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GE - Q1 2004 General Electric Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the General Electric first quarter 2004 conference call. At this time all participants are in a listen-only mode. My name is Nicole and I will be your conference coordinator today. If at any time during the call you require assistance, please press star 0 and a conference coordinator will be happy to assist you. As a reminder this conference is being recorded. I would now like to turn the program over to your host for today's conference Mr. Bill Cary, Vice President of Investor Communications. Please proceed.

William Cary - General Electric - V.P., Corporate Investor Relations

Thanks very much, Nicole and good morning and welcome. Joanna and I are pleased to host this first quarter earnings conference call for GE. Remember this is a webcast so I'd ask at this point that you refresh your browsers so you can see the materials. You have the press release from this morning and the slides that we will be walking through are available on our website at www.ge.com/investor along with some supplemental information. If you don't see it, again, please refresh. You can download and print and follow along. As always elements of this presentation are forward-looking and are based on our view of the world and our businesses as we see them today. Those elements of course can change as the world changes and we ask that you interpret them in that light. We will cover our current quarter performance our outlook for Q2 and the total year and allow some time for Q & A's. To do that we have Jeff Immelt, our Chairman and CEO, and Keith Sherin, our CFO this morning and with that I'll turn it over to Jeff.

Jeffrey Immelt - General Electric - Chairman, CEO

Great thanks, Bill. This has really been a great week for our company. On Tuesday we won a position on Boeing 77 dream liner. Today we closed the Amersham transaction. We think both of these moves will help GE grow not just in the short-term but for decades and really positions us in a very strategic way. We also are here today to talk about a very strong first quarter. We had economic growth continuing at a strong pace with total orders up 20%. And while we still see some inflation from oil and other commodities we feel very good about the position of our total businesses. The portfolio is performing well. We had 9 of 11 businesses up double digit. It's really the broadest growth we've seen since the first half of 2000. A very good cash performance. Aircraft engine commercial spare parts were up 19% and X-energy and pension revenues were up 13% and earnings per share were up 17%.

Our financial service results were excellent. We're really in great position from both a growth and a risk management position and the aircraft on the ground has reached zero so we feel very good about that. The initiatives are driving growth. The growth platforms are up almost 30%. Services had a 13% operating profit growth. And as I said earlier we closed the Amersham transaction today and we expect both NBC Universal and Genworth to be completed in the second quarter. So the company's in great shape and we have very strong momentum going forward.

We are winning in the marketplace. When you look at the first quarter wins, we had great broad based growth in energy with some big wins in Wind and we continue to solidify our position in China. Healthcare introduced some new products, most notably the 64 SLY CT scanner and our China orders grew 15%. In addition to the 77 win, transportation had some very strategic wins with \$2.9 billion of new engine and service orders and we also shipped 11 GE Evolution locomotives, which are an advanced locomotive, and announced our alliance with Honda for the microchips. In commercial finance we closed three strategic acquisitions, they're going to add to long-term growth this year. In consumer finance we continue to have great organic and inorganic growth with total assets in consumer finance growing more than 30% in the quarter.

NBC retained its leadership and we are really proud of the performance by Bravo and Telemundo which really demonstrate the great programming strength we've got inside the company. Infrastructure continues to be very well positioned for the future and we solidify our position in key growth segments like security with an acquisition like the one at InVision and continue to get good water wins. Advanced materials had very strong orders particularly in China and we continue to see good penetration and good global growth, and OSIs delivering. Consumer and industrial is really executing on our high end strategy seeing profile units up 20% and monogram units up 11%. Very strong broad based marketplace wins.

If you just look at the next page from an orders standpoint, our infrastructure orders were up 41%. We see great growth almost everywhere across the board. Our flow businesses like plastics and silicone, appliances, industrial systems and infrastructure we are seeing the broadest, as I said earlier, the broadest growth we've seen in many years, and great momentum going in the second quarter. The service business continues to see nice stable high single digit, double digit type growth. Healthcare was up 11%. Energy up 16%. Very consistent. A strong order rate growth. So all the momentum we saw in the 4th quarter when orders were up 19% we see in the first quarter with orders up 20%.

