

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to Pfizer's second quarter 2011 earnings conference call. Today's call is being recorded. At this time I would like to turn the call over to Mr. Chuck Triano, Senior Vice President of Investor Relations. Please go ahead, sir.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thank you, operator. Good morning and thank you all for joining us today to review Pfizer's second quarter 2011 performance. I'm here with our CEO, Ian Read; Frank D'Amelio, our CFO; Olivier Brandicourt, President and General Manager of Primary Care; Mikael Dolsten, President of Worldwide Research and Development; Geno Germano, President and General Manager of Specialty Care and Oncology; Amy Schulman, General Counsel and Business Unit Lead for Nutritionals; and David Simmons, President and General Manager of Emerging Markets and Established Products.

The slides that will be presented on this call can be viewed on our home page at Pfizer.com by clicking on the link for Pfizer quarterly corporate performance, second quarter 2011, located in the investor presentations section in the lower right-hand of this page.

Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in Pfizer's 2010 annual report on Form 10-K and in our reports on Forms 10-Q and 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. Reconciliation 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 today, August 2, 2011.

With that, I will now turn the call over to Ian Read.

Ian Read - Pfizer, Inc. - President and CEO

Thanks, Chuck, good morning, everyone. During my remarks this morning, I will briefly recap the highlights from the quarter, touch on the announcement we made last month concerning our strategic portfolio review, highlight some of the progress we're making in our late-stage product portfolio and growing mid-stage pipeline and speak to some examples of the progress and positive changes we're making in executing our R&D strategy.

Our results for the quarter are in line with our expectations and demonstrate that our business can remain resilient despite current macroeconomic challenges and the impact of loss of exclusivity of several products. While revenues were down slightly year-over-year, I would note that during the quarter we absorbed a revenue impact of approximately \$1.7 billion, mainly due to LOEs in the US, Europe and Canada and several emerging markets, in addition to US healthcare reform.

Without these downward pressures, revenue would have been slightly up for the quarter. Although these losses of exclusivity have a dampening impact on the year-over-year growth comparisons, our prospects to launch innovative products and for earnings per share growth remains strong. Frank will take you through the details of the quarter, but here are a few of the noteworthy highlights.

Core patent-protected growth drivers, such as Lyrica, Enbrel, the Prevnar franchise and Sutent continue to perform well in many geographies. Emerging Markets business experienced losses of exclusivity of Lipitor in Brazil and Mexico and Viagra in Brazil and still delivered revenue growth, both overall and operationally. We saw growth in key innovative brands, primarily Enbrel, Prevnar franchise, Lyrica and Vfend, and strong overall performance in key countries such as China, Turkey and India. Volume overall within our Emerging Markets business increased 12% if we remove the impact from the LOEs.

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Despite quarter-to-quarter volatility we continue to expect improving performance in Emerging Markets, reflecting strong performance from our core innovative products, as well as improvement within the Established Products portfolio as partnerships such as the ones we have with Teuto in Brazil result in new product launches.

For the first time, our Animal Health business achieved a significant milestone, delivering \$1 billion in quarterly revenues. The Consumer Healthcare business reported solid revenue growth, primarily driven by Robitussin, Advil Congestion Relief and a strong cough and cold season. We also just completed the sale of Capsugel.

We continue to improve the efficiency of the business through existing and newly identified process improvements and cost reduction initiatives, particularly in the work we are doing to improve R&D productivity. And we remain focused on taking actions to increase shareholder value. So far this year through August 1, we have returned approximately \$7.5 billion to our shareholders through dividends and share repurchases.

Early last month we shared with you the results of the portfolio review process we undertook that will shape and focus the direction of the Company over the next one to two years. We determined that the best path for maximizing shareholder value is to explore strategic alternatives for our Animal Health and Nutritional business. We will do this by assessing several options and pursuing the pathways for each of these businesses that delivers the greatest after-tax return for shareholders.

Given the types of alternatives we are considering, we anticipate determining the path we will pursue for Animal Health and Nutritionals sometime in 2012 and continue to expect that it will take 12 to 24 months from when we announced our decision to fully complete the potential separation of these businesses.

Based on this review, we will also determine that we can enhance the value of our Established Products and Consumer Healthcare businesses by having them remain within Pfizer. Established Products is an important pillar of our growth strategy and is well positioned to capture the opportunities being created by the demographic trends and rising economic power within the emerging markets. For the Consumer Health business we see an opportunity to potentially extend the value of some pharmaceutical assets and are currently evaluating the possibility of RX to OTC switches of some products in our portfolio. This is an area where we currently allocate resources and believe we can generate attractive returns on investment capital.

While our portfolio review has been a focal point for the Company, we have made some important strides in the work we have underway to strengthen our innovative core. I anticipate that over the next 12 to 24 months we will have the potential to launch several new products from among assets currently in our late-stage portfolio -- Axitinib, Bosutinib, crizotinib, ELIQUIS, Pevnar 13 and Tofacitinib.

During the second quarter we achieved several milestones. I'll start with momentum during the quarter within our oncology pipeline. Our new drug application for crizotinib, whose trade name will be [Zalcor], has been filed and accepted and is now under priority review with the FDA. This medicine is an example of a new era of precision medicine.

The EMEA and FDA accepted our filing for Axitinib for previously treated patients with advanced renal cell carcinoma. Sutent received FDA approval as a treatment for individuals with advanced pancreatic neuroendocrine tumors. We began Phase 3 study enrollments for dacomitinib, our oral pan-HER inhibitor being investigated for advanced non-small cell lung cancer, and Inotuzumab, our antibody drug conjugate being investigated for aggressive non-Hodgkin's lymphoma.

