JOHNSON & JOHNSON

FORM 8-K/A
(Amended Current report filing)

Filed 3/2/2007 For Period Ending 12/20/2006

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Industry	Major Drugs
Sector	Healthcare
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of earliest event reported: December 20, 2006

JOHNSON & JOHNSON

(Exact name of registrant as specified in its charter)

New Jersey	1-3215	22-1024240
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Johnson & Johnson Plaza, New Brunswick, New Jersey 08933
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: 732-524-0400

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition of Assets

As previously reported on a Current Report on Form 8-K filed on December 21, 2006, on December 20, 2006, the Company completed the acquisition of the Consumer Healthcare business of Pfizer Inc. ("Pfizer Consumer Healthcare") for a purchase price of $16.6 billion in cash. This amendment to the Current Report on Form 8-K filed on December 21, 2006 is being filed to include financial information for Johnson & Johnson and its subsidiaries and Pfizer Consumer Healthcare that was not available at the time of the original filing.

Audited combined financial statements of Pfizer Consumer Healthcare (a business unit within Pfizer Inc.) as of and for the years ended December 31, 2005 and 2004 and unaudited combined financial statements of Pfizer Consumer Healthcare (a business unit within Pfizer Inc.) as of and for the nine months ended October 1, 2006 and October 2, 2005 are attached hereto at Exhibits 99.2 and 99.3 and incorporated herein by reference. Unaudited condensed combined pro forma financial information for the years ended December 31, 2006 and January 1, 2006 for Johnson & Johnson and its subsidiaries are attached hereto at Exhibit 99.1 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

Exhibit No.	Description
23	Consent of Independent Registered Public Accounting Firm
99.1	Unaudited Pro Forma Condensed Consolidated Statements of Earnings for the fiscal years ended December 31, 2006 and January 1, 2006 for Johnson & Johnson and its subsidiaries.
99.2	Audited combined financial statements as of and for the years ended December 31, 2005 and 2004 for Pfizer Consumer Healthcare (a business unit within Pfizer Inc.) and Independent Auditors' Report thereon.
99.3	Unaudited combined financial statements as of and for the nine months ended October 1, 2006 and October 2, 2005 for Pfizer Consumer Healthcare (a business unit within Pfizer Inc.).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

JOHNSON & JOHNSON
(Registrant)

Date: March 2, 2007

By: /s/ S. J. Cosgrove
S. J. Cosgrove
Controller
(Principal Accounting Officer)

EXHIBIT INDEX

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Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-129542, 333-124785, 333-106007, 333-104828, 333-96541, 333-87736, 333-67370, 333-59380, 333-39238, 333-94367, 333-86611, 333-40681, 333-38055, 333-26979, 333-00391, 33-59009, 33-57583, 33-52252, 33-40295, 33-40294, 33-32875) and Form S-3 (No. 333-138649, 333-111082, 333-104821, 333-67020, 333-91349, 33-55977, 33-47424) of Johnson & Johnson of our report dated December 19, 2006, with respect to the combined balance sheets of Pfizer Consumer Healthcare (a business unit within Pfizer Inc) as of December 31, 2005 and 2004, and the related combined statements of income, business unit equity, and cash flows for the years then ended, which report is included in Exhibit 99.2 of Form 8-K/A of Johnson & Johnson dated March 2, 2007.

/s/ KPMG LLP
New York, NY

March 2, 2007

Exhibit 99.1

Unaudited Pro Forma Condensed Combined Statement of Earnings
for Johnson & Johnson and its Subsidiaries

On December 20, 2006, the Company completed the acquisition of the Consumer Healthcare business of Pfizer Inc. (“Pfizer Consumer Healthcare”) for a purchase price of $16.6 billion in cash.

The following Unaudited Pro Forma Condensed Combined Statement of Earnings combines the historical consolidated statements of earnings of Johnson & Johnson and its subsidiaries (“The Company”) and the Consumer Healthcare business of Pfizer Inc. (“Pfizer Consumer Healthcare”) giving effect to the acquisition as if it had occurred on January 2, 2005. You should read this information in conjunction with the:

- accompanying notes to the Unaudited Pro Forma Condensed Combined Statement of Earnings;
- separate historical financial statements of Johnson & Johnson as of and for the fiscal years ended December 31, 2006 and January 1, 2006, included in the Johnson & Johnson Annual Report on Form 10-K for the fiscal year ended December 31, 2006;
- separate unaudited historical financial statements of Pfizer Consumer Healthcare (a business unit within Pfizer Inc) as of and for the nine months ended October 1, 2006 and October 2, 2005, included at Exhibit 99.3 to this Current Report on Form 8-K;
- separate audited historical financial statements of Pfizer Consumer Healthcare (a business unit within Pfizer Inc) as of and for the years ended December 31, 2005 and 2004, included at Exhibit 99.2 to this Current Report on Form 8-K.

The Unaudited Pro Forma Condensed Combined Statement of Earnings is provided for informational purposes only. The Unaudited Pro Forma Condensed Combined Statement of Earnings does not include the impact of operating synergies or cost savings that may result from the acquisition. The pro forma information is not necessarily indicative of what the companies’ results of operations actually would have been had the acquisition been completed at the dates indicated or what such results will be for any future periods. A pro forma balance sheet has not been included as the balance sheet effects of the acquisition are reflected in the Company’s Audited Consolidated Balance Sheet as of December 31, 2006 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

The Unaudited Pro Forma Condensed Combined Statement of Earnings was prepared using the purchase method of accounting. The Unaudited Pro Forma Condensed Combined Statement of Earnings reflects the effects of applying certain preliminary purchase accounting adjustments to the historical combined results of operations, including items expected to have a continuing impact on the combined results, such as increased depreciation and amortization expense on acquired tangible and intangible assets, and the impact on financing costs. The final purchase price allocation has not yet been completed and could result in adjustments to the amounts included in this Unaudited Pro Forma Condensed Statement of Earnings. The Unaudited Pro Forma Condensed Combined Statement of Earnings also includes the effect of the divestitures of (1) the ZANTAC ® product acquired from Pfizer Inc. and divested on December 20, 2006 and (2) the KAOPECTATE ® , UNISOM ® , CORTIZONE ® , BALMEX ® and ACT ® products divested on January 2, 2007 for proceeds of $410 million in cash. The KAOPECTATE ® , UNISOM ® and CORTIZONE ® products were also acquired from Pfizer Inc. on December 20, 2006. These products were divested in order to obtain regulatory approval for the transaction. The pro forma adjustments for these divestitures were derived from the accounting records of the Company and Pfizer Inc.

Johnson & Johnson and Subsidiaries
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS
For The Year Ended December 31, 2006

(Dollars in Millions Except Per Share Data)

	Johnson & Johnson	Pfizer Consumer Healthcare (A)	Pro Forma Adjustments for Divestitures	Pro Forma Adjustments Other	Pro Forma Combined
Sales to customers	$ 53,324	4,032	(241)	—	57,115
Cost of products sold	15,057	1,443	(58)	118 (B)	16,560
Selling, marketing and administrative expenses	17,433	1,898	(56)	—	19,275
Research expense	7,125	192	(12)	—	7,305
Purchased in-process research and development	559 (F)	—	—	—	559
Interest (income) expense	(766)	—	—	743 (C)	(23)
Other (income) expense, net	(671)	(23) (D)	(1)	—	(695)
Earnings before provision for taxes on income	14,587	522	(114)	(861)	14,134
Provision for taxes on income	3,534	171	(39) (E)	(301) (E)	3,365
Earnings from continuing operations	$ 11,053	351	(75)	(560)	10,769
Average shares outstanding- Basic	2,936.4				2,936.4
Average shares outstanding- Diluted	2,961.0				2,961.0
Basic net earnings per share	$ 3.76				3.67
Diluted net earnings per share	$ 3.73				3.64

(A) Certain reclassifications have been made to the historical presentation of Pfizer Consumer Healthcare to conform to the Company's Statement of Earnings presentation.

(B) Represents an increase in depreciation and intangible asset amortization expense of $118 million resulting from adjusting acquired fixed assets and intangible assets to their estimated fair value. The increase in depreciation and intangible asset amortization expense was primarily due to the amortization expense associated with customer relationships, patents and technology and certain determinable life brands including PURELL(R), ACTIFED(R) and EFFERDENT(R) and other regional or country specific brands.

The determinable life brands and patents and technology have an aggregate value of $623 million and have useful lives ranging from 5 to 40 years. The customer relationships have an aggregate value of $3,067 million and have useful lives ranging from 30 to 40 years. The majority of the brands associated with Pfizer Consumer Healthcare were determined to have indefinite lives; accordingly, the Unaudited Pro Forma Condensed Combined Statement of Earnings do not reflect amortization expense associated with these brands.

(C) Represents the incremental financing costs associated with the acquisition of Pfizer Consumer Healthcare for the period shown. Amounts were calculated using an average interest rate of 4.7% on the $15.8 billion cost of the acquisition, net of proceeds received from divestitures.

(D) Other (income) expense, net consists of:

Restructuring and merger-related costs	$ 27
Minority interests	4
Other income, net	(54)
Total	$ (23)

(E) Reflects the income tax effects of the pro forma adjustments at applicable statutory income tax rates.

(F) Includes $320 million related to Pfizer Consumer Healthcare. This is primarily associated with rights obtained to the pending switch of ZYRTEC(R) from U.S. prescription to over the counter status.

Johnson & Johnson and Subsidiaries
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS
For The Year Ended January 1, 2006

(Dollars in Millions Except Per Share Data)

	Johnson & Johnson	Pfizer Consumer Healthcare (A)	Pro Forma Adjustments for Divestitures	Pro Forma Adjustments Other	Pro Forma Combined
Sales to customers	$ 50,514	3,891	(249)	—	54,156
Cost of products sold	14,010	1,274	(60)	204 (B)	15,428
Selling, marketing and administrative expenses	17,211	1,799	(66)	—	18,944
Research expense	6,462	186	(9)	—	6,639
Purchased in-process research and development	362	—	—	—	362
Interest (income) expense	(433)	—	—	743 (C)	310
Other (income) expense, net	(214)	1 (D)	(1)	—	(214)
Earnings before provision for taxes on income	13,116	631	(113)	(947)	12,687
Provision for taxes on income	3,056	215	(39) (E)	(331) (E)	2,901
Earnings from continuing operations	$ 10,060	416	(74)	(616)	9,786
Average shares outstanding- Basic	2,973.9				2,973.9
Average shares outstanding- Diluted	3,002.8				3,002.8
Basic net earnings per share	$ 3.38				3.29
Diluted net earnings per share	$ 3.35				3.26

(A) Certain reclassifications have been made to the historical presentation of Pfizer Consumer Healthcare to conform to the Company's Statement of Earnings presentation.

(B) Represents (1) an increase in depreciation and intangible asset amortization expense of $118 million resulting from adjusting acquired fixed assets and intangible assets to their estimated fair value and (2) an increase in the cost of good sold of $86 million resulting from the step up in the value of inventories. The increase in depreciation and intangible asset amortization expense was primarily due to the amortization expense associated with customer relationships, patents and technology and certain determinable life brands including PURELL(R), ACTIFED(R) and EFFERDENT(R) and other regional or country specific brands.

The determinable life brands and patents and technology have an aggregate value of $623 million and have useful lives ranging from 5 to 40 years. The customer relationships have an aggregate value of $3,067 million and have useful lives ranging from 30 to 40 years. The majority of the brands associated with Pfizer Consumer Healthcare were determined to have indefinite lives; accordingly, the Unaudited Pro Forma Condensed Combined Statement of Earnings do not reflect amortization expense associated with these brands.

(C) Represents the incremental financing costs associated with the acquisition of Pfizer Consumer Healthcare for the period shown. Amounts were calculated using an average interest rate of 4.7% on the $15.8 billion cost of the acquisition, net of proceeds received from divestitures.

(D) Other (income) expense, net consists of:

Restructuring and merger-related costs	$ 37
Minority interests	4
Other income, net	(40)
Total	$ 1

(E) Reflects the income tax effects of the pro forma adjustments at applicable statutory income tax rates.

