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PRESENTATION

Operator

Welcome to Pfizer’s third quarter earnings call, and now Chuck Triano, Senior Vice President of Investor Relations.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you, operator. And good morning, everybody. And thank you for joining us today to review our third quarter 2008 performance. I’m here with Jeff Kindler, Frank D’Amedio, Ian Read, Martin Mackay, and Amy Schulman. 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 Third Quarter 2008. We know this is a busy day for many of you with other companies reporting earnings, and our conference call will last an hour and we will end at 11:00.

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 2007 annual report on Form 10-K and in our reports on Form 10-Q and Form 8-K. Also the discussions during the 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 October 21st, 2008. These reports are available on our website at www.pfizer.com in the Investors SEC Filing section. With that, I will now turn the call over to Jeff Kindler. Jeff?

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Thanks, Chuck. Good morning, everyone, and thanks again for joining us. To state the obvious, none of us has ever seen anything like the unprecedented turbulence of the past few weeks, but while the outlook for the global economy is uncertain and while no one, including us, is immune from its effects, I want to be very clear about two things. One, Pfizer remains in a very solid financial position to address the challenges and seize the opportunities ahead. And, two, the changes that we have made over the past two years have enabled us to adapt quickly and effectively to a fast changing and often uncertain operating environment.

Now, on the first point, as you know, we have a strong balance sheet, excellent liquidity, high quality credit ratings and substantial operating cash flow. We also have a solid and conservative investment portfolio. In short, Pfizer is a financially strong company.

On the second point, the changes that we have made over the past two years enable us to operate quickly and effectively in an industry and a world marked by uncertainty. While this work is never finished, I am very proud of what our colleagues have achieved in a very short time and in a very difficult environment. Even as compared to just a year ago at this time, we are a much leaner, more disciplined and more agile organization. We have stronger leadership throughout the company, our strategies are clear and well understood by our colleagues, we are much better at managing costs and at allocating capital, and we are also getting better and better at the basic and fundamental requirements of executing and keeping our commitments. I believe that the quarterly and year-to-date results that we have announced today, the guidance we have given for the balance of the year on revenue, costs, and earnings, the progress we have made on the strategies we shared in March -- particularly in our pipeline -- all of these and more demonstrate that we have made meaningful progress in reshaping Pfizer into a company that has the capability and the agility to manage through uncertainty and challenges.

And of course we have faced significant challenges and uncertainties this year. That, as you all know is the nature of our business. With that said, we know that it is our job to manage our way through these challenges and still deliver on our commitments. And we are doing so. For that reason, although no one can predict with certainty what will happen in the global economy, I have confidence that we and our colleagues around the world will continue to manage our way through the uncertainty and challenges ahead.

Now, in that regard, one of the most important changes we have made is our reshaping the company into smaller, more focused business units. As you’ll recall, this was a priority that I first highlighted for you a few months after I was appointed to this position when we spoke at the beginning of last year. Since then, we have made very significant progress. In particular, after having created business units in oncology and in established products earlier this year, in this quarter we added three new global units within our pharmaceutical operations to serve primary care, specialty care, and emerging markets. Along with animal health, each of our six global units spans clinical and commercial development, medical, marketing, and sales, including management of the life cycles of our medicines after they lose exclusivity. Each unit is led by an experienced world class general manager, a leader with the authority and resources to respond quickly to the needs of their distinct customers around the world while aggressively pursuing new avenues for growth. Each of the respective leaders of these six units represents a single point of accountability for all aspects of their business, after our research and biotherapeutics and bioinnovation center organizations deliver quality compounds that have achieved proof of concept and that are ready for further clinical development and commercialization.

Now, this is a marked departure from the way that Pfizer and, I believe, most companies in our industry have operated in the past. It enables us to move forward with the entrepreneurial zeal of six smaller but still very substantial businesses backed by the strength and the global reach of a strong global enterprise. The combination of these two attributes, the spirit of small in
those areas where being small improves results, and the power of scale in those areas where scale is an advantage represent a unique competitive advantage for Pfizer in these different markets and these fast changing times.

Now I’d like to give you a few examples of how this approach is already changing the way we do business. Let’s look at emerging markets, where we are operating with ever increasing speed and agility. In China, for example, we told you in March that we had set a goal of moving into 126 cities by the end of this year. We achieved that goal seven months ahead of schedule and we are now expecting to be in 137 cities in China by the end of the year. Now, China has 160 cities with population above 1 million people. That makes each of them roughly the size of Dallas or even bigger. That should give you some sense of the opportunities that we have. In Latin America, revenues are up 14% operationally over last year, making it our fastest growing region. Within that region, Brazil has seen revenues grow at double-digit rates despite the fact that several of our products have no patent protection there.

