CORPORATE PARTICIPANTS

Amal Naj  
Pfizer, Inc. - VP - Investor Development & Strategy

Jeff Kindler  
Pfizer, Inc. - Chairman & CEO

Frank D’Amelio  
Pfizer, Inc. - CFO

Ian Read  
Pfizer, Inc. - President - Worldwide Pharmaceutical Operations

David Reed  
Pfizer, Inc. - Acting General Counsel

CONFERENCE CALL PARTICIPANTS

James Kelly  
Goldman Sachs - Analyst

Jami Rubin  
Morgan Stanley - Analyst

Roopesh Patel  
UBS - Analyst

Tim Anderson  
Sanford Bernstein - Analyst

David Risinger  
Merrill Lynch - Analyst

Kevin Scotcher  
HSBC - Analyst

John Boris  
Bear, Stearns - Analyst

Steve Scala  
Cowen - Analyst

Barbara Ryan  
Deutsche Bank - Analyst

Seamus Fernandez  
Leerink Swann & Company - Analyst

Mike Krensavage  
Raymond James - Analyst

PRESENTATION

Operator

Now we have Amal Naj, Head of Investor Development. You may now begin.
Good morning, and thank you for joining us today to review our first quarter 2008 performance. I'm here with Jeff Kindler, Chairman and CEO; Frank D'Amelio, Chief Financial Officer; Ian Read, head of our worldwide pharmaceutical operations; Martin Mackay, head of our worldwide research and development; and David Reed, acting general council. We'll start this morning with a review of our results and the financial charts that will be presented on this call can be viewed on our home page at www.pfizer.com, in the investor presentations tab by clicking on the link, Quarterly Corporate Performance - First Quarter 2008. Our conference call will last an hour and we will end at 11 a.m. We would like to hear from as many of you as we can in this time, so we ask you to limit yourself to just one question. Time permitting, we'll come back to you for any additional questions.

Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements. Actual results could materially vary from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in Pfizer's 2007 annual report on Form 10-K and in our reports on Form 10-Q and Form 8-K. Also the discussions during this conference call will include certain financial measures that were not prepared in accordance with Generally Accepted Accounting Principles. Reconciliations of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer's current report on Form 8-K dated April 17, 2008. These reports are available on our website at www.pfizer.com in the investor's-SEC filings section.

I will now turn the call over to Jeff Kindler. Jeff?

Thanks, Amal. Good morning, everyone, and thanks for joining us today. Before Frank reviews the numbers I'd like to make a few brief comments. The first quarter reflects a business reality that we highlighted in January. Our quarterly results may vary depending upon the seasonality of revenues and spending, as well as the timing of the loss of U.S. exclusivity and patent expiration of certain products, among other things. Due to the loss of U.S. exclusivity of two major products, the comparison of our 2008 quarterly results to 2007 is difficult this quarter. We lost U.S. exclusivity for Norvasc in late March 2007 and we lost U.S. exclusivity for Zyrtec in late January 2008 and stopped selling that product at that time. Together the revenues from these products declined by approximately $900 million in the quarter. Further, we also lost U.S. exclusivity of Camptosar in February 2008, but that impact of that LOE in this quarter was much less in comparison to the other two products.

Now, we all know that losses of exclusivity are a fact of life in the branded pharmaceutical business but nevertheless, there were a number of successes in other areas that partially offset the revenue decline associated with Norvasc and Zyrtec. For example, we continued to generate steady overall growth from our diversified portfolio of in-line products, including Lyrica, Viagra, Xalatan and Geodon. Additionally, Lipitor continues to be a strong global brand, demonstrating operational growth in China, Latin America, Spain, Canada and other international markets. Around the world, and particularly in the U.S., we continued to execute a comprehensive communication strategy to reinforce the extensive evidence supporting Lipitor's strong clinical profile.

And two of our new products, Sutent and Chantix, are continuing to perform well. Now, we've seen some impact in the U.S. from the Chantix label changes in January, but we're moving forward on many fronts, including aggressive educational and promotional efforts to drive growth as this innovative medicine continues to roll out around the world. We've now launched Chantix, or Champix, in 56 countries, including 20 countries within the past 12 months; countries like Italy, India and Korea. Launches in more than 20 additional countries are anticipated in the next 12 months. Further, we launched Sutent in 61 countries and are developing this important medicine for additional tumors, including breast, lung and colorectal cancer in late-stage clinical trials. I'm also very pleased that we recently approved -- received approval in Japan, which is the largest pharmaceutical market in the world outside the United States, for these two important medicines; Chantix in January and Sutent just yesterday. This was accomplished in part by the great collaboration between our R&D organization and the Japanese regulatory authorities and we look forward to more of these opportunities to bring products to market quickly in this important market.
Now beyond individual product performances, we continue to see operational growth in many of our major international markets. The significance of this trend goes well beyond just one quarter. As we said at our March 5th analyst meeting, we're pursuing strategies to take advantage of these opportunities and we believe our international business will be a significant source of growth for us in the coming years. And finally, we're continuing to see the benefits of productivity and efficiency improvements throughout our Company. We're on track to meet our goal of reducing our adjusted total costs by at least $1.5 billion to $2 billion by the end of this year, compared to 2006, on a constant currency basis. We are sharply focused on meeting our full-year guidance. With growth in many of our new and in-line products, strong performances in key markets, and aggressive cost reductions, we are reaffirming that guidance today.

At the same time, we continue to make fundamental changes in the operations, structure and culture of the business, by executing on the strategies we outlined at our March analyst meeting to build long-term value. Through the hard work and dedication of our colleagues, we have over the past year fixed many of the key elements of our business, and established a strong foundation with which to overcome our challenges and seize the many opportunities before us. And we're making substantial progress in other elements of our business. For example, we're pursuing new revenue opportunities across geographies, therapeutic areas and products, particularly in those areas that we've identified where we will invest to win. In one very important investment to win disease area, oncology, I'm pleased to tell you that we're now initiating a Phase II clinical trial of our IGF1R antibody for the treatment of non small cell lung cancer, an area with significant unmet medical need and large market potential.