Exhibit 99.2

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 AND INDEPENDENT AUDITORS' REPORT THEREON

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Pfizer Inc.:

We have audited the accompanying combined balance sheets of Pfizer Consumer Healthcare (a business unit within Pfizer Inc), as defined in Note 2 of the combined financial statements, as of December 31, 2005 and 2004, and the related combined statements of income, business unit equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Pfizer Consumer Healthcare as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

(KPMG LLP)

New York, New York
December 19, 2006

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	As of December 31, 2005	As of December 31, 2004
ASSETS		
Current assets:		
Cash	$ 5,995	$ 7,415
Accounts receivable, less allowance for doubtful accounts: 2005 - $8,584; 2004 - $12,814	664,989	626,608
Inventories	585,223	537,346
Deferred income taxes	5,300	5,177
Prepaid expenses and other current assets	25,690	20,339
Total current assets	1,287,197	1,196,885
Property, plant and equipment, net	742,189	703,950
Goodwill	2,790,755	2,724,158
Identifiable intangible assets, less accumulated amortization	1,541,193	1,719,195
Deferred income taxes	10,608	13,517
Other noncurrent assets	3,306	4,635
Total assets	$6,375,248	$6,362,340
LIABILITIES AND BUSINESS UNIT EQUITY		
Current liabilities:		
Accounts payable	$ 152,813	$ 161,105
Income taxes payable	199,054	158,031
Deferred income taxes	2,406	5,944
Accrued compensation and related items	76,396	69,330
Other current liabilities	253,433	258,551
Total current liabilities	684,102	652,961
Pension benefit obligations	12,219	12,031
Postretirement benefit obligations	18,789	14,943
Deferred income taxes	235,870	282,927
Other noncurrent liabilities	5,063	3,079
Total liabilities	956,043	965,941
Minority interest	9,989	6,001
Business unit equity	5,250,336	5,090,186
Accumulated other comprehensive expense	158,880	300,212
Total business unit equity	5,409,216	5,390,398
Total liabilities and business unit equity	$6,375,248	$6,362,340

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

	Year Ended December 31, 2005	Year Ended December 31, 2004
Revenues	$3,891,099	$3,527,335
Costs and expenses:		
Cost of sales	1,274,431	1,167,442
Marketing and distribution expenses	1,620,847	1,487,202
Research and development expenses	185,755	171,401
General and administrative expenses	178,574	152,441
Restructuring charges and merger-related costs	36,646	42,912
Other (income)/deductions - net	(40,060)	(42,677)
Income from continuing operations before provision for taxes on income and minority interests	634,906	548,614
Provision for taxes on income	214,889	185,582
Minority interests	3,988	2,827
Income from continuing operations	416,029	360,205
Discontinued operations:		
Income from discontinued operations - net of tax	164	15,598
Gains on sales of discontinued operations - net of tax	--	40,669
Discontinued operations - net of tax	164	56,267
Income before cumulative effect of a change in accounting principle	416,193	416,472
Cumulative effect of a change in accounting principle - net of tax	(1,806)	--
Net income	$ 414,387	$ 416,472

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENTS OF BUSINESS UNIT EQUITY
(DOLLARS IN THOUSANDS)

	Business Unit Equity	Accumulated Other Comprehensive Expense	Total
Balance January 1, 2004	$5,060,450	$ 99,779	$5,160,229
Comprehensive income:			
Net income	416,472		416,472
Other comprehensive income - currency translation adjustment		200,433	200,433
Total comprehensive income			616,905
Cash dividends paid to Pfizer	(3,000)		(3,000)
Other activity with Pfizer	(383,736)		(383,736)
Balance December 31, 2004	5,090,186	300,212	5,390,398
Comprehensive income:			
Net income	414,387		414,387
Other comprehensive expense - currency translation adjustment		(141,332)	(141,332)
Total comprehensive income			273,055
Cash dividends paid to Pfizer	(2,422)		(2,422)
Other activity with Pfizer	(251,815)		(251,815)
Balance December 31, 2005	$5,250,336	$ 158,880	$5,409,216

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENT OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	Year ended December 31, 2005	Year ended December 31, 2004
OPERATING ACTIVITIES		
Net income	$ 414,387	$ 416,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	73,705	72,731
Amortization of other intangible assets	10,159	12,033
(Gain)/loss on disposals of property, plant and equipment	(242)	43
(Gain) on sale of miscellaneous other assets	(1,304)	(11,158)
(Gains) on sales of discontinued operations	--	(40,669)
Asset impairments	16,859	11,478
Cumulative effect of a change in accounting principle	2,671	--
Minority interest	3,988	2,827
Deferred taxes	(2,326)	(8,219)
Other non-cash adjustments	6,811	2,315
Changes in assets and liabilities net of effect of acquired/divested businesses:		
Accounts receivable	(77,004)	(21,914)
Inventories	(72,104)	(820)
Prepaid expenses and other current assets	(6,160)	2,971
Other noncurrent assets	1,346	(1,714)
Accounts payable and accrued liabilities	19,249	59,984
Income taxes payable	41,068	46,036
Other noncurrent liabilities	7,579	5,300
Net cash provided by operating activities	438,682	547,696
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(174,297)	(101,874)
Proceeds from sales of miscellaneous other assets	6,404	175,796
Purchases of product lines/businesses	--	(141,521)
Net cash used in investing activities	(167,893)	(67,599)
FINANCING ACTIVITIES		
Cash dividend paid to Pfizer	(2,422)	(3,000)
Other cash activity with Pfizer - net	(269,936)	(475,614)
Net cash used in financing activities	(272,358)	(478,614)
Effect of exchange-rate changes on cash	149	679
Net increase/(decrease) in cash	(1,420)	2,162
Cash at beginning of year	7,415	5,253
Cash at end of year	$ 5,995	$ 7,415

See accompanying notes to combined financial statements.

(DOLLARS IN THOUSANDS)

1. ORGANIZATION AND BUSINESS DESCRIPTION

ORGANIZATION

Pfizer Consumer Healthcare ("PCH") is a business unit within Pfizer Inc ("Pfizer"). PCH is comprised of approximately one hundred wholly-owned Pfizer subsidiaries that are either completely dedicated to consumer healthcare or contain certain assets and operations that are dedicated to the business. Collectively, these entities constitute the consumer healthcare business unit, as defined by Pfizer. As more fully discussed in Note 16, on June 26, 2006 Pfizer announced it had reached a definitive agreement to sell the PCH business to Johnson & Johnson.

BUSINESS DESCRIPTION

PCH manufactures, markets, sells and distributes self-medications for oral care, upper respiratory health, tobacco dependence, gastrointestinal health, skin care, eye care and hair growth. PCH's products are sold in most major countries around the world and appear in a variety of channels including mass merchandisers, chain food, drug, convenience and wholesale outlets. Around the world, PCH manufacturing and distribution is performed by Pfizer's manufacturing division.

	2005	2004
Revenues		
United States(a)	$1,946,581	$1,785,337
All other countries	1,944,518	1,741,998
Total combined	$3,891,099	$3,527,335

	2005	2004
Long-lived assets(b)		
United States(a)	$1,002,857	$ 962,054
Sweden	970,284	1,154,653
All other countries	310,241	306,438
Total combined	$2,283,382	$2,423,145

(a) Includes operations in Puerto Rico.

(b) Long-lived assets include identifiable intangible assets (excluding goodwill) and property, plant and equipment.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and present the financial position, results of operations and cash flows for PCH. The PCH combined financial statements were prepared according to the legal entity deal structure as contemplated in the agreement referenced in Note 16 and reflect:

1) all assets and liabilities of subsidiary companies where the entire legal entity is expected to be conveyed to a buyer as part of the sale of PCH

2) assets and liabilities that either legally belong to PCH or are expected to transfer to a buyer as part of the sale of PCH but are not part of a conveyed subsidiary (Asset-selling location)

3) costs associated with PCH employees and approximately 3,500 employees in Pfizer's manufacturing division dedicated primarily to the PCH business (costs associated with other Pfizer employees who may ultimately be identified as dedicated primarily to PCH are not included)

4) costs associated with PCH products made at seven manufacturing facilities and three distribution centers which are primarily PCH dedicated facilities and are deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH (Conveyed Facilities)

5) costs associated with PCH products made at 27 facilities that are shared with other Pfizer businesses and are not deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH
(Non-Conveyed Facilities)

6) costs associated with PCH products made at one manufacturing facility that is primarily PCH dedicated; however, only selected assets (mainly machinery and equipment) and not the entire facility are deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH.

All significant intercompany transactions and balances have been eliminated. Generally, operations outside the U.S. are included on a fiscal year basis ending November 30.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. For example, estimates are used when accounting for deductions from revenues (such as rebates, discounts, incentives and product returns), depreciation, amortization, employee benefits, contingencies and asset and liability valuations. Management's estimates are often based on complex judgments, probabilities and assumptions that it believes to be reasonable but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events and circumstances may occur. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. There are other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, foreign exchange, litigation, legislation and regulations.

These combined financial statements have been extracted from the Pfizer accounting records on the basis of the accounting policies and procedures described below in the section entitled, Summary of Significant Accounting Policies. Although PCH is accounted for by Pfizer as a separate operating segment, its operations are integrated with those of Pfizer. These combined financial statements are not intended to be a complete representation of the financial position or results of operations of PCH had it been a stand-alone company. The accompanying combined balance sheets primarily reflect the assets and liabilities directly attributable to the business. The assets and liabilities that have been excluded from the accompanying combined balance sheet consist primarily of:

- Cash from PCH operations at subsidiaries that are not completely PCH dedicated is generally not included in "Cash" in the accompanying combined balance sheet at December 31, 2005 and 2004 since this cash is swept into Pfizer's centralized cash management systems. Accordingly, PCH's cash balance at December 31, 2005 and 2004 is not representative of an independent company. The interest income associated with cash is not included in the accompanying combined statements of income. PCH's financing requirements and settlement of intercompany transactions are represented by cash transactions with Pfizer and are reflected in business unit equity. The cash that is reported in the accompanying combined balance sheets is the cash held by those subsidiaries that are completely PCH dedicated

- Current and deferred tax assets and liabilities at subsidiary companies that are not completely PCH dedicated

- Pension liabilities at subsidiary companies that are not completely PCH dedicated

- Assets and liabilities of the Non-Conveyed Facilities that are not considered part of the PCH business or are not expected to transfer to a buyer as part of the sale of PCH

- Other assets and liabilities at Asset-selling locations that are not specifically owned by or commitments of the PCH business or that are expected to transfer to a buyer upon the sale of PCH

The accompanying combined statements of income include the accounts specifically attributed to PCH and allocations of expenses relating to shared services and administrative functions incurred at various divisional levels of Pfizer. Pfizer operating divisions perform certain administrative, logistical and manufacturing services for PCH. In addition, PCH operating divisions perform certain administrative and logistical services for other Pfizer locations. The cost of these services is charged to either PCH or Pfizer operations either on a specific identification basis or using proportional cost allocation methods (i.e., headcount, occupied office space, third party sales, etc.) depending on the nature of the service. PCH and Pfizer management believes the above allocations are reasonable; however, there can be no assurance that such allocations are indicative of future results of operations of the PCH business nor reflective of historical results had the PCH business been a separate, stand-alone entity. Pfizer does not routinely allocate various other corporate level activity expenses such as senior corporate executives, corporate accounting, treasury and corporate level tax to its operating divisions. Accordingly, the costs of such corporate functions have not been included in the accompanying combined statements of income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION - PCH records revenue from product sales when the goods are shipped and title passes to the customer.

DEDUCTIONS FROM REVENUES--Gross product sales are subject to a variety of deductions such as sales rebates, discounts, coupons, incentives, and product returns, that are generally estimated and recorded in the same period that the revenue is recognized. PCH records sales incentives as a reduction of revenues at the time the related revenues are recorded or when the incentive is offered, whichever is later. PCH estimates the cost of its sales incentives based on its historical experience with similar incentive programs.

COST OF SALES AND INVENTORIES - PCH values inventories at cost or fair value, if lower. Cost is determined as follows:

- finished goods and work in process at average actual cost; and

- raw materials and supplies at average or latest actual cost.

