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KEEP ALL SECTIONS TOGETHER

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World-Wide

ION HAD a massive stroke; confronted a political vacuum. was transferred to a deputy, after the 77-year-old premier, fered a minor stroke Dec. 18; due for heart surgery this as rushed into an operating stop a cerebral hemorrhage. said prospects for full recovery. He is on a respirator. inject huge uncertainty into 8 elections Sharon was ex-o win easily. He had become ally indispensable man of Is- itics after being thrust into m center by the left's col- the rise of Olso and the scandal-driven failure of his rival Netanyahu. (Column 6) *haos grew as hundreds of Pal- is streamed unchecked into after militants seized bulldoz- breach a border wall. Two in guards died in the clashes.*

* * *
SUFFERED its worst day in with at least 53 people killed. adliest of the insurgent at- me when a suicide bomber d amid mourners at the fu- a Shiite politician's nephew, in Miqdadiya, 60 miles north- Baghdad. Victims were first y mortar fire into a killing id the gravestones. Mean- e Interior Ministry reported qis, most of them civilians, ed in the violence in 2005. nts attacked a convoy of 60 trucks heading to Baghdad aq's biggest refinery, destroy- killing a driver and dealing blow to government efforts capital gasoline shortages.

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Virginia joy was crushed af- al miners were wrongly re- ting church bells to C. rescinded the good ee hours later. Just one of 13 the Monday blast. (Page A3)

* * *
ment Republicans scrambled n campaign donations from , who pleaded guilty to Flor- charges. Rush himself gave

Side Effects

As Generics Pummel Its Drugs, Pfizer Faces Uncertain Future

Insurers Gain Skill in Battling Company's Marketing; Sales of Lipitor Stagnate

Developing a New Cancer Pill

By SCOTT HENSLEY

Pfizer Inc., the world's largest drug company, is struggling with a big problem: an escalating campaign by employers and insurers to drive patients toward cheap generics.

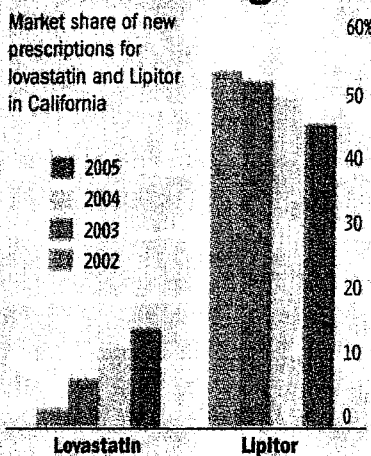
Investors and the company have long known that generic copies would pummel several of Pfizer's top drugs that are losing patent protection. But in a new twist, generic versions of competitors' drugs are hurting sales of Pfizer drugs that are still patent-protected. Licensing deals, acquisitions and the company's own research have failed to produce enough products to pick up the slack.

Most critically, U.S. prescriptions for Pfizer's cholesterol buster Lipitor have stagnated, even though five years remain on the key patent covering the medicine. At Kaiser Permanente, a California health-maintenance organization, fewer than 10% of patients on cholesterol-lowering drugs are getting Lipitor.

The result is trouble for the company

Cholesterol Fight

Market share of new prescriptions for lovastatin and Lipitor in California



Note: 2005 figures are through November
Source: NDCHealth

that defined an era of heavily marketed pills for masses of patients. In October, Pfizer withdrew projections for 2006 and 2007, saying it lost a reasonable basis to make predictions. Its share price hit an eight-year low last month before recovering somewhat after a court ruling affirmed Lipitor's patent.

For years, even as some rivals hedged their bets by developing high-priced specialty medicines and vaccines free from generic competition, Pfizer threw its energy into remedies for common ailments. Among them were Celebrex for pain, Zoloft for depression and Viagra for impotence. Its key weapon was marketing: television ads for the public and an army of sales representatives urging doctors to prescribe Pfizer pills.

Today, insurers and drug benefit managers are becoming adept at overcoming Pfizer's marketing might. Massachusetts requires 131,000 state employees, retirees and dependents to try two other cholesterol pills before it will pay for Lipitor. Even if patients get Lipitor, they have to pay \$40 a



Sharon's Stroke Adds to Turn In Israeli Poli

Crisis Complicates Ele Hopes for New Peace Concern of Renewed V

By KARB Y LEGGETT

JERUSALEM—Israeli Prime Ariel Sharon suffered a massi sending the Jewish state's po disarray ahead of an election ar cating prospects for peace ne with Palestinians.

