

# FINAL TRANSCRIPT

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## **VZ - Verizon at Citigroup 17th Annual Entertainment, Media and Telecommunications Conference**

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**Mike Rollins**  
*Citigroup - Analyst*

**Ron Lataille**  
*Verizon - SVP of IR*

## PRESENTATION

**Mike Rollins** - *Citigroup - Analyst*

(technical difficulty) investment research, and welcome to our presentation and then fireside chat with Verizon. Today, we are pleased to be joined by Ron Lataille, Senior Vice President of Investor Relations. And I will turn it over to Ron with some opening remarks and some comments, and then we will get into a little chat and then open it up to the floor.

But before we get started, please note that there are disclosure slides available for this presentation at the registration desk. And there will also be a slide with disclosures at the end of the slide presentation.

So without any further delay, Ron, I will turn it over to you. Thank you.

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**Ron Lataille** - *Verizon - SVP of IR*

Thank you, Mike. Glad to be here with you all today. I hope the conference is going well for you all.

Why don't we start off with our Safe Harbor statement, always a necessity, and I need to call your attention to this. It's a reminder that we may make some forward-looking statements that are subject to risks and uncertainties during the course of this presentation. And of course, you can find all of this information on our website.

So with that, let's start with a quick overview of our business and where we are right now. As you know, our strategy is based on three network businesses -- wireless, broadband and our large enterprise business. All of these platforms are focused on delivering quality growth and creating long-term value. And we have made significant progress this year.

Wireless subscriber growth continues to be strong. We have added 5.4 million net new customers in revenues -- this is through the third quarter. And revenues, particularly from data, are growing very impressively and driving ARPU accretion. We now have 6.6 million broadband data customers, up 45% year over year. And FiOS data has achieved 14% penetration, and we have achieved 10% penetration in our video service, which is getting rave reviews from our customers. I will talk more about that in a couple of minutes.

In the business space, top-line revenues are turning around as we gain market share and continue to win major new contracts with customers. Customer demand and usage in our key strategic services are steadily increasing, and adoption of new technologies is continuing to gain traction in the marketplace.

The result is a growing interest and confidence about both the telecom sector and Verizon's long-term outlook. And what I would like to do right now is talk a little bit about what is driving this confidence. And let's start by looking at our wireless segment.

In Verizon Wireless, we have created the premier industry franchise. It really starts with the power of our business model, which is also the foundation across all three of our network platforms. And that is, we invested early on in a superior network capability. We have increased our scale and scope to become the most efficient carrier in the industry. And we deliver superior customer

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experience. The result is an extraordinary growth engine that has produced across-the-board leadership in financial and operating metrics.

As you can see from the first chart on the graph -- well, maybe you can't see it -- Verizon Wireless has succeeded in increasing service revenues over several years. But I think you know that from the financial results we've been presenting quarter after quarter. But looking forward, more importantly, a growing share of revenues will come from data, and we are positioned to take share in this segment of the market as well.

There are several things we're doing to extend our leadership and maintain our competitive differentiation in this space. We have, bar none, a superb direct and indirect distribution model, which is a key factor in facilitating the high quality of our customer base. We have automated processes within our stores, such as the automated check-in process, to better manage the customer traffic and enhance the customer experience in the store.

And as you know, we are very focused on the data market. About 57% of our retail base, or 31 million customers -- and again, that is as of the end of the third quarter -- are data users. Data ARPU of \$7.16 grew 69% year over year. At 14%, we have the industry's highest ratio of data to total ARPU.

On the content side, which includes all consumer download services and subscriptions like ring tones, V CAST and mobile Web, we are also posting great numbers. In the third quarter, customers completed more than 68 million downloads of games, ring tones, ringback phones and exclusive content. That is nearly double the amount from a year ago.

Earlier this week at CES, we announced V CAST TV, the first truly live broadcast mobile TV service. Within the next couple of months, Verizon customers will have the ability to leave the house and still watch many of their favorite TV programs while on the go. We are really excited about this new service.