ADVERTISING EXPENSE - Advertising expenses related to production costs are expensed as incurred and the costs of radio time, television time and space in publications are expensed when the related advertising occurs. Advertising and promotion expenses were $832,210 and $771,374 for 2005 and 2004 and are included in Marketing and distribution expenses in the accompanying combined statements of income.

SHIPPING AND HANDLING EXPENSE - Shipping and handling costs are expensed as incurred. Shipping and handling expenses were approximately $81,098 and $69,241 for 2005 and 2004 and are included in Marketing and distribution expenses in the accompanying combined statements of income.

RESEARCH AND DEVELOPMENT EXPENSES - Research and development (R&D) expenses are expensed as incurred. R&D expenses were $185,755 and $171,401 for 2005 and 2004. PCH has its own R&D resources with its primary research facilities in New Jersey and Sweden.

INCOME TAXES - As an operating unit of Pfizer, PCH - U.S. does not file separate U.S. Federal tax returns, but rather is included as part of the various returns filed by Pfizer or its subsidiaries. For the purpose of these combined financial statements, the PCH tax provision was computed as if it were a separate company using the effective tax rates in effect in the locations where the income was recorded. Permanent items and credits were considered when determining the provision but were not included due to immateriality. For entities having losses on a stand alone basis, financial statement benefit was provided for those losses. Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws.

(DOLLARS IN THOUSANDS)

SHARE-BASED PAYMENTS - Compensation programs can include share-based payments. Stock options, which entitle the holder to purchase shares of Pfizer stock at a pre-determined price at the end of a vesting term, are accounted for under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, an elective accounting policy permitted by SFAS No. 123, Accounting for Stock-Based Compensation. Under this policy, since the exercise price of stock options granted is set equal to the market price on the date of the grant, PCH does not record any expense to the income statement related to the grants of stock options, unless certain original grant-date terms are subsequently modified.

For disclosure purposes only, the fair value of employee stock options was estimated, as required under GAAP, using the Black-Scholes-Merton option-pricing model and using the assumptions described in Note 13, Share-Based Payments. The following table shows the effect on results for 2005 and 2004 if PCH had applied the fair-value-based recognition provisions of SFAS 123 to measure stock-based compensation expense for option grants:

	2005	2004
Net income as reported under GAAP(a)	$414,387	$416,472
Compensation expense-net of tax	(16,015)	(22,406)
Net income pro forma	$398,372	$394,066

(a) Includes stock-based compensation expense, net of related tax effects, of $4,141 in 2005 (of which $3,364 is related to Restricted Stock Units) and $1,407 in 2004.

Restricted stock units, which entitle holders to receive shares of Pfizer stock at the end of a vesting period, are recorded at fair value at the date of grant and are generally amortized on an even basis over the vesting term into Cost of sales and General and administrative expenses, as appropriate.

Performance-contingent share awards, which entitle the holders to receive shares of Pfizer stock at the end of a vesting period, are awarded based on a non-discretionary formula measuring defined performance standards. They are recorded evenly at fair value over the performance period of the award, based on an estimate of probable performance. They are then adjusted for changes in the fair value of the shares and changes in probable performance.

BUSINESS UNIT EQUITY - Business unit equity includes balances and transactions among PCH, Pfizer and other Pfizer subsidiaries. PCH participates in Pfizer's centralized cash management systems and generally all excess cash is transferred to Pfizer. In addition, PCH entities will occasionally declare and pay dividends to other Pfizer companies.

(DOLLARS IN THOUSANDS)

AMORTIZATION OF INTANGIBLE ASSETS, DEPRECIATION AND CERTAIN LONG-LIVED ASSETS -
Long-lived assets include:

- Goodwill - Goodwill represents the difference between the purchase price of a business acquisition and the fair value of its net assets. Goodwill is not amortized.

- Identifiable intangible assets - These acquired assets are recorded at cost. Intangible assets with finite lives are amortized evenly over their estimated useful lives. Intangible assets with indefinite lives are not amortized.

- Property, plant and equipment - These assets are recorded at original cost and increased by the cost of significant improvements after purchase. The cost is depreciated evenly over the assets' estimated useful lives. For tax purposes, accelerated depreciation methods are used as allowed by tax laws. Depreciation is computed generally on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	20-50 years
Machinery and equipment	8-12 years
Furniture, fixtures and other	3-12 years

Amortization expense related to acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property are included in Other (income)/deductions-net as they benefit multiple business functions. Amortization expense related to intangible assets that are associated with a single function and depreciation of property, plant and equipment are included in Cost of sales, General and administrative expenses and Research and development expenses, as appropriate.

PCH reviews all of its long-lived assets, including goodwill and other intangible assets, for impairment at least annually and whenever events or circumstances present an indication of impairment. When necessary, PCH records charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

FOREIGN CURRENCY TRANSLATION - The financial statements of operations outside the U.S. are maintained in their local currency. PCH translates assets and liabilities to their U.S. dollar equivalents at rates in effect at the balance sheet date. Income and expense items are translated into their U.S. dollar equivalents at average rates of exchange for the period. Translation gains and losses are accumulated in a separate component of business unit equity. Gains and losses on foreign currency transactions are included in earnings.

FINANCIAL INSTRUMENTS - The carrying values of PCH's financial instruments approximate their estimated fair values. At December 31, 2005 and 2004, the cost of each type of financial instrument, primarily accounts receivable and accounts payable, approximates fair value because of the short term nature of these instruments.

CONCENTRATION OF CREDIT RISK - PCH does not have significant concentrations of credit risk from its customers, except from one customer which represents about 12% of total sales in 2005 and in 2004. Periodically, PCH reviews the credit quality of its customers' financial condition. In general, there is no requirement for collateral from customers.

BENEFIT PLANS - Substantially all active PCH employees participate in Pfizer, legacy Warner-Lambert and legacy Pharmacia benefit plans (collectively, "Pfizer benefit plans"). In the U.S., PCH employees participate in qualified and supplemental defined benefit pension plans and defined contribution plans, as well as other postretirement benefit plans, consisting primarily of healthcare for retirees. Outside the U.S., PCH employees participate in defined benefit plans that Pfizer generally funds to the extent that tax or other incentives exist. A measurement date of December 31 is used for a majority of the U.S. pension and postretirement plans and November 30 for a majority of the international plans.

Only the pension assets and liabilities at those subsidiaries that are completely dedicated to PCH business have been reflected in the accompanying combined balance sheets since only those assets and liabilities legally belong to PCH and are expected to transfer to a buyer as part of the sale of PCH.

Only liabilities related to PCH employees participating in other postretirement benefit plans in the U.S. that are expected to transfer to a buyer as part of the sale of PCH have been reflected in the accompanying combined balance sheets.

The combined statements of income include an allocation from Pfizer for the pension and postretirement benefit costs associated with all PCH employees who participate in the pension and postretirement benefit plans.

NEW ACCOUNTING STANDARDS - As of December 31, 2005, PCH adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations (FIN 47). FIN 47 clarifies that conditional obligations meet the definition of an asset retirement obligation in Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations (SFAS 143), and therefore should be recognized if their fair value is reasonably estimable. As a result of adopting FIN 47, PCH recorded a non-cash pre-tax charge of $2,671 ($1,806 net of tax). This charge was reported in Cumulative effect of a change in accounting principle--net of tax in 2005. As of January 1, 2003, PCH adopted the provisions of SFAS 143, which broadly addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. The adoption of SFAS 143 did not have a material impact on PCH's combined financial statements. In accordance with FIN 47 and SFAS 143, PCH records accruals for legal obligations associated with the retirement of tangible long-lived assets, including obligations under the doctrine of promissory estoppel and those that are conditioned upon the occurrence of future events. PCH recognizes these obligations using management's best estimate of fair value.

As of January 1, 2004, PCH adopted the provisions of FASB Interpretation No. 46R (FIN 46R), Consolidation of Variable Interest Entities. FIN 46R provides additional guidance as to when certain entities need to be consolidated for financial reporting purposes. The adoption of FIN 46R did not have a material impact on PCH's combined financial statements.

(DOLLARS IN THOUSANDS)

3. ADAPTING TO SCALE INITIATIVE

In the first quarter of 2005, Pfizer launched a multi-year productivity initiative, called Adapting to Scale (AtS), to increase efficiency and streamline decision-making across Pfizer. This initiative, announced in April 2005, follows the integration of Warner-Lambert and Pharmacia. PCH incurred the following costs in connection with the AtS productivity initiative:

	2005
Implementation costs (a)	$ 5,684
Restructuring charges (b)	11,438
Total AtS costs	$17,122

(a) Included in Marketing and distribution expenses ($507) and General and administrative expenses ($5,177).

(b) Included in Restructuring charges and merger-related costs.

Actions associated with the AtS productivity initiatives include implementation costs primarily for consulting activities and restructuring charges primarily related to asset impairments, exit costs and employee termination costs at our manufacturing facilities and marketing and worldwide research operations. The components of restructuring charges associated with AtS follow:

	COSTS INCURRED 2005	UTILIZATION THROUGH DECEMBER 31, 2005	ACCRUAL AS OF DECEMBER 31, 2005(a)
Employee termination costs	$ 2,349	$ (1,197)	$1,152
Asset impairments	8,777	(8,777)	--
Other	312	(312)	--
Total	$11,438	$(10,286)	$1,152

(a) Included in Other current liabilities.

Through December 31, 2005, Employee termination costs represent the reduction of the PCH workforce by 17 employees, mainly in manufacturing, sales and research. We notified affected individuals and 15 employees were terminated as of December 31, 2005. Employee termination costs are recorded as incurred and include accrued severance benefits, pension and postretirement benefits. Asset impairments reflect charges to write down property, plant and equipment. Other primarily includes costs to exit certain activities.

(DOLLARS IN THOUSANDS)

4. MERGER-RELATED COSTS

On April 16, 2003, Pfizer completed its merger with Pharmacia Corporation (Pharmacia). PCH recorded the following merger-related charges primarily in connection with the acquisition of Pharmacia:

	2005	2004
Integration costs:		
Pharmacia	$ 5,014	$19,023
Purell	977	28
Other	--	(95)
Restructuring costs:		
Pharmacia	19,217	24,429
Other	--	(473)
Total merger-related costs expensed(a)	$25,208	$42,912
Total merger-related costs capitalized(b)	$ --	$ 4,882

(a) Included in Restructuring charges and merger-related costs.

(b) Included in Goodwill.

INTEGRATION COSTS

Integration costs represent external, incremental costs directly related to an acquisition, including expenditures for consulting and systems integration.

RESTRUCTURING COSTS-PHARMACIA

In connection with the acquisition of Pharmacia, Pfizer management approved plans to restructure the operations of both legacy Pfizer and legacy Pharmacia to eliminate duplicative facilities and reduce costs. As of December 31, 2005, the restructuring activities resulting from Pfizer's acquisition of Pharmacia is substantially complete.

Restructuring Costs Associated with Legacy Pharmacia-Capitalized

Through April 15, 2004, restructuring costs were associated primarily with employee terminations and exiting certain activities of legacy Pharmacia. These costs were recognized as liabilities assumed in the purchase business combination. Accordingly, the restructuring costs incurred in the first year after acquisition are considered part of the purchase price of Pharmacia and have been recorded as an increase to goodwill. These restructuring costs also include costs associated with relocation. Restructuring costs after April 15, 2004 that are associated with legacy Pharmacia are charged to the results of operations. Changes to previous estimates of restructuring costs included as part of the purchase price allocation of Pharmacia are recorded as a reduction to goodwill or as an expense to operations, as appropriate.