Indeed, marketing a portfolio that includes some products that lack patent protection is just one of the kinds of distinct challenges and opportunities that we face in emerging markets. Our very experienced teams in these countries will now be led by Jean-Michel Halfon, a dynamic leader with 31 years of experience operating in pharmaceutical businesses around the world. Jean-Michel and his colleagues will bring greater focus and authority in seeking opportunities to create value in the fastest growing markets on earth. And believe me, having spent time with colleagues in many of these markets, I can tell you that they are enthusiastically and aggressively pursuing those opportunities to create new value.

That to be sure, the current challenges in the global economy may diminish the recent rate of growth some of in some of these opportunities but in both the short and long term opportunities in these parts of the world remain enormous. The urgent need to provide millions of people with greater access to valuable medicine whether they are patent protected or not, primary or specialty, will not change in these countries. We are excited about bringing our broad portfolio of such medicines to new consumers.

As I have said before, we believe we are uniquely positioned to take advantage of these opportunities because we have been there longer than most of our competitors. We have a very positive reputation with governments and key opinion leaders. The Pfizer brand and the brands of our various medicines have significant equity with doctors and patients and we have a uniquely broad range of therapeutic offerings both on and off patent.

Now, in addition to these advantages, another factor driving results in these markets is the established products unit led by Dave Simmons. Dave, as you know, is responsible for Pfizer’s business in what is and what is likely continue to be, especially in challenging economic times, a fast growing segment of the global biopharmaceutical industry, and I’m pleased to tell you today that in the 10 months since we have formed that unit, Dave and his team have turned a number of products with flat or declining revenues into products that are growing again. In fact, among this unit’s many brands, six products with aggregate annual sales in excess of $1 billion are all experiencing accelerated growth year to date, some of them moving from declines to positive growth. Over time we expect profitable growth from this important part of our business as we introduce new products and formulations and develop new and innovative selling models.

Moreover, Dave’s team is demonstrating in a very tangible way what happens when we in senior management get out of the way of the people that are closest to our customers, a concrete and current example. As you know, a few weeks ago, the FDA banned one of our competitors from importing more than 30 generic drugs into the US because of serious violations at their Indian manufacturing plants. The outstanding quality track record of Pfizer’s world leading manufacturing colleagues, the fact that regulators and patients know that they can count on us, is a great competitive advantage in a situation like this. So Dave and his team moved quickly and without letting any bureaucracy get in their way. Within about 48 hours from the announcement of the FDA ban, the Pfizer established products business captured about 60% of our competitor’s business in two important medicines.

Now, I recognize that this particular action won’t produce a large amount of new revenues, but I think it clearly demonstrates very vividly our things have changed here, and it is a model for how we are operating and will continue to operate with all of
the business units. And I want to say this very clearly. This could not have happened at Pfizer two years ago and probably not even a year ago. But fast, customer focused, value creating actions driven by decisive accountable leaders are happening now all over Pfizer.

Now, while established products is a multibillion-dollar business with significant growth opportunities, our core business, of course, remains providing innovative patent protected medicines. In that regard, the branded biopharmaceutical industry in the United States is certainly facing a tough environment. Overall, US prescription volume has been more or less flat this year for the industry and most of the growth has come from generics. Of course each product represents distinct challenges and opportunities, and Ian will be prepared to address any of those with you in Q&A, but I’d like to make a couple of overarching points about the US marketplace.

First, I think it’s fair to say that partly as a result of the changes that we (inaudible) Pfizer’s field force and marketing organization is more than holding its own against branded competitors. These colleagues are building on Pfizer’s outstanding heritage in sales and marketing and reearning their proud reputation as the best in the business -- the representatives most responsive to patients and physicians. Specifically, in the US we have seven products that are outperforming the branded competition in their respective categories and four more that are holding steady against newer agents. Now, of course success against branded competitors doesn’t by itself fully address one of the most significant features of the US operating environment, the increased use of generics, but it’s noteworthy that overall, more than 10 of our US medicines posted double-digit gains in the quarter.

In that regard, I think it’s important to note that if you look at worldwide therapeutic categories as a whole, branded and generic, we have at least 10 products that are ranked number one based on IMS sales volume and we continue to build, maintain, and demonstrate category leadership unmatched in the industry. Even Lipitor, faced with heightened generic competitive and payer pressures, the likes of which has never been seen before, still captures 43% of global lipid lowering market share. In fact, I think the recent stabilization of Lipitor’s total prescription volume in the US is a good example of how we are learning to operate better in this challenging environment.