I think you saw this week, again, as part of the press conference at CES, an increase in collaboration between wireless and wireline. Where appropriate, we're working together to source content for both of our platforms. For example, a FiOS customer will have the ability to view V CAST content on the V CAST Showcase channel on FiOS TV. And in the future, customers will be able to use their Verizon Wireless device to program their DVR. So it is a great story on the wireless side.

Let's take a quick look at broadband. The model for broadband is very similar to what we just discussed in wireless. And again, it starts with investing in a superior network capability, increased efficiency through scale and scope, and delivering superior customer experience and service.

Our goal here is to transform the telecom franchise into a broadband business. Within the next three to four years, we will have covered up to 60% of our footprint with fiber to the premise. This will allow us to serve a very attractive market and a large customer base with state-of-the-art products and services like FiOS data and FiOS video.

Our strategy here is to leverage our relationship with the customer to drive higher ARPU with more bundles -- voice, data and video -- as we move up the value chain and realize more value from each and every of our customers.

Now, you have all seen our FiOS results and heard our guidance for subscriber penetration growth, so I won't repeat all the details and numbers on this chart. But what I would add is that FiOS is proving to be very, very popular with customers, particularly as a video service.

When you think about the new and innovative features, like the interactive media guide and digital media platform that we also introduced earlier this week as part of CES, you begin to see the tremendous growth potential that FiOS has.

This next generation of FiOS TV provides customers with new tools that will allow them to easily navigate, personalize and enjoy all of the digital media that they have, whether it is on the PC, on the TV or wherever in the home. And over the next year, you

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can expect us to build on this launch by delivering Internet radio and video content to the living room, expanding our gaming offer to leverage the low latency and high bandwidth experience that these types of gaming users really appreciate. And we are going to see more personalization of the viewing experience with adding community-based programming.

So again, a lot of excitement around this that no one else is able to do. And again, as I said before, it is all based on the investments that we are making in our highly reliable all-fiber network that extends all the way to the customer's home.

The important thing here is that the strategic and product platform is unsurpassed. And customers, as we are increasingly finding, absolutely want the FiOS services. I suspect that some of you here in the audience have it. So this new service will allow us to meet customer needs, plan for the future and, of course, keep ahead of the competition.

Let's move now to the business sector of Verizon. And as you know, this part of our business serves the large business and government sector and customers worldwide. We have a significant local-to-global network capability here. We have the industry's most interconnected IP backbone with a reach that extends to 150 countries, more than 2700 cities on six continents. And we have 4500 global points of presence overseas.

We are very well positioned in the emerging growth areas like IP-centric products and services for the large global business market segment. And this is evident in the growth of our strategic services, which have grown 25% for the year on a pro forma basis -- that is what we reported in the third quarter.

As demand for these IP-based applications and managed services and wireless grow, we see tremendous opportunities to offer really a powerful value proposition to customers and drive top- and bottom-line growth in this sector.

So we have plenty of size and scale here. But as you know, this business is a lot more than just the physical network assets. Our strategy in the marketplace is really centered on the customer. We have a sophisticated, very demanding customer base that is looking for a service provider that can provide a total range of solutions and is easy to do business with. We have a lot of opportunities to grow market share here, reduce costs and achieve profitable growth. One area that we will be particularly focused on in 2007 will be in reducing access costs as a way to improve profitability here.

Now, I know that many of you here today are probably focused in your own models and analysis of Verizon in two areas -- FiOS dilution and merger synergies. First, the dilutive effects of the FiOS initiatives, we see that as peaking in the fourth quarter of this year and the first quarter of '07, as you can see in the chart here. And then after that, we expect really a steady improvement in dilution as we move through 2007.

FiOS EPS dilution includes cash costs, of course, non-cash costs such as depreciation and imputed interest. It does not include the cost savings related to moving a customer from our copper to our fiber network. And as you may recall from our announcement in September at the FiOS briefing session, we provided guidance that that is estimated to be about \$110 per line per year of savings when you do that. And that is not shutting down the copper network; that is just moving a customer over.