A few words about tofacitinib -- during the second quarter we presented detailed results of the ORAL Sync study at EULAR in London. This study, evaluating tofacitinib with background DMARD therapy, met all primary efficacy endpoints by showing statistically significant changes versus placebo in reducing signs and symptoms and improving physical function in patients with moderate to severe active rheumatoid arthritis with results seen as early as two weeks. These findings are consistent with previously reported results for oral solo that showed tofacitinib monotherapy provided significant and clinically meaningful improvement in signs and symptoms of RA and physical function, also within two weeks of treatment.



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We have now completed the Phase 3 program for tofacitinib in rheumatoid arthritis, and we hope to present information from the other three pivotal Phase 3 studies, ORAL Step, ORAL Stand and ORAL Scan, at the American College of Rheumatology annual conference in November. We remain encouraged with the results we have seen in the profile of the drug and continue to expect to file in both the US and the EU by the end of this year.

Also, by the end of this year in the EU and by early next year in the US we expect to receive regulatory action on our filings of Prevnar 13 for the prevention of pneumococcal disease in adults age 50 and older.

Regarding Eliquis, we are very excited about the initial results for Phase 3 ARISTOTLE study in patients with atrial fibrillation, which indicate that Eliquis met its primary endpoints and key secondary endpoints. We believe these results can support a strong competitive profile for the drug. With our partner, Bristol-Myers Squibb, we expect to submit regulatory filings in atrial fibrillation in the US and EU in the third or fourth quarter of this year.

The European Commission already approved Eliquis within the EU for the prevention of venous thrombotic events in adult patients who have undergone selective hip or knee replacement surgery.

Pain remains an important strategic disease area for Pfizer. During the quarter we announced with Acura Pharmaceuticals that Oxecta received marketing approval from the FDA for the management of acute and chronic moderate to severe pain where the use of an opioid analgesic is appropriate.

Regarding Remoxy, on last quarter's call I told you we were working through a specific issue in the manufacturing section of the NDA. In June, we announced that we and Pain Therapeutics received a complete response letter from the FDA indicating there are still unresolved issues primarily related to manufacturing. We remain engaged in working through these issues and have been generating additional manufacturing data that will serve as the basis to engage in further discussions with the FDA. We are working diligently towards a satisfactory resolution.

Overall, I believe our late-stage pipeline is as strong as it has been for several years and I'm encouraged by some of the developments in our mid-stage pipeline.

During this quarter we have seen positive movements with the advancement of compounds in Phase 2 for diabetes, hypocholesterolemia, and we are encouraged with an expanding portfolio of anti-inflammatory drugs, including novel biologic programs in inflammatory bowel disease.

We also initiated a Phase 1-2 study for Staph aureus vaccine, which is a prophylactic vaccine containing four distinct antigens.

You have heard me say that I fundamentally believe in the power of innovation in pharmaceuticals. To be successful over time and to deliver on the promise of our pipeline products, we must improve the rigor of our approach. I believe we are doing just that with swift implementation of the structural changes and partnerships we announced earlier this year to help strengthen our innovative core and deliver the innovations that matter most.

Specifically, during the quarter we took several steps to further focus our resources and develop additional innovative external relationships. Notably, we prioritized the pre-proof of concept portfolio, terminating over 90 programs that we felt outside our priority disease area or were not scientifically or commercially attractive. We launched a Center for Therapeutic Innovation in Boston with eight academic medical centers. This follows previously announced partnerships with academic medical institutions in California and New York.

We announced new strategic partnerships with Icon and Parexel for clinical trial implementation services, finalized our go-forward operating model for pharmaceutical sciences, and we are advancing our precision medicine strategy. And we now have precision medicine approaches active in every research unit. Over the next five years we expect that most of our Phase 3 starts will reflect



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a precision medicine approach that is expected to deliver a more dramatic treatment effect for patients and make the value of treatment easier to demonstrate to payers.

In summary, I'm pleased with the progress we have made and the direction we have set for the Company. Our colleagues are motivated and engaged in the successful execution of the initiatives we have underway to focus Pfizer and have a greater sense of ownership of these initiatives. We are delivering on the work we have underway to improve the performance of the innovative core and allocate resources in ways that best maximize value for shareholders.

Now I will turn it over to Frank.

Frank D'Amelio - Pfizer, Inc. - EVP, CFO and Business Operations

Thanks, Ian, good day, everyone. As always, the charts on reviewing today are included in our webcast.

Now let's move on to the results. Revenues of about \$17 billion decreased 1% quarter over quarter. However, as Ian previously mentioned, this quarter we absorbed approximately \$1.7 billion or 10% revenue declines due to the loss of exclusivity of certain products in the US, Europe, Canada and several key emerging markets, which reduced revenues by about \$1.5 billion or 9%; and US healthcare reform legislation, which reduced revenues by \$158 million or 1%.

These declines were partially offset by \$740 million or 4% from foreign exchange, \$357 million or 2% from the addition of legacy King products, and growth in key in-line products such as the Prevnar franchise, Lyrica, Enbrel and Sutent, among others. Reported diluted EPS increased 6% year-over-year to \$0.33, which was driven by growth in the key in-line products I just mentioned, the addition of legacy King operations, lower acquisition-related cost and purchase accounting adjustments and the lower effective tax rate, which were partially offset by the LOE of certain products and expenses incurred for cost reduction and productivity initiatives.

Second quarter 2011 adjusted cost of sales increased 15% or approximately \$400 million versus the prior-year quarter, due primarily to the negative impact of foreign exchange, which increased adjusted cost of sales by \$460 million or 16%, the addition of legacy King operations and a shift in product and business mix. Consequently, adjusted cost of sales as a percentage of revenue increased year-over-year to 19.2% from 16.6%.