(DOLLARS IN THOUSANDS)

The components of the PCH restructuring costs capitalized as a cost of the acquisition of Pharmacia follow:

	COSTS INCURRED 2004	COSTS INCURRED PRIOR TO JANUARY 1, 2004	COSTS INCURRED TOTAL	UTILIZATION THROUGH DECEMBER 31, 2005	ACCRUAL AS OF DECEMBER 31, 2005
Costs capitalized through April 15, 2004:					
Employee termination costs	$3,745	$26,965	$30,710	$(30,710)	$--
Other	1,137	5,687	6,824	(6,824)	--
	$4,882	$32,652	$37,534	$(37,534)	$--

The majority of the restructuring costs related to employee terminations. Through December 31, 2005, Employee termination costs represent the approved reduction of the legacy Pharmacia workforce by 251 people mainly in corporate, manufacturing, distribution, sales and research functions. The affected individuals were notified and 251 people were terminated as of December 31, 2005. Employee termination costs include accrued severance benefits. Other includes asset write-offs, relocation and exit costs.

Restructuring Costs Associated with Legacy Pfizer and Legacy Pharmacia-Expensed

Restructuring costs associated with exiting certain activities of the consumer healthcare business of legacy Pfizer (PCH) and legacy Pharmacia (from April 16, 2004), including severance, costs of vacating duplicative facilities, contract termination and other exit costs, have been recorded as a charge to the results of operations and are included in Restructuring charges and merger-related costs.

The components of the restructuring costs associated with the acquisition of Pharmacia, which were expensed, follow:

	PROVISIONS 2005	PROVISIONS 2004	PROVISIONS PRIOR TO JANUARY 1, 2004	PROVISIONS TOTAL	UTILIZATION THROUGH DECEMBER 31, 2005	ACCRUAL AS OF DECEMBER 31, 2005(a)
Employee termination costs	$ 3,969	$12,409	$ 9,447	$25,825	$(25,497)	$ 328
Property, plant and equipment	8,082	5,046	133	13,261	(13,261)	--
Other	7,166	6,974	1,580	15,720	(8,656)	7,064
Total	$19,217	$24,429	$11,160	$54,806	$(47,414)	$7,392

(a) included in Other current liabilities.

Through December 31, 2005, the charges for Employee termination costs represent the approved reduction of PCH's workforce by 237 people mainly in corporate, manufacturing, distribution, sales and research functions. PCH notified these people and 232 people were terminated as of December 31, 2005. Employee termination costs include accrued severance benefits. Other restructuring costs in 2005 and 2004 include charges for contract termination payments.

(DOLLARS IN THOUSANDS)

5. ACQUISITIONS AND DIVESTITURES

On November 15, 2004, PCH purchased the assets of Purell, a hand sanitizer from GoJo for approximately $141.5 million. In connection with this acquisition, PCH recorded approximately $132.5 million of intangible assets, primarily for indefinite-lived brand assets.

In the third quarter of 2004, PCH sold certain non-core consumer product lines marketed in Europe for 135 million euro (approximately $163 million) in cash. PCH recorded a gain of $58 million ($41 million, net of tax) in Gains on sales of discontinued operations-net of tax in the combined statement of income for 2004. The majority of these products were small brands sold in single markets only and included certain products that became part of PCH in April 2003 in connection with Pfizer's acquisition of Pharmacia.

6. INVENTORIES

	2005	2004
Finished goods	$478,933	$422,844
Work in process	38,778	39,607
Raw materials	67,512	74,895
Total inventories	$585,223	$537,346

7. PROPERTY, PLANT AND EQUIPMENT

	2005	2004
Land	$ 9,666	$ 8,897
Buildings and building improvements	424,474	424,382
Machinery and equipment	586,807	598,801
Furniture, fixtures and other	172,365	171,429
Construction in progress	110,547	62,100
	1,303,859	1,265,609
Less: accumulated depreciation	(561,670)	(561,659)
Net property, plant and equipment	$ 742,189	$ 703,950

Depreciation expense totaled $73,705 and $72,731 for the years ended December 31, 2005 and 2004.

(DOLLARS IN THOUSANDS)

8. GOODWILL AND OTHER INTANGIBLE ASSETS

A. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 follow:

Balance, January 1, 2004	$2,637,702
Pharmacia goodwill adjustments(a)	155,000
Foreign currency impact	(43,468)
Other	(25,076)
Balance, December 31, 2004	2,724,158
Foreign currency impact	64,150
Other	2,447
Balance, December 31, 2005	$2,790,755

(a) adjustments resulted from finalization of the purchase price allocation in 2004 which resulted in revisions to the estimates relating to the initial allocation of the purchase price in 2003.

B. OTHER INTANGIBLE ASSETS

The components of identifiable intangible assets as of December 31 follow:

	2005		2004	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
Finite-lived intangible assets:				
Developed technology rights(a)	$ 51,496	$ (8,690)	$ 52,645	$ (3,209)
Brands(b)	136,659	(8,888)	121,513	(3,169)
License agreements	8,582	(3,214)	7,862	(2,802)
Trademarks	44,287	(24,142)	42,477	(25,214)
Other(c)	9,157	(3,600)	17,739	(10,758)
Total amortized finite-lived intangible assets	250,181	(48,534)	242,236	(45,152)
Indefinite-lived intangible assets:				
Brands(b)	873,579	--	989,044	--
License agreements	295,892	--	356,223	--
Trademarks	148,131	--	155,105	--
Other	21,944	--	21,739	--
Total indefinite-lived intangible assets	1,339,546	--	1,522,111	--
Total identifiable intangible assets	1,589,727	(48,534)	1,764,347	(45,152)
Total identifiable intangible assets, less accumulated amortization	$1,541,193		$1,719,195	

(a) developed technology rights represent the amortized value associated with developed technology, which has been acquired from third parties and which can include the right to develop, use, market, sell and/or offer for sale the product, compounds and intellectual property that has been acquired with respect to products, compounds and/or processes that have been completed. These rights are subject to the impairment review process described in Note 2.

(b) brands represent the amortized value associated with tradenames, as the products themselves no longer receive patent protection. The significant components of the indefinite-lived brands include values determined for tobacco dependence products and Rogaine.

(c) includes patents, non-compete agreements and other intangible assets.

(DOLLARS IN THOUSANDS)

The weighted-average life of our total finite-lived intangible assets is approximately 24 years, which includes developed technology rights at 16 years. Total amortization expense for finite-lived intangible assets was $10,159 in 2005 and $12,033 in 2004.

The annual amortization expense expected for the years 2006 through 2010 is as follows:

	2006	2007	2008	2009	2010
Amortization expense	$10,437	$10,110	$9,875	$9,781	$9,763

9. OTHER CURRENT LIABILITIES

	2005	2004
Advertising and promotional accruals	$ 62,492	$ 74,766
Merger-related restructuring accruals	7,392	4,504
Inventory accruals	25,632	23,430
Freight accruals	3,143	2,245
Coupon accruals	10,416	9,101
Selling accruals	6,491	4,219
Royalties accruals	11,226	9,880
Returns accruals	40,419	45,816
Rebate accruals	11,318	12,608
Production accruals	6,405	2,084
R&D accruals	11,071	18,556
Property and other tax accruals	2,758	3,456
Legal accruals	5,992	17,656
Environmental accruals	1,500	1,500
Other marketing accruals	8,586	10,340
Other	38,592	18,390
Total	$253,433	$258,551

10. OTHER (INCOME)/DEDUCTIONS - NET

	2005	2004
Amortization of intangibles	$ 10,052	$ 11,919
Royalties income(a)	(49,097)	(46,948)
Loss on disposal of PP&E	(242)	43
Impairment of long-lived assets(b)	--	6,432
Gain on sales of businesses/product lines(c)	(1,304)	(11,158)
Net exchange losses	1,529	2,358
Other, net(d)	(998)	(5,323)
Total other (income)/deductions - net	$(40,060)	$(42,677)

(a) PCH has granted Glaxo SmithKline Consumer Healthcare (GSKCH) exclusive distribution rights in the U.S. to Nicotine Polacrilex Gum ("Gum"), including exclusive rights to the Nicorette name to be used on Gum and in conjunction with GSKCH's Commit Lozenge but PCH only supplies Gum (the Lozenge is supplied by a third party). Although the distribution agreement terminates on December 31, 2010, GSK may renew the agreement at their option for successive 3 year terms giving not less than 6 months prior written notice. GSKCH purchases the finished packaged products from PCH. GSKCH pays PCH a supply price and a royalty which taken together are capped at 30% of GSKCH's net selling price to the trade. PCH recorded royalty income from the agreement of $39,042 in 2005 and $34,525 in 2004 in Other (income)/deductions-net. PCH holds rights to its entire Nicorette range of products in basically all other locations where they are sold except for Japan where there is a collaboration with Takeda. In addition, PCH has rights to the NicoDerm Patch in Canada. Pfizer Inc will continue to hold rights to Nicotrol Inhaler and Nasal Spray in the U.S.

(DOLLARS IN THOUSANDS)

(b) In 2004, PCH recorded an impairment charge for the write-down of manufacturing assets associated with the reduced manufacturing of the Listerine PocketPaks product line.

(c) In 2005, PCH recorded a gain of $1,273 on the sale of certain product lines in Australia. In 2004, PCH recorded a gain of $10,658 on the sale of its haircare business in Mexico.

(d) In 2005, Other, net includes income from a legal settlement of $1,396 and the recovery of a trade receivable previously written off of $1,276 as well as deductions for bank charges of $1,180 and expenses related to failed acquisition and divestiture activities of $3,375. In 2004, Other, net includes income from the recovery of an amount due from supplier of $1,650 and the recovery of a trade receivable previously written off of $1,887 as well as deductions for bank charges of $980 and litigation matters of $2,800.

11. INCOME TAXES

The components of the income tax provision/(benefit) are:

	2005	2004
Current:		
Federal	$ 99,750	$ 93,267
State and local	19,911	18,701
Foreign taxes	97,554	81,833
Total current	217,215	193,801
Deferred:		
Federal	--	--
State and local	--	--
Foreign taxes	(2,326)	(8,219)
Total deferred	(2,326)	(8,219)
Total	$214,889	$185,582

As of December 31, 2005, no U.S. tax provision was made on approximately $5,572 in PCH unremitted earnings. As of December 31, 2005, these earnings are intended to be permanently reinvested overseas. Because of complexity, it is not practical to compute the estimated deferred tax liability on these permanently reinvested earnings.

Reconciliation of the U.S. income tax rate to PCH's effective tax rate is as follows:

	2005	2004
Federal statutory income tax rate	35.00%	35.00%
U.S. state and local taxes	2.04	2.22
Effect of foreign operations	(3.19)	(3.39)
Effective income tax rate	33.85%	33.83%

(DOLLARS IN THOUSANDS)

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of PCH assets and liabilities. The tax effects of the major items recorded as deferred tax assets and liabilities are:

	2005 Assets (Liabilities)	2004 Assets (Liabilities)
Prepaid/deferred items	$ 204	$ 1,101
Inventories	(2,038)	(5,043)
Intangibles	(232,195)	(280,519)
Property, plant and equipment	958	2,161
Accruals	3,509	3,648
Allowance for doubtful accounts	415	390
Net operating loss/credit carryforwards	2,798	3,576
Unfunded pensions	3,233	5,964
Other	748	(1,455)
Net deferred tax liability	$(222,368)	$(270,177)

PCH's net deferred tax liability position at December 31, 2005 and 2004 is primarily due to the deferred taxes recorded in connection with Pfizer's acquisition of Pharmacia.

Valuation allowances are provided when it is believed that the deferred tax assets are not recoverable based on an assessment of estimated future taxable income that incorporates ongoing, prudent, feasible tax planning strategies.

Deferred tax assets and (liabilities) in the preceding table, netted by taxing jurisdiction, are in the combined balance sheet as follows:

	2005	2004
Deferred income taxes-current	$ 5,300	$ 5,177
Deferred income taxes-noncurrent	10,608	13,517
Deferred income taxes-current	(2,406)	(5,944)
Deferred income taxes-noncurrent	(235,870)	(282,927)
	$(222,368)	$(270,177)

12. PENSION AND POSTRETIREMENT BENEFITS

Generally, most PCH employees participate in Pfizer's pension plans for employees worldwide. For all the plans, plan benefits depend on years of service and employee final average earnings. Participants vest in their benefits after as few as five years of service. Pfizer does not fund postretirement plans, but contributes to the plans as benefits are paid. The portion of the pension and postretirement benefit cost allocated to PCH in the U.S. and certain significant international locations was approximately $43,018 in 2005 and $46,043 in 2004.