Mr. Sharon's stroke, his second in two weeks, came shortly before he was scheduled to undergo a heart procedure. Hours after arriving at a Jerusalem hospital, the 77-year-old Mr. Sharon was on a respirator and undergoing surgery. The country's leadership was temporarily transferred to Deputy Prime Minister Ehud



Ariel S

The news cast uncertain U.S.-led efforts to renew a pol cess with the Palestinians this lowing Israel's recent withdra the Gaza Strip. Mr. Sharon, a fo eral who fought in all of Israe has come to play a dominatin Israeli politics in recent years.

In many ways, he alone has personify the middle grounc highly polarized Israeli politi scape that has emerged in the the controversial pullout from

Mr. Sharon recently broke a Likud, the right-wing political rode to power, to form a ne Kadima, which drew members sides of the political spectrum. leadership, Kadima recently projected to win a sweeping the parliamentary elections in M according to Israeli polling data.

But the party is largely a p the force of Mr. Sharon's person

Sweaty Donkey Ears And Peeping Frogs? That Must Mean Rain

* * *

Brazilian Seers Look for Signs Of Showers Amid Drought; A Dentist's 'Vigil of Noah'

By MATT MOFFETT

QUIXADÁ, Brazil—In a parched

QUIXADÁ, Brazil—In a parched field of rocks and brush, Antonio Tavares da Silva swung a stick and punched a hole in a termite nest wedged in the crook of a solitary tree. Mr. da Silva's face lit up as he peered at the quivering mass of insects. "Lots of termites with wings," he said. "Farmers will be happy to hear this."

For Mr. da Silva, who is known as a *profeta da chuva*, or rain prophet, winged termites are a sign that rain will soon come to chronically drought-stricken Northeastern Brazil. According to popular wisdom, the termites will need wings to reach higher ground when showers come. Mr. da Silva has lately noted what he considers other augurs of good rains:



Antonio Tavares da Silva

an abundance of spider webs and the nasal night-time call of the Southern lapwing.

Self-styled weather seers like Mr. da Silva are hallowed figures in villages throughout Brazil's Northeast, a region rich in folklore but poor in nearly everything else, especially precipitation. As the region prepares for the start of its planting season this month, prophets are studying the barren farmland, trying to determine how much rain there will be and when it will fall.

In keeping with a 10-year tradition, a score of the most well-known oracles will gather in this farming center next week and issue forecasts that will be closely watched throughout a region that's home to one-third of Brazil's population. The prophets don't get anything for their predictions, just the gratification of knowing that locals are hanging on their every word.

A 2002 study by the University of Arizona found that the region's subsistence farmers are often poor. *Please Turn to Page A6, Column 5*

tor. Even if patients get Lipitor, they have to pay \$10 a month as their share of the cost—compared with just \$7 a month for a generic competitor.



Henry McKinnell

Lipitor sales in the U.S. rose only 1% in the third quarter from the year-earlier period even though prices were 5% higher. For the first two months of the fourth quarter, U.S. Lipitor prescriptions fell 2.3% compared with the same period a year earlier, according to NDCHealth, an Atlanta health-care information firm. It remains the world's best-selling drug with \$12 billion in annual sales.

Lipitor's performance has put pressure on Pfizer's chief executive, Henry McKinnell. "Our strategy is to survive this period, and survival is the right word," says Mr. McKinnell in an interview. Regarding Lipitor's malaise, he says: "We think that's a temporary slowdown, but we would like some confirmation of that."

Pfizer's board is keeping a close eye on Mr. McKinnell, 62 years old, who has been chief executive since 2001. About a half-dozen members listened in during his latest earnings conference call with analysts, according to one person familiar with the situation. And at every board meeting, directors discuss where Pfizer will find new drugs, according to this person.

At the moment, however, the board isn't ready to ax Mr. McKinnell before his planned 2008 exit date or order a major change of course, people familiar with the situation say. "The board has known and management has known and the investment community has known for a long time that 2005 would be a challenging year," says Pfizer's lead director, Stanley O. Ikenberry, a former president of the University of Illinois. He says the board is confident that Pfizer's long-term investments in research will pay off.

Pfizer is responding to the immediate threat in the way it knows best: with lots of marketing. It is spending more to advertise Lipitor and courting employers with discounts on its drugs. While other drug companies are slashing sales staff, *Please Turn to Page A9, Column 1*

cording to Israeli polling data.