Beyond that, however, we know that we must and we will continue to adapt our commercial model in the most innovative and efficient way possible in the US as elsewhere to respond successfully to pricing pressures in generic competition. Our new business units, with their intense focus on what works best in their particular categories and with their freedom to deploy new commercial models, will accelerate our progress in doing so. Of course at the end of the day, patients, physicians, and payers will continue to value innovative and meaningfully differentiated products, even as pricing pressures continue. So our R&D and business development activities continue to focus on providing exactly those kinds of medicines. Meanwhile, the encouraging progress our commercial organization has made gives me confidence that over time we can provide growing numbers of US patients access to those kinds of medicines, whether it is currently available medicine like Lyrica, Chantix, and Sutent, or future medicines now in development.

The challenges in the US also in my view reinforce the value of our international businesses, which are leaders in the vast majority of the therapeutic and geographic markets in which they compete. As you can see from today’s release outside the US and the markets that accounted for nearly 60% of our total reported revenues so far this year, we have more than 10 in-line products achieving double-digit operational growth year to date, excluding the effects of foreign exchange. While there is certainly more work to be done, I believe these results demonstrate that the geographical and therapeutic diversification of our business, combined with an increasingly fast and nimble organization, give us good reason for confidence that we are getting better and better at managing our business in the face of tough challenges and uncertainties here and around the world.

The kinds of changes I have described, implemented by an organization that is intensely focused on execution, have kept us on track to meet and even improve upon our full-year objectives for 2008 despite the challenges specific to our company and those more general to the economy and the industry. In that regard, today we have reaffirmed and tightened our revenue and earnings guidance for the year within the previously announced ranges and we have also increased our cost reduction target for the year.
Now, that last point bears emphasizing. We told you at the beginning of last year that by the end of this year we would reduce our absolute costs by at least $1.5 billion to $2 billion compared to 2006 on a constant currency basis. As you have seen from our release, we have now achieved that goal a full quarter ahead of schedule. And it’s worth noting that we achieved our goal even after absorbing inflation and reinvesting in the business. Since we announced this goal in January of last year, we have reduced our absolute costs by more than $1.7 billion. I'm aware of no other company in our industry that is reducing absolute costs to that degree, either in dollars or percentage terms. As a result of our progress to date, we are now projecting that our absolute cost reduction on a constant currency basis will be at least $2 billion by the end of the year. And, of course, we will continue to focus on costs -- as I've said before, we will establish a cost structure appropriate to our revenues going forward. Perhaps more importantly than these particular numbers, I am confident in telling you today that cost management and a commitment to continuously improving productivity along with a relentless pursuit of new avenues for revenue growth has become a fundamental part of our everyday life at Pfizer.

Now, of course, cost cutting alone obviously can’t create the long-term growth that our owners expect and deserve. In that regard, I’m pleased to report that we remain on track to meet the pipeline commitments we made to you in March. At that time we told you our goal -- to grow our Phase III pipeline to at least 24 and as many as 28 new molecular entities or new indications by the end of next year. Since we announced those targets in March, we have increased our late stage portfolio from 16 to 25 programs. We are targeting 15 to 20 regulatory submissions in the period 2010 to 2012. And we are vigorously driving our investments in biotechnology with 16 biotherapeutics now in development, including a fully human monoclonal antibody, which recently began Phase 3 testing against non-small cell lung cancer, the leading cause of cancer death in the United States.

These are important advances, and we are proud that so many of them are coming from our own labs, but we also know we must supplement our activities internally by accessing the best possible opportunities outside the company. In September, for example, we entered into an agreement with Medivation to jointly develop Dimebon, their late stage medication to treat Alzheimer’s and Huntington’s disease. Medivation’s choice of us from among many competitors is a solid endorsement of our capabilities and we are looking forward to a long and productive relationship with them.

So in sum, we have been building a strong organizational and cultural foundation for the future. While that work continues, we are now all about executing on our strategies, on quickly adapting to changing conditions, on successfully managing through the uncertainty that has become a way of life for our industry and now perhaps for the global economy, and on seizing the many opportunities ahead. With that, I’ll turn it over to Frank.

Frank D’Amelio - Pfizer Inc. - SVP & CFO

Thanks, Jeff. Good morning, everyone. I want to start by punctuating a few items that Jeff mentioned. Pfizer maintains a strong financial position despite the challenging macro economic environment. We have a strong balance sheet and excellent liquidity that provides us with financial flexibility. We have approximately $26 billion in cash and short-term investments and we continue to expect to generate $17 billion to $18 billion of cash flow from operations in 2008. Our long-term debt is rated high quality and investment grade. We are rated AAA by S&P and AA1 from Moody’s. We have and will continue to take a conservative approach to our investments. Both short-term and long-term investments consist primarily of high quality, highly liquid, well diversified investment grade available for sale debt securities. As a result, the credit markets remain open to us and we continue to have ample liquidity. Now onto our third quarter results. The charts I’m reviewing today are included in our webcast and will help facilitate the discussion of our third quarter 2008 results.