Only the pension assets and liabilities at those subsidiaries that are completely dedicated to the PCH business have been reflected in the accompanying combined balance sheets since only those assets and liabilities legally belong to PCH and are expected to transfer to a buyer as part of the sale of PCH.

Only the postretirement benefit obligations for employees who are not retirement eligible at January 1, 2006 and which are expected to transfer to a buyer as part of the sale of PCH are included in the accompanying combined balance sheets.

(DOLLARS IN THOUSANDS)

Actuarial Assumptions

The following table provides the weighted average actuarial assumptions for the pension plans that are expected to transfer to a buyer as part of the sale of PCH:

	2005	2004
(Percentages)		
Weighted average assumptions used to determine benefit obligations:		
Discount rate	4.25%	5.02%
Rate of compensation increase	3.72%	3.73%
Weighted average assumptions used to determine net benefit cost:		
Discount rate	5.02%	5.45%
Rate of compensation increase	3.73%	3.92%

The assumptions above are used to develop the benefit obligations at fiscal year end and to develop the net periodic benefit cost for the following fiscal year. The net periodic benefit cost and the benefit obligations are based on actuarial assumptions that are reviewed on an annual basis. The assumptions are revised based on annual evaluation of long-term trends, as well as market conditions that may have an impact on the cost of providing retirement benefits.

The healthcare cost trend rate assumptions for the U.S. postretirement benefit plan are as follows:

	2005	2004
Healthcare cost trend rate assumed for next year	9.8%	10.0%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2013	2012

A one percentage point increase or decrease in the healthcare cost trend rate assumed for postretirement benefits that are expected to transfer to a buyer as part of the sale of PCH would have the following effects as of December 31, 2005:

	INCREASE	DECREASE
Effect on total service and interest cost components	$181	$(151)
Effect on postretirement benefit obligation	784	(672)

(DOLLARS IN THOUSANDS)

Information about pension plans at subsidiaries in Germany, France and Italy that are dedicated solely to PCH and are expected to transfer to a buyer as part of the sale of PCH is provided in the tables below:

	2005	2004
Service cost	$ 771	$ 755
Interest cost	627	582
Amortization of:		
Prior service costs	23	22
Net transition obligation	33	32
Actuarial losses	66	40
Net periodic benefit costs	$1,520	$1,431

Obligations and Funded Status - Pension Plans Expected to Transfer to a Buyer

The following tables present an analysis of the changes in 2005 and 2004 in the benefit obligations, the plan assets and the funded status of the pension plans of subsidiaries in Germany, France and Italy that are dedicated solely to PCH and are expected to transfer to a buyer as part of the sale of PCH:

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 13,334	$ 10,749
Service cost	771	755
Interest cost	627	582
Increases arising primarily from changes in actuarial assumptions	1,579	269
Acquisitions	112	66
Divestitures	(34)	--
Special termination benefits	--	240
Foreign exchange impact	(1,716)	1,105
Benefits paid	(454)	(432)
Benefit obligation at end of year(a)	$ 14,219	$ 13,334
Change in plan assets:		
Fair value of plan assets at beginning of year	$ --	$ --
Company contributions	454	432
Benefits paid from plan assets	(454)	(432)
Fair value of plan assets at end of year	$ --	$ --
Funded status (plan assets less than benefit obligation	$(14,219)	(13,334)
Net transition obligation	31	70
Actuarial losses	3,298	1,097
Prior service costs/(benefits)	(739)	221
Net liability recorded in the combined balance sheet	$(11,629)	$(11,946)

(a) The benefit obligation is the projected benefit obligation.

(DOLLARS IN THOUSANDS)

The components of the net liability recorded in the combined balance sheet as of December 31 follow:

	2005	2004
Balance sheet components:		
Accrued benefit liability(a)	$(12,219)	$(12,031)
Intangible pension asset(b)	205	--
Accumulated other comprehensive income	385	85
Net amount recorded in combined balance sheet	$(11,629)	$(11,946)

(a) included in Pension benefit obligations.

(b) included in Identifiable intangible assets, less accumulated amortization.

	2005	2004
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	$ --	$ --
Accumulated benefit obligation	11,171	10,620
Pension plans with a projected benefit obligation in excess of plan assets:		
Fair value of plan assets	--	--
Projected benefit obligation	14,219	13,334

It is Pfizer's practice to fund amounts for its pension plans at least sufficient to meet the minimum requirements set forth in applicable employee benefit laws and local tax laws. The following table reflects the plan benefits projected to be paid from the plans or from the general assets of the subsidiaries in Germany, France and Italy under the current actuarial assumptions used for the calculation of the projected benefit obligation and therefore, actual benefit payments may differ from projected benefit payments.

Employer Contributions:	
2006 (estimated)	$ 291
Expected Benefit Payments:	
2006	$ 291
2007	327
2008	430
2009	439
2010	453
2011-2015	2,921

(DOLLARS IN THOUSANDS)

Obligations and Funded Status - Postretirement Benefit Obligations Expected to Transfer to a Buyer

The following tables present an analysis of the changes in 2005 and 2004 in the benefit obligations, the plan assets and the funded status of the postretirement benefit obligations in the U.S. for those PCH colleagues who are not retirement eligible as of January 1, 2006 and which are expected to transfer to a buyer as part of the sale of PCH:

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 14,943	$ 11,460
Service cost	2,847	2,696
Interest cost	999	787
Benefit obligation at end of year	18,789	14,943
Change in plan assets:		
Fair value of plan assets at beginning of year		
Company contributions	--	--
Benefits paid from plan assets	--	--
Fair value of plan assets at end of year	--	--
Funded status (plan assets less than benefit obligation)	(18,789)	(14,943)
Net liability recorded in the combined balance sheet*	$(18,789)	$(14,943)

(*) included in Postretirement benefit obligations.

13. SHARED-BASED PAYMENTS

Stock options are granted to employees under the Pfizer Inc. Stock and Incentive Plan. Options are exercisable after five years or less subject to continuous employment and certain other conditions, and generally expire 10 years after the grant date. Once options are exercisable, the employee can purchase shares of Pfizer common stock at the market price on the date the option was granted.

The weighted-average fair value per stock option granted was $5.15 for 2005 and $6.88 for 2004. The fair values were estimated using the Black-Scholes-Merton option pricing model and using the following assumptions:

	2005	2004
Expected dividend yield	2.90%	2.90%
Risk-free interest rate	3.96%	3.32%
Expected stock price volatility	21.93%	22.15%
Expected term until exercise (years)	5.75	5.75

In 2005, 2,358,665 options were granted to PCH employees with a weighted average exercise price of $26.21 and in 2004, 4,194,973 options were granted with a weighted average exercise price of $37.02

(DOLLARS IN THOUSANDS)

14. CONTINGENT LIABILITIES AND COMMITMENTS

PCH leases facilities, vehicles and office equipment under various noncancellable operating leases with third parties. Total rent expense under operating leases was approximately $15,276 and $13,594 for the years ended December 31, 2005 and 2004, respectively. Future minimum lease payments under noncancellable operating leases which are expected to transfer to a buyer as part of the sale of PCH are:

2006	$ 6,941
2007	6,304
2008	4,395
2009	3,332
2010	2,529
After 2010	8,003
Total minimum lease payments	$31,504

PCH has purchase obligations for agreements to purchase goods and services that are enforceable and legally binding and include amounts primarily related to advertising. The payments due under these purchase obligations at December 31, 2005 mature as follows:

	Total	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	After 5 Years
Purchase obligations	$136,919	109,420	17,664	9,456	379

15. LEGAL PROCEEDINGS AND CONTINGENCIES

PCH is involved in various patent, product liability, consumer, environmental and tax claims and litigations that arise from time to time in the ordinary course of business. PCH believes that they have a valid defense with respect to the legal matters pending against them and, taking into account insurance and reserves, PCH believes that the ultimate resolution of these matters will not have a material adverse impact on financial condition, results of operations, or cash flows. It is possible; however, that cash flows or results of operations could be affected in any particular period by the resolution of one or more of these contingencies.

In the combined balance sheet, Other current liabilities include $1.5 million for estimated environmental remediation at PCH facilities in Australia.

16. SUBSEQUENT EVENTS

On June 26, 2006, Pfizer announced that it reached a definitive agreement to sell PCH to Johnson & Johnson for $16.6 billion in cash. Pfizer expects to close the transaction by the end of 2006. The transaction is subject to customary closing conditions, including regulatory approvals. This decision completes a review of strategic options for the consumer business that Pfizer initiated in February 2006.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

UNAUDITED COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED OCTOBER 1, 2006 AND OCTOBER 2, 2005

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PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

TABLE OF CONTENTS

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

(UNAUDITED)

	October 1, 2006*	December 31, 2005**
ASSETS		
Current assets:		
Cash	$ 6,201	$ 5,995
Accounts receivable, less allowance for doubtful accounts: 2006 - $9,052; 2005 - $8,584	778,209	664,989
Inventories	523,887	585,223
Deferred income taxes	6,936	5,300
Prepaid expenses and other current assets	23,460	25,690
Total current assets	1,338,693	1,287,197
Property, plant and equipment, net	797,495	742,189
Goodwill	2,751,078	2,790,755
Identifiable intangible assets, less accumulated amortization	1,633,090	1,541,193
Deferred income taxes	15,603	10,608
Other noncurrent assets	3,652	3,306
Total assets	$6,539,611	$6,375,248
LIABILITIES AND BUSINESS UNIT EQUITY		
Current liabilities:		
Accounts payable	$ 169,177	$ 152,813
Income taxes payable	97,312	199,054
Deferred income taxes	3,117	2,406
Accrued compensation and related items	65,793	76,396
Other current liabilities	255,960	253,433
Total current liabilities	591,359	684,102
Pension benefit obligations	14,337	12,219
Postretirement benefit obligations	22,070	18,789
Deferred income taxes	278,155	235,870
Other noncurrent liabilities	5,277	5,063
Total liabilities	911,198	956,043
Minority interest	12,645	9,989
Business unit equity	5,367,224	5,250,336
Accumulated other comprehensive expense	248,544	158,880
Total business unit equity	5,615,768	5,409,216
Total liabilities and business unit equity	$6,539,611	$6,375,248

* Unaudited.

** From audited financial statements.

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS)

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	October 1, 2006	October 2, 2005	October 1, 2006	October 2, 2005
Revenues	$975,883	$923,507	$2,910,624	$2,841,928
Costs and expenses:				
Cost of sales	351,356	290,820	1,020,985	917,258
Marketing and distribution expenses	388,754	388,100	1,234,108	1,238,043
Research and development expenses	47,380	43,287	140,064	134,920
General and administrative expenses	50,172	46,640	144,392	134,292
Restructuring charges and merger-related costs	1,023	4,185	13,761	14,424
Other income - net	(6,242)	(8,341)	(32,457)	(26,200)
Income from continuing operations before provision for taxes on income and minority interests	143,440	158,816	389,771	429,191
Provision for taxes on income	48,384	52,408	128,126	144,496
Minority interests	380	1,255	2,656	3,104
Income from continuing operations	94,676	105,153	258,989	281,591
Discontinued operations:				
Loss from discontinued operations - net of tax	(124)	(109)	(304)	337
Discontinued operations - net of tax	(124)	(109)	(304)	337
Net income	$ 94,552	$105,044	$ 258,685	$ 281,928

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENTS OF BUSINESS UNIT EQUITY
(DOLLARS IN THOUSANDS)

(UNAUDITED)

	Business Unit Equity	Accumulated Other Comprehensive Expense	Total
Balance January 1, 2005	$5,090,186	$300,212	$5,390,398
Comprehensive income:			
Net income	414,387		414,387
Other comprehensive expense - currency translation adjustment		(141,332)	(141,332)
Total comprehensive income			273,055
Cash dividends paid to Pfizer	(2,422)		(2,422)
Other activity with Pfizer	(251,815)		(251,815)
Balance December 31, 2005*	5,250,336	158,880	5,409,216
Comprehensive income:			
Net income	258,685		258,685
Other comprehensive income - currency translation adjustment		89,664	89,664
Total comprehensive income			348,349
Cash dividends paid to Pfizer	(14,827)		(14,827)
Other activity with Pfizer	(126,970)		(126,970)
Balance October 1, 2006**	$5,367,224	$248,544	$5,615,768

* From audited financial statements.