So you should really consider FiOS dilution guidance that we have given you as really gross dilution. It is not net of some of the savings that I just talked about. And we really do believe that we have ample opportunities to reduce the costs over the next few quarters. We will be talking more about this at our earnings release.

We are implementing [Moker], which requires no new wires and simplifies the installation process. We are reducing the unit cost for the broadband home router, which is expensed in the home. The set-top box is capitalized, as you know. And we are automating the PC installation and PC network configuration and router configuration. And finally, we're also moving towards really remote service activation and maintenance, so you can dramatically reduce the truck role once FiOS has been implemented.

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So these are some of the efforts that we have underway that will save time and costs and get the dilution to the targets that we're talking about. As FiOS increases in scale, the focus should really be on the overall profitability of the business and not on this gross dilution metric, is my feeling here.

On the MCI merger synergies, we are on track to achieve our stated target. We are achieving these synergies through, of course, headcount reductions, sourcing savings, network optimization and traffic migration, most of which we accomplished in 2006. And we are absolutely looking at achieving our total synergy target of \$1.1 billion in 2008. And we think this number is very, very doable.

We have a number of systems integration projects currently underway that will really reduce costs even further and help us achieve these synergies, particularly in 2007.

In addition to synergies and the FiOS-related expense savings that I just discussed, we do have lots of other cost reduction opportunities that we are involved in, which involve automating our processes and other lines of business and really consolidating functions across our operations.

So before I wrap up, a couple of words on our corporate initiatives, starting with the spinoff of the directories business. I think you are all aware that in November, we completed the Idearc transaction. We issued a stock dividend to Verizon shareholders, one Idearc share for every 20 shares held in Verizon. And the market has reacted, I think, very positively to Idearc and the value we have created with that spinoff.

Many of you probably already know this, but we recently filed an 8-K with the SEC which provided historical information for continuing operations for the first quarter of 2004 all the way through the third quarter of 2006. This information, which is also on our IR website, will help you update your models, particularly for 2006, so that they more accurately reflect continuing operations after the spinoff of Idearc.

And I think this is particularly important as investors develop their estimates for 2007, that they have the right adjusted base for 2006 and not mix the one-time structural change, that is the directories spinoff, with what true ongoing operations are. So I'd encourage you to look at that closely.

So in summary, investors looking at us should see a great customer base, great network assets and a focus on investing for future growth, clearly. You will see continued innovations like V CAST TV and the FiOS multimedia platform that we announced. You will see many more new innovative services like that coming forward.

Our management team is very focused on meeting customer needs, keeping ahead of the competition and producing profitable growth. Our fundamentals will continue to get better. And we have ample opportunities to drive improvement within the business. And finally, we have taken several strategic steps that have created value for our shareholders.

So Mike, that concludes my opening comments, and open it up, I guess, to questions.

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## QUESTIONS AND ANSWERS

**Mike Rollins** - Citigroup - Analyst

Why don't we start with a little impromptu fireside chat, and then we will turn some questions over to the floor.

I guess the first question relating to the asset divestitures that you just referred to -- there has been press reports over the last couple of days around what is happening with the CAN-TV investment that you have. And I was wondering if you can just provide us with an update as to how we should think about some of these reports and what we should be looking for?

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**Ron Lataille** - Verizon - SVP of IR

Sure. Well, there's really not a whole lot to say here, obviously. We are very much aware of the comments made by Chavez. And we are trying to understand and assess the impacts here. But at this point in time, until we really get a better handle on the facts behind the situation here, our option, there's really not much else that we know at this point.

**Mike Rollins** - Citigroup - Analyst

And just for background, what are the big issues, from your perspective? Maybe you can just give the audience a brief overview of what he is looking to do.

**Ron Lataille** - Verizon - SVP of IR

Well, Chavez has announced that he wants to nationalize several of the industries. And there has been several countries in that part of the world that have done this in the past. And so he has looked at the oil industry, the electric industry, the telecommunications industry.

