companies.

Subsidiary	Parent Company
Parke-Davis	Pfizer Inc.
Searle	Pharmacia Corporation
TAP Pharmaceuticals	Abbott Laboratories
Warrick	Schering-Plough Corporation

In order of size based on annual revenue, the nine companies included in the report are: 1) Merck & Company; 2) Pfizer, Inc; 3) Bristol-Myers Squibb Company; 4) Abbott Laboratories; 5) Wyeth; 6) Pharmacia Corporation; 7) Eli Lilly & Co.; 8) Schering-Plough Corporation; and 9) Allergan Inc.

Families USA examined the annual reports that these nine U.S. pharmaceutical companies submitted to the SEC. The fiscal year of all nine companies runs from January 1 to December 31. One U.S. company that manufacturers drugs that are among the top 50 most used by seniors, Mylan Laboratories, has a fiscal year that is substantially different from that of the other nine companies and was therefore excluded from this report. Foreign-owed companies were excluded from the analysis as well because they have different SEC reporting requirements than U.S. companies.

The data used in this study were taken from the Electronic Data Gathering Analysis and Retrieval (EDGAR) Database. EDGAR is available online at the SEC's Web site and includes all public companies' filings to the SEC. These companies are required to submit both annual reports (form 10-K) and yearly proxy statements (form DEF 14-A). The companies' annual reports provide information on revenue, expenditures, and profit. Proxy statements report the executive compensation—including salaries, bonuses, stock options, and other compensation—of the companies' chief executive officers (CEOs) and the four most highly compensated executive officers.

Families USA downloaded SEC filings for each companies' 2001 fiscal year that pertain to financial data and to compensation for the most highly paid executives in order to determine spending patters on select items, annual executive compensation, and the value of executive stock options.

How Financial Data Were Computed

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

How Remuneration Was Computed

- Total Annual Compensation *Exclusive of Unexercised Stock Options.* This amount was computed for each executive by adding together the following information from the SEC filing:
  - **Salary:** annual wages paid to the executive for the fiscal year.
  - **Bonus:** bonuses paid to the executive for the fiscal year.
  - **Other Annual Compensation and All Other Compensation**: additional compensation given to the executive, which could include the company's contributions to a savings plan, tax reimbursements, transportation, relocation fees, a signing bonus, life insurance plans, and retirement plans.

- **Restricted Stock Awards:** the value of shares given to the executive by the company during its 2001 fiscal year. These shares are usually subject to restrictions—for example, the executive may not be able to sell them for a specified period of time. The dollar value is as reported in the proxy statements for the fiscal year and is not adjusted to reflect any of the stock restrictions.
- **Long-Term Incentive Plan Payouts:** taxable payments in cash or stock to the executive for reaching a specified performance goal over a period longer than a year.
- **Value of Shares Acquired on Exercise:** the value of stock options the executive exercised during fiscal year 2001. The company computes this value by multiplying the number of shares acquired by the difference between the market price and the "exercise price."

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

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

- **Value of Unexercised In-The-Money Options/SARS (Exercisable):** value of the "in-the-money" stock option grants the executive has been awarded in the past that are fully vested and, thus, could be exercised in fiscal year 2001. This value is the difference between the current market price and the exercise price.
- **Value of Unexercised In-The-Money Options/SARS (Unexercisable):** the value of the "in-the-money" stock option grants that are not yet vested and that the executive can choose to exercise in the future. This value is the difference between the current market price and the exercise price for stock options that have not yet vested. For example, this would include options that an executive has held for two years but whose terms require three years to pass before the options are available.

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

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

APPENDIX II:

COMPENSATION AND FINANCIAL INFORMATION, BY COMPANY

ABBOTT LABORATORIES

2001 Financial Data

Total Revenue:	$	16,285,246,000
Marketing/Advertising/Administration	$	3,734,880,000
Research and Development	$	1,577,552,000
Net Profit	$	1,550,390,000

	Total	Average
Annual Compensation for Top Executives:	**$ 21,237,047**	**$ 4,247,409**
Total Value of Unexercised Stock Options:	**$ 86,496,927**	**$ 17,299,385**