In addition, we're active in business development and scanning the marketplace for opportunities while maintaining discipline in how we invest our shareholders' capital. During the quarter we announced an agreement to acquire Serenex, which will bring us proprietary compounds and science in oncology, and we recently acquired a controlling interest in Encysive, which fits very well with our strong cardiovascular franchise. Additionally, yesterday we announced an agreement with AVANT to license a Phase II therapeutic vaccine for a specific type of brain tumor. We're also applying innovative approaches and new business models across our business to both our existing assets and new products.

Now, one of the main objectives of these strategies, and something I would like to emphasize, is risk diversification. We all know that we are and we're going to remain in an industry with many risks, not only those inherent in drug development, but also those associated, for example, with things like safety and pricing. Our path forward, including the five strategies we outlined at our March 5th analyst meeting, is designed to mitigate and diversify that risk while maximizing revenues. Pfizer has a uniquely strong and broad global footprint, which we consider a powerful competitive advantage. We're a leader in most of the markets and many of the disease areas in which we compete. This allows us to execute on a range of strategies involving a portfolio of both patent protected and established products in developed, as well as emerging markets. Our goal over time is to take advantage of the many opportunities this presents and to become less dependent on any one in-line or pipeline product.

Let me give you an example. Unlocking the value of our established products with a new comprehensive focus and a business unit within our pharmaceutical segment that will be run like an entreprenurial venture, as we outlined on March 5, is another tangible step toward diversifying our risk and maximizing our revenues. The established products market around the world, it's big, profitable, and growing at double-digit rates right now. It's expected to grow to over $500 billion by 2012. Two things are required to succeed and grow share in this market and we have them both; a significant commercial footprint, and strong brands. Our new established business unit is intensely focused on increasing revenues and taking a greater share of this market, through our broad and diversified existing portfolio of brands, as well as through the potential acquisition of additional established brands and value adding technologies. We see a very real opportunity to gain a larger share of a fast growing market with good operating margins and as a result, drive new, profitable revenues.

Just to pick one example among many, we have very strong prospects in Latin America due to the strengthening of the economy and a growing emerging middle class. Brazil and Mexico are becoming part of the leading world economies, and Pfizer is already acting to take a growing share of these important markets. Brazil is currently the tenth largest economy in the world and it's expected to grow to the eighth largest by 2012. In this, one of the most important emerging markets in the world, our business continues to grow at double-digit rates, despite the fact that several of our products have no patent protection. The power of
the Pfizer brand, combined with the well-respected brands of our established products, enables us to remain the market leader in Latin America, despite the presence of multiple generic versions of our products. We see similar successes across the developing world, giving us confidence that our new focus on emerging markets and established products will produce significant value for Pfizer in the years up to and beyond the Lipitor loss of exclusivity. With these and all of our initiatives, we’re focused on driving sustainable changes across Pfizer, improving our performance and enhancing the total return we deliver to our shareholders.

And now I’ll turn it over to Frank to talk about this quarter’s numbers.

Frank D’Amelio - Pfizer, Inc. - CFO

Thanks, Jeff. Good morning everyone. Now to the results. The charts I’m reviewing today are included in our webcast and will help facilitate the discussion of our first quarter 2008 results. Now, let me get to our financials. Today we reported revenues for the first quarter 2008 of $11.8 billion, a 5% decrease year over year. To remind you, we discussed on our year-end earnings call that first quarter 2008 revenues might not be comparable to first quarter 2007 revenues due to the loss of the U.S. exclusivity of Norvasc in March of 2007, Zyrtec in January of 2008, which we ceased selling late that month, and Camptosar in February 2008, for a total decrease of $937 million. As we expected, first quarter revenues were negatively impacted by these factors. Specifically, Norvasc revenues decreased $556 million, Zyrtec revenues decreased $344 million, and Camptosar revenues decreased to a much lesser extent by $37 million. Again, these results are as we expected and clearly considered in our full-year 2008 guidance, which we are reaffirming today.

Partially offsetting this negative impact were foreign exchange, which increased reported revenues by approximately $570 million, or 5%, and the solid performance of many new and in-line products. First quarter reported net income of $2.8 billion, decreased 18% and reported diluted EPS of $0.41 decreased 15% year over year, primarily attributable to this quarter’s expected decrease in Norvasc and Zyrtec revenues and, to a lesser extent, increased in process R&D expenses associated with our acquisitions, primarily CovX and Coley. These were partially offset by lower cost and expenses related to our cost reduction initiatives and foreign exchange. First quarter adjusted income of $4.1 billion decreased 15% and adjusted diluted EPS of $0.61 decreased 10% year over year, again, driven by the expected decrease in Norvasc and Zyrtec revenues and partially offset by savings from our cost reduction initiatives and foreign exchange. Finally, both reported and adjusted diluted EPS were favorably impacted by the full-year benefit of our $10 billion share repurchase program in 2007.

We had several significant items included in our reported results this quarter. More detailed disclosures will be provided in our Form 10-Q filing with the SEC. In the first quarter, we incurred $177 million in restructuring charges compared with $795 million in the prior-year quarter. This significant decrease was driven by charges related to employee severance payments and costs related to (inaudible) recorded in the year-ago quarter. Restructuring charges are primarily associated with employee costs and asset impairments. We also incurred $357 million of implementation costs compared with $174 million in the prior-year quarter, primarily related to sites we exited or are in the process of exiting. These implementation amounts are primarily reported in cost of sales, R&D, and SI&A expenses and are detailed more fully in the supplemental information accompanying the release.