**** Unaudited.**

See accompanying notes to combined financial statements.

PFIZER CONSUMER HEALTHCARE
(A BUSINESS UNIT OF PFIZER INC)

COMBINED STATEMENT OF CASH FLOWS
(DOLLARS IN THOUSANDS)

(UNAUDITED)

	Nine Months Ended	
	October 1, 2006	October 2, 2005
OPERATING ACTIVITIES		
Net income	$ 258,685	$ 281,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	64,385	58,004
Amortization of other intangible assets	9,504	7,536
Gain on disposals of property, plant and equipment	(60)	(134)
Gain on sale of businesses/product lines	(1,164)	(558)
Asset impairments	2,401	4,748
Minority interest	2,656	3,104
Share-based compensation expense	22,447	4,944
Changes in assets and liabilities net of effect of acquired/divested businesses:	(101,829)	(103,847)
Net cash provided by operating activities	257,025	255,725
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(100,776)	(126,052)
Net cash used in investing activities	(100,776)	(126,052)
FINANCING ACTIVITIES		
Cash dividend paid to Pfizer	(14,827)	--
Other cash activity with Pfizer - net	(141,397)	(131,396)
Net cash used in financing activities	(156,224)	(131,396)
Effect of exchange-rate changes on cash	181	(164)
Net increase (decrease) in cash	206	(1,887)
Cash at beginning of period	5,995	7,415
Cash at end of period	$ 6,201	$ 5,528

See accompanying notes to combined financial statements.

(DOLLARS IN THOUSANDS)

1. ORGANIZATION AND BUSINESS DESCRIPTION

ORGANIZATION

Pfizer Consumer Healthcare ("PCH") is a business unit within Pfizer Inc ("Pfizer"). PCH is comprised of approximately one hundred wholly-owned Pfizer subsidiaries that are either completely dedicated to consumer healthcare or contain certain assets and operations that are dedicated to the business. Collectively, these entities constitute the consumer healthcare business unit, as defined by Pfizer. As discussed in Notes 6 and 15, on December 20, 2006 Pfizer sold the PCH business to Johnson & Johnson.

BUSINESS DESCRIPTION

PCH manufactures, markets, sells and distributes self-medications for oral care, upper respiratory health, tobacco dependence, gastrointestinal health, skin care, eye care and hair growth. PCH's products are sold in most major countries around the world and appear in a variety of channels including mass merchandisers, chain food, drug, convenience and wholesale outlets. Around the world, PCH manufacturing and distribution is performed by Pfizer's manufacturing division.

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2 2005	Oct. 1, 2006	Oct. 2, 2005
Revenues				
United States(a)	$489,666	$492,894	$1,426,318	$1,446,861
All other countries	486,217	430,613	1,484,306	1,395,067
Total combined	$975,883	$923,507	$2,910,624	$2,841,928

	As of Oct. 1, 2006	As of Dec. 31, 2005
Long-lived assets(b)		
United States(a)	$1,051,457	$1,002,857
Sweden	1,079,139	970,284
All other countries	299,989	310,241
Total combined	$2,430,585	$2,283,382

(a) Includes operations in Puerto Rico.

(b) Long-lived assets include identifiable intangible assets (excluding goodwill) and property, plant and equipment.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying combined financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and present the financial position, results of operations and cash flows for PCH. As permitted under the rules for interim reporting, certain footnotes or other financial information that are normally required can be condensed or omitted. The PCH combined financial statements were prepared according to the legal entity deal structure as contemplated in the agreement referenced in Note 15 and reflect:

1) all assets and liabilities of subsidiary companies where the entire legal entity is expected to be conveyed to a buyer as part of the sale of PCH

2) assets and liabilities that either legally belong to PCH or are expected to transfer to a buyer as part of the sale of PCH but are not part of a conveyed subsidiary (Asset-selling location)

3) costs associated with PCH employees and approximately 3,500 employees in Pfizer's manufacturing division dedicated primarily to the PCH business (costs associated with other Pfizer employees who may ultimately be identified as dedicated primarily to PCH are not included)

4) costs associated with PCH products made at seven manufacturing facilities and three distribution centers which are primarily PCH dedicated facilities and are deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH (Conveyed Facilities)

5) costs associated with PCH products made at 27 facilities that are shared with other Pfizer businesses and are not deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH
(Non-Conveyed Facilities)

6) costs associated with PCH products made at one manufacturing facility that is primarily PCH dedicated; however, only selected assets (mainly machinery and equipment) and not the entire facility are deemed to be wholly PCH assets expected to transfer to a buyer as part of the sale of PCH.

All significant intercompany transactions and balances have been eliminated. Generally, operations outside the U.S. are included on a fiscal basis for the three-month and nine-month periods ending August 27, 2006 and August 28, 2005.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim combined financial statements may not be representative of those for the full year. PCH is responsible for these combined unaudited financial statements which include all normal and recurring adjustments that are considered necessary for the fair presentation of PCH's financial position and operating results. These combined interim financial statements should be read in conjunction with PCH's audited combined financial statements and accompanying notes for the year ended December 31, 2005.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. For example, estimates are used when accounting for deductions from revenues (such as rebates, discounts, incentives and product returns), depreciation, amortization, employee benefits, contingencies and asset and liability valuations. Management's estimates are often based on complex judgments, probabilities and assumptions that it believes to be reasonable but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events and circumstances may occur. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. There are other risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in the healthcare environment, competition, foreign exchange, litigation, legislation and regulations.

These combined financial statements have been extracted from the Pfizer accounting records on the basis of the accounting policies and procedures described below in the section entitled, Summary of Significant Accounting Policies. Although PCH is accounted for by Pfizer as a separate operating segment, its operations are integrated with those of Pfizer. These combined financial statements are not intended to be a complete representation of the financial position or results of operations of PCH had it been a stand-alone company. The accompanying combined balance sheets primarily reflect the assets and liabilities directly attributable to the business. The assets and liabilities that have been excluded from the accompanying combined balance sheets consist primarily of:

- Cash from PCH operations at subsidiaries that are not completely PCH dedicated is generally not included in "Cash" in the accompanying combined balance sheets at October 1, 2006 and December 31, 2005 since this cash is swept into Pfizer's centralized cash management systems. Accordingly, PCH's cash balance at October 1, 2006 and December 31, 2005 is not representative of an independent company. The interest income associated with cash is not included in the accompanying combined statements of income. PCH's financing requirements and settlement of intercompany transactions are represented by cash transactions with Pfizer and are reflected in business unit equity. The cash that is reported in the accompanying combined balance sheets is the cash held by those subsidiaries that are completely PCH dedicated

- Current and deferred tax assets and liabilities at subsidiary companies that are not completely PCH dedicated

- Pension liabilities at subsidiary companies that are not completely PCH dedicated

- Assets and liabilities of the Non-Conveyed Facilities that are not considered part of the PCH business or are not expected to transfer to a buyer as part of the sale of PCH

- Other assets and liabilities at Asset-selling locations that are not specifically owned by or commitments of the PCH business or that are expected to transfer to a buyer upon the sale of PCH

The accompanying combined statements of income include the accounts specifically attributed to PCH and allocations of expenses relating to shared services and administrative functions incurred at various divisional levels of Pfizer. Pfizer operating divisions perform certain administrative, logistical and manufacturing services for PCH. In addition, PCH operating divisions perform certain administrative and logistical services for other Pfizer locations. The cost of these services is charged to either PCH or Pfizer operations either on a specific identification basis or using proportional cost allocation methods (i.e., headcount, occupied office space, third party sales, etc.) depending on the nature of the service. PCH and Pfizer management believes the above allocations are reasonable; however, there can be no assurance that such allocations are indicative of future results of operations of the PCH business nor reflective of historical results had the PCH business been a separate, stand-alone entity. Pfizer does not routinely allocate various other corporate level activity expenses such as senior corporate executives, corporate accounting, treasury and corporate level tax to its operating divisions. Accordingly, the costs of such corporate functions have not been included in the accompanying combined statements of income.

NOTES TO COMBINED FINANCIAL STATEMENTS (UNAUDITED)
OCTOBER 1, 2006
(DOLLARS IN THOUSANDS)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION - PCH records revenue from product sales when the goods are shipped and title passes to the customer.

DEDUCTIONS FROM REVENUES--Gross product sales are subject to a variety of deductions such as sales rebates, discounts, coupons, incentives, and product returns, that are generally estimated and recorded in the same period that the revenue is recognized. PCH records sales incentives as a reduction of revenues at the time the related revenues are recorded or when the incentive is offered, whichever is later. PCH estimates the cost of its sales incentives based on its historical experience with similar incentive programs.

COST OF SALES AND INVENTORIES - PCH values inventories at cost or fair value, if lower. Cost is determined as follows:

- finished goods and work in process at average actual cost; and

- raw materials and supplies at average or latest actual cost.

ADVERTISING EXPENSE - Advertising expenses related to production costs are expensed as incurred and the costs of radio time, television time and space in publications are expensed when the related advertising occurs. Advertising and promotion expenses were $193,610 and $191,126 for the three months ended October 1, 2006 and October 2, 2005, and $639,218 and $656,709 for the nine months ended October 1, 2006 and October 2, 2005 and are included in Marketing and distribution expenses in the accompanying combined statements of income.

RESEARCH AND DEVELOPMENT EXPENSES - Research and development (R&D) expenses are expensed as incurred. R&D expenses were $47,380 and $43,287 for the three months ended October 1, 2006 and October 2, 2005, and $140,064 and $134,920 for the nine months ended October 1, 2006 and October 2, 2005. PCH has its own R&D resources with its primary research facilities in New Jersey and Sweden.

INCOME TAXES - As an operating unit of Pfizer, PCH - U.S. does not file separate U.S. Federal tax returns, but rather is included as part of the various returns filed by Pfizer or its subsidiaries. For the purpose of these combined financial statements, the PCH tax provision was computed as if it were a separate company using the effective tax rates in effect in the locations where the income was recorded. Permanent items and credits were considered when determining the provision but were not included due to immateriality. For entities having losses on a stand alone basis, financial statement benefit was provided for those losses. Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws.

BUSINESS UNIT EQUITY - Business unit equity includes balances and transactions among PCH, Pfizer and other Pfizer subsidiaries. PCH participates in Pfizer's centralized cash management systems and generally all excess cash is transferred to Pfizer. In addition, PCH entities will occasionally declare and pay dividends to other Pfizer companies.

AMORTIZATION OF INTANGIBLE ASSETS, DEPRECIATION AND CERTAIN LONG-LIVED ASSETS -
Long-lived assets include:

- Goodwill - Goodwill represents the difference between the purchase price of a business acquisition and the fair value of its net assets. Goodwill is not amortized.

- Identifiable intangible assets - These acquired assets are recorded at cost. Intangible assets with finite lives are amortized evenly over their estimated useful lives. Intangible assets with indefinite lives are not amortized.

- Property, plant and equipment - These assets are recorded at original cost and increased by the cost of significant improvements after purchase. The cost is depreciated evenly over the assets' estimated useful lives. For tax purposes, accelerated depreciation methods are used as allowed by tax laws. Depreciation is computed generally on a straight-line basis over the following estimated useful lives:

Buildings and building improvements	20-50 years
Machinery and equipment	8-12 years
Furniture, fixtures and other	3-12 years

Amortization expense related to acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property are included in Other Income-net as they benefit multiple business functions. Amortization expense related to intangible assets that are associated with a single function and depreciation of property, plant and equipment are included in Cost of sales, General and administrative expenses and Research and development expenses, as appropriate.

PCH reviews all of its long-lived assets, including goodwill and other intangible assets, for impairment at least annually and whenever events or circumstances present an indication of impairment. When necessary, PCH records charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

FOREIGN CURRENCY TRANSLATION - The financial statements of operations outside the U.S. are maintained in their local currency. PCH translates assets and liabilities to their U.S. dollar equivalents at rates in effect at the balance sheet date. Income and expense items are translated into their U.S. dollar equivalents at average rates of exchange for the period. Translation gains and losses are accumulated in a separate component of business unit equity. Gains and losses on foreign currency transactions are included in earnings.