However, excluding the impact of foreign exchange, adjusted cost of sales as a percentage of revenue was 17.2%. Adjusted total cost increased 6%, driven primarily by the unfavorable impact of foreign exchange of \$681 million or 7% and the addition of legacy King operations. These were partially offset by the positive impact of savings from our cost reduction and productivity initiatives, especially in R&D.

I want to point out that, excluding the unfavorable impact of foreign exchange, cost and expenses associated with the addition of King operations, US healthcare reform and the Puerto Rico excise tax, adjusted total cost in the second quarter decreased \$450 million or about 5% year-over-year.

Finally, adjusted diluted EPS was \$0.60 per share versus \$0.61 in the year-ago quarter, representing a 2% decrease. Adjusted diluted EPS was favorably impacted by growth in certain products, the addition of legacy King operations, low R&D expenses and a lower effective tax rate, which were more than offset by the negative impact of the loss of exclusivity of certain products, a shift in product and business mix and increased S&A expenses, including the impact of US healthcare reform.

In second quarter 2011, foreign exchange positively impacted revenues by \$740 million or 4% and negatively impacted adjusted total cost by \$681 million or 7%. As a result, foreign exchange favorably impacted adjusted diluted EPS by approximately \$0.01.



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I want to point out again that, in the second quarter, we continued to absorb revenue declines of approximately \$1.5 billion as a result of the loss of exclusivity of certain products in several geographies. Specifically within the Biopharmaceutical business, the year-over-year operational performance reflects the loss of exclusivity of certain products, including Lipitor in Spain and Canada and Aricept in the US, all of which occurred in 2010 and negatively impacted primary care revenues; Vfend and Xalatan in the US in 2011, which negatively impacted specialty care revenues, Aromasin in the US in 2011, which negatively impacted oncology revenues; Lipitor in Brazil and Mexico and Viagra in Brazil, both of which occurred in 2010 and negatively impacted Emerging Markets revenues; and Effexor, Protonix and ZOSYN, which negatively impacted Established Products revenues.

The Animal Health business for the first time this quarter achieved revenues of more than \$1 billion, which reflected the year-over-year increase of 13% operationally, driven by the addition of legacy King products and the performance of legacy Pfizer Animal Health products. Second quarter 2011 revenues generated from both Biopharmaceutical and other businesses in emerging markets increased 10% year-over-year, and Biopharmaceutical revenues grew 3% operationally in those markets. It's important to note that, over the same period, Brazil, Russia, India, China, Mexico and Turkey contributed a combined 56% of the overall growth in emerging markets.

In addition, Biopharma sales in China, Turkey and India grew year-over-year by approximately 15%, 25% and 15%, respectively. And revenues from the Biopharmaceutical businesses grew 5% operationally in the BRIC/MT markets to approximately \$1.1 billion. In addition, year-to-date Biopharmaceutical revenues in the BRIC/MT markets increased 8% operationally to about \$2.1 billion.

Finally, worldwide revenues generated by sales in Emerging Markets totaled more than \$3.3 billion in the second quarter, despite the flat year-over-year revenues in Established Products, which reflected volume increases offset by price decreases in certain markets. Given our continued confidence in our business, we are reaffirming all elements of our 2011 financial guidance. It's important to note that our 2011 guidance on reported results does not include the estimated gain from the sale of Capsugel to KKR, given that the transaction was completed yesterday.

We continue to expect to redeploy the after-tax proceeds from the sale of Capsugel into share repurchases and/or other opportunities that are expected to meet or exceed the return on investment of share repurchases. We are also reaffirming all elements of our 2012 financial targets.

So, finally, moving onto key takeaways, we continue to deliver operational performance in line with our expectations while absorbing the impact of the loss of exclusivity of several products in both the US and other markets. We are reaffirming all elements of 2011 financial guidance and 2012 financial targets, given our continued confidence in the business. We have completed our portfolio review and, as a result of that review, we are exploring strategic alternatives for our Animal Health and Nutrition businesses that will deliver the greatest after-tax return for our shareholders. We remain focused on improving the performance of our innovative core and have made significant advances in our late-stage pipeline. We continue to anticipate repurchasing \$5 billion to \$7 billion of our shares in 2011. In fact, during the second quarter we repurchased \$2.2 billion or 109.2 million shares, and to date we have repurchased a total of \$4.3 billion or 213.7 million shares.

Now I will turn it back to Chuck.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thanks, Frank, and at this point, operator, if you could please poll for questions.



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QUESTIONS AND ANSWERS

Operator

(Operator instructions) Jami Rubin, Goldman Sachs.

Jami Rubin - Goldman Sachs - Analyst

Ian, a question for you -- so we have had first-half earnings, Pfizer came in in line if not slightly better than analyst projections. I'm just wondering why you are not taking the opportunity to raise the bottom end of your projections for the year. I'm just wondering what you are trying to signal, if anything, about the second half.

And my second question relates to the strategic announcement you made a few weeks ago about spinning or selling Animal Health and Nutritional. Just wondering what your strategic plans are for Consumer and Established Products and how you plan to unlock value of those two assets internally now that the decision is to keep those assets inside Pfizer versus spinning or selling those businesses, as you are with the other two assets. And just, please, if you could remind us what your plans are to do with the proceeds of Animal Health and Nutritionals. Thanks.

Ian Read - Pfizer, Inc. - President and CEO

I'll ask Frank to take the guidance question, and then answer the questions on Consumer and EP.