Executive Name and Title	Miles D. White Chairman, CEO & Director	Richard A. Gonzalez President & COO, Medical Products Group & Director	Jeffrey M. Leiden President & COO, Pharmaceutical Products Group & Director	Christopher B. Begley Senior VP, Hospital Products	William G. Dempsey Senior VP, International Operations
Salary	1,445,662	593,754	619,569	430,384	437,723
Bonus	2,100,000	642,000	700,000	425,000	525,000
Other Annual Compensation	104,247	50,938	17,837	108,171	69,359
Restricted Stock Awards	2,089,000	0	0	0	0
Long Term Incentive Payouts	nr	nr	nr	nr	nr
All Other Annual Compensation [1]	68,719	28,642	7,200	20,373	20,897
Value of Shares Acquired on Exercise	4,824,105	1,802,459	0	958,700	3,147,308
Total Compensation	**10,631,733**	**3,117,793**	**1,344,606**	**1,942,628**	**4,200,287**
Value of Unexercised In-The-Money Options/ SARS (E)	9,420,035	2,011,645	654,500	2,382,219	1,764,758
Value of Unexercised In-The-Money Options/ SARS (U)	11,423,243	3,764,721	3,156,500	2,203,023	2,368,360
Grant Date Present Value	nr	nr	nr	nr	nr
Potential Realizable Value at 5% Growth	20,710,169	9,460,390	7,603,336	4,412,143	5,161,885
Total Unexercised Stock Options	**41,553,447**	**15,236,756**	**11,414,336**	**8,997,385**	**9,295,003**

Abbott Laboratories drugs among top 50 drugs prescribed for seniors:

- Prevacid (gastrointestinal agent)

Notes

[1] The amounts are employer contributions made to the Stock Retirement Plan and made or accrued with respect to the 2001 Supplemental Plan.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

ALLERGAN, INC.

2001 Financial Data

Total Revenue	$	1,685,200,000
Marketing/Advertising/Administration	$	704,000,000
Research and Development	$	256,500,000
Net Profit	$	224,900,000

	Total	Average
Annual Compensation for Top Executives:	**$ 27,218,697**	**$ 4,536,450**
Total Value of Unexercised Stock Options:	**$ 73,488,252**	**$ 12,248,042**

Executive Name and Title	David E.I. Pyott Chairman, President and CEO	Lester J. Kaplan Corporate VP and President, R&D, Global Botox	F Michael Ball Corporate VP President, N. Amer. Region, Global Eye Rx	Eric K. Brandt Corporate Vice President CFO	Jaqueline Schiavo Corporate VP, Worldwide Operations	Francis R. Tunney, Jr [1] Former Corp. VP Administration and Secretary
Salary	870,384	384,192	360,153	367,538	280,369	371,630
Bonus	875,000	233,500	219,000	223,000	147,700	119,700
Other Annual Compensation	0	0	0	0	0	0
Restricted Stock Awards	0	0	0	0	0	0
Long Term Incentive Payouts	nr	nr	nr	nr	nr	nr
All Other Compensation [2]	6,576	8,586	8,586	8,586	13,997	8,586
Value of Shares Acquired on Exercise	0	4,181,713	2,846,119	0	3,877,230	11,806,552
Total Compensation	**1,751,960**	**4,807,991**	**3,433,858**	**599,124**	**4,319,296**	**12,306,468**
Value of Unexercised In-The-Money Options/ SARE (E)	18,425,748	6,237,713	1,698,654	1,639,592	5,237,072	166,400
Value of Unexercised In-The-Money Options/ SARE (U)	10,026,644	2,852,448	2,143,819	2,161,672	1,272,279	2,563,916
Grant Date Present Value	8,552,409	2,399,359	2,399,359	2,399,359	1,843,759	1,468,050
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**37,004,801**	**11,489,520**	**6,241,832**	**6,200,623**	**8,353,110**	**4,198,366**

Allergan, Inc. drugs among top 50 drugs prescribed for seniors:

- Alphagan (treatment for glaucoma)

Notes

[1] Mr. Tunney resigned as an executive officer of the company effective July 31, 2001.