But the party is largely a product of the force of Mr. Sharon's personality and the dramatic change in approach toward the Palestinians and security issues that he has successfully pushed in recent years. Without him, the months-old political party will face a rocky path forward. Some Israeli political pundits openly question if it could survive.

Once an ardent opponent of a Palestinian state and a staunch backer of Jewish settlements in Palestinian territories, Mr. Sharon recently made clear he was prepared to accept the formation of a Palestinian state and the evacuation of additional occupied lands as cornerstones of his party's platform.

Many Israelis had come to see Mr. Sharon's formation of Kadima as a seminal event in the country's history, and Mr. Sharon as a leader capable of guiding the country through negotiations that could perhaps define the nation's final, secure borders. Those prospects likely would be diminished with Mr. Sharon's absence as a driving political force.

"We are at the threshold of a new era," said Michael Oren, an Israeli author and leading political analyst. "What looked to be a landslide is now looking to be a very close election."

The U.S. gave Mr. Sharon extensive political support during the evacuation of Jewish settlements in Gaza last summer, and has been working hard to bring the Israelis and Palestinians back to the negotiating table. The Bush administration's hope has been that an election win by Mr. Sharon, coupled with a victory for Palestinian Authority President Mahmoud Abbas, a moderate among Palestinian leaders, could set the stage for a final political settlement. In a sign of that commitment, Secretary of State Condoleezza Rice personally helped broker a crucial border agreement between the Israelis and Palestinians during a recent visit.

Though Mr. Sharon and President Bush are not personally close, the president has synchronized his policies toward the Israeli-Palestinian conflict with the prime minister's views to an almost unprecedented degree. He strongly backed the Israeli premier's withdrawal *Please Turn to Page A10, Column 1*

INSIDE TODAY'S JOURNAL

Rewinding Blockbuster's Fortunes?

Investors wonder whether it is too late for late fees to turn around the struggling video chain's financials. **HEARD ON THE STREET, C1**

Hard-to-Digest Options

Most Americans call the prescription-drug plan "too complicated and confusing."



David Wessel says political compromises ignore lessons on how consumers handle overwhelming



E-Books, HDTVs, And MP3 Players

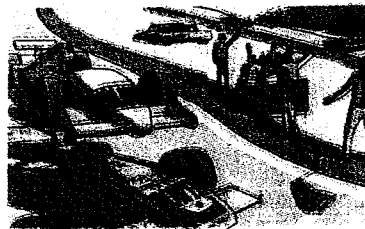
At the Consumer Electronics Show in Las Vegas,

gadget makers reflect the move to refine, rather than radically reimagine, existing products. The Sony Reader turns heads, and pages. **D1**

More Desperate Housewives

Three major networks are developing English versions of "telenovelas," borrowing from Spanish-language networks in a bid to woo younger

THE JOURNAL REPORT MUTUAL FUNDS QUARTERLY REVIEW



Growth Takes Lead In Race Against Value

Robert Smith Picks
Growth Stocks With a Twist

As Generics Pummel Its Drugs, Pfizer Faces an Uncertain Future

Continued From First Page

Pfizer has made only small cuts through attrition and still has 9,000 salespeople in the U.S. It says they'll be needed later this year with a slew of expected approvals of new products by the Food and Drug Administration, including a potential breakthrough pill to help smokers kick the habit.

Pfizer's pipeline has never looked better, says Mr. McKinnell. Still, he con-

On the Line

WSJ.com subscribers can read an edited transcript of Scott Hensley's interview with Henry McKinnell at WSJ.com/JournalLinks

cedes, "we are not a growth company in the next couple of years."

Pharmaceuticals became one of America's biggest and most profitable industries thanks largely to a series of huge sellers introduced in

the late 1980s and 1990s. Now many of those drugs are losing patent protection. Once that happens, brand-name pills eventually lose nearly all of their sales to generics, which are chemically identical. Pfizer itself lost patent protection on its huge-selling antibiotic Zithromax in November, and will lose its antidepressant Zoloft this year and blood-pressure pill Vasotec in 2007.

Generics now are building a critical mass. It's possible to treat a broad range of common conditions without any brand-name drugs. Some 60% of prescriptions in the U.S. are filled with generics, compared with less than half in 2000, according to IMS Health.