Frank D'Amelio - Pfizer, Inc. - EVP, CFO and Business Operations

So on guidance, Jami, to your specific question -- we're not trying to signal anything. From my perspective, there's several factors we have incorporated. So first, obviously, there's the Lipitor LOE that -- November 30 in the US of this year. There's some favorable one-time items that took place in the first half of the year that we don't expect to take place in the second half of the year, like the favorable legal settlement that positively impacted Q2 results.

Let me just kind of drive this home with the other income and deduct line. If you look for the quarter, other deducts was \$13 million. If you look at year-to-date it was \$191 million. And yet our guidance says approximately \$1 billion for the year. The reason for that is, we don't expect those favorable items to reoccur in the second half of the year. If you look at our net interest expense on a quarter-to-quarter basis, it's about \$325 million a quarter. So for the second half of the year, that's \$650 million. And there's potentially one or two unfavorable items that could occur in the second half of the year, which gets you to the \$1 billion.

Then there's the seasonality of our operational expense spending. If you look at the Company over the last couple of years, typically we take a kind of an increase in Q4. And then, if you just take all that I look at last year's EPS in terms of the rhythm of the numbers, last year we did \$2.21, \$0.60 in Q1, \$0.61 in Q2, so \$1.21 for the first half of the year; \$0.54 in Q3, \$0.46 in Q4. So it was more biased towards the first half of the year.

So when we factor all that in, we think it's prudent to reiterate our guidance for the year. And quite frankly, we are confident in our ability to meet that guidance.

Ian Read - Pfizer, Inc. - President and CEO

Thank you, Frank. So, Jami, I'll do the proceeds one first. Well, all our cash flows, including the proceeds, we deploy to try and maximize the return to shareholders. And while we look at all opportunities, the case to beat still remains to be share buybacks. So we are active. We look for bolt-ons, but we compare it to share buybacks as the parameter.



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Now, on EP and Consumer, as you say, we have elected to keep them in Pfizer. We see them as good businesses. In fact, we see all the businesses we have as good businesses, including Animal Health and Nutritional. But we believe that we can add incremental value to consumer and EP, staying in Pfizer. EP is important to our cash flows. It's important to our presence in emerging markets and our ability to participate in the rising economic power in the emerging markets.

We will continue to be focused on country-specific or regional issues. I see us continuing to do things like we did with Teuto in Brazil or the type of partnerships we are doing with Hisun in China, a very focused -- as healthcare is local -- a focused approach to building our portfolio in those countries.

With Consumer -- it's a very good business. We have opportunities of switching some of our pharmaceutical products from RX to OTC, and we will continue to invest in those brands that are very long-lived and generate organic growth that way. Thank you for the question.

Operator

John Boris, Citi.

John Boris - Citigroup - Analyst

The first question just has to do with Lipitor loss of exclusivity in the back half. Just your thoughts around what your assumptions are, whether Ranbaxy is in the market or not in the market and whether you might be able to retain a higher share via PBMs of your branded product.

Also, in the UK, I think Teva launched at risk there. Any thoughts on what the impact could be in the upcoming quarter?

And then the last question just has to do with Eliquis. Is it just possible to get an update? I think you are doing some of the formulation work on moving from a BID to a once-daily formulation. Can we just get an update on timing of that?

Ian Read - Pfizer, Inc. - President and CEO

Thank you, John. So I'll ask if Olivier could handle the Lipitor loss of exclusivity questions and Eliquis, and then Amy Schulman will answer the UK Teva situation. Olivier, please?

Olivier Brandicourt - Pfizer, Inc. - President & GM, Primary Care

So, based on everything we know, we now believe -- we continue to plan for two generic atorvastatin products to be in the market following LOE on November 30. We expect that Watson will introduce its product at that date via its authorized generic supply agreement with Pfizer, and we assume Ranbaxy will be in the market as well.

Amy Schulman - Pfizer, Inc. - EVP, General Counsel and Business Unit Lead Nutritionals

With respect to the situation in the UK, you are absolutely correct. And as soon as we learned that Teva had entered the market, we sued immediately. We obtained a preliminary injunction. And right now Teva and the three major wholesalers have submitted to that injunction. So I think we have that situation well in hand.

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Ian Read - Pfizer, Inc. - President and CEO

And Eliquis?

Olivier Brandicourt - Pfizer, Inc. - President & GM, Primary Care

On Eliquis, John, I know that we are looking into QD dosage. But, for now they are all packaged, and, we would submit, is in BID, as you know.

Operator

Tony Butler, Barclays Capital.

Tony Butler - Barclays Capital - Analyst

Good morning and thank you, two questions -- the first is around Prevnar 7 and 13, both in the US and internationally. Could you comment on wholesaler inventories and buying patterns that seem to be occurring there in this particular quarter that we haven't seen in the past?

And the second question, for Frank, just housekeeping, please -- around your '11 and '12 guidance with respect to R&D spend, which we do know is down, would that be an abrupt change, Frank, or is that more of a scale, or can you give us some color or comment around pacing of that decline?

Ian Read - Pfizer, Inc. - President and CEO

Thank you, Tony. Geno, could you take the Prevnar 7 and 13 question?

Geno Germano - Pfizer, Inc. - President & GM, Specialty Care and Oncology

Sure. So for Prevnar in the second quarter, particularly in the US we saw a little bit of softening in buying as a result primarily of inventory builds in the first quarter ahead of the price increases we put in place in April. And that build has stabilized now and normalized, and we are within the range of normal inventories. McKesson to drop their inventory a little bit in the second quarter in the public sector, but, again, still remains within range.