FINANCIAL INSTRUMENTS - The carrying values of PCH's financial instruments approximate their estimated fair values. At October 1, 2006 and December 31, 2005, the cost of each type of financial instrument, primarily accounts receivable and accounts payable, approximates fair value because of the short term nature of these instruments.

BENEFIT PLANS - Substantially all active PCH employees participate in Pfizer, legacy Warner-Lambert and legacy Pharmacia benefit plans (collectively, "Pfizer benefit plans"). In the U.S., PCH employees participate in qualified and supplemental defined benefit pension plans and defined contribution plans, as well as other postretirement benefit plans, consisting primarily of healthcare for retirees. Outside the U.S., PCH employees participate in defined benefit plans that Pfizer generally funds to the extent that tax or other incentives exist. A measurement date of December 31 is used for a majority of the U.S. pension and postretirement plans and November 30 for a majority of the international plans.

Only the pension assets and liabilities at those subsidiaries that are completely dedicated to PCH business have been reflected in the accompanying combined balance sheets since only those assets and liabilities legally belong to PCH and are expected to transfer to a buyer as part of the sale of PCH.

(DOLLARS IN THOUSANDS)

Only liabilities related to PCH employees participating in other postretirement benefit plans in the U.S. that are expected to transfer to a buyer as part of the sale of PCH have been reflected in the accompanying combined balance sheets.

The combined statements of income include an allocation from Pfizer for the pension and postretirement benefit costs associated with all PCH employees who participate in the pension and postretirement benefit plans.

3. ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2006, PCH adopted the provisions of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, as supplemented by the interpretation provided by SEC Staff Accounting Bulletin No. 107, issued in March 2005. (SFAS 123R replaced SFAS 123, Stock-Based Compensation, issued in 1995). PCH elected the modified prospective application transition method of adoption and, as such, prior period financial statements have not been restated. Under this method, the fair value of all stock options granted or modified after adoption must be recognized in the combined statement of income and total compensation cost related to nonvested awards not yet recognized, determined under the original provisions of SFAS 123, must also be recognized in the combined statement of income.

Prior to January 1, 2006, PCH accounted for stock options under Accounting Principle Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, an elective accounting policy permitted by SFAS 123. Under this standard, since the exercise price of stock options granted is set equal to the market price on the date of grant, PCH did not record any expense to the combined statement of income related to stock options, unless certain original grant date terms were subsequently modified. However, as required, PCH disclosed, in the Notes to Combined Financial Statements, the pro forma expense impact of the stock option grants as if PCH had applied the fair-value based recognition provisions. The adoption of SFAS 123R primarily impacted PCH's accounting for stock options (see Note 13, Share-Based Payments).

4. ADAPTING TO SCALE INITIATIVE

PCH incurred the following costs in connection with Pfizer's Adapting to Scale (AtS) productivity initiative launched in early 2005:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2 2005
Implementation costs (a)	$ (553)	$5,067	$ 4,388	$5,067
Restructuring charges (b)	2,746	1,760	12,418	1,760
Total AtS costs	$2,193	$6,827	$16,806	$6,827

(a) Included in Cost of sales - ($691), Marketing and distribution expenses - ($1,263) and General and administrative expenses - $1,401 for the three months ended October 1, 2006 and included in Cost of sales - $541, Marketing and distribution expenses - $677 and General and administrative expenses - $3,170 for the nine months ended October 1, 2006. Included in Marketing and distribution expenses - $393 and General and administrative expenses - $4,674 for both the three and nine months ended October 2, 2005.

(b) Included in Restructuring charges and merger-related costs.

Actions associated with the AtS productivity initiatives include implementation costs primarily for consulting activities and restructuring charges primarily related to asset impairments, exit costs and employee termination costs at our manufacturing facilities and marketing and worldwide research operations. The components of restructuring charges associated with AtS follow:

(DOLLARS IN THOUSANDS)

	Provisions 2005	Provisions for the Nine Months Ended Oct. 1, 2006	Provisions Total	Utilization Through Oct. 1, 2006	Accrual as of Oct. 1, 2006 (a)
Employee termination costs	$ 2,349	$11,615	$13,964	$(13,758)	$206
Asset impairments	8,777	663	9,440	(9,440)	--
Other	312	140	452	(417)	35
Total	$11,438	$12,418	$23,856	$(23,615)	$241

(a) Included in Other current liabilities.

Through October 1, 2006, Employee termination costs represent the reduction of the PCH workforce by 81 employees, mainly in manufacturing, sales and research. We notified affected individuals and 79 employees were terminated as of October 1, 2006. Employee termination costs are recorded as incurred and include accrued severance benefits, pension and postretirement benefits. Asset impairments reflect charges to write down property, plant and equipment. Other primarily includes costs to exit certain activities.

5. MERGER-RELATED COSTS

On April 16, 2003, Pfizer completed its merger with Pharmacia Corporation (Pharmacia). PCH recorded the following merger-related activity primarily in connection with the acquisition of Pharmacia:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2, 2005
Integration costs:				
Pharmacia	$ 767	$1,203	$ 766	$ 4,532
Purell	4	69	109	940
Restructuring costs:				
Pharmacia	(2,494)	1,153	468	7,192
Total merger-related costs(a)	$(1,723)	$2,425	$1,343	$12,664

(a) Included in Restructuring charges and merger-related costs.

INTEGRATION COSTS

Integration costs represent external, incremental costs directly related to an acquisition, including expenditures for consulting and systems integration.

(DOLLARS IN THOUSANDS)

RESTRUCTURING COSTS-PHARMACIA

In connection with the acquisition of Pharmacia, Pfizer management approved plans to restructure the operations of both legacy Pfizer and legacy Pharmacia to eliminate duplicative facilities and reduce costs. As of October 1, 2006, the restructuring activities resulting from Pfizer's acquisition of Pharmacia are substantially complete.

Restructuring costs associated with exiting certain activities of the consumer healthcare business of legacy Pfizer (PCH) and legacy Pharmacia (from April 16, 2004), including severance, costs of vacating duplicative facilities, contract termination and other exit costs, have been recorded as a charge to the results of operations and are included in Restructuring charges and merger-related costs.

The components of the restructuring costs associated with the acquisition of Pharmacia, which were expensed, follow:

	Provisions for the Nine Months Ended Oct. 1, 2006	Provisions 2005	Provisions 2004	Provisions Prior to Jan. 1, 2004	Provisions Total	Utilization through Oct. 1, 2006	Accrual as of Oct. 1, 2006(a)
Employee termination costs	$ (534)	$ 3,969	$12,409	$ 9,447	$25,291	$(24,924)	$ 367
Property, plant and equipment	1,738	8,082	5,046	133	14,999	(14,999)	--
Other	(736)	7,166	6,974	1,580	14,984	(9,502)	5,482
Total	$ 468	$19,217	$24,429	$11,160	$55,274	$(49,425)	$5,849

(a) included in Other current liabilities.

Through October 1, 2006, the charges for Employee termination costs represent the approved reduction of PCH's workforce by 237 people mainly in corporate, manufacturing, distribution, sales and research functions. PCH notified these people and 233 people were terminated as of October 1, 2006. Employee termination costs include accrued severance benefits. Other restructuring costs include charges for contract termination payments.

6. DIVESTITURE

On June 26, 2006, Pfizer announced that it reached a definitive agreement to sell PCH to Johnson & Johnson for $16.6 billion. Pfizer completed the sale of PCH to Johnson & Johnson on December 20, 2006.

7. INVENTORIES

	Oct. 1, 2006	Dec. 31, 2005
Finished goods	$444,710	$478,933
Work in process	22,685	38,778
Raw materials	56,492	67,512
Total inventories	$523,887	$585,223

8. PROPERTY, PLANT AND EQUIPMENT

(DOLLARS IN THOUSANDS)

	Oct. 1, 2006	Dec. 31, 2005
Land	$ 11,446	$ 9,666
Buildings and building improvements	435,316	424,474
Machinery and equipment	536,048	586,807
Furniture, fixtures and other	248,946	172,365
Construction in progress	149,560	110,547
	1,381,316	1,303,859
Less: accumulated depreciation	(583,821)	(561,670)
Net property, plant and equipment	$ 797,495	$ 742,189

Depreciation expense totaled $21,929 and $16,325 for the three months ended October 1, 2006 and October 2, 2005. Depreciation expense totaled $64,385 and $58,004 for the nine months ended October 1, 2006 and October 2, 2005.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

A. GOODWILL

The changes in the carrying amount of goodwill for the nine months ended October 1, 2006 follow:

Balance, December 31, 2005	$2,790,755
Foreign currency impact	(33,995)
Other	(5,682)
Balance, October 1, 2006	$2,751,078

(DOLLARS IN THOUSANDS)

B. OTHER INTANGIBLE ASSETS

The components of identifiable intangible assets as of October 1, 2006 and December 31, 2005 follow:

	Oct. 1, 2006		Dec. 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:				
Developed technology rights(a)	$ 52,180	$(11,251)	$ 51,496	$ (8,690)
Brands(b)	139,130	(12,025)	136,659	(8,888)
License agreements	9,381	(5,874)	8,582	(3,214)
Trademarks	49,216	(27,841)	44,287	(24,142)
Other(c)	10,354	(5,428)	9,157	(3,600)
Total amortized finite-lived intangible assets	260,261	(62,419)	250,181	(48,534)
Indefinite-lived intangible assets:				
Brands(b)	932,805	--	873,579	--
License agreements	331,447	--	295,892	--
Trademarks	149,034	--	148,131	--
Other	21,962	--	21,944	--
Total indefinite-lived intangible assets	1,435,248	--	1,339,546	--
Total identifiable intangible assets	1,695,509	(62,419)	1,589,727	(48,534)
Total identifiable intangible assets, less accumulated amortization	$1,633,090		$1,541,193	

(a) developed technology rights represent the amortized value associated with developed technology, which has been acquired from third parties and which can include the right to develop, use, market, sell and/or offer for sale the product, compounds and intellectual property that has been acquired with respect to products, compounds and/or processes that have been completed. These rights are subject to the impairment review process described in Note 2.

(b) brands represent the amortized value associated with tradenames, as the products themselves no longer receive patent protection. The significant components of the indefinite-lived brands include values determined for tobacco dependence products and Rogaine.

(c) includes patents, non-compete agreements and other intangible assets.

Total amortization expense for finite-lived intangible assets was $2,747 and $2,972 for the three months ended October 1, 2006 and October 2, 2005, and $9,504 and $7,536 for the nine months ended October 1, 2006 and October 2, 2005.

(DOLLARS IN THOUSANDS)

10. OTHER CURRENT LIABILITIES

	Oct. 1, 2006	Dec. 31, 2005
Advertising and promotional accruals	$ 75,303	$ 62,492
Merger-related restructuring accruals	5,849	7,392
Inventory accruals	36,357	25,632
Freight accruals	4,751	3,143
Coupon accruals	12,159	10,416
Selling accruals	5,157	6,491
Royalties accruals	4,830	11,226
Returns accruals	33,249	40,419
Rebate accruals	4,444	11,318
Production accruals	7,933	6,405
R&D accruals	7,915	11,071
Property and other tax accruals	4,043	2,758
Legal accruals	4,305	5,992
Environmental accruals	1,500	1,500
Other marketing accruals	4,097	8,586
Other	44,068	38,592
Total	$255,960	$253,433

11. OTHER INCOME - NET

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2, 2005
Amortization of intangibles	$ 2,692	$ 2,945	$ 9,396	$ 7,456
Royalties income(a)	(10,763)	(11,267)	(33,523)	(33,635)
(Gain)/loss on disposal of PP&E	(29)	15	(60)	(134)
(Gain)/loss on sales of businesses/product lines	(69)	12	(1,164)	(558)
Net exchange (gains)/losses	1,077	(1,178)	(283)	512
Other, net(b)	850	1,132	(6,823)	159
Total other income - net	$ (6,242)	$ (8,341)	$(32,457)	$(26,200)

(a) PCH has granted Glaxo SmithKline Consumer Healthcare (GSKCH) exclusive distribution rights in the U.S. to Nicotine Polacrilex Gum ("Gum"), including exclusive rights to the Nicorette name to be used on Gum and in conjunction with GSKCH's Commit Lozenge but PCH only supplies Gum (the Lozenge is supplied by a third party). Although the distribution agreement terminates on December 31, 2010, GSK may renew the agreement at their option for successive 3 year terms giving not less than 6 months prior written notice. GSKCH purchases the finished packaged products from PCH. GSKCH pays PCH a supply price and a royalty which taken together are capped at 30% of GSKCH's net selling price to the trade. PCH recorded royalty income from the agreement of $9,480 and $8,242 for the three months ended October 1, 2006 and October 2, 2005 and $29,722 and $26,580 for the nine months ended October 1, 2006 and October 2, 2005 in Other Income-net. PCH holds rights to its entire Nicorette range of products in basically all other locations where they are sold except for Japan where there is a collaboration with Takeda. In addition, PCH has rights to the NicoDerm Patch in Canada. Pfizer Inc will continue to hold rights to Nicotrol Inhaler and Nasal Spray in the U.S.