The next page just takes you through a similar look from a financial service standpoint. In consumer finance assets up 38%. That is both FX and organic growth but very strong over all with delinquencies down. Very stable delinquencies and nonearnings. And from a mid market standpoint we saw a 31% growth. About

11% organic, 20% through acquisitions. And again, a great delinquency and risk management performance. So very strong first quarter for us. Very broad based. And with that I'll turn it over to Keith to go through some of the details of the financials.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Thanks, Jeff. Let me start with the overall summary for the company and then I will go into the details by business. Revenues at 33.4 up 10%. Very strong industrial sales at 16.7. We're up 6%. You can see the impact of the power bubble here Ex-energy up 12% on the industrial sales. Financial services revenue very strong up 14%. Or contributed values or our net revenue after removing the impact of interest expense for our commercial and consumer finance businesses up 24%. And that is really driven by the asset growth we have had in both those businesses on average over 21% asset growth in the quarter. Net earnings at \$3.2 billion, up 1%. We talked about EPS of 32 cents a share at the high end of the range. When you look at the reported number including the impact to the accounting changes we had last year in the first quarter it is up 7% on EPS, 8% on earnings and our operating cash flow at \$2.6 billion up 67%. I'll show you the details on that.

I thought on the right-side it is helpful to look at the broad strength we have in this business performances quarter. If you look at the metrics ex-energy and X to noncash pension revenues up 13 for the company, earnings up 16. And EPS up 17. And then when you look at 32 cents a share and you compare it to last year's 32 cents, it is just a view of how is the broad portfolio performing. Energy is down 2 cents. And I'll show you that is really driven by the terminations of some lower gas turbine shipments. A pension as a noncash charge is down 2 cents. So our pension income in the quarter is basically zero. \$4 million after-tax and that is down 2 cents and then our insurance dispositions that we completed last year as we repositioned the insurance portfolio. We don't have those earnings any more, that is a penny.

So when you look at what we are getting out of operations, 5 cents, it is really broad based growth and I will show you the segments and I'll show you how those different businesses are performing. Then on the bottom right a point about the tax rates. Our industrial tax rate which is listed as XG Capital Services, GECS, is down from last year. It's at 25% which is consistent with what we had all last year. And consistent with our outlook for the total year. That is down and our GE Capital Services tax rate is 22%, that is up in the quarter about 6 points. And so in terms of net income the two tax rate impacts in terms of net income offset each other so we have a really nice growth from a strong core. The breadth in the portfolio is showing through and the known headwinds of power and pension and some of the insurance dispositions are impacting the earnings.

So here is a look at the segment view. This is on the 11 business bases that we have talked to you about in the annual report and we

gave you the recast 8-K showing the data by business now. Everything here is right in line with what we gave as quarter one guidance in January. At the top of the list is energy. The revenue and profit are down. But it's slightly better than our plan and what we had as our expectations. You can see in the middle of the page the growth engines. Strong quarter on both the top and on the bottom line. I'm take you through some of the pieces of those. Then on the bottom the cash generators had a very strong quarter on the bottom line. Insurance is down because of the dispositions that we did last year. And then in equipment and other services you can see the revenue numbers up. That is principally because we consolidated our Penske operation in the first quarter. So overall a great quarter from the broad portfolio.

9/11 business is up double digit profit growth and I will be able to take you through the pieces in a minute here. The next page is about the cash flow. We had a just a tremendous cash flow quarter, obviously going from \$1.6 billion of operating cash flow to \$2.6 billion, up 67%. If you look at the two parts, first of all, from GE Capital Services we've got our 10% of earnings dividend and on top of that we had another \$200 million which is the final proceeds from last years insurance disposition. So \$200 million of the 400 this year is coming from the disposition programs we had last year and then on the bottom the industrial \$1.4 billion going to \$2.2 billion so \$800 million. About \$150 million of that is from our working capital improvements and the balance comes from our cash management programs. We've continued to have the cash councils and the cash management operations focus that we had last year and we had a tremendous success in running the company to make sure that we are optimizing everything from a cash perspective.

Even if you look at cash flow from operating activity X progress it is up 40% on the industrial side. So this was a terrific performance, we got \$400 million of benefit in working capital in that \$2.2 billion. We talked about the insurance deal driving the GECS dividend. The total year here is on track for the 10 to 15% increase. On the right-side I've given the cash balance walk, \$1.7 billion beginning balance. The CFOA of 2.6 from the left-side of the chart. Paid \$2 billion to dividends. We've suspended the repurchase during the issuance of the shares for both Amersham and Universal purchase. P & E about \$400 million, we had some small dispositions a little less than \$100 million associated with medical space labs and theme. And then we raised the universal proceeds to \$3.8 billion. So you can see that our cash balance has grown up \$4.1 billion, we are ready to close the Universal deal basically and we had \$300 million of free cash flow on top of the dividends in the P & E. So we're really, really, very happy about the cash flow progress starting the year.