And then, when you compare second quarter '11 to second quarter '10, the anomaly there is explained by the increase in buying in the second quarter of '10, coincident with the launch of the 13 Valent product.

Frank D'Amelio - Pfizer, Inc. - EVP, CFO and Business Operations

And then, on the R&D question, so just to run the numbers, we said this year \$8 billion to \$8.5 billion, and then we said next year \$6.5 billion to \$7 billion. In terms of the rhythm of that, I view that as kind of steady progress. We will make steady progress as we work our way through that, and obviously one of the areas we will be getting that out of is the non-priority disease areas, or kind of the lower productivity areas that we've had. So that's how we will go about doing that.

Operator

David Maris, CLSA.



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David Maris - CLSA Asia Pacific Markets - Analyst

A few questions -- first, Ian, what do you think the Express Scripts/Medco deal means to Pfizer and the industry? And, do you think it's symptomatic of something else? Second, how do you think the sales force changes over the next year with the expiry of Lipitor, and then the launch of what could be Eliquis, but -- as a number of other products?

And then, on the pipeline, I don't know if you would have this offhand. But if things go as well as you expect, how many of the Phase 2 programs do you expect to be in Phase 3 next year?

Ian Read - Pfizer, Inc. - President and CEO

Thank you, David -- so Express Scripts -- I really think it's too early to tell. We don't have any details of the merger, how it will be completed, if it will be completed. So I think we need to wait on that analysis. It's clearly, obviously, just symptomatic of consolidation in that area of healthcare.

Field force changes -- we have -- I may ask Olivier to expand on this. But we've structured our field force in a way that we can make changes for the LOEs that are coming and the new products that are coming in. So I don't expect any material disruption to our field force over this period and, in fact, think we have good morale in our field force right now. Olivier, do you want to add anything to that?

Olivier Brandicourt - Pfizer, Inc. - President & GM, Primary Care

I would just add that we are planning, in fact, for the Lipitor LOEs, at the portfolio on a brand level, for several years. So the Pfizer field force organization in the US is now appropriately sized to support the broader primary care portfolio over the coming years. We have 10 assets being promoted next year and afterwards, hopefully including Eliquis.

So the attention of our representative assigned to detail Lipitor today will shift to other assets at the appropriate time.

Mikael Dolsten - Pfizer, Inc. - President, Worldwide Research & Development

And concerning the Phase 2 pipeline, so we haven't given an exact number of Phase 3 progression, but I will just share with you some of the excitements we have here.

We have a novel anti-inflammatory drug such as antibodies for med chem and best-in-class IL-6 antibodies for lupus or inflammatory bowel disease. We have novel small molecules addressing glucokinase, an area where we are leading with both liver-selective and pancreas-active compounds.

We have very exciting antibodies to lower cholesterol, like the PCSK9 mechanism. We are expanding indications with several of our oncology projects, such as Inotuzumab, into additional hematological malignancies and also Crizotinib into drug combinations. And we have -- are advancing very exciting anti-P13K and anti-mTOR molecules that we think have very broad activity against many solid tumors.

And as you are aware, we are also expanding the vaccine pipeline. We now are in the phase of starting the Staph aureus vaccine, which we think have a unique profile with four different vaccine components. And finally, when it comes to the neuroscience pain pipeline, you know we have taken initiatives to broaden that with activities such as the sodium channel product Nav1.7 in our collaboration and recent acquisition of Icagen; novel drugs for treatment-resistant depression, alpha4beta2, as well as antibodies for retinal diseases.

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So you hear it's a rich pipeline of novel mechanism and expansion of existing drugs. And you will hear more in the next year about which ones deliver proof of concept and into Phase 3.

Ian Read - Pfizer, Inc. - President and CEO

Thank you, Mikael; that was a good list you gave, thank you.

Operator

Catherine Arnold, Credit Suisse.

Catherine Arnold - Credit Suisse - Analyst

A couple of specific questions -- could you talk about Prevnar, growth in the emerging markets? It looks strong, and I'm wondering if there's a specific region or there's any change in terms of guidelines from that region that would have driven that growth. Can you give us a specific action date for Crizotinib? And then, lastly, assuming you're filing for Tofa goes in later this year, as you imply, what will be the scale of the safety database that will be available around the time you would expect approval with a standard review in terms of patient exposure and duration of exposure to that drug?

Ian Read - Pfizer, Inc. - President and CEO

Thanks, Catherine. So, David, could you take the Prevnar and Emerging Markets question? Then I will ask Geno to answer the Crizotinib or Tofacitinib.

David Simmons - Pfizer, Inc. - President & GM, Emerging Markets and Established Products

So related to Prevnar in Emerging Markets, there has been a lot of good progress in the past year, particularly the past six months, with an NIP success in Turkey, which is the main driver of Turkey's growth at 25% year-to-date, as well as increased volume of sales through the GAVI program, as well as winning some NIPs and tenders in Latin America, in particular, which has been a gain from a position where we were at the end of last year. So Prevnar is going very, very well in Emerging Markets, and we expect to continue this pace of progress.

One other comment on the specialty area overall in Emerging Markets is ENBREL has been a very strong driver of our Emerging Market success year-to-date.

Ian Read - Pfizer, Inc. - President and CEO

Thank you, Geno?

Geno Germano - Pfizer, Inc. - President & GM, Specialty Care and Oncology

Action date on Crizotinib -- we expect to have action by the end of the year with Crizotinib, and with Tofacitinib our plan is to file in both the US and Europe by the end of this year.

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Chuck Triano - Pfizer, Inc. - SVP - IR

Great, thanks, Geno, next question, please?