(DOLLARS IN THOUSANDS)

(b) During the nine months ended October 1, 2006, Other, net includes income from a legal settlement of $10,000.

12. PENSION AND POSTRETIREMENT BENEFITS

Generally, most PCH employees participate in Pfizer's pension plans for employees worldwide. For all the plans, plan benefits depend on years of service and employee final average earnings. Participants vest in their benefits after as few as five years of service. Pfizer does not fund postretirement plans, but contributes to the plans as benefits are paid. The portion of the pension and postretirement benefit cost allocated to PCH in the U.S. and certain significant international locations was approximately $11,623 and $10,650 for the three months ended October 1, 2006 and October 2, 2005, and $34,869 and $32,318 for the nine months ended October 1, 2006 and October 2, 2005.

Only the pension assets and liabilities at those subsidiaries that are completely dedicated to the PCH business have been reflected in the accompanying combined balance sheets since only those assets and liabilities legally belong to PCH and are expected to transfer to a buyer as part of the sale of PCH.

Only the postretirement benefit obligations for employees who are not retirement eligible at January 1, 2006 and which are expected to transfer to a buyer as part of the sale of PCH are included in the accompanying combined balance sheets.

Information about pension plans at subsidiaries in Germany, France and Italy that are dedicated solely to PCH and are expected to transfer to a buyer as part of the sale of PCH is provided in the tables below:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2, 2005
Service cost	$221	$177	$ 643	$ 570
Interest cost	163	149	473	474
Amortization of:				
Prior service costs/(gains)	(36)	(7)	(25)	5
Net transition obligation	8	8	24	25
Actuarial losses	87	28	167	63
Net periodic benefit costs	$443	$355	$1,282	$1,137

For the first nine months of 2006, $256 from the general assets of the subsidiaries in Germany, France and Italy was contributed to these plans. During 2006, contributions of $357 are expected to be made to these plans. Contributions expected to be made for 2006 are inclusive of amounts contributed during the first nine months of 2006. The contributions from the general assets of the subsidiaries in Germany, France and Italy include direct employer benefit payments.

(DOLLARS IN THOUSANDS)

13. SHARED-BASED PAYMENTS

PCH employees participate in Pfizer's compensation programs which can include share-based payments. In 2006 and 2005, the primary share-based awards and their general terms and conditions are as follows:

- Stock options, which entitle the holder to purchase, at the end of a vesting term, a specified number of shares of Pfizer common stock at a price per share set equal to the market price of Pfizer common stock on the date of grant.

- Restricted stock units (RSUs), which entitle the holder to receive, at the end of a vesting term, a specified number of shares of Pfizer common stock, including shares resulting from dividend equivalents paid on such RSUs.

- Performance share awards (PSAs) and performance-contingent share awards (PCSAs), which entitle the holder to receive, at the end of a vesting term, a number of shares of Pfizer common stock, within a range of shares from zero to a specified maximum, calculated using a non-discretionary formula that measures Pfizer's performance relative to an industry peer group.

- Restricted stock grants, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of Pfizer common stock, and which also entitle the holder to receive dividends paid on such grants.

A. Impact on Net Income

The components of share-based compensation expense and the associated tax benefit follow:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2, 2005
Stock option expense	$ 4,119	$ --	$13,935	$ --
Restricted stock unit expense	2,559	1,641	6,890	3,822
Performance share awards and performance-contingent share awards expense	1,027	151	1,622	1,122
Share-based payment expense(a)	7,705	1,792	22,447	4,944
Tax benefit for share-based compensation expense	(2,430)	(702)	(6,567)	(1,938)
Share-based payment expense, net of tax	$ 5,275	$1,090	$15,880	$ 3,006

a) Included in Cost of sales, Selling, informational and administrative expense and Research and development expense, as appropriate, generally according to the expense classification of the employees' payroll costs.

(DOLLARS IN THOUSANDS)

B. Stock Options

Stock options, which entitle the holder to purchase, at the end of a vesting term, a specified number of shares of Pfizer common stock at a price per share set equal to the market price of Pfizer common stock on the date of grant, are accounted for at fair value at the date of grant in the income statement beginning in 2006. These fair values are generally amortized on an even basis over the vesting term into Cost of sales, Selling, informational and administrative expenses and Research and development expenses, as appropriate.

In 2005 and earlier years, stock options were accounted for under APB No. 25 using the intrinsic value method in the income statement and fair value information was disclosed. In these disclosures of fair value, stock option compensation expense was allocated based on the nominal vesting period, rather than the expected time to achieve retirement eligibility. In 2006, Pfizer changed its method of allocating stock option compensation expense to a method based on the substantive vesting period for all new awards, while continuing to allocate outstanding nonvested awards not yet recognized as of December 31, 2005 under the nominal vesting period method. Specifically, under this prospective change in accounting policy, compensation expense related to stock options granted prior to 2006 that are subject to accelerated vesting upon retirement eligibility is being recognized over the vesting term of the grant, even though the service period after retirement eligibility is not considered to be a substantive vesting requirement. The impact of this change was not significant.

All employees may receive stock option grants. In virtually all instances, stock options vest after three years of continuous service from the grant date and have a contractual term of ten years; for certain members of management, vesting typically occurs in equal annual installments after three, four and five years from the grant date. In all cases, even for stock options that are subject to accelerated vesting upon voluntary retirement, stock options must be held for at least one year from grant date before any vesting may occur. In the event of a divestiture, options held by employees of the divested business are immediately vested and are exercisable from three months to their remaining term, depending on various conditions.

The fair value of each stock option grant is estimated on the grant date using, for virtually all grants, the Black-Scholes-Merton option-pricing model. These fair values incorporate a number of valuation assumptions noted in the following table, shown at their weighted-average values:

	Three Months Ended		Nine Months Ended	
	Oct. 1, 2006	Oct. 2, 2005	Oct. 1, 2006	Oct. 2, 2005
Expected dividend yield (a)	3.65%	2.76%	3.66%	2.90%
Risk-free interest rate (b)	4.87%	3.81%	4.59%	3.96%
Expected stock price volatility (c)	22.85%	20.00%	24.50%	21.93%
Expected term (d) (years)	10	5.59	6	5.75

(a) Determined using a constant dividend yield during the expected term of the option.

(b) Determined using the extrapolated yield on U.S. Treasury zero-coupon issues.

(c) Determined using implied volatility, after consideration of historical volatility.

(d) Determined using historical exercise and post-vesting termination patterns. In the third quarter of 2006, the use of historical patterns was deemed inappropriate as virtually all of the option-grant activity related to a single individual; instead, the contractual term of the options was used.

During the nine months ended October 1, 2006, 3,229,707 options were granted to PCH employees with a weighted average exercise price of $26.20.

In the first quarter of 2006, Pfizer changed its method of estimating expected stock price volatility to reflect market-based inputs under emerging stock option valuation considerations. The implied volatility in a long-term traded option was used, after consideration of historical volatility. In 2005, Pfizer used an average term structure of volatility quoted to Pfizer by financial institutions, after consideration of historical volatility.

C. Restricted Stock Units

RSUs, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of Pfizer common stock, including shares resulting from dividend equivalents paid on such RSUs, are accounted for at fair value at the date of grant. Most RSUs vest in substantially equal portions each year over five years of continuous service; the fair value related to each year's portion is then amortized evenly into Cost of sales, Selling, informational and administrative expenses and Research and development expenses, as appropriate. For certain members of senior and key management, vesting may occur after three years of continuous service.

The fair value of each RSU grant is estimated on the grant date using the average price of Pfizer common stock on the date of grant.

D. Performance Share Awards (PSAs) and Performance-Contingent Share Awards
(PCSAs)

PSAs in 2006 and PCSAs prior to 2006 entitle the holder to receive, at the end of a vesting term, a number of shares of Pfizer common stock, within a specified range of shares, calculated using a non-discretionary formula that measures Pfizer's performance relative to an industry peer group. PSAs are accounted for at fair value at the date of grant in the income statement beginning with grants in 2006. Further, PSAs are generally amortized on an even basis over the vesting term into Cost of sales, Selling, informational and administrative expenses and Research and development expenses, as appropriate. For grants in 2005 and earlier years, PCSA grants are accounted for using the intrinsic value method in the income statement.

Senior and other key members of management may receive PSA and PCSA grants. In most instances, PSA grants vest after three years and PCSA grants vest after five years of continuous service from the grant date. In certain instances, PCSA grants vest over two to four years of continuous service from the grant date. The vesting terms are equal to the contractual terms.

As of January 1, 2006, Pfizer measures PSA grants at fair value using the average price of Pfizer common stock on the date of grant times the target number of shares. The target number of shares is determined by reference to the fair value of share-based awards to similar employees in the industry peer group. Pfizer measures PCSA grants at intrinsic value whereby the probable award was allocated over the term of the award, then the resultant shares are adjusted to the fair value of Pfizer common stock at each accounting period until the date of payment.

E. Restricted Stock

Restricted stock grants, which entitle the holder to receive, at the end of a vesting term, a specified number of shares of Pfizer common stock, and which also entitle the holder to receive dividends paid on such grants, are accounted for at fair value at the date of grant.

Senior and key members of management received restricted stock awards prior to 2005. In most instances, restricted stock grants vest after three years of continuous service from the grant date. The vesting terms are equal to the contractual terms. These awards have not been significant.

(DOLLARS IN THOUSANDS)

F. Transition Information

The following table shows the effect on results for the three months and nine months ended October 2, 2005 as if Pfizer had applied the fair-value-based recognition provisions of SFAS 123R to measure stock-based compensation expense for the option grants:

	Three Months Ended Oct. 2, 2005	Nine Months Ended Oct. 2, 2005
Net income as reported under GAAP(a)	$105,044	$281,928
Compensation expense - net of tax(b)	(3,741)	(12,281)
Net income pro forma	$101,303	$269,647

(a) Includes stock-based compensation expense, net of related tax effects, of $1,090 and $3,006 for the three months and nine months ended October 2, 2005.

(b) Pro forma compensation expense related to stock options that are subject to accelerated vesting upon retirement is recognized over the period of employment up to the vesting date of the grant.

14. LEGAL PROCEEDINGS AND CONTINGENCIES

PCH is involved in various patent, product liability, consumer, environmental and tax claims and litigations that arise from time to time in the ordinary course of business. PCH believes that they have a valid defense with respect to the legal matters pending against them and, taking into account insurance and reserves, PCH believes that the ultimate resolution of these matters will not have a material adverse impact on financial condition, results of operations, or cash flows. It is possible; however, that cash flows or results of operations could be affected in any particular period by the resolution of one or more of these contingencies.

In the combined balance sheet, Other current liabilities include $1.5 million for estimated environmental remediation at PCH facilities in Australia and New Jersey.

15. SUBSEQUENT EVENTS

On December 20, 2006, Pfizer completed the sale of PCH to Johnson & Johnson for $16.6 billion.