[2] The total amounts shown consist of company contributions to the Allergan, Inc. Savings and Investment Plan (SIP) and the Allergan, Inc. Employee Stock Ownership Plan (ESOP), and the cost of term life insurance and term executive post-retirement life insurance premiums (Insurance) and payments in lieu of vacation.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

BRISTOL-MYERS SQUIBB COMPANY

2001 Financial Data

Total Revenue	$ 19,423,000,000
Marketing/Advertising/Administration	$ 5,336,000,000
Research and Development	$ 2,259,000,000
Net Profit	$ 5,245,000,000

	Total	Average
Annual Compensation for Top Executives:	**$ 89,249,005**	**$ 14,874,834**
Total Value of Unexercised Stock Options:	**$ 133,279,529**	**$ 22,213,255**

Executive Name and Title	P.R. Dolan [1] Chairman and CEO	J.L. McGoldrick Executive VP and General Counsel	R.J. Lane Exec VP and President Worldwide Medicines Group	P.S. Ringrose President, Pharmaceutical Research Inst. & CSO	D.J. Hayden, Jr. Executive VP, Health Care Group	C.A. Heimbold, Jr.[2] Former Chairman and CEO
Salary	1,033,333	712,000	671,000	670,000	653,535	1,111,367
Bonus	1,314,922	521,626	582,975	452,749	622,414	2,593,683
Other Annual Compensation	nr	nr	nr	nr	nr	89,300[3]
Restricted Stock Awards	1,550,000	2,145,000	2,145,000	0	0	0
Long Term Incentive Payouts	226,750	226,750	140,585	226,750	294,775	907,000
All Other Compensation [4]	46,220	32,016	30,173	30,127	29,387	50,012
Value of Shares Acquired on Exercise	0	0	0	0	0	70,139,556
Total Compensation	**4,171,225**	**3,637,392**	**3,569,733**	**1,379,626**	**1,600,111**	**74,890,918**
Value of Unexercised In-The-Money Options/ SARS (E)	4,651,465	17,033,354	5,761,347	6,329,643	5,068,816	59,828,145
Value of Unexercised In-The-Money Options/ SARS (U)	180,078	180,078	135,058	180,078	135,061	600,258
Grant Date Present Value	8,128,601	2,238,176	2,685,811	2,238,176	2,238,176	15,667,208
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**12,960,144**	**19,451,608**	**8,582,216**	**8,747,897**	**7,442,053**	**76,095,611**

Bristol-Myers Squibb drugs among top 50 drugs prescribed for seniors:

- Glucophage (oral antidiabetic agent)
- Plavix (anti-platelet agent)
- Pravachol (lipid-lowering agent)

Notes

[1] Mr. Dolan was President until he was elected CEO on May 1, 2001. He was elected Chairman on September 12, 2001.

[2] Mr. Heimbold resigned from from his position as CEO on May 1, 2001. He resigned as chairman on September 12, 2001.

[3] Represents personal use of company aircraft and payments for financial counseling.

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

nr = Not reported in the SEC filing

Totals may not add due to rounding.

ELI LILLY & CO.

2001 Financial Data

Total Revenue	$	11,542,500,000
Marketing/Advertising/Administration	$	3,417,400,000
Research and Development	$	2,235,100,000
Net Profit	$	2,780,000,000

	Total	Average
Annual Compensation for Top Executives:	**$ 11,724,511**	**$ 2,344,902**
Total Value of Unexercised Stock Options:	**$ 94,759,072**	**$ 18,951,814**

Executive Name and Title	Sidney Taurel Chairman, President, and CEO	August M. Watanabe Executive VP, Science and Technology	Gerhard N. Mayr Executive VP, Pharmaceutical Operations	Charles E. Golden Executive VP and CFO	John C. Lechleiter Executive VP, Pharmaceutical Products, Corp. Dev.
Salary	1,391,100	820,080	820,080	789,540	675,000
Bonus	474,366	190,669	190,669	183,569	146,475
Other Annual Compensation	269,808	45,294	1,610	74,218	42,322
Restricted Stock Awards	0	0	0	0	0
Long Term Incentive Payouts [1]	2,149,000	690,750	690,750	690,750	429,800
All Other Annual Compensation [2]	41,732	24,601	138,917	23,686	72,764
Value of Shares Acquired on Exercise	0	272,948	0	0	384,013
Total Compensation	**4,326,006**	**2,044,342**	**1,842,026**	**1,761,763**	**1,750,374**
Value of Unexercised In-The-Money Options/ SARS (E)	37,050,788	8,844,436	11,784,443	10,538,496	5,117,659
Value of Unexercised In-The-Money Options/ SARS (U)	4,257,750	1,459,800	1,459,800	1,459,800	973,200
Grant Date Present Value	4,851,000	1,663,200	1,663,200	1,663,200	1,972,300
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**46,159,538**	**11,967,436**	**14,907,443**	**13,661,496**	**8,063,159**

Lilly drugs among top 50 drugs prescribed for seniors:

- Humulin N (insulin antidiabetic agent)
- Evista (osteoporosis treatment)

Notes

[1] All amounts paid in Lilly stock (except for cash) to satisfy tax withholding requirements.