Operator

Tim Anderson, Sanford Bernstein.

Tim Anderson - Sanford C. Bernstein & Company, Inc. - Analyst

A few questions -- if I can go back to the completion of the business review, I think the impression that many had from when you reported Q1 results in May was that the review would last throughout most of 2011 and a decision would come later in the year. And that seemed to come a lot earlier than most were expecting, and I'm wondering what may have changed.

And can you confirm that the door has been fully and definitively shut, at least over the next three to five years, in trying to carve up the drug side of the business, meaning split up innovative core and Established Products?

And then, lastly, Ian, there was a recent in-depth press article that has probably circulated within Pfizer, chronicling the circumstances behind Jeff's departure last year. One of the things that was mentioned was the you were on the cusp of retirement throughout 2010. That also lines up with what we had heard. And suddenly, you get the CEO position. And my question to you is what visibility you can give us in terms of how long we can expect you to stay in your current role versus realizing that potential goal of retirement.

Ian Read - Pfizer, Inc. - President and CEO

Thank you. So on the review, the strategic review went very well. Pfizer's team -- when we get into something, we normally try and beat our estimated dates. We are a pretty aggressive and enthusiastic team, and we managed to bring that together and do the review with the Board in beating our internal targets and got the announcement out. I felt it was a credit to us, and we wanted the capital markets to know what the plans were as soon as possible.

On EP, we've completed this review. We've taken the decision to continue to grow EP inside Pfizer. I think we need to increase our focus, our managerial focus and our way forward on that product -- on that business, sorry. And it's critical to Emerging Markets. It's important in our cash flows. It's sort of entangled in many parts of our business and our plans. So I think we owe it to that business and to our shareholders to maximize the value from that business.

And really, on the last question, I feel very privileged to have this job. I work with a great team, I'm enthusiastic, and I'm going to continue to give it all to improve Pfizer's performance. Thank you for the question.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thanks, Ian, and operator, our next question, please.

Operator

Gregg Gilbert, Bank of America Merrill Lynch.

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Gregg Gilbert - *BofA Merrill Lynch - Analyst*

Thank you, a couple -- first, maybe a little more meat on the bones on the last one. How are you approaching the EP business strategy differently versus in the past? That's for Dave and/or Ian.

Secondly, do you still view Remoxy as a when, not an if? And can you offer any time lines around some of the comments made on that, Ian?

And lastly, just a little bit higher level, I realize your stock price is a moving target day to day. But with your stock at \$18.50 versus the low \$20s a few months ago, should we assume that external deployment of cash is now much less likely, given the return available from a buyback, or does your mindset on capital allocation not change that quickly?

Ian Read - *Pfizer, Inc. - President and CEO*

Okay, so EP -- I think I sort of addressed this a little bit with Jami's question -- I think it was Jami's question. We see EP as being important for three reasons -- one, the economic growth that's occurring in the emerging markets; two, the cash flows that come from that business and the potential growth in that segment as wealth increases.

So we are going to take a regional approach, we believe right now, to EP, where we look at a Brazil or Mexico or an India or a China or a Turkey, and we craft solutions that work for that local marketplace. We've seen that with our approach to Brazil, with a buy-in to the company there. And it's a staged buy-in, so local management is in place. It's doing very well, they know the business, they are growing it and eventually will acquire 100% ownership. And in China we are looking for partnerships.

So that's our approach to EP, with an aggressive, focused management under David.

On Remoxy, we see it as when, not if. We're talking through it with the FDA. We are bringing Pfizer's manufacturing and [pharm side] skills to bear on that, and it will be a question of when.

And on the stock price, I think the question is -- at every opportunity we look at, we measure the next best alternative. So clearly, you have to be flexible on that and look at each time and at each opportunity, what your next best alternative is.

So, Frank, do you want to add anything to that?

Frank D'Amelio - *Pfizer, Inc. - EVP, CFO and Business Operations*

I'll add just two quick things. One is, we have been and will continue to be acutely focused on total shareholder return. And at these levels, we believe the stock represents a very good value.

Chuck Triano - *Pfizer, Inc. - SVP - IR*

Thanks, Frank, and operator, if we could move to the next question, please.

Operator

Chris Schott, JPMorgan.

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Chris Schott - JPMorgan Chase & Co. - Analyst

Just two quick ones, one maybe a little bit more in-depth -- first, Nutritionals. Can you talk about your cost basis for that division and how we should think about the tax implications of a potential outright sale?

Second, and it's a topic I know was talked a lot about at the time of the merger, but can you discuss a little bit your longer-term tax trends that you are anticipating and when we should be thinking about the tax rate coming down over time?

And the final question, and not to focus too much on Established Products, but you talked a lot about the opportunity in the emerging markets here. Can you just flesh out a little bit more your priorities in the more traditional, developed markets for this business? Should we think about M&A in this business unit in the developed markets as something that is likely? And I know you are committed to keeping Established Products. But are there pieces of this franchise that could be selectively sold off or don't necessarily make sense, given your kind of broader kind of approach to Established Products at this point? Thanks.

Ian Read - Pfizer, Inc. - President and CEO

Thank you, Chris. Frank, when you take the Neurontin -- sorry -- the Nutritional and the tax trends?

Frank D'Amelio - Pfizer, Inc. - EVP, CFO and Business Operations

Sure. So I think maybe I'll start with the tax trends over time. Last year, our tax rate was 30%. We guided, this year, to 29% and for next year at 29% in terms of the adjusted tax rate. I think beyond 2012, with everything going on in the world these days, I think assuming something at around 29% is the right assumption currently. So that's how I would guide relative to the tax rate on a going-forward basis -- pretty much where it is today.