Now let me get to our financials. Reported revenues for the third quarter of 2008 were $12 billion, consistent with year-ago quarter. This included the positive impact of foreign exchange, which increased revenues by approximately $620 million or 5%, and the solid performance of many key products. This was offset by the negative impact of the loss of US exclusivity for Zyrtec and Camptosar, whose revenues decreased year over year by $428 million and $121 million respectively, and an adjustment of $217 million for prior year product returns. This adjustment was the result of the detailed review that we recently initiated addressing the actual returns experienced for various products. We determined that the length of time from when a product
was sold to when a return is made was longer than had been assumed. Consequently, we increased our returns accruals and recorded the full amount again current period revenues and income, although essentially all of the adjustment relates back several years.

Third quarter 2008 reported net income was $2.3 billion compared with $761 million in the year-ago quarter and reported diluted EPS increased to $0.34 versus $0.11 in the prior year quarter, primarily driven by the after-tax charges of $2.1 billion related to the decision to exit Exubera in the year-ago quarter, partially offset by after-tax charges in the current quarter of approximately $640 million associated with our agreements in principle to resolve certain litigation involving NSAID pain medicines and $152 million associated with the previously mentioned returns adjustment. Adjusted revenues were $12.2 billion, an increase of 2% year over year, driven by the favorable impact of foreign exchange and to a lesser extent the growth of many key products. These offset the impact of the loss of US exclusivity of Norvasc, Zyrtec, and Camptosar.

Adjusted income increased 5% to $4.2 billion year over year and adjusted diluted EPS increased 7% to $0.62, which included the favorable impact of savings associated with cost reduction initiatives and foreign exchange. These are partially offset by a decrease in other income primarily due to decreased net interest income. Both reported and adjusted diluted EPS in the third quarter were favorably impacted by the full benefit of our $10 billion share repurchase in 2007. Several significant items impacted our reported pretax results this quarter by approximately $2 billion, including charges of approximately $900 million associated with the aforementioned agreements in principle to resolve certain NSAID litigation, $338 million for restructuring, $378 million for implementation costs, and $217 million associated with the previously mentioned returns adjustment.

Now I’d like to provide more details regarding our third quarter adjusted income components. Adjusted cost of sales as a percentage of revenue was 14.5% versus 15.1% in the prior year quarter, driven by the benefits of our ongoing cost reduction initiatives, which were partially offset by a less favorable geographic mix. Adjusted SI&A expenses were $3.4 billion, a decrease of 6% year over year, driven by ongoing cost reduction initiatives which were partially offset by the unfavorable impact of foreign exchange. Adjusted R&D expenses were $1.8 billion, an increase of 2% year over year. R&D expenses included increased spending on a larger number of higher cost Phase III clinical trials and increased spending in our biotechnology and bioinnovation center. These were partially offset by savings from our cost reduction initiatives. Higher clinical trial costs were primarily due to the progress we have made on our Phase III pipeline, which has increased from 16 to 25 programs over the last six months.

Our effective tax rate on adjusted income for the quarter was 22.3% versus 21.7% in the year-ago quarter. For the first nine months of 2008, adjusted revenues increased 2% to $36 billion year over year, driven by the favorable impact of foreign exchange of approximately $2 billion or 6%, and to a lesser extent the solid performance of many key products. This was partially offset by the unfavorable impact of the loss of US exclusivity of Norvasc, Zyrtec, and Camptosar, whose collective revenues decreased approximately $2.1 billion versus the prior year period.

Year-to-date adjusted cost of sales as a percentage of revenue was 15.5% compared with 15.3% in the prior year period. The adjusted SI&A expenses decreased 1% versus the prior year period. Year-to-date adjusted R&D expenses decreased 2% versus the prior year period. The effective tax rate on adjusted income for the first nine months of 2008 was 21.4% versus 21.8% in the prior year period.

We posted year-to-date adjusted income $12 billion, an increase of 2% compared with the prior year period and adjusted diluted EPS of $1.77, an increase of 5%, which were positively impacted by savings associated with our ongoing cost reduction initiatives and foreign exchange. These were primarily offset by the aforementioned decrease in net interest income. In addition, the prior period’s adjusted results included the up-front payment in 2007 to Bristol-Myers Squibb.