Historic Shift

As health-care costs continue to climb and take a bite out of corporate profits, employers and insurers are seizing on this historic shift. They are increasingly demanding that patients start with a generic and switch to a brand only if they need to. That approach damages brands that still have patent protection in addition to those that have lost it. Some 45% of employer-based insurance plans used this "step therapy" for at least one drug category in 2004, up from 22% five years ago, according to a survey by the Pharmacy Benefit Management Institute.

The agency that administers benefits for Massachusetts state employees estimates that the use of step therapy in 11 disease categories saved \$3.9 million on its \$158 million prescription-drug bill in 2004.

The trend afflicts all of Pfizer's top competitors, and the share prices of several are languishing far below peaks set in 1999-2001. Almost every company has had trouble discovering new mass-market drugs to replace those going off-patent. Among the factors blamed for the research drought are the difficulty of topping existing drugs, tighter approval standards and big-company bureaucracy.

But Pfizer is in a particularly tough position because of its failure so far to develop new hits for specialty markets such as cancer, where rivals such as No-

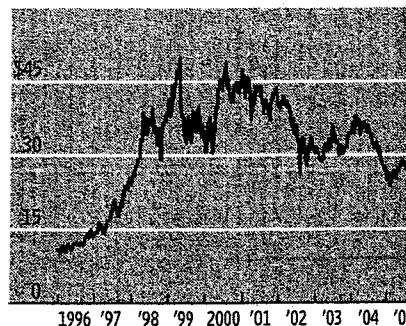
Troubled Times

As sales of Pfizer's leading drugs stagnate, its stock price briefly hit an eight-year low in December before recovering.

Pfizer Drug	2005 U.S. Sales Third Quarter (billions)	Year-to-Date Change	Rival Drugs
Lipitor	\$1.74	+1%	Generic lovastatin, Merck's Zocor
Zoloft	0.65	+1	Generic versions of Prozac, Paxil and Celexa
Celebrex	0.34	-64	Generic naproxen, ibuprofen

Sources: the company; Thomson Datastream

Pfizer's share price, weekly close



It was Mr. McKinnell who placed a huge bet on Celebrex by buying the drug's developer, Pharmacia Corp., in 2003 for \$56 billion. Now some analysts are beginning to gripe. Barbara Ryan of Deutsche Bank wrote in an October report that Mr. McKinnell seemed "far too smug" and hasn't been transparent enough.

Mr. McKinnell, who has worked at Pfizer since 1971 and served as chief financial officer, says he understands the dissatisfaction of shareholders. "We need to go out and demonstrate that we heard the concerns" by quickly offering a new forecast for 2006 and 2007, he says. The company expects to do so next month.

As a salve for investors, Pfizer raised its quarterly dividend effective in the first quarter to 24 cents a share from 19 cents.

Pfizer's new TV spots promote cholesterol awareness, and print ads for Lipitor highlight the drug's ability to reduce risk of stroke. The company has redrawn sales territories to match the geographic boundaries of insurers offering the new drug benefit in the federal Medicare program for seniors. Pfizer blames the third-quarter slowdown in Lipitor sales in part on the demands of the reorganization during the quarter. It notes that foreign sales of Lipitor and some other top drugs continue to grow strongly.

Pfizer is seeking to counter managed care's efforts to downgrade Lipitor. The company's message: Insurers are hurting patients' health with their cost-cutting efforts. Dolores Mitchell, executive director of the Massachusetts agency overseeing health benefits for state employees, admits the higher co-payments for some branded drugs can be unpopular. "My husband, for one, is on Lipitor, and he's not a happy camper," she says.

Express Scripts, which manages pharmacy benefits for health plans and employers including Ms. Mitchell's agency, has recommended that its customers remove Lipitor from their lists of preferred drugs, or formularies. As a substitute Ex-

press Scripts says, "The majority of our clients have accepted our 2006 formulary recommendations," says spokesman Steve Littlejohn.

In California, where managed care influence is strong, the generic drug lovastatin claims 15% of prescriptions for cholesterol-reducing drugs—nearly double its national share of 8%, according to NDCHealth. Lovastatin is the second-most prescribed cholesterol drug in California, despite having no sales force or advertising behind it.

At Kaiser Permanente, 95% of patients prescribed a cholesterol-lowering "statin" drug start with lovastatin. Three-quarters eventually reach their goals with that drug and fewer than 10% get Lipitor, says Sharon Levine, associate executive director of Kaiser's medical group in Northern California. Kaiser similarly encourages use of generic antidepressants instead of Pfizer's Zoloft and older painkillers such as naproxen instead of Celebrex.