Now, I’d like to provide more details regarding our first quarter adjusted income components. Adjusted revenues were $11.8 billion, a decrease of 5% year-over-year. Adjusted cost of sales as a percentage of revenue was 15.3% in the first quarter, versus 14% in the year-ago quarter. This year-over-year increase reflects the negative impact of foreign exchange. In fact, adjusted cost of sales as a percentage of revenue would have been 14.5%, excluding the effect of foreign exchange. In addition, cost of sales was, to a lesser extent, unfavorably impacted by geographic and business mix. These two factors more than offset the savings we achieved from ongoing cost reduction initiatives. Adjusted SI&A expenses were $3.4 billion, a year-over-year increase of 3%, adjusted R&D expenses were $1.6 billion, a slight increase of 1% year over year. Although adjusted cost of sales, SI&A, and R&D expenses benefited from our ongoing cost reduction initiatives, the $330 million negative impact of foreign exchange on adjusted total cost more than offset that benefit. That said, excluding foreign exchange, our first quarter adjusted total cost...
actually decreased by $170 million operationally year-over-year. Our effective tax rate on adjusted income for the quarter was 21.9% versus 21.7% in the year-ago quarter.

I would also like to provide some quarterly product highlights. As you can see, most key in-line products grew year over year, with the exception of Lipitor, which had revenues of $3.1 billion, a year-over-year decrease of 7% including the favorable impact of foreign exchange, which increased revenues by approximately $135 million, or 4%. In the U.S., Lipitor revenues declined 18% due to the continuing intensely competitive generic market and the overall stat market growing at a slower rate than we had previously expected. Internationally, Lipitor revenues increased 13%, of which 10% was due to foreign exchange and the remainder due to operating growth.

Lyrica, the only FDA approved treatment for fibromyalgia, continued to deliver strong performance, with revenues of $582 million, an increase of 47% year over year. We expect Lyrica to be a key contributor to Pfizer's performance in 2008 and beyond, and U.S. volume of fibromyalgia will be the largest contributor to Lyrica's growth as our prescription volume and market share continues to grow significantly. In addition, Lyrica continues to lead in DPN and PHN, pain conditions with limited treatment options, which combined account for a larger proportion of prescriptions than any other single condition. Finally, we anticipate continued growth across indications supported by an active life cycle management program.

Xalatan and Geodon also posted solid performances with revenue increases of 13% and 12% respectively, and demonstrated growth in both the U.S. and international markets. Key new products, especially Chantix and Sutent, continued to deliver strong growth during the first quarter as compared to prior-year quarter. Year over year, overall Chantix revenues increased 71%, and U.S. revenues increased 33%. In January, we updated the Chantix U.S. label to include additional safety information and as a result, we have recently seen in the U.S. an unfavorable impact on prescription trends, which has been considered in our full-year 2008 guidance. We believe that the issues raised in the label change can be managed with an active patient/physician dialogue. In addition, as a result of our initial interactions with physicians over the past several months, we believe that the benefit/risk proposition for Chantix is sound. Finally, we will continue our aggressive educational promotional efforts with a focus on the Chantix benefit/risk proposition, significant health consequences of smoking and the importance of the physician/patient dialogue.

That said, in international markets, Chantix achieved triple-digit revenue growth year-over-year, albeit off of a smaller base. Chantix launches are continuing outside the U.S. In fact, over the past year, we have launched Chantix in 20 countries and most recently in Singapore, India and Japan, the world’s second largest pharmaceutical market. Currently we have launched Chantix in 56 countries and we expect launches in 20 more countries in the next 12 months. Sutent, our treatment for advanced kidney cancer and gastrointestinal stromal tumors posted revenues of $190 million, an increase of 86% compared with the year-ago quarter. Sutent was recently approved for these indications in Japan. In Europe, Sutent has achieved access wins in northern England and Birmingham, and we’re currently conducting Phase III trials with Sutent for patients with breast, colorectal and lung cancer. As we expected, revenues from products that recently lost U.S. exclusivity declined year over year. Norvasc revenues declined 52% to $513 million, Zyrtec revenues declined 75% to $117 million, and Camptosar revenues declined 16% to $192 million.

Today, we are reaffirming adjusted income and its components as well as adjusted diluted EPS guidance for full-year 2008, based on a number of factors. From a revenue perspective, the continued growth in many of our new and in-line products, such as Chantix and Sutent as well as Lyrica, Geodon, Xalatan and Viagra. It’s important to remember that beginning in the second quarter of 2008, and through the remainder of the year, the impact from the decline in Norvasc revenue will be included in the quarterly results for both 2007 and 2008 because Norvasc lost U.S. exclusive city in March 2007 and we continue to expect operational growth in many international markets. From a cost perspective, we expect to generate savings in 2008 from our continued cost reduction efforts. These efforts continue to span essentially all divisions, functions and markets and sites across Pfizer. Broad categories of activity include manufacturing and research site exits, outsourcing and targeted work force reduction, such as our ongoing previously announced European field force reduction.
We're continuing our process to exit an additional 13 manufacturing plants. By the end of 2009, we expect to reduce our network of these plants around the world to 44. In addition, we're continuing to exit the four remaining R&D sites of the six that have been identified for closure. In 2008 we will recognize a full-year benefit from 2007 site exits and partial year benefit from 2008 exits. In addition, we are decommissioning the insulin-related operations at two dedicated facilities as a result of our decision to exit Exubera. Also, we have a wide array of outsourcing opportunities in various stages of implementation. Manufacturing, logistics, finance, facilities, legal and IT are among the functions contributing to the financial and operational benefits of this strategy.