The next page is on GE Capital Services funding. If you look we ended the quarter with debt of \$303 (INAUDIBLE) Commercial paper at \$82 (INAUDIBLE) is 27% of the stack. In the -- well in the range obviously of our 25-35%. We got great coverage on our backup lines. And on the right-side we've issued \$14 billion of

debt year-to-date against the target of 50-60 billion. We have 38 of maturities and the rest will come based on how much growth we have. We issued all around the world. We've got great retail demand. Our spreads continue to tighten and we replenished our shelf, we filed a 30 billion shelf in the quarter to be able to continue our programs hear at Capital.

Just on one other item here on parent supported debt we started and ended last year started this year with \$7.9 billion of parent supported debt. At the end of the first quarter that is down to \$7.5 billion and we have a clear path to get that below \$5 billion by the end of the year. When you look forward at second quarter, in December, we gave guidance for the second quarter of 37 to 39 cents. We recently updated that guidance to 39 cents predeals, I will show you what I mean by that and here are the ranges how we expect the segments to perform. And you can see it's a pretty similar profile the first quarter with Energy down as we expect. Strong performance from both the growth engines and the cash generators and we expect 8 to 9 out of 11 businesses here to be up double digit in the quarter. The current view of 39 cents of earnings per share from operations is the high end of the guidance that we gave.

We will have some transaction impacts from the Genworth IPO, the closing of Amersham and the Universal closing that are not in the 39-cents and I'll show you that later in the pitch. And we have some more detail about the quarterly splits that we put on the website in supplemental data. So now let me jump into some of the businesses. First transportation. We had a great quarter in transportation. Revenues up 14. From higher unit shipments and higher spare sales. Op profit up 15. It is really driven by strong growth in the commercial and military spares. Partially offset by some increased shipments of lower margin commercial engines.

We had 16 GE 90 engines this year in the first quarter versus 6 last year that impact our margin mix and we also have less aero derivative units that were going into the power generation space that offset some of the spares growth. But you can see the spares sales growth was tremendous. \$12.3 million a day. Up 19% on the commercial side. Military was up 10%. Commercial engine shipments were up. Military engine shipments were up and we had a great quarter in rail with 43 more locomotives shipped up, 36%. So a terrific quarter, units and services and cost control and the second quarter dynamics look the same. We expect op profit to be up about the same. Spares should continue. We're looking for a \$12.6 million average daily order rate. About 13 million in the first quarter as Jeff said and strong shipments on both rail and military units, and continued cost discipline. So quarter looks pretty good.

On the ride side is Energy. Again as I said it's a little better than plan at what we had said previously. Revenues down 12 and operating profit down 28. It is really driven by four factors. The first factor and largest factor is that we don't have any terminations this year. We had those last year. The second factor is we have some lower shipments of gas turbine units. 36 units this year

versus 54 last year. That includes Greenville and our European gas turbine shipments and that is partially offset by a tremendous growth in service. Revenue was up 9 in the quarter operating profit was up over 20, and a tremendous growth in oil and gas. Revenue was up 15 and operating profit up over 50. So when you look at those four factors that is what gives us the revenue and the operating profit impact.

We continue to win in the growth markets. We firmed up orders in China of \$600 million, about three-quarters of that were the finalization of the bundle buy orders. We have broad based growth in the rest of the business services up 16, oil and gas up 11 and I mentioned the turbine units and the terminations that we don't have repeating from last year. So second quarter dynamics are also similar here for power. Profits somewhere down 25-35. No terminations again in the quarter. 214 million last year and service sales very strong and oil and gas will be strong as well.

Looking at some of the financial services highlights here. Consumer finance on the left-side had a very strong quarter. Assets up 38%. \$30 billion. Some of the pieces of that we had acquisitions contributing \$17 billion. Core growth very strong up \$11 billion. We had some benefits from foreign exchange about \$8 billion. Offset by the lack of having the Home Depot portfolio which is about \$6 billion so that gives you the asset growth. When you look at how the income came out, up 10, we had very strong core growth up \$60 million. Good productivity. Acquisitions contributed about \$45 million and those factors offset the impact of the Home Depot performance in the portfolio and securitizations that we had last year which are down \$31 million year-over-year. So overall up 10%.