Nationwide, Zoloft, still patent-protected until the end of this year, has seen

its 25% share of prescriptions recently start to slip under pressure from generic brands, including Prozac.

Testing Ground

The latest testing ground is the new Medicare prescription drug plan, which seniors can join starting in 2006. Insurers for coverage as part of the bill have landed an estimated 85% of Medicare percentage points in 11 states. The plan, that means to pay an extra \$25 out of their own pocket for each prescription. Pfizer says its figures show that those from the Pink Sheet didn't have to pay for it.

But an analysis in a newsletter, the Pink Sheet, held an infernal list of five of the most common drugs in Medicare plans, comparing them to generic versions. The plan, that means to pay an extra \$25 out of their own pocket for each prescription. Pfizer says its figures show that those from the Pink Sheet didn't have to pay for it.

"Pfizer's always been a clinical benefit to wasn't paying for it. It's an industry crisis, a sen Group. "But a willing to pay a premium in the same class?"

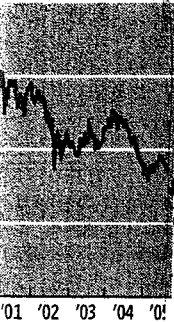
Although Pfizer has a year on research, its recent rollout of Lipitor is a testament to its power. Zithromax now is a generic, Pfizer is trying to replace it with Zmax, a one-time-dose drug protected by a patent. Clearly it is trying to replace Neurontin, which treats nerve pain, with pat-



an Uncertain Future

an eight-year low

close



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is year, has seen

its 25% share of prescriptions flatten and recently start to slip under increasing pressure from generic versions of rival brands, including Celexa, Paxil and Prozac.

Testing Ground

The latest testing ground for Pfizer is the new Medicare drug benefit, under which seniors can sign up with private insurers for coverage and Uncle Sam pays part of the bill. Mr. Kelly says Lipitor has landed an unrestricted position on 85% of Medicare formularies, about 20 percentage points higher than on non-Medicare plans. That means these patients don't have to pay extra to get Lipitor instead of another brand.

But an analysis by a drug-industry newsletter, the Pink Sheet, found that Lipitor held an inferior position on formularies of five of nine nationwide Medicare plans, compared with only one for soon-to-go-generic Zocor. Depending on the plan, that means patients might have to pay an extra \$25 or more each month out of their own pockets for Lipitor. Pfizer says its figures don't conflict with those from the Pink Sheet because there are many regional Medicare plans that the Pink Sheet didn't examine.

"Pfizer's always been able to prove clinical benefit to the physician who wasn't paying for it," says Mason Tena-glia, an industry consultant at Amund-sen Group. "But am I as a consumer willing to pay a premium over generics in the same class?"

Although Pfizer spends nearly \$8 billion a year on research and development, its recent rollout of new products to sup-plement Lipitor is thin. With the antibi-otic Zithromax now facing generic compe-tition, Pfizer is trying to plug the gap with Zmax, a one-dose form of Zithro-max protected by patent until 2017. Simi-larly it is trying to replace the older drug Neurontin, which treats epilepsy and nerve pain, with patent-protected Lyrica.

Mr. McKinnell agrees that the age of the blockbuster mass-market pill may be ebbing. He says Pfizer will shift to a port-folio that includes some biotechnology medicines for serious conditions and larger number of smaller sellers.

Since late 2001, Pfizer has sought ap-proval from regulators to market 17 new drugs. Two of the drugs, Oporia for os-teoporosis and Dynastat for pain, were rejected by the FDA last year. Of the nine drugs approved for marketing, none has become a billion-dollar-a-year seller.

This year the FDA may approve

Sutent, a drug for kidney cancer that Pfizer acquired when it bought Pharma-cia. Other drugs that may win approval this year include an inhaled form of insu-lin for diabetics called Exubera and a smoking cessation pill called Champix. Pfizer is also spending \$800 million on studies of a potential blockbuster combin-ing Lipitor, which lowers LDL or "bad" cholesterol, with another medicine that raises good cholesterol.

—Joann S. Lublin
contributed to this article.

Some think
new look.

How do you
make a health
plan smarter?

the major prescription drug bill in 2004. The trend afflicts all of Pfizer's top competitors, and the share prices of several are languishing far below peaks set in 1999-2001. Almost every company has had trouble discovering new mass-market pills to replace those going off-patent. Among the factors blamed for the research drought are the difficulty of topping existing drugs, tighter approval standards and big-company bureaucracy.