Finally, we're continuing to match our work force level with market reality. At the end of 2006, our colleagues totaled about 98,000. At the end of 2007, we had approximately 86,600 colleagues and as of March 30, 2008, our head count level was approximately 85,000, representing a sequential decrease of about 1,600 colleagues. As a result of our continuing efforts, we are on track to decrease our adjusted total cost by at least $1.5 billion to $2 billion on a constant currency basis by the end of ‘08 versus 2006. To reflect the effects of business development transactions completed this quarter, we are updating the range of our reported diluted EPS guidance to $1.73 to $1.88 from $1.78 to $1.93. As we noted last quarter, the reported diluted EPS guidance did not reflect the charges associated with business development transactions that had not yet closed as of December 31, 2007. This range we are providing today includes the impact of IP R&D charges associated with acquisitions that closed in the first quarter, Coley, CovX. and two smaller acquisitions related to animal health. As always, results may vary from quarter to quarter based on the seasonality of revenues and spending and timing of the loss of U.S. exclusivity and patent expirations of certain products, among other things.

So, to summarize the key take-aways. We are reaffirming our 2008 revenue guidance and are on track to meet our commitments. This quarter, many new products including Chantix and Sutent continued to deliver solid performance and we’re seeing steady growth from several in-line products, including Lyrica, Geodon, Viagra and Xalatan. This quarter’s results were negatively impacted by loss of exclusivity products. We have considered this impact and clearly factored it into our full-year guidance and we’re continuing to execute and make progress on our cost reduction plan and continue to expect to generate savings in 2008.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Thank you very much, Frank, and now we’re happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPORTATOR INSTRUCTIONS) Our first question comes from James Kelly of Goldman Sachs. Please proceed with your question.

James Kelly - Goldman Sachs - Analyst

Thank you very much and good morning. My question has to do with cash balances and where they are domiciled currently and just helping us get comfortable with the longer-term guidance around the dividend being maintained, at least at the current levels through the loss of Lipitor exclusivity. Could you help us -- take us through that maybe a little bit on a mechanistic way on how we should think about that when we deal with that big of a change in the earnings at that time? Thank you.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Thanks, Jim. Frank, you want to take that question?
Frank D’Amelio - Pfizer, Inc. - CFO

Sure. Jim, let me -- so let me address the question this way. There’s really, in my mind, two underlying points to this question. The first point is, the sustainability of the dividend, and the second issue being if we -- to sustain the dividend, will that cause a decrease in future earnings? So now given that, let me talk to each of them. First, we're a global Company. We generate a significant amount of operating cash from both inside the U.S. and outside the U.S. Last year that was $13.4 billion, this year we forecasted that to be $17 billion to $18 billion per our guidance.

Now, we have a variety of options available to us to fund our business, including the dividend. One of those options is obviously cash flow from operations, including, by the way, increasing our cash flow from operations. Another option that's available to us is repatriating cash from foreign tax jurisdictions, which is something we do from time to time as a normal course of business. Now, to the extent that we repatriate cash from high-tax jurisdictions, that will have a minimal impact on the effective tax rate. To the extent that we repatriate cash from low-tax jurisdictions, that will put upward pressure on the effective tax rate. I'll come back to that.

Another option that's available to us is the capital markets, to borrow money. We have a very strong balance sheet, it provides us with flexibility and capacity to borrow money at favorable rates. Once again, this is something we do from time to time as a normal course of business. In fact, you'll see at the end of Q1 when we file our 10-Q, you'll see that our debt levels somewhat higher at the end of Q1 than they are at the beginning of the year. However, by the end of the year we expect those debt levels to be lower than where they are at the end of Q1 and the incremental interest associated with that debt is already incorporated into our guidance and is not material relative to our overall results for the year. Now, all that said and done, the potential impact on our EPS going forward -- or more specifically, the potential negative impact on our EPS if we were to choose to borrow money or repatriate cash can be mitigated through a variety of actions. Let me go through what some of those actions are.

First, continuing with our tax planning initiatives. We have a very good track record in this area of tax planning, and obviously we expect to continue to do very prudent, very effective tax planning on a going-forward basis. Second area of opportunity is what I call where and how we choose to deploy capital. We clearly have choices that we can make that would increase, for example, our U.S. cash flow. Third, is our ongoing cost reduction initiatives. Cost reduction initiatives will generate incremental cash flow in multiple tax jurisdictions, all of which I view as good. Cash is [fundgable], the interest on net cash can be repatriated back to the U.S. through sub-Part F tax regulations, so all that I view is good. So to wrap this up, the way I think about it is, based on all those factors, I believe that the dividend is sustainable and the potential negative effects can be mitigated.

Amal Naj - Pfizer, Inc. - VP - Investor Development & Strategy

Thank you, Frank. Next question, please.

Operator

Next question comes from Jami Rubin, Morgan Stanley. Please proceed with your question.

Jami Rubin - Morgan Stanley - Analyst

Thank you. I just wanted to follow up on Jim's question. So when I look at cash flow from operations, Frank, and as you've said most of this comes from outside the U.S., it looks to me and it's become abundantly clear that U.S. cash flow is actually running at a deficit and just based on the way we see it, it's hard to see how that's going to improve over the the near term and certainly over the long term, given the lack of visibility post Lipitor. So my question to you is how concerned are you being about being in a negative U.S. cash flow situation? And while you highlighted a number of options available to you, I'm still confused as to how those options don’t hurt earnings when obviously repatriating cash you do so at a much higher tax rate. I understand your
head of taxation recently left so I'm a little confused about that. If you deploy capital such that you decide to sell assets, doesn't that increase your exposure to Lipitor? Obviously taking on more debt increases your interest expense. All that to fund a dividend and working capital. How can that not hurt earnings? If you can just elaborate on that a little bit would be very helpful. Thanks.