As I previously mentioned in the third quarter, foreign exchange increased revenues by approximately $620 million or 5%. While our cost reduction initiatives continued to have a positive impact on our adjusted total costs this quarter, foreign exchange unfavorably impacted these costs by approximately $240 million or 3% compared with the prior year quarter. Excluding foreign exchange, adjusted total cost decreased operationally by approximately $460 million or 6% year over year. The net effect of
foreign exchange on our adjusted diluted EPS during the third quarter as compared with the year-ago quarter was a positive impact of $0.05.

We continue to make excellent progress on our cost reduction efforts. Total cost in the third quarter declined by about $460 million, excluding foreign exchange, compared with the year-ago quarter. It’s important to note that we continue to achieve these absolute reductions even after absorbing inflation and reinvesting in the business. Our cost reductions in the third quarter were realized more quickly than we had originally anticipated. We now expect to achieve a total adjusted cost reduction of at least $2 billion versus our previous expectation of at least $1.5 billion to $2 billion on a constant currency basis for 2008 compared with 2006.

Our cost reduction initiatives continue to span essentially all divisions, functions, markets, and sites across Pfizer. Broad categories of activity include manufacturing and research side exits, outsourcing, and targeted workforce reductions. We reduced our global network of manufacturing plants from 78 four years ago to 51 currently. By the end of 2009, we expect to further reduce this global network to 43. Of the six R&D sites that have been identified for closure, we have closed two of the sites, ceased R&D operations at three, and significantly scaled back operations in the remaining site. In addition, 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 the strategy. Finally, we are continuing to size our workforce level with current market dynamics. Since January of 2007, our workforce level has decreased by approximately 14,600 to 83,400 at the end of the third quarter.

Now I’d like to provide some select product results. Lipitor revenues decreased 1% year over year to approximately $3.1 billion, including the positive impact of foreign exchange which increased revenues by approximately $130 million, up 4%. Year over year, Lipitor revenues in the US decreased 13% and revenues from international markets increased 16%. Lyrica continued to deliver strong performance with revenues of $675 million, an increase of 45% year over year. Sutent, our treatment for advanced kidney cancer and gastrointestinal stomal tumors, posted revenues of $226 million, an increase of 49% compared with the year-ago quarter, and Viagra revenues increased 13% to $509 million. Chantix revenues decreased 24% year over year to $182 million. Chantix results in the US continue to be negatively impacted by label changes. As a result, the third quarter US revenues of $96 million decreased 49% compared with the year-ago quarter. However, Chantix continued to perform well outside the US. Chantix revenues from international markets grew 60% year over year to $86 million. As expected, revenues from products that recently lost US exclusivity declined year over year, with Norvasc declining 12% to $562 million, Camptosar declining 50% to $122 million, and there were no sales for Zyrtec this quarter compared with $428 million in the year-ago quarter.

Based on our year-to-date performance and outlook for the remainder of 2008, we are increasing the lower end of our revenue guidance range. We now expect 2008 revenue to be between $48 billion and $49 billion compared with our previous expectation of $47 billion to $49 billion. In addition, we are tightening the range of our adjusted diluted EPS guidance and now expect the adjusted diluted EPS range to be from $2.36 to $2.41 compared with the previous range of $2.35 to $2.45. In addition, we have tightened our adjusted SI&A expenses guidance range to $14.4 billion to $14.7 billion from $14.4 billion to $14.9 billion. Finally as I previously mentioned, we now expect to achieve at least $2 billion in absolute adjusted total cost reductions versus 2006 on a constant currency basis, compared with our previous expectation of at least $1.5 billion to $2 billion.

So to summarize the key takeaways, we have increased the lower end of our ’08 revenue and adjusted EPS diluted guidance ranges. We continue to see steady growth from several key products including Lyrica, Celebrex, Viagra, Sutent, Xalatan, Zyvox, and Geodon. We’re pleased with the solid results we delivered this quarter, including achieving our absolute adjusted total cost reduction target for 2008 in the third quarter, and finally, our EPS growth continues to outpace our revenue growth. And now, I’ll turn it back to Chuck.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks for the review, Frank. And at this point, if we could pause -- operator, if you could please poll for questions. Thank you.
QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) Sir, our first question comes from Mr. David Risinger of Merrill Lynch. Please proceed with your question.

David Risinger - Merrill Lynch - Analyst

Thanks very much. I have two questions. The first is related to Lipitor. On the Lipitor sales, were sales impacted in 2008 or in 2007 by stocking? It seems like the reported sales performance in the US was a little weaker than what underlying demand would imply. The other question on Lipitor is that -- is related to the outlook. Prescriptions have been stabilizing sequentially recently. Could you comment on the outlook? And then the final question is for Frank. Frank, at your analyst meeting in March you had projected a mid-30s to a high 30s operating margin in 2012. I think some investors have wondered how such a post expiry margin is possible without big blockbuster brands, but it seems like you're pretty confident because you're assuming that the organization will be downsized. Could you just talk about your level of confidence and your visibility for that level of operating margin? Thank you.