[2] Consists of company contributions to the named individual's account in the savings plan.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

MERCK & CO., INC.

2001 Financial Data

Total Revenue	$	47,715,700,000
Marketing/Advertising/Administration	$	6,224,400,000
Research and Development	$	2,456,400,000
Net Profit	$	7,281,800,000

	Total	Average
Annual Compensation for Top Executives:	**$ 9,855,273**	**$ 1,971,055**
Total Value of Unexercised Stock Options:	**$ 178,431,501**	**$ 35,686,300**

Executive Name and Title	Raymond V. Gilmartin Chairman, President, and CEO	Edward M. Scolnick Executive VP, Science & Tech Pres, Merck Research Labs.	Judy C. Lewent Executive VP and CFO	David W. Anstice President, The Americas & U.S. Human Health	Per Wold-Olsen President, Human Health-Europe, Middle East and Africa
Salary	1,383,338	820,000	563,334	563,334	520,834
Bonus	1,500,000	825,000	600,000	500,000	540,000
Other Annual Compensation	nr	nr	nr	nr	nr
Restricted Stock Awards	nr	nr	nr	nr	nr
Long Term Incentive Payouts	nr	nr	nr	nr	nr
All Other Annual Compensation [1]	7,650	3,825	7,650	7,650	7,650
Value of Shares Acquired on Exercise	0	0	1,272,759	0	732,249
Total Compensation	**2,890,988**	**1,648,825**	**2,443,743**	**1,070,984**	**1,800,733**
Value of Unexercised In-The-Money Options/ SARE (E)	64,649,250	5,247,500	19,850,930	11,353,250	10,702,492
Value of Unexercised In-The-Money Options/ SARE (U)	3,473,750	1,985,000	1,389,500	1,786,500	1,191,000
Grant Date Present Value	nr	nr	nr	nr	nr
Potential Realizable Value at 5% Growth	25,133,774	10,053,510	7,540,132	7,540,132	6,534,781
Total Unexercised Stock Options	**93,256,774**	**17,286,010**	**28,780,562**	**20,679,882**	**18,428,273**

Merck drugs among top 50 drugs prescribed for seniors:

- Fosamax (osteoporosis treatment)
- Zocor (lipid-lowering agent)
- Pepcid (gastrointestinal agent)
- Vioxx (anti-inflammatory)
- Cozaar (angiotensin II inhibitor)
- Vasotec (ACE inhibitor)

Notes

[1] Company contribution to the Employee Savings and Security Plan.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

PFIZER INC.

2001 Financial Data

Total Revenue	$	32,259,000,000
Marketing/Advertising/Administration	$	11,299,000,000
Research and Development	$	4,847,000,000
Net Profit	$	7,788,000,000

	Total	Average
Annual Compensation for Top Executives:	**$ 94,130,007**	**$ 15,688,335**
Total Value of Unexercised Stock Options:	**$ 206,457,205**	**$ 34,409,534**

Executive Name and Title	Henry A. McKinnell Chairman & CEO	John F. Niblack Vice Chairman	Karen L. Katen Executive VP, Pres.-Pfizer Pharm. Grp & President US Pharm.	David L. Shedlarz Executive VP, and CFO	C. L. Clemente Exective VP-Corp. Affairs, Secretary & Corp.Counsel	William C. Steere[1] Former Chairman
Salary	1,516,667	944,600	854,625	772,800	679,500	808,000
Bonus	2,780,800	1,062,700	1,043,400	736,900	680,900	1,616,000
Other Annual Compensation [2]	33,655	27,347	28,043	20,025	22,203	22,000
Restricted Stock Awards	0	0	0	0	0	0
Long Term Incentive Payouts	7,920,000	5,890,500	4,108,500	3,861,000	2,970,000	0
All Other Annual Compensation [3]	117,743	75,080	63,397	59,860	54,416	549,440
Value of Shares Acquired on Exercise	11,390,540	7,919,951	2,874,197	4,046,646	3,309,730	25,268,842
Total Compensation	**23,759,405**	**15,920,178**	**8,972,162**	**9,497,231**	**7,716,749**	**28,264,282**
Value of Unexercised In-The-Money Options/ SARS (E)	29,307,744	12,294,049	10,727,835	882,779	17,784,789	49,876,119
Value of Unexercised In-The-Money Options/ SARS (U)	4,371,990	3,490,320	2,150,220	2,216,395	2,166,500	10,310,900
Grant Date Present Value	nr	nr	nr	nr	nr	nr
Potential Realizable Value at 5% Growth	22,811,266	12,831,337	9,409,647	9,409,647	6,415,668	0
Total Unexercised Stock Options	**56,491,000**	**28,615,706**	**22,287,702**	**12,508,821**	**26,366,957**	**60,187,019**