But Pfizer is in a particularly tough position because of its failure so far to develop new hits for specialty markets such as cancer, where rivals such as Novartis AG and Roche Holding AG are making big inroads. Insurers have a tougher time restricting use of these specialty drugs because there are fewer generics and the drugs often treat life-threatening conditions.

Pfizer has also taken a hit from questions about painkillers that arose after Merck & Co. withdrew Vioxx from the market in September 2004 over heart risks. Sales of Pfizer's Celebrex painkiller have fallen by more than half, and Pfizer had to withdraw a related drug, Bextra, from the market last April at the FDA's request. Although Celebrex works similarly to Vioxx, studies haven't shown that it shares the same degree of heart-attack risk.

company's message: Insurers are hurting patients' health with their cost-cutting efforts. Dolores Mitchell, executive director of the Massachusetts agency overseeing health benefits for state employees, admits the higher co-payments for some branded drugs can be unpopular. "My husband, for one, is on Lipitor, and he's not a happy camper," she says.

Express Scripts, which manages pharmacy benefits for health plans and employers including Ms. Mitchell's agency, has recommended that its customers remove Lipitor from their lists of preferred drugs, or formularies. As a substitute Express Scripts is recommending Merck's Zocor, which will be available in generic form in June.

No. 1 Target

Pfizer contends it has lured back many employers who normally follow Express Scripts' advice. It is offering better prices on Lipitor directly to those employers. "We're in the trenches fighting it out," says J. Patrick Kelly, president of the company's U.S. pharmaceuticals unit. Lipitor, he says, "is No. 1 in market share. It's also the No. 1 target. People are getting really excited about taking on that No. 1 target."

Express Scripts says Pfizer's counter-attack is failing. "The overwhelming ma-

Bird Flu Blamed for Turkish Death

Reuters News Service

ANKARA, Turkey—Turkey said yesterday that two people had been diagnosed with bird flu—the first human cases outside Southeast Asia and China—and a doctor said one of them, a 14-year-old boy, had died from the H5N1 strain.

Health Minister Recep Akdag said the two cases had occurred in the eastern part of the country, and if the cause of the boy's death is officially confirmed as H5N1, it would mark a dramatic shift westward for the killer disease.

The boy, Mehmet Ali Kocuyigit, "died of the H5N1 strain of bird flu," Huseyin Avni Sahin, head doctor at Van hospital in eastern Turkey, told a televised news conference. Doctors earlier had said the boy died of pneumonia on Sunday.

The boy's sister, Fatma, also has been diagnosed as having the disease and remains seriously ill.

A World Health Organization spokeswoman in Geneva said the United Nations body had no official confirmation that the cases in Turkey involved the H5N1 strain. The strain has killed more than 70 people in east Asia since 2003 and forced the slaughter of millions of birds.

Turkey, which lies on the path of migratory birds that are believed to spread

the virus, has suffered two outbreaks of the highly contagious disease among poultry in the past three months.

Veterinary experts across Europe have been on alert, culling birds and taking other precautionary measures since October outbreaks in Turkey and Romania. Most of Europe imposed a ban on imports of Turkish live birds at the time, but the measure was subsequently eased.

Experts say a bird-flu pandemic among humans could kill millions around the globe and cause massive economic losses. The virus remains hard for people to catch, but the fear is that it could mutate into a form easily transmitted among humans.

Northwest Continues Its Push to Create Regional Subsidiary

Continued From Page A2

hasn't responded.

Northwest said it reviewed the proposal and rejected it. Mr. Cohen said the carrier is focused on helping the pilots understand the benefits of the plan. "Their concerns can be addressed in negotiations," he added.

Northwest also needs to prepare for the phased retirement of its vast fleet of 30-year-old DC-9 aircraft, which now perform some of the flights the carrier wants to do more efficiently with the new planes.

Handan Iron & Steel Co.

Stake in China Merchants Bank Will Be Sold for \$48.2 Million

China's Handan Iron & Steel Co. said its board approved a plan to sell a 1.05% stake in China Merchants Bank for 388.8 million yuan (\$48.2 million).



A heart attack Because we go

Patients don't always communicate with various doctors may not communicate lead to serious and expensive medical Management has a solution. As patented CareEngine® System can patient information, then compile clinical literature. When potential to improve care are discovered, we Care Considerations that can save