In terms of Nutri, Chris, you had a couple questions -- a couple parts to the question; let me see if I hit them all. One, in terms of the margins of that business, the operating margins of that business, quite frankly, the diversified businesses in general, are not the same as the pharmaceutical operating margins. I've said that previously. They are somewhat lower, but they have lower risk as well, all of which is factored into the guidance that we provide for 2011 and 2012.

In terms of the tax and the cost basis of that business, the way to think about that is, we will choose a structure relative to our go-forward strategy on Nutritionals that generates the greatest after-tax value for our shareholders.

Ian Read - Pfizer, Inc. - President and CEO

And, Chris, your question on EP and developed markets -- look, you know, we -- our position and structure allows a lot of focus on our strategies. And David is running EP and Emerging Markets, and clearly he will look at the composition of the portfolio and constantly monitor it vis-a-vis how to maximize value and is open to any and all ideas and thinking through ideas of what to do with segments of the portfolio so as to maximize value.

And regarding the developed markets, it's a similar issue. We have BU heads in Geno and Olivier who are looking at opportunities to add value to that portfolio, do BD activities, and we constantly review business development activities. But we are not going to sacrifice shareholder value by chasing revenue growth. So we are very disciplined in that approach.

David, do you want to add anything?



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David Simmons - Pfizer, Inc. - President & GM, Emerging Markets and Established Products

Yes, maybe just to build on what you're saying and give a little bit more color -- although we classify some markets in the developed world, some of the markets are characterized in their underlying market construct similar to key emerging markets. Japan is a key one in this regard. So from an EP perspective, Japan would be a priority market.

Also in the developed world, if we move away from -- in a commodity-solid world, those type markets, the developed world is very interesting to us and a priority in the area of biosimilars. These markets are -- the biologic markets are growing very, very rapidly. So the biosimilar focus in developed markets is quite keen.

Ian Read - Pfizer, Inc. - President and CEO

Thank you, David.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thank you, and operator, if we can move to our next question.

Operator

Marc Goodman, UBS.

Marc Goodman - UBS - Analyst

A couple of quickies, I guess -- first of all, can you give us an update on Tanezumab? Is that still alive? Did you have your meeting with FDA?

And then, second of all, on Biocon and the deal that you have for the biosimilars in insulin, can you give us a flavor for -- when is that going to start to come out? How many products are there, and when is that going to start to have a meaningful impact?

Ian Read - Pfizer, Inc. - President and CEO

On Tanezumab, we have submitted our data package to the FDA and are awaiting action dates from them as we follow up on Tanezumab. And on Biocon, David?

David Simmons - Pfizer, Inc. - President & GM, Emerging Markets and Established Products

Yes, the scope of the Biocon agreement is for three products. These are recombinant insulin, glargine, Lispro and Aspart and -- excuse me, so it's four products, not three.

Also we have launched two of the projects, glargine and recombinant insulin, in India. This is a relatively small diabetes market, so while we will have a lot of learnings there, the impact is not going to be so significant. But it is a definitive first step forward and execution of the partnership from development of the products through regulatory approval through commercialization and launch.

The meaningful impact we expect to occur when large, developed markets come online, specifically the US, and we are looking out a few years, out to 2015 and 2016, in that area.



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Chuck Triano - Pfizer, Inc. - SVP - IR

Great, thanks, Dave. Operator, we can move to the next question, please.

Operator

Seamus Fernandez, Leerink Swann.

Seamus Fernandez - Leerink Swann & Company - Analyst

So just a quick question -- first on the dividend, Frank, can you just update us on what the plans are for the dividend with regard to growth and the pace at which we'll get there and how that measures relative to the 2012 guidance?

The second question is also on Prevnar and the pace of Prevnar. Can you just help us understand the direction? Again, we have seen some vaccines kind of roll over at certain points in time after you go through a catch-up cohort. Maybe, Geno, if you can just update us on where we are in terms of the catch-up cohort in the different markets and how do you see the pace of uptake? Thank you.

Frank D'Amelio - Pfizer, Inc. - EVP, CFO and Business Operations

On the dividend, what I said towards, I guess, the second half of last year was our goal was to have a dividend payout ratio that was approximate to the industry average of about 40% in roughly three years. And that's the path that we are on. If you look at what we did this past December, we increased the dividend from \$0.72 to \$0.80, so \$0.08, an 11% increase. In terms of going from the \$0.80 forward, we have a meeting with the Board again in December where we will be discussing another dividend increase. And I think the way to think about it is we will do it in steady chunks as we work our way through the time frame.

Geno Germano - Pfizer, Inc. - President & GM, Specialty Care and Oncology

Okay, with regard to Prevnar, we are pretty well penetrated in developed markets around the world now, and we are still seeing some growth in the emerging markets. The one standout exception is Japan, where we are seeing very strong growth and we expect to continue to see that growth rate through the rest of this year and even into next year.

And with regard to the catch-up population, the strongest catch-up program is in the United States. We got off to a very good start last year and realized some significant gains in the catch-up. We are seeing that continue in this year, but that will certainly decline as we get into the third and fourth quarter this year. Year on year, we will be lower this year on catch-up in the US by about \$15 million to \$20 million versus last year. And then, of course, in 2012 the catch-up population in the US will be significantly diminished.

We are seeing some catch-up opportunity in some of the European markets, and it's more steady as opposed to the relatively large uptake initially with a tail. So I think that we will see a little bit more in 2011 and 2012, but it won't be a major factor influencing the brand.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thanks, Geno; operator, if we could take our next question, please.

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Operator

David Risinger, Morgan Stanley.