So what we don't know at this point is how factual that is, and if it is factual, what type of compensation would be involved. We don't know timeline. So we are working with the State Department and others, obviously, to gather all those types of details. And until you really have that, it is tough to say, okay, what is the ultimate impact on the business.

**Mike Rollins** - Citigroup - Analyst

The second question I had was looking at the announcement from December around further restructuring, bringing wireless and wireline together operationally, it is something that you started well over a year ago. And I am curious to learn, is that just another step in the process, and as you continue along that, is there a deeper cost restructuring as you integrate labor? What should we be thinking about and what should we look for on that front over the next year?

**Ron Lataille** - Verizon - SVP of IR

You are referring specifically to the announcement --

**Mike Rollins** - Citigroup - Analyst

That industry -- or wireline/wireless.

**Ron Lataille** - Verizon - SVP of IR

Yes, very excited about the reorganization there. And I don't have any new announcements here to give you as far as some of what is going to change as we move forward. Again, our earnings release is on the 27th. So stay tuned more for -- the 29th, excuse me, January 29, Monday -- so stay tuned for that in more details.

But that being said, we are constantly changing our organizational structure to meet the strategy as it evolves. And I think now is the right time. Larry Babbio, who has been just a great visionary within the business and a pioneer of FiOS and FTTP. He has decided to retire. And so it was the right, I think, to start looking at some different structures for the next phase of the business.

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So it was more than just Denny Strigl being named as Chief Operating Officer. But we also integrated the marketing side of the house under a Chief Marketing Officer, and on the IT side of the house, we are integrating all three IT organizations under a single CIO.

So to your point, we are looking at more cost savings opportunities that may come from that and even further organizational changes. But again, I am not here to give you any more announcements or any particular cost program other than to say that there is tremendous opportunity here. More to come.

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**Mike Rollins** - Citigroup - Analyst

On the MCI side, you talked about the synergy numbers. If you look at the run rate in the third quarter of 2006, is the prospect to do better -- what are the catalysts for MCI synergies to be better or just simply maybe in line with what you laid out?

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**Ron Lataille** - Verizon - SVP of IR

We achieved \$350 million of synergies through the third quarter. Our target for 2006 was \$550 million. And we have said everything but we will hit that target for '06. But the exact numbers will be discussed at the earnings release.

But most of that has really come, as I said in my comments, from headcount reductions and migrating traffic onto our network. And we have completed that part of it. Some of the bigger dollars come from the systems integration work and the new systems that are being brought on right now. So much of that is in work. That is one of the primary areas that you will see us talk about in 2007.

So we are on target with our MCI synergies. I will talk more about it at the fourth-quarter earnings release. The \$1.1 billion, which is the overall target through 2008 -- very, very doable, should be no problem in achieving that. So we are on schedule and it's working well.

The integration of MCI is beyond just synergy numbers. It has gone remarkably well and remarkably smoothly. They really have a fantastic network. And I think if there was any area of the business that required more help, it is on the IT on the systems side. But that is not really a surprise. We knew that going in. But the network itself is fantastic, and it really facilitated moving the volumes over very quickly.

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**Mike Rollins** - Citigroup - Analyst

As you look at some of the FiOS dilution numbers that you've thrown out for 2007, can you give us a sense of the level of incremental growth that is built into those types of dilution numbers?

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**Ron Lataille** - Verizon - SVP of IR

Yes. If you take -- we haven't given guidance of specific net adds for both data or video by year for 2007, but quite frankly, if you look at the overall targets that we gave you in September, where we said look for FiOS data, we expected to achieve 30%, 35% of penetration by 2010, and we would get 20%, 25% penetration of video by 2010. If you look at what numbers we provided in the third quarter and you kind of just extrapolate out, it's a reasonable extrapolation there.

But what we're finding is on the video side in particular, there is an unbelievable demand for the video service. And we are finding that customers really are seeing a differentiation in the product, both in the quality of the product, the number of HD channels that we are offering, now with the new interactive programming guide -- so all of that is driving even more demand for the service. So I think you will be very pleased with the results that we provide there.