Frank D'Amelio - Pfizer, Inc. - CFO

Yes, sure. Thanks, Jami. So let me say it again and I won't go through everything I just said in the previous answer, I'll just kind of touch on some of the points you made. And so you talked about through Lipitor so let me touch on that part of the question first and then I'll come back to the earnings part of the question. So relative to through Lipitor, the LOE on Lipitor assume is June of 2011, so give or take three years away. Clearly, one of the things we're trying to do in addition to some of the other options I called out is continue to grow revenues; generate new sources of revenues through the five growth strategies that we laid out at our analyst meeting at the beginning of the month. Clearly to the extent we generate incremental revenues, those incremental revenues will generate incremental cash flow and then it's basically all the things I alluded to before, one.

Two, in terms of earnings, what I said before was that basically we can do things that I believe can mitigate the potential negative impact on earnings and I went through some of them. Tax planning initiatives clearly have the ability to mitigate the impact on earnings and cost reduction initiatives clearly have the ability to mitigate the impact on earnings. So it's when I factor all of that in, all the things that we're doing, that I made the statement that I made relative to the options that are available to us, relative to how we fund the business, and the variety of actions that are available to us to mitigate the potential impact of those actions on our earnings in the future.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

And just -- I'd just add, Jami, you made reference to this, that our head of tax, who did an extraordinary job, retired after a very long and distinguished career and has been succeeded by an outstanding global expert on taxes, a terrific guy, will do a great job.

Frank D'Amelio - Pfizer, Inc. - CFO

And they're in transition mode, so they're still here. The new person is here. They are transitioning and that transition will take place over the the next several months.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, thank you, Jami. Next question, please.

Operator

Our next question comes from Roopesh Patel, UBS. Please proceed with your question.

Roopesh Patel - UBS - Analyst

Yes, thank you. My question’s on Lipitor. I was wondering if you could please discuss the current competitive dynamics in the cholesterol-lowering market, both in the U.S. and internationally? So far it appears that Lipitor doesn’t seem to be benefiting a lot from Vytorin’s decline. Why not and what should we expect going forward? It also appears that the Enhance study result hasn’t had much of an impact internationally on Lipitor and I was wondering if you could comment on that, as well? Thanks.
Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Thank you Roopesh. I'll turn that over to Ian Read.

Ian Read - Pfizer, Inc. - President - Worldwide Pharmaceutical Operations
Roopesh, thanks for the question. International sales -- I'll deal with that first -- are quite strong, up 13% and then up, I think, 3% operationally. So I think you've seen, especially in Europe, a stabilization of Lipitor post the generic onslaught of Simvastatin. Vytorin will not really particularly impact our international operations, as it was never a big player out there to begin with. If we turn to the U.S., our sales in the quarter were down 18%, scripts were down 12%. This is the usual fluctuations we see, especially in the first quarter between the reported data and our net sales. That will smooth itself out over the full year.

Now, regarding Enhance, we've only seen the script, so far, two days impact from Enhance -- from the second round of Enhance, and I tend to agree with you that initially most of the gains will be made by generics in the statin, which is paradoxical, as patients are on Vytorin because they can't get the goal within the statin, so I do expect initially to see most of the gains going to generics in the statin. And then, as these patients come back into the physician's office for their lipid testing and their levels, they will not be at goal and then you'll see it transition towards Lipitor, which is positioned in that space. So overall I sort of see a sustained impact on Lipitor over the year, as we're positioned statin of first choice strength across the range, landmark trials, get to goal with Lipitor, and [I think this will be in position for some time]. Does that cover your questions?

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Okay. Thanks Roopesh.

Operator
Thank you. Our next question comes from Mr. Tim Anderson of Sanford Bernstein. Please proceed with your question, sir.

Tim Anderson - Sanford Bernstein - Analyst
Thank you. A Couple of big picture questions for Jeff. When I look at your scheduled expirations through 2015 it seems like you stand to suffer losses that are almost the highest in the group and it's not just Lipitor but a lot of other drugs, and I guess I still struggle with how you're realistically going to deal with these pending losses, given the approach you outlined at your recent analyst day, so I'm hoping you can reiterate what the longer term strategy is here? And then, Jeff, on the call today you mentioned diversifying your risk, yet back in 2006 you sold off your sizeable consumer business and I guess I question the rational behind that decision. In retrospect I'm wondering if you think that was a wise thing to do. Maybe you can give us some details in your comments about how you might diversify risk in the future?

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Okay, thanks, Tim. Yes, absolutely we are looking ahead at significant losses of exclusivity on products. There's no question about that. And what we're all about is, as I said before, finding every opportunity that we can to maximize revenue across a whole host of opportunities that we have, whether they be in branded and patent-protected therapeutic areas where we're making decisions to invest to win; in significant areas of high-end unmet medical needs like oncology; whether they be in our in-line products, which as we discussed earlier, many of them are growing quite healthfully; whether they be in established products, which as I indicated before, we see as a huge opportunity for us, and in all these ways and others, we think there's a whole host of opportunities to maximize revenues and that's our job, that's what we're all about trying to do.
Now, I've acknowledged that when Lipitor goes off patent, that's going to be a meaningful event. There's no question about it. It will have a meaningful impact when it occurs on our revenues and earnings. But the important point is that, as we come out of that, all of these opportunities that we have to grow revenues are addressed and optimized to the maximum extent possible, and moreover as I've also said, we'll size the business appropriate for the revenues that we have at that time. So that's sort of the overall big picture.