Great asset quality around the world. U.S. and Europe solid. Continue to have progress in Japan on bankruptcies, working delinquencies, and collections there. Great ROE in Japan. I think the other point here is that Dave Nissen and his team are making significant investments in the business. We have \$43 million after-tax of cost in the quarter here for new products like the dual card that we are launching around the world and has been very successful in the initial launches globally, and the GE money brand to drive organic growth. So a pretty strong story in the quarter and we've got a great future. The second quarter looks like about 15% net income growth. (INAUDIBLE) asset growth is going to power that. Great operations and risk management, and good asset quality around the globe.

On the right-side is Commercial Finance, also had a tremendous quarter. Assets up 8%, up \$17 billion. It was principally driven by the acquisitions. We added \$14 billion in assets from the three deals listed, TransAmerica, which gives a great, great position in vendor financing. Sophia real estate deal in Europe and HPFC which Jeff talked about. We had a lot of core growth in the quarter. For net income growth we had about \$60 million of core. About \$65 million from acquisitions and we had lower losses in both aviation and telecom that drove the 10% earnings growth.

If you look in the supplemental data and see how the businesses performed we had the commercial loans and lease business at \$581 million in net, was up 24%. Tremendous performance driven by that core growth, as I mentioned acquisitions. Aviation \$144 million net, up 7%. Which is a great performance in this environment. And real estate \$230 million down 14%. We didn't have the repeat of some of the gains we had last year from the sales of properties, and MECP portfolio, and Central Norte, were about \$100 million last year. So overall a tremendous performance by the commercial finance team. We love the asset position. Nonearning assets are down. Write offs are down. The reserve coverage as a percent of nonearnings is up. The second quarter dynamics look pretty good. Up 15% on net income with strong asset growth and the asset quality continuing and the acquisition contributing. We just closed the IKON transaction, about a billion five of assets last week. So a pretty good story there.

Healthcare. This is pre Amersham which closed today as Jeff said. Revenue up 17%. Operating profit up 11%. If you look at the first quarter, and I will give you revenue around the different modalities and geographies we had tremendous performance in Ultrasound up 14%. PET was up 15%. Our Packs business as hospitals continue to invest the productivity was up 18%. China is back up 20% and that was partially offset by MR which globally was down about 15% and CT which globally was flat. The U.S. DI market has softened. The reported industry sales for equipment in the quarter was down about 10%, so we were obviously impacted by that as well as the other competitors.

The team has got very strong variable cost productivity. Instrumentarium is doing very well. Revenues up 7 operating profit up about 12 and the first quarter orders were up 15% in total for this business. Second quarter dynamics we expect the operating profit to be about the same, about 10%. We are thrilled to have Amersham close. We look forward to talking to you more about it and we continue to see the strength in the portfolio that we saw in the first quarter going into the second quarter giving us that operating margin improvement.

On the right-side is NBC. Team had a very strong quarter. Revenues up 8 and operating profit up 15. We had very strong ad revenue at both the network and Bravo and Telemundo and we also have some favorable comparisons to last year's first quarter because of the impact of the Iraq war. Look at the team's performance in the quarter and it is tremendous. Our scatters a little bit up versus last years up front, we expect the next up front to be good. We won the February sweeps and the key demos, 18-49, adults. The schedule is performing very well. Telemundo ratings are great. Jeff showed you the numbers on that.

We have got 75% of the prime schedule we're producing ourselves and the ratings are up 50%. Bravo strength continues the ratings are up 100%. 30% growth in revenue and op profit and in the second quarter we see the op profit up about 5-10. The network

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will continue strong. We are looking forward to a great up front. Friends and Frasier we're going to have the finales on that and we're going to make some money there and we're going to have the toughest programming cost comparison as we've invested to resign things like Friends and Frasier and S Law & Order and then we're expecting the Universal closing in May which gives us a tremendous business platform. So NBC had a pretty good quarter and we're looking forward to the second quarter.

Now go to advanced materials. This is a combination of plastics and silicone and quartz. Revenue is up 12. Op profit up 40. It's great to have this team executing the way they are commercially in the marketplace and see the results turn the way we expected them. Plastic sales volume was up 7%. The order rates were very healthy. The ADORs, the Average Daily Order Rates, were up 9%. Electrical, media Telecom were all up over 20%. Auto was down about 2% for us but Asia is up 30. Americas was up in single digits. Europe was about flat.