Pfizer drugs among top 50 drugs prescribed for seniors:

- Norvasc (calcium channel blocker)
- Lipitor (lipid-lowering agent)
- Zoloft (antidepressant)
- Glucotrol XL (oral antidiabetic agent)

Notes

[1] Mr. Steere served as Chairman until April 30, 2001.

[2] The amounts shown in this row represent tax payments made on behalf of each officer relating to his or her use of company transportation and personal financial counseling.

[3] The amounts shown in this row represent company matching funds under the Pfizer Savings Plan and related supplemental plans.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

PHARMACIA CORPORATION

2001 Financial Data

Total Revenue	$	13,837,000,000
Marketing/Advertising/Administration	$	6,034,000,000
Research and Development	$	2,263,000,000
Net Profit	$	1,501,000,000

	Total	Average
Annual Compensation for Top Executives:	**$ 12,840,623**	**$ 2,568,125**
Total Value of Unexercised Stock Options:	**$ 47,622,442**	**$ 9,524,488**

Executive Name and Title	Fred Hassan Chairman and CEO	Timothy G. Rothwell Executive VP, President, Global Rx Business	C. S. Cox Executive VP, President, Global Rx Business	P. Needleman Sr. Executive VP, and CSO	G. A. Ando Executive VP and President, R&D
Salary	1,373,079	880,192	741,347	783,616	766,000
Bonus	2,160,500	988,600	868,100	779,600	711,500
Other Annual Compensation	0	0	0	0	0
Restricted Stock Awards	0	0	1,307,000	0	0
Long Term Incentive Payouts	0	0	0	0	0
All Other Annual Compensation [1]	100,154	129,241	81,873	129,485	95,057
Value of Shares Acquired on Exercise	0	945,279	0	0	0
Total Compensation	**3,633,733**	**2,943,312**	**2,998,320**	**1,692,701**	**1,572,557**
Value of Unexercised In-The-Money Options/ SARE (E)	14,137,331	1,223,466	1,898,065	11,816,492	597,088
Value of Unexercised In-The-Money Options/ SARE (U)	0	0	0	0	0
Grant Date Present Value	9,490,000	2,370,000	2,370,000	1,980,000	1,740,000
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**23,627,331**	**3,593,466**	**4,268,065**	**13,796,492**	**2,337,088**

Pharmacia drugs among top 50 drugs prescribed for seniors:

- Xalatan (glaucoma treatment)
- Detrol (overactive bladder treatment)
- Celebrex (anti-inflammatory)

Notes

[1] Amounts shown include contributions to Savings and Investment Plan (SIP) and split dollar life insurance premiums.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

SCHERING-PLOUGH CORPORATION

2001 Financial Data

Total Revenue	$	9,802,000,000
Marketing/Advertising/Administration	$	3,484,000,000
Research and Development	$	1,312,000,000
Net Profit	$	1,943,000,000

	Total	Average
Annual Compensation for Top Executives:	**$ 22,349,981**	**$ 3,724,997**
Total Value of Unexercised Stock Options:	**$ 49,714,534**	**$ 8,285,756**