Chuck Triano - Pfizer Inc. - SVP of IR

Okay. Good morning, Dave. I'm going to, obviously, ask Ian to address the first two questions on Lipitor.

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

Dave, so on inventory there was no impact in the third quarter for inventory movements on Lipitor and a very small impact on the year-to-date, so nothing material from inventories affecting Lipitor's performance. And on our sequential performance, I think it's a reflection of the way we are focusing the field force -- our access programs are focused on introducing the switches, and I expect us to continue to do what we are doing, fighting for every script in the marketplace.

Frank D'Amelio - Pfizer Inc. - SVP & CFO

And then, Dave, on the question for me, what I have said is operating margins in the mid to high 30s going forward, so basically what you said. In terms of getting there, it's really a combination of things. One is the items Jeff mentioned relative to creating new sources of revenue. So maximizing our patent protected portfolio, establishing opportunities for our established products unit, seeking opportunities in emerging markets, looking at adjacent space as well as business development and advancing our internal pipeline. So it's a combination of creating new sources of revenue, combined with continuing to be more efficient, more productive and executing on the cost reduction initiatives that we talked about. So it's really a two pronged approach that gets us to the mid to high 30s on the operating margins.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Frank. Next question?

Operator

Thank you, sir. And our next question comes from Roopesh Patel of UBS. Please proceed with your question.
Roopesh Patel - UBS - Analyst

Thank you. I have a couple of questions. First for Jeff, I'm wondering if you could please comment on the M&A outlook for Pfizer in light of what's occurred in the stock market in the past couple of months -- specifically, do you believe that acquisition opportunities have increased in the context of current valuation? And related to that, has your thinking on M&A for Pfizer changed over these last couple of months? If so, how? And then separately for Frank, FX related question. If I look to year-to-date adjusted EPS growth for Pfizer, it's been up 2%. The year-to-date benefit from FX for EPS has been plus 7%. If FX stays where it is today, can you give us a rough sense for what its impact would be on earnings in the next year or so? Thanks.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Thank you, Roopesh. Good morning. Let me start on business development. We have been clear that focused business development have continued to be an important enabler of all of our growth strategies, and we've said before that we are open to all opportunities and we never say never. I can tell you that under Bill Ringo's leadership, we engage in a very robust and ongoing process to constantly look at all opportunities. And in that process we are always taking account of the very dynamic landscape and the challenges and the opportunities that the environment may create. But while the environment changes, the fundamentals don't change and the considerations I have outlined previously still apply to any deal, large or small. First, it has to have strategic value. The price must be right. It must -- we must manage the disruption and risks to productivity. In short, it must create shareholder value and none of that has changed. As the environment changes, we continue to observe and monitor very carefully and review those opportunities on a constant basis. Frank, you want to talk about foreign exchange?

Frank D'Amelio - Pfizer Inc. - SVP & CFO

Yes. So let me cover this. Let me run a couple of numbers first and then I'll talk about going forward. So if you look at Q3, we benefited from foreign exchange on revenues by $620 million, on EPS by $0.05, which is part of the statistics that you quoted. If you look at foreign exchange going forward, if you look at our guidance, we said in our guidance, obviously -- other than those $2 billion, that everything is at current October foreign exchange rates. If you were to leave current foreign exchange rates and run now for the rest of the year, FX in Q4 would actually not help our EPS numbers. It would actually be detrimental to the numbers by a couple of cents which we included, factored into our guidance. Beyond Q4, if you look at 2009, we are not ready to comment on that, and the reason I say that is there's lots of volatility right now in foreign exchange and the various currencies. And so to try to call that number up today we think is an imprudent thing to do. We will, I will talk about that number on the January earnings call.

Chuck Triano - Pfizer Inc. - SVP of IR

Thanks, Frank. Next question, please.

Operator

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

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

Thank you. A couple of questions. Can you talk about Lipitor formulary positioning in Medicare and commercial plans going into '09? Wondering how much slippage in Tier 2 coverage you anticipate, and if your impression is that all the branded cholesterol products would be in a similar situation. Schering had their call this morning -- they said they see broad based formulary tightening across all cholesterol drugs, and I'm wondering if you share that view. Second question is on Sutent.
the US the sales have been flat for several quarters. Internationally they continue to grow well, but I'm wondering if at some point in the not so distant future if international will similarly cap out and flatten out like the US has done in the absence of new indications?