Regarding diversifying our risk, the consumer sale produced substantial shareholder value. It unlocked an asset for which there was a price of $16 billion paid for it. That decision was made. We're beyond that now. But what I'm talking about in terms of diversifying risk is, I think that sometimes it's under appreciated the number of therapeutic areas that we're in, the number of products we sell, our global footprint. As you travel around the world, I think in just about every market is second to none. And I think that, as I look at the pharmaceutical industry in general, Tim, it is a risky business and I think we all want to find a way not to be so dependent on a particular huge blockbuster, which when it loses patent in the United States has such a big impact.

And so we have to find ways, and we will find ways of taking advantage of this tremendous global footprint that we have. And that includes, obviously, the pipeline, where we feel we have an extremely strong pipeline that is going to hopefully generate a lot of products in the time period that you're talking about and we've made very clear commitments in that regard that Martin described on March 5th and we intend to meet those commitments. And beyond that, this global footprint that we have, the range of products we have, the range of therapeutic areas that we're in, has the opportunity for us to really not just diversify risk but create a multitude of opportunities for revenue enhancement. And the way we're going about doing that, as I've said many times, is by trying to establish very clear, focused accountability on the different parts of this very large business, so that each leader of these different components of the business is highly incentivized to maximize his or her contribution to the overall picture and that's in a few words the overall approach that we're taking and we're pursuing it very aggressively.

Operator

Thank you, sir. Our next question comes from David Risinger of Merrill Lynch. Please proceed with your question.

David Risinger - Merrill Lynch - Analyst

Yes, thanks very much. My question is a legal one, I was just hoping that you could discuss the departure of Allen Waxman after the analyst meeting and update us on Lipitor's patent expiration in March of '010. I think Frank said that you're assuming June of '11 is the loss of exclusivity, but the U.S. patent office took that patent away so if you could discuss the time line to get that reinstated? Thank you.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, thank you, David. Regarding Allen, it was an entirely personal matter that had to do with his own personal circumstances and absolutely nothing to do with the business and we regret that he has left the Company. He made great contributions. And I will turn the rest of your question over to David Reed, who is the acting General Counsel.

David Reed - Pfizer, Inc. - Acting General Counsel

Yes, David, the questions about the status of the two Lipitor patents, the main ones, the first is the basic, the 893 patent that is in for re-examination. We responded to the patent office's communication on that. Our response went in on March 7, 2008 and so we await their response to that most recent communication. On the second patent, the [Ananteum] patent, that's the 995 patent that expires in June 2011, we filed for reissuance of that in early 2007. We had a response from the patent office. We responded to that response in October 2007 and we're awaiting for further communication from them on that.
Jeff Kindler - Pfizer, Inc. - Chairman & CEO

David, does that answer your question? Oh, okay, I'm told they're muting you because you cannot just ask two questions. I wanted to make sure you were okay with it, so David, if you have further questions, just come back and that's true of everybody, of course. Can I have the next question, please.

Operator

Yes, sir. Our next question comes from Kevin Scotcher of HSBC. Please proceed with your question.

Kevin Scotcher - HSBC - Analyst

Thanks for taking my question. Jeff, you mentioned that in the first quarter the significance of the international growth goes beyond the quarter. You also mentioned that the gross margin in the first quarter was impacted by geographic mix. Can you talk whether the gross margin impact will also go beyond the first quarter?

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

I'll let Frank address that and the whole impact, Frank, about international growth as it pertains to our overall margins.

Frank D'Amelio - Pfizer, Inc. - CFO

Sure. So the way to think about this is I'll start with the revenues and then I'll peel down to cost of sales and talk about it for the quarter and then talk about it for the year. So if you look at our overall business, the rhythm of the -- the revenue numbers, last year in Q1 of '07 U.S. revenues were 55% of the business, international revenue was 45% of the business. If you look now at Q1 of '08, U.S. revenues are about 46.5% of the business, international revenues about 53.5% of the business, so a big swing in terms of the geographic mix of revenues from, I'll call it, 45% international last year, to 53.5% international this quarter, point one. Point two, it's clearly not all revenues are created equally. so some of the revenues we generate outside the U.S. have lower gross margins than revenues we would generate inside the U.S., so that's part of what we call geographic mix when we explain our gross margins.

Now, for this quarter, cost of sales went from 14% last year to 15.3% this year for the quarter, so 130 basis point increase. In that 130 basis point increase, 80 basis points is foreign exchange. Without foreign exchange, the cost of sales would be 14.5%. Then the bridge between the 14% and the 14.5% is a combination of geographic mix and some business mix, which is what I just covered relative to the geographic mix. Now, for the year, we provided guidance for the year on cost of sales of 14.5% to 15.5%, and we've clearly included this geographic mix trend in that guidance. So we've obviously had the trend, we've incorporated that trend into the overall guidance for the year and so the 14.5% to 15.5% factors that in.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, thank you. Next question, please.

Operator

Yes, sir. Our next question comes from Mr. John Boris of Bear, Stearns. Please proceed with your question.
John Boris - Bear, Stearns - Analyst

Thanks for taking the question. Just a financial related question. Can you comment at all, Frank, on -- in the quarter what operational cash flow was and free cash flow in particular was and any split you can give between U.S., ex-U.S. would be helpful? Then on share repurchase, were there any shares repo’d in the quarter? Thanks.

Frank D'Amelio - Pfizer, Inc. - CFO

So, John, on cash flow from ops we'll have that when we file the Q, so that'll be available to everybody in a couple weeks. In terms of share purchases, we did not buy back any shares this quarter. You'll remember last year we bought back ten billion shares -- $10 billion worth of shares, 395 million shares is what it at that translated to, but for the quarter we did not buy back any shares. And the way I think about this is we have many choices for our capital, one of which is purchasing shares, and clearly what we're trying to do, and what we do is deploy capital in ways that we believe provides the best return to our shareholders and that's what we will continue to do on a going-forward basis.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, thank you. Next question, please.