David Risinger - *Morgan Stanley - Analyst*

I have a couple of questions -- first is on strategy. In, in the first quarter of the year, investors were pretty excited about a transformation at Pfizer. And obviously, Pfizer has decided to exit some relatively small businesses. But I was hoping to hear your updated perspectives and vision on how you plan to return Pfizer to growth, including boosting the R&D output.

I think everybody clearly sees that you are reducing the spending, which should boost the return on capital in R&D, but I was hoping to better understand how you plan to boost the R&D output as well.

And then, second, with respect to the pipeline I'm hoping that someone can comment on tofacitinib's side effect profile, including its impact on the kidneys and liver and your level of confidence in an FDA approval next year. Thanks very much.

Ian Read - *Pfizer, Inc. - President and CEO*

Thank you, David. Geno, why don't you deal with the tofacitinib question first, and I'll come back to the first question.

Geno Germano - *Pfizer, Inc. - President & GM, Specialty Care and Oncology*

Okay. For tofacitinib at this point now, we've got five Phase 3 trials. We have over 5000 patients in our database. We've had time to take a pretty good look at the data and review it and discuss it with our advisors, and we feel confident in the safety profile and the benefit/risk ratio for the drug at both doses tested.

We are busy putting the dossiers together and anxious to discuss the profile with the FDA.

Ian Read - *Pfizer, Inc. - President and CEO*

Thank you, so we had a very open discussion, I thought, with the investment community about our intention to look at the different businesses and make decisions that would give the best return to Pfizer's shareholders. And I think we arrived at the right place with the decisions on Animal Health and Nutritional, where we are unlocking value, and on Emerging Markets or Established Products and Consumer.

So we are -- I am very focused on the fact that we need to fix the innovative core, which is my first priority or my first imperative for the Company. And myself and Mikael and ELT are very well aware that our future success depends on that. And we are aligned in focusing on that, and I do not see that the -- you know, while I agree with you that we do need to increase return on capital, we also need to improve the volume of throughput through that organization.

And our whole effort in R&D is organized around improving the overall productivity of that portfolio. I'm going to ask Mikael to talk to that because it has been a result of a lot of conversations at the ELT and with the research organization on our overall vision of the research organization in 2015. But broadly, it's in three areas. It's focusing on the areas where we know we can win, where we have the science, we have the expertise, where we see a productive research effort. It's a cultural change where we are looking at researchers that are focused on results. It's not shots on goal, its shots in goal. It's a culture change. It's a change of where we do our research, how much biology and chemistry we integrate, how empowered our chief scientific officers are. It's about changing the structure of who we partner with and how we partner, hence our partnerships with Icon and Parexel and our partnerships with key universities and, also, our focus on precision medicine.



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Those are the three big buckets. And I may have stolen Mikael's thunder, but I'll ask him to add a little bit to that.

Mikael Dolsten - Pfizer, Inc. - President, Worldwide Research & Development

David, I think you are absolutely right. We and this industry need, first and foremost, to drive productivity and create higher return of investment. And that's our goal; it's not simply cost cutting. We have eliminated a lot of inefficiencies. We are focusing on areas with good R&D visibility and commercial attractiveness. We have actually closed more than 90 projects that we think are projects representing areas with not sufficient return on investment.

As Ian alluded to, we are accessing external expertise in new ways. We have announced new partnerships such as with Icon and Parexel to have a more flexible and efficient cost base. And more recently, we have taken transformative initiatives such as the Center for Therapeutic Innovation, in which we now have partnered with 17 of the leading academic medical centers in this nation.

Ian spoke to precision medicine, which we think is an approach to more targeted, effective treatments, more durable, long-lasting use of medicines and create value for patients and payers. And we think, you know, these investments in this change-oriented fashion will be the right approach to beat the cost of capital over time. And we supplement them with focused licensing of quality opportunities and bolt-on acquisitions to enhance pipeline and capabilities.

Chuck Triano - Pfizer, Inc. - SVP - IR

Thank you, Mikael. And I think, operator, we have time for one last question, please.

Operator

Michael Tong, Wells Fargo Securities.

Michael Tong - Wells Fargo Securities - Analyst

If I recall, Ian, Oxecta is actually the first of a line of potential abuse-deterrent immediate-release opioids in the pipeline that you have acquired from King. I just wanted to get a sense of your commitment towards furthering that pipeline. I know there are a couple more products that are almost Phase 3-ready. So can I expect them to move into Phase 3 in, let's say, the next 6 to 12 months?

Ian Read - Pfizer, Inc. - President and CEO

Well, I think -- you know, we bought this business because we are committed to the pain area. We have taken the portfolio we acquired and will continue to develop it. We need to bring in better to market after fixing the stability issues, which we had to withdraw. We are working on Remoxy, and I think that's basically the list of technologies we acquired. Olivier, do you want to add anything to that?

Olivier Brandicourt - Pfizer, Inc. - President & GM, Primary Care

No; I think it's important to realize that Oxecta is not -- it's an immediate-release, so the market is very different from [Ambetta] and Remoxy. We are going to launch Oxecta before the end of the year, but our focus will certainly be on the other two products.

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Ian Read - Pfizer, Inc. - President and CEO

Yes, and you know, the pain area, as Mikael mentioned, is very important to us. We have research in the NAV channel area, and we have picked that as an area to continue to invest in. So I think you will continue to see us investing in research in that area.

Chuck Triano - Pfizer, Inc. - SVP - IR

And that will conclude our call, folks. Thank you very much for your time.

Operator

Ladies and gentlemen, this concludes today's second quarter 2011 earnings conference call. You may now disconnect.

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