Jeff Kindler - Pfizer Inc. - Chairman & CEO
Okay. Thank you, Tim. Ian, can you take both those questions?

Ian Read - Pfizer Inc. - President - Worldwide Pharmaceutical Operations
Lipitor access -- we enjoy it -- we worked hard to get very positive access on Lipitor. I think it's in the mid-70s, to close to 80% on across our book of business. We have actually seen this year 75 formulary changes that have either improved Lipitor or put restrictions on Vytorin over the year. So I maintain similar types of access in '09 on Tier 2. But Tier 2 is harder than it used to be in the sense that generic competition does tend to drive against Tier 2 via their marketing practices with physicians. So while Tier 2 is valuable, it's not as valuable as it was two to three years ago. On Sutent, we have seen, as you say -- we saw growth in US sales this quarter. We are focusing on the full cycle of -- we are focusing on the effective dose and we will expect to continue to see growth. We do have substantial shares in renal cell, above 60% in most countries and in the international arena, the population base is far larger than the US and uptake is somewhat slower, so we expect to see continued growth internationally on Sutent prior to the new indications.

Jeff Kindler - Pfizer Inc. - Chairman & CEO
Thanks. Tim, I thought maybe Martin could elaborate on the new indications. Go ahead, Martin.

Martin Mackay - Pfizer Inc. - SVP and President of Pfizer Global R&D
Yes, Tim just briefly in terms of the new indications, I think you know in Phase 3 for colorectal cancer, lung cancer, and breast, which are the big three following close behind for the renal cell carcinoma and gastrointestinal stomal tumor, and then coming up shortly behind that in hepatocellular carcinoma and hormone refractory prostate cancer, so we have several new indications which are following onto the two that are currently on the market.

Chuck Triano - Pfizer Inc. - SVP of IR
Thanks, Martin. Next question, please.

Operator
Thank you, sir. Our next question comes from Mr. Chris Schott of JPMorgan. Please proceed with your question.

Chris Schott - JPMorgan Chase & Co. - Analyst
Thanks. Just two quick questions. First on the R&D side, as Pfizer gets more selective in the therapeutic categories that you're investing in, what becomes of those early stage asset -- these things that will look to be outlicensed or sold off? And then how do we think about that in the context of your longer-term R&D budget? Should we be looking at these moves as creating longer term reductions in overall R&D spend, or simply creating more funding to go after the last stage assets in your more core areas of focus like oncology? Can you talk about your US based cash flow in the cash quarter and your cash balances -- how much is
currently based in the US, thoughts as relates to that on repatriation bills as we look into 2009, and given all the controversy this year, can you run through your commitment to the dividends as it currently stand? Thanks.

**Jeff Kindler - Pfizer Inc. - Chairman & CEO**

Martin, you want to start on R&D?

**Martin Mackay - Pfizer Inc. - SVP and President of Pfizer Global R&D**

Yes, thank you, Chris. In terms of the question to the early stage assets, we are certainly looking at a number of things now where we would look to outlicense and partner some of these what we believe to be valuable assets, just not as valuable as others that are in our portfolio. And this will range from single assets to maybe groups of assets. You remember recently our spinoff of RaQualia in Japan, where we put some of those early stage assets into that company, and you'll see a number of things over the next period. In terms of the second part to your question, it's exactly right. We are making trade-offs across a very large portfolio now. We have a terrific R&D budget, and of course when you have a Phase III pipeline that's becoming so replete with a mixture of new chemical entities, product line extensions, license and development activity and pediatric indications, and a Phase II pipeline that's also very healthy, we are making choices both in terms of the disease areas that we work in and the assets we prosecute.

**Jeff Kindler - Pfizer Inc. - Chairman & CEO**

Thank you, Martin. Frank?

**Frank D'Amelio - Pfizer Inc. - SVP & CFO**

Let me hit the dividend item first and just say as we have said before, certain significant events aside, we expect to generate sufficient cash flow to fund the dividend, at least at current levels on a going forward basis. That's what we have said previously. That's obviously where we continue to be. On cash flow, third quarter operating cash flow will be in the 10-Q that we file later on. But the way I can answer this from a cash flow perspective is -- through the first half of the year, we generated almost $8.5 billion in cash flow from operations, about $8.3 billion, and we reiterated our guidance on operating cash flow this quarter for the year, which is $17 billion to $18 billion, which is up from the previous year from 2007 to about $13.5 billion. In terms of breaking that out by country, we don't break out cash flow by country. We don't think that's a prudent thing to do, but those are the overall numbers.

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

Thank you, Frank. Next question, please.