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**Mike Rollins** - Citigroup - Analyst

If you look at the RGU number that you threw up on the board earlier, it seemed kind of flattish --

**Ron Lataille** - Verizon - SVP of IR

Flat in the quarter, right.

**Mike Rollins** - Citigroup - Analyst

And that is a reflection of the pressure on households leaving, whether it is to cable or to wireless. And if you look at that, how do you think about those incremental pressures in 2007 as cable continues to ramp on the triple play, especially since most of the footprint won't have FiOS marketed. So how do you think about those pressures in 2007?

**Ron Lataille** - Verizon - SVP of IR

Well, those pressures have been there for quite a while now. The mix of the pressures are beginning to change. So where initially you saw most of the pressure coming from wireless substitution and in wholesalers, your UNE-P type of businesses, now it is more cable competition and the voice competition. But you all know that. That is nothing new there.

But if you really peel back the onion, what you really see is that as the cable companies open up new markets, you get a surge of demand on their side. And it is really -- some of them are the same customers that left us originally to go to a UNE provider or a wholesale provider.

So as those new markets open up, particularly in the early part of '07 -- there's one company in particular that is opening up some new markets -- you will see an impact from that. But as we have said, we start to see, as you start looking into later in 2007, more of a leveling off of those -- of our losses to competition.

Now, that is not to say that the access line growth curve is suddenly going to change. We don't see that happening. It is a very competitive marketplace. And that is one of the key reasons that we are doing FiOS. And we will do it as quickly as we can. But we do think that after this initial surge early this year, the losses will start to level off.

Our marketing guys, they've got some really innovative bundles coming out, more integration with wireless. So I think we have plenty of opportunities to compete. The TV service that we just talked about I think goes a long way because that drags with it more data, and it is more retentive to the customer.

And the final comment I will make there on the retentive issue is that you have heard us say that the churn in the FiOS area is less than 1.5% and that is all in, with moves. So it's a very encouraging sign as to our ability to compete in the market with that product.

**Mike Rollins** - Citigroup - Analyst

The other question that I had, and then we will turn it over to the floor for a couple questions, is there's also in a press report, at the same time you are divesting international, you may be going into India and other markets. And I guess that this raises the question -- is there an update on your international strategy that you want people to know about?

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**Ron Lataille** - Verizon - SVP of IR

Do you believe all those press reports?

**Mike Rollins** - Citigroup - Analyst

I think we will ask the question and we will see what you have to say about it, but --

**Ron Lataille** - Verizon - SVP of IR

No, there is no interest in the Indian company. So that was a false rumor -- Vodafone, as you have probably gotten the latest update. But your bigger point about M&A -- we continue to look at a variety of areas. And that is no news. But I think if I were to summarize it, if it is the right -- we don't really have a strategic need to do anything right now. If you look at the three network businesses, we've really got our strategy in place. And now it is integrating it more and implementing in the marketplace. So there is no strategic need to go and hurry up and do anything.

And secondly, we're not going to do anything if the valuation isn't right, if it's not at the right price. So even if we had a hole to fill or something came up that made sense, Ivan has said to me and Doreen has said to me that we are not going to do something unless it is at the right numbers. So I think that is the key point you should keep in mind.

**Mike Rollins** - Citigroup - Analyst

We'll take question from the audience.

**Unidentified Audience Member**

A question about the announcement with Cingular and Apple -- if you guys have the best network -- I think most people in this room like the Verizon network -- it is probably fair to say that Apple approached you. The economics of selling the \$500 Apple phone, does it not work? And what does it mean to you going forward in terms of your wireless business?

**Ron Lataille** - Verizon - SVP of IR

I don't know what the economics are behind the Cingular/Apple deal here. I don't think any of us do at this point. But if you step back and kind of take a look at this from an industry perspective, topside, this industry has really been powered through innovative devices and services provided on the platform.