Executive Name and Title	Richard Jay Kogan Chairman, CEO, and President	Joseph C. Connors Executive VP, General Counsel	Jack L. Wyszomierski Executive VP and CFO	Richard W. Zahn VP and President, Schering Labs.	Roch F. Doliveux VP and President, Schering-Plough International	Raul E. Cesan[1] Former President and COO
Salary	1,430,000	542,000	515,000	462,000	420,000	528,125
Bonus	0	0	0	0	0	nr
Other Annual Compensation	nr	nr	nr	nr	nr	nr
Restricted Stock Awards	4,081,295	934,767	934,767	465,381	465,381	0
Long Term Incentive Payouts	nr	nr	nr	nr	nr	nr
All Other Annual Compensation [2]	348,140	132,772	118,203	98,774	93,092	10,780,284[3]
Value of Shares Acquired on Exercise	0	0	0	0	0	0
Total Compensation	**5,859,435**	**1,609,539**	**1,567,970**	**1,026,155**	**978,473**	**11,308,409**
Value of Unexercised In-The-Money Options/ SARS (E)	3,775,410	6,627,034	1,259,850	1,758,798	1,334,838	0
Value of Unexercised In-The-Money Options/ SARS (U)	0	3,779,550	3,779,550	6,302,275	4,886,435	0
Grant Date Present Value	7,239,772	2,714,915	2,714,915	1,770,596	1,770,596	nr
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**11,015,182**	**13,121,499**	**7,754,315**	**9,831,669**	**7,991,869**	**0**

Schering-Plough drugs among top 50 drugs prescribed for seniors:

- Isosorbide Mononitrate (anti-anginal agent)
- Albuterol (respiratory agent)
- K-Dur 20 (potassium replacement)
- Claritin (nonsedating antihistamine)

Notes

[1] Mr. Cesan resigned as President and Chief Operating Officer effective July 15, 2001.

[2] Consists of contributions under the profit-sharing plans of the corporation and the cost of executive life and medical insurance.

[3] The amount shown for Mr. Cesan includes a lump sum payment made during 2001 upon his resignation, which includes a prorated bonus payment and the cost of executive life and medical insurance for 2001.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

Wyeth

2001 Financial Data

Total Revenue	$	14,128,514,000
Marketing/Advertising/Administration	$	5,179,285,000
Research and Development	$	1,869,679,000
Net Profit	$	2,285,294,000

	Total	Average
Annual Compensation for Top Executives:	**$ 54,865,177**	**$ 9,144,196**
Total Value of Unexercised Stock Options:	**$ 103,177,118**	**$ 17,196,186**

Executive Name and Title	John R. Stafford [1] Chairman	Robert Essner [2] President & CEO	Louis L. Hoynes, Jr. Exec.VP, General Counsel	Bernard J. Poussot Senior VP	L. Patrick Gage Senior.VP, Science & Tech.	Kenneth J. Martin Senior VP & CFO
Salary	1,760,000	1,116,667	640,000	631,800	629,793	497,000
Bonus	1,968,000	1,675,001	740,000	750,000	700,000	600,000
Other Annual Compensation	nr	nr	nr	nr	nr	nr
Restricted Stock Awards	0	2,091,413[3]	0	0	0	0
Long Term Incentive Payoffs	724,283	298,868	150,780	150,780	150,780	113,085
All Other Annual Compensation [4]	1,268,248	66,237	143,696	18,954	18,894	30,281
Value of Shares Acquired on Exercise	34,800,480	0	3,130,137	0	0	0
Total Compensation	**40,521,011**	**5,248,186**	**4,804,613**	**1,551,534**	**1,499,467**	**1,240,366**
Value of Exercisable In-The-Money Options/ SARE(E)	20,423,805	12,577,011	3,420,543	1,257,327	1,191,960	1,108,435
Value of Unexercisable In-The-Money Options/ SARE (U)	5,047,854	2,398,336	966,675	986,693	986,693	823,556
Grant Date Present Value	15,157,800	25,029,000	3,031,560	3,031,560	3,031,560	2,706,750
Potential Realizable Value at 5% Growth	nr	nr	nr	nr	nr	nr
Total Unexercised Stock Options	**40,629,459**	**40,004,347**	**7,418,778**	**5,275,580**	**5,210,213**	**4,638,741**

Wyeth drugs among 50 top drugs prescribed for seniors:

- Premarin (estrogen replacement)

Notes

[1] Mr. Stafford served as CEO from January 1, 2001 until May 1, 2001.

[2] Mr. Essner became CEO effective May 1, 2001.

[3] Represents special retention restricted stock award and will be converted to shares of common stock on June 21, 2004.

[4] Represents contributions made by the corporation under its Savings Plan and Supplemental Employee Savings Plan.

nr = Not reported in the SEC filing

Totals may not add due to rounding.

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