**Operator**

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

**Steve Scala - Cowen and Company - Analyst**

Thank you, I have two questions. First, has Pfizer received an inquiry from the FTC regarding the Lipitor patent litigation settlement? If so, what are the issues and when -- or where does this investigation stand? And I'm also curious as to why you haven't, to my knowledge, announced the status of any review as other companies have when they receive these inquiries --
unless, of course, you haven’t received one, which would be, in my opinion, surprising. Secondly, on Dimebon, can you update us on enrollment in the current Phase III trial and do you plan to conduct a Dimebon plus Aricept combination trial as part of the Phase III program? Thank you.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Okay, Steve, I’ll let Amy talk about the Lipitor patent settlement and Martin will talk about Dimebon.

Amy Schulman - Pfizer Inc. - SVP & General Counsel

Hi, Steve, and as disclosed in our quarterly filings, the FTC review of the Lipitor patent settlement is occurring in the normal course, and we think it will read out on an expected timeline and there’s nothing unusual about that. Martin?

Martin Mackay - Pfizer Inc. - SVP and President of Pfizer Global R&D

In terms of Dimebon, we are now moving full steam ahead for the Phase III study. As you know, Medivation conducted a very nice Phase II study in Alzheimer’s patients which was positive and we are progressing with Phase III with full speed. We will have a number of plans for the Phase III including combinations with such drugs as Aricept. Essentially we will have a full safety program with a [epithanate] compound.

Chuck Triano - Pfizer Inc. - SVP of IR

Thank you, Martin. Next question, please.

Operator

Thank you, sir. And our next question comes from John Boris of Citibank. Please proceed with your question.

John Boris - Citi Investment Resarch (US) - Analyst

Thanks for taking the questions. Two part question. First part has to do with the adapting to scale initiatives -- if you do look forward to the 2011 to 2013 time period, a lot of your -- quite a few of your peers have already outlined cost saving initiatives going forward to attack that cliff. Your cliff is relatively substantial in that period, a little over $9 billion of US revenue exposed to exclusivity losses. When -- what is the timing for potentially initiating another adapting to scale initiative that could certainly potentially rightsize the organization for that cliff in the future?

And then secondly, Jeff, you mentioned about making the organization smaller and certainly the power of scale and have outlined six units and certainly you’re riveted on increasing shareholder value. Can you elaborate on your thoughts of how you might be able to unleash some shareholder value from any of these six units through either a spin or a split-off? Is that any part of your consideration to improve growth of the organization -- long term sustainable growth of the organization by containing some of that risk in one of those units that you could split or spin? And then your thoughts of a combination of M&A possibly in the mix with that also? Thanks.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Okay, John. I’ll let Frank address the first question and then I’ll respond to your second question.
Frank D’Amelio - Pfizer Inc. - SVP & CFO

So the way I think about this is, first, we have made very nice progress this year on our cost reduction initiatives. So $1.7 billion achieved now cumulatively -- we had a target of $1.5 billion to $2 billion. We have now increased that to at least $2 billion, so think about that as at least another $300 million between now and the end of the year as we finish off those numbers. I think we’re demonstrating good execution, positive track record relative to being able to improve our processes, take the cost out of the business efficiently. I think secondly, from our perspective, efficiency improvements, operational improvements, cost reductions is a continuous thing. It never ends. It’s something that we do perpetually and that we will continue to do.

In terms of going forward -- and the way I think about this is we will have another earnings call in January. As we do on the January earnings calls, something we typically do as a normal course of business, we’ll provide guidance on that call for 2009. As we give guidance on that call, we’ll also include the various elements of our income statement and that will include levels of cost -- so guidance on cost of sales and some of the other line items on the income statement. So we’ll provide information on this as we normally do on the January earnings call.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Thanks, Frank. And on your second question, John, I understand the question -- we are always looking at opportunities to increase shareholder value. These units are relentlessly focused on creating value and setting up businesses in which they can pursue revenue opportunities appropriate to their customers and establish cost structures that are appropriate to their businesses.

Chuck Triano - Pfizer Inc. - SVP of IR

Next question, please.

Operator

Thank you, and our last question comes from Seamus Fernandez of Leerink Swann. Please proceed with your question.

Chuck Triano - Pfizer Inc. - SVP of IR

Seamus? Is he there?

Operator

Yes, he is. Please proceed with your question, Mr. Fernandez.

Jeff Kindler - Pfizer Inc. - Chairman & CEO

Okay. Maybe we covered it.

Chuck Triano - Pfizer Inc. - SVP of IR

Operator, my understanding is there are no other questions in the queue, so I want to thank everybody for your time today. I know how busy everyone is and we look forward to talking to you again soon. Have a good day.