So the way we are thinking about it right now is that this is great, not just for Cingular and Apple, but for the whole industry, because what it is going to do is it is going to drive consumers to start thinking more about, hey, you know what, what about these other non-voice services that the wireless companies are providing -- different data services, V CAST TV and so on? So we think that is going to drive more interest across the industry. Okay?

On this particular transaction, it appears to be -- this is from my reading the reports, like you are -- that it is very much a niche play right now. It is a very expensive device, \$500 to \$600, with a two-year contract. So I think it is going to be interesting to see just what the demand is and whether it is really intended -- if it is going to stay with sort of a slice of the market.

The other thing that I am finding interesting is, and I don't have all the details from a technology perspective yet, but my understanding is the way to get information into this phone, you need to link it to a PC. So said differently, I'm not sure it has the 3G broadband capability, which then says just how mobile is this phone? What can you download into it?

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So I am particularly interested to see how that plays out. But my main comment, if you look at the overall industry, this is a very positive innovation for the industry.

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**Unidentified Audience Member**

I have two questions. The 118,000 video subs -- to what extent do they come from either the satellite or cable base or from people who did not have either?

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**Ron Lataille - Verizon - SVP of IR**

Right, on the video side -- it is pretty much following the market share between the DBS satellite providers and the cable companies. So if you will allow me to kind of round, it is sort of like a third from the satellite business and two-thirds from the cable company. That is pretty much where they are coming from.

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**Unidentified Audience Member**

And on the data subs, the 522,000 data subs, what percentage of those would come from your own DSL base?

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**Ron Lataille - Verizon - SVP of IR**

It is about a third. About a third are migrating from our own DSL to FiOS data. And then the rest are coming from a variety of sources, including dial-up -- a surprising number come from dial-up that did not have high-speed service previously.

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**Unidentified Audience Member**

And cable broadband as well?

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**Ron Lataille - Verizon - SVP of IR**

Yes.

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**Unidentified Audience Member**

I am curious if you have a statistic on this. 15 years ago, somebody moved into an apartment or home, they would phone Verizon and get hooked up. Do have any statistics now that when people move into a condo, a single-family residence, an apartment to rent, what percentage of those people don't even consider wireline and just continue to use their wireless?

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**Ron Lataille - Verizon - SVP of IR**

Yes. There has been some industry statistics about the number of homes that are wireless only. I have seen 10%, 8% types of figures. But here is a couple of things, a couple of observations, that the younger generation, particularly those that have gone off to college -- these are things you know anecdotally -- they get a cell phone and then once they are on their own, they stay with the cell phone. And they are not getting a wireline phone until many of them establish a family. That seems to be a trigger point. And when they establish a family, then they want the security and they want another line in the home. So we're seeing that type of phenomenon.

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We are also seeing that as people move around, as you mentioned, somebody moving into a new apartment, it used to be the first thing you did is get your telephone established. So many people now, they already have their cell phone, so their first call is usually to the cable company to get their cable service established.

So of course, we have taken steps to address that, so that if we know if a customer is moving from New York to New Jersey, we can now -- and they have service in New York -- we can route them right over to the New Jersey service and get it all done so that they don't even have to make a phone call. So just simple operational changes like that can make a difference in the competitive dynamic.

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**Mike Rollins** - Citigroup - Analyst

We have time for one last question.

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**Unidentified Audience Member**

I'm curious if you could describe the nature of your relationship with DirectTV. Do you view them as more of a partner or a competitor? And how do you see that changing going forward?

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**Ron Lataille** - Verizon - SVP of IR

The DirectTV has been a very strong partnership. We see that continuing. You know, we have announced that we plan on passing 18 million homes, which is about 55%, 60% of our overall line base. So all the other lines outside of FiOS, our intent there is to continue the partnership with DirecTV. Customers really like the service and the bundling. So no change that I am aware of in that partnership.

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**Mike Rollins** - Citigroup - Analyst

Thank you for your time.

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**Ron Lataille** - Verizon - SVP of IR

Thank you very much for having me here.

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