Operator

Thank you. Our next question comes from Mr. Steve Scala of Cowen. Please proceed with your question.

Steve Scala - Cowen - Analyst

Thank you. To achieve even the low end of your full-year EPS guidance, earnings growth needs to average mid-teens or so for the next three quarters. Other than the second quarter, the compares are not particularly easy and I appreciate that Norvasc pressure has annualized, but Zyrtec and Camptosar pressure is just beginning and Lipitor is unlikely to accelerate dramatically. Do you still leave that the high end of your earnings range is as likely as the low end, or would you care to direct us one way or the other at this point? Thank you.

Frank D'Amelio - Pfizer, Inc. - CFO

So, Steve, I think -- it's Frank. I'll start on the question and I think Ian will add some comments. First, the one thing you said in the question that I just want to come back to is the impact of Zyrtec because the fact is, we saw a big impact of Zyrtec in the quarter on a going-forward basis. That impact will not be any larger than what it was in Q1, just to be clear. So just one point there. But then Camptosar, to your point, will be larger going through the year. All of that has been factored into the guidance that we provided for the year. In terms of where are we in the guidance, quite frankly, the reason we provide a range is so that we can basically work within that range. Now, obviously we want to be as much into the range as we can possibly be, but the reason we provide a range is so that we can work within the range, given the size of the Company and the fact that there's lots and lots of different things that can work for us and that can work against us. I don't want to pinpoint where we are in the range. Obviously, we want to be as high into the range as we can be, but we give a range so we can work within that range, given all the things that can change during the course of a year.

Ian Read - Pfizer, Inc. - President - Worldwide Pharmaceutical Operations

Steve, I'd add to that. If you look at the revenues and the components of that, we've had very strong performance on the international arena with Canada up 36%, Latin America up 28%, Asia up 19%. If you look at products, Lyrica is growing at 47%.
We continue to -- we'll continue to focus on Lyrica and drive its growth for fibromyalgia and DPN and PHN. Xalatan's been a strong performer. We expect to focus on Geodon in the second half of this year. I think through our products that we partner, a very strong growths with Spiriva and with Aricept. Sutent has aggressive growth internationally and we have work to do on Chantix in the U.S. to continue to grow that and we have plans in place to do that. And I agree with you, the second quarter of last year is an easier comparator, but overall we have growth products in both in-line and new.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Thanks, Ian. Next question, please.

Operator
From Barbara Ryan, Deutsche Bank, please proceed with your question. ma'am.

Barbara Ryan - Deutsche Bank - Analyst
Oh, good morning, thanks for taking my question. Frank, I'm just wondering since obviously you've laid out what you anticipate on the spending basis during the year, we have no idea obviously what you were expecting for the first quarter, so I'm just wondering if you could tell us where you've come in relative to your own expectations, specifically on spending for the quarter? And with that, obviously you talked about currency mitigating some of the benefits and so what are you assuming about currency in your guidance going forward, because you did say ex-currency, $1.5 billion to $2 billion reduction in the cost base relative to the end of '06 and what kind of wiggle room do have you to maneuver around a negative impact from currency on your spending?

Frank D'Amelio - Pfizer, Inc. - CFO
Okay.

Barbara Ryan - Deutsche Bank - Analyst
Thanks.

Frank D'Amelio - Pfizer, Inc. - CFO
You're welcome. So Barbara, in terms of -- I'll call it our expectations, the results that we printed today were very much as we expected. In fact, we tried to say that in the release and in some of our comments and really, as we expected in multiple dimensions. In terms of top line, in terms of spending levels, right through to the bottom line, so very much. I'd say, as we expected. So that's what I'd say on that. Relative to currency, the way we handle this -- or the way I handle it for the quarter is we basically provided guidance based on current exchange rates, so through April. So think about the guidance based on April current exchange rates, and that's what we assume basically in the annual guidance.

Now, to the extent that the exchange rates change and move between now and the end of the year, that's something we'll obviously have to continue to monitor, but then once again, it's part of the reason why we provide a range in our guidance to accommodate that. So you used the term wiggle room, to me part of the wiggle room is why we provide a range so that we can accommodate some of these kind of things to a degree. And then back to the question I had before, now obviously we will work as best we can to be as high in the range as we can, but there's lots of things that can move during the year, which is why we provide a range on the numbers.
Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Okay. Thank you. Next question, please.

Operator
Yes, sir. Our next question comes from Seamus Fernandez from Leerink Swann & Company. Please proceed with your question.

Seamus Fernandez - Leerink Swann & Company - Analyst
Thanks very much. So just a couple questions on the last comment there in terms of the expectation. I guess one expectation that I certainly didn't have coming into the quarter was the impact of the Enhance study on the overall cholesterol marketplace, so can you just help me understand what your expectations were for Lipitor overall? And then in the fourth quarter -- on the fourth quarter conference call, Frank, you actually mentioned that the inventory levels were running at about two-and-a-half weeks. Jeff, you actually mentioned seasonality. So can you just help me understand the mix of those two things. When we talk about seasonality, are we talking about wholesaler buying patterns on that front, and if we're at two-and-a-half weeks, where are we at the inventory at this point on the overall business? And can you update us in terms of where we are on Lipitor in terms of overall wholesaler stocking levels?

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Okay, thanks. I'll ask Ian to talk about the Lipitor part of your question and then Frank will address the seasonality issues that you raised.