So the volume is very strong and we are very very encouraged by it, it's very broad based, our OSI acquisitions performing well. Organic growth is up over 6%. Quartz demand is very strong. We're really in a nice cycle here. Quartz sales were up 26%. Operating profit was up over (INAUDIBLE)%. And we had great cash performance. Two times net income. So this team is really performing. The op profit is up in plastics over 50% despite the inflation from Benzene so we are continuing to get the offset to that, we think we're really running the business well commercially, as I said, and we look forward to the second quarter.

Again operating profit up more than 20%. If you look at the momentum we have here the ADORs, the Average Daily Order Rates for the quarter they were 6.2 thousand metric tons a day. The last eight weeks were 7 thousand metric tons a day, the last four weeks were 7.3 thousand tons a day. So you know we've got some momentum here. The price is stable. It's up three cents in the second quarter versus first quarter. We built a backlog of about \$65 million. And we are dealing with the Benzene inflation. We expect about \$2 a gallon in the second quarter. We closed the first quarter at \$1.90 and we closed April at \$2.35 so we're dealing with the inflation, we got great volume, and we're managing the costs, and it's nice to see the profit turn as we said.

On the right-side is infrastructure, tremendous performance in the quarter. Revenue up 15 and operating profit up 20. You can see the numbers here for sensing orders organically up 18%. Security. Demand is strong. Videos up 20. Thrilled about the acquisition of InVision to build out the platform here. We continue to build out water services. We opened a plant in China. Just to give you some of the orders numbers for the quarter on a reported basis orders were 29% up in the segment. Order was up 37. Security was up 44. Sensing up 10. Fanic (ph) was up 15. And even in total up 29 X acquisitions up 14. So we have got broad-based growth here. We've got a great position as we enter the second quarter from the

Q1 backlog growth. And nice profitability so we are very happy with the growth businesses here.

Insurance. Again, if you look at the results, revenue down 7 and income down 20. It is impacted by the sales of our Edison business life insurance in Japan and the auto business in the U.S. and the Fidjimon (ph) insurance business that we did last year. X dispositions the net income for the insurance segment is up 7% in the quarter. If you look at the pieces, ERC, 140 million net up 16%. That is continued solid pricing and operational execution. We had a very strong operational performance across PNC reinsurance in the business. We did strengthen reserves also in the quarter. Even with that result we strengthened reserves by \$60 million after-tax for adverse development so we continue to work through ERC but the results are strong. Other insurance so the balance X ERC is 270 million net. Up 2% X for dispositions. We're seeing some good momentum in the life business and long-term care segments.

The international mortgage growth continues to be strong and some of that performance is offset by lower gains. We don't have any pro forma results for the Genworth IPO yet. We will be updating those filings as we go through the process with the SEC. When you look at where we are with the IPO, we are on track for a early May offering. We're in the final stages of both SEC and insurance regulatory approval. We plan to sell about 30% of the IPO. And we will sell down the remaining position as soon as it is practical. So we got a great team and they are really on track to execute this in the second quarter. Let me turn it back over to Jeff.

Jeffrey Immelt - General Electric - Chairman, CEO

Great. Thanks, Keith. Just wanted to give you a kind of a strategic update, and give you an update on some of the deals and how they are closing. You know we've talked for a long time about a three-part strategy to sustain a strong business model and I think what Keith just took you through is pretty good evidence of that. 9 of 11 businesses growing double digits, good cash flow and balance sheet performance, and good operational capability. To accelerate organic growth and we're seeing global revenue grow 11%. Service revenue at 8. We've added 1.3 billion of CSAs in launching new products and the growth platform is growing and the strength in the portfolio. So we've got the closure of Amersham, we announced In Vision and both Genworth and Universal are on track.

So we continue to execute a consistent strategy and focus on building a great company for the future. One of the big wins we have had is just a demonstration of the long-term investments we've made in technology on the Boeing 77 Dreamliner with the Genex GE engine. It is really about perpetuating technical leadership and creating leadership in the future. There will be between 2 and 3,000 aircraft sold over 20 years. This is supported by many industry estimates and our view of the aircraft is very

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solid. It really builds on the technology investments we have made consistently. We have invested even through this down cycle as much as a billion dollars a year in R&D and so this builds on that very strong base.