Ian Read - Pfizer, Inc. - President - Worldwide Pharmaceutical Operations
Seamus, so Lipitor in the quarter, Lipitor was on our expectations. So on your second question, vis-a-vis the Enhance impact, I'm not quite sure you were expecting Enhance to do. We've seen initially in the switch part of the market a reasonably dramatic impact where our switch have dropped in half away from Lipitor, so that's a very positive impact for us. The issue of course is new patient acquisition, and as I was describing before, I think initially a lot of the Vytorin loss of volume will go to Simvastatin because of the pressure of managed care and then subsequently, I think when cholesterol levels are measured, they'll have to go back to Lipitor to get to goal, so I think that covers that part of it.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
So, Ian, I think part of Seamus' question had to do with the overall statin market growth. Do you want to talk about that?

Ian Read - Pfizer, Inc. - President - Worldwide Pharmaceutical Operations
Well, the market growth is -- I think in March -- in January we talked about market growth as mid single to high single digits. We're now seeing it as mid single, perhaps slightly lower, and we'll see what happens post Enhance and what happens in the statin market. It's difficult to predict it right now what the growth will be.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Okay, thank you -- thanks, Ian. And, Frank, do you want to talk about the seasonality and inventory question?
Frank D'Amelio - Pfizer, Inc. - CFO

Yes, in terms of weeks on hand, the way that we look at this is really on a year-over-year basis. If you look at the weeks on hand that’s in our wholesalers now, from Q1 of ’07 to Q1 of ’08 the weeks on hand is essentially flat. There is no change from one quarter to the next, so constant year over year.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, thank you. Next question, please.

Operator

A follow-up question coming from Roopesh Patel of UBS. Please proceed, sir.

Roopesh Patel - UBS - Analyst

Yes, thank you. What was the impact of price on overall revenue growth? If you could give us a rough sense that would be very helpful. And then in terms of the $1.5 billion to $2 billion in overall targeted cost cuts this year, can you clarify what those numbers would be in today’s dollars? In other words, at current exchange rates. Thanks.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay, Frank?

Frank D'Amelio - Pfizer, Inc. - CFO

So in terms of the first part of the question --

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Just price -- price impact on revenues,

Frank D'Amelio - Pfizer, Inc. - CFO

So on price it was favorable for the quarter to the tune of 2%. In fact, the way the quarter worked overall, price helped, volume hurt, and FX helped. And the piece parts of that were essentially 2% on price to answer your question specifically. In terms of the $1.5 billion to 2 billion, the way I think about that is in almost ’06 dollar terms, because what we’re really doing is looking at that based on constant currency, that goes back to 2006 where we’re deriving the $1.5 billion to $2 billion. We obviously achieved some of that through last year, through 2007. We’re working to achieve the rest of that through this year. We reaffirmed that number and it’s based on those constant currency rates as of 2006.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Okay. Thank you. Next question, please.
Operator
This question comes from Mr. Mike Krensavage of Raymond James. Please proceed with your question, sir.

Mike Krensavage - Raymond James - Analyst
Good morning.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Good morning.

Mike Krensavage - Raymond James - Analyst
I'd like to know how much of a tale Lipitor might have after it goes generic in the U.S. If you look at Merck's Zocor, for example, it's still annualizing at more than $800 million, but mostly with the international sales, so would Lipitor have a similar tail? Thank you.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Well, let me just say -- and I'll turn this over to Ian in a minute -- but obviously there is a big difference between international and the U.S. when it comes to that. And as I mentioned earlier -- and this is one of the reasons why I think there's a lot of opportunity in our established products market -- as Dave Simmons laid out on March 5th, the world is very different in different parts of the world and there are markets in which there has been no patent protection and we are selling Lipitor in competition with a whole variety of a tour of statin products and in fact, still leading those particular markets. So in many parts of the world, particularly in the developing markets, brand remains very important because the driving force from the consumption side are the positions and the patients. Now obviously it's quite different in the United States where managed care is much more dominant and therefore, the falloff is much more precipitous. I certainly wouldn't want to predict exactly what sorts of sales we might have in the U.S. at that time, but if you wanted Ian to give some qualitative thoughts about it?

Ian Read - Pfizer, Inc. - President - Worldwide Pharmaceutical Operations
Well, I think, as Jeff said, we're focused on maximizing the value from Lipitor post patent expiration and in that sense we're focused on ensuring that, in percentage wise, vis-a-vis patent sub or patent expirations, like Zocor that we maintain as good or if not higher a percentage of that business. An important fact to look into on the size of the tail, in fact, will be a dynamic that's difficult to calculate, but when Lipitor goes off patent, there'll be -- I think it's a fundamentally large expansion in the use of (inaudible) statin in the lipid market, which will also influence the tail of Lipitor. So I think the dynamics of Lipitor patent expiration will be different from the dynamic of Zocor patent expiration.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO
Thanks very much, Ian. Next question, please.

Operator
And our last question comes from Mr. David Risinger of Merrill Lynch. Please proceed, sir.
David Risinger - Merrill Lynch - Analyst

Yes, thanks very much. There’s been a lot of discussion about foreign exchange but, Frank, I was hoping that you could tell us what the bottom-line EPS impact of FX was in the first quarter of ‘08? And if you can, if you could compare that to the bottom-line EPS impact of FX a year ago in the first quarter of ‘07, and also in the fourth quarter of ‘07 sequentially? Thank you.

Frank D’Amelio - Pfizer, Inc. - CFO

So, Dave, for this quarter it was $0.03, so -- and basically we called out on the quarter the $560 million, $570 million of revenue, depending on reported versus adjusted, and then the impact on cost was $330 million, so when you do the math, you get roughly $0.03. And quite frankly, in terms of the EPS numbers for first quarter and fourth quarter of last year, I don’t remember the specific number. It was a comparable number, but I just don’t remember what the exact numbers were, so that’s something we can obviously -- we can get back to you on, but it was $0.03 for this quarter.

Jeff Kindler - Pfizer, Inc. - Chairman & CEO

Thank you, David, and thank you everyone for listening in this morning. We appreciate your time and that will be it for today. Have a good day.