There is very solid customer interest in the aircraft globally. But we're also seeing and importantly we're seeing real interest in important places like China where this aircraft has a very strong fit. This is going to open up years of long-term service potential and future growth. It has always been important for our business and it continues the partnership with Boeing. It is just a demonstration that innovation wins and I think if you look at this industry in commercial aviation from the new joint venture with Honda, through regional jets, narrow bodies, wide bodies up through the range GE just has, you know, broad and long-term leadership that we think we can continue to build on profitably for the future and we are very excited about our positioning in this industry.

The growth initiatives again continue to represent real strength for us. Services we continue to make great progress. Operating profit was up 13%. We had engine spares at average daily order rate up 12%. Energy orders were up 16%. Healthcare orders up 11%. So we are seeing great growth initiatives in services. And our growth platforms are really executing our strategy. We have revenue growth up almost 30%. The services franchise and waters up 29%. Security is growing 17%. We're winning with new programming at telemundo. Healthcare information technology is at a \$2.7 billion revenue run rate and these were businesses that essentially we weren't in three or four years ago so the growth initiatives are performing well and really accelerating and providing a great future.

I wanted again to talk a little bit about the acquisitions. This gives you a sense of GE healthcare and the profile of the business kind of post closing with Amersham and on the top left-hand side it gives you a sense of the financials that exclude the one-time noncash impacts. And it really shows, you know, assuming the Amersham closure today that the business goes from about \$10 billion in revenue with \$1.7 billion of op profit in '03 to \$14 billion and \$2.3 billion of op profit in '04 to \$16 billion and \$3 billion of op profit in '05. The revenue, you know, '05 to '03 is up 60% and the op profit '05 to '03 is up 76%. So very strong substantial business and a very strategic acquisition. We've issued 342 million shares to complete the acquisition and again I would say in the next 30 days we will have the impact of IP R&D and the noncash purchase accounting charges that are associated with this.

The highlights are the Amersham business is in great shape. All its key products are growing in a very substantial way and the pipeline is very robust right now. We've been tracking -- Keith and I have been working very aggressively with the integration teams. and I always look at these deals on two levels. The first one is what are the synergies that are required for us to hit our financial plan and again these are really on track. We had \$100 million in our financial plan '04. 80% of those are now identified and 250 million

in '05, 50% identified. This is very standard vis-a-vis the way we look at previous acquisitions. Then we always launch once we close real upside drivers. Things that can drive additional upside to the base case. In the case of GE healthcare we have got eight growth drivers that we have launched that are really can produce even better results.

An example in ultrasound we are combining our ultrasound sales force business with the diagnostic pharmaceutical ultrasound business within Amersham. We have consolidated all the service businesses inside the GE healthcare service organization so we really see upside with Amersham's equipment businesses and what our service business can drive and China has always been a pretty consistent upside for us, as we can integrate companies that don't have quite the same presence. But, the bottom line is we really have established a real leader for the future in healthcare and we feel great about how the businesses look as we sit here today. Similarly, on NBC Universal, the funding is complete. We anticipate closure in the second quarter of this year. Again this business goes from \$7 billion of revenue and \$2 billion of op profit in '03 to -- then NBC Universal will have \$12 billion of revenue and \$2.4 billion of op profit in '04 and then \$15 billion of revenue and \$3.1 billion of op profit in '05.

The Universal businesses are in very strong shape. The recent movies have been well received. Both USA and Sci-Fi show improved ratings this year. Again similar to Amersham. We have got great deal synergies on track. \$100 million loaded in '04. 90% identified and \$300 million in '05. 80% identified and we've also identified key growth drivers that are going to establish upside for the future. In cable we think we can improve the programming and branding. We think there is great opportunity to accelerate DVD sales and working harder with the library and real progress I think in promotion and cross-selling. So we're on track for May close, but again I think the way to think about these businesses really is that these businesses are going to generate between in excess of \$700 million of net income in '05 and really give us a very fast growth set of industrial businesses going forward in the future.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Jeff, let me just take one look at 2004 EPS guidance now that we have talked about the first and second quarter. On the left-side, our original EPS guidance for the year that we gave you last November was \$1.55 to \$1.65. And with what we've talked about in the first half with the first quarter at 32 cents from operation and second quarter 39 cents with being at the high end that obviously increases the bottom of the range. So we're -- you know when you look at the total year now we are basically dealing with \$1.59 to \$1.65. Today we are also confirming the guidance that we have given of the deals impact which we previously said was 5 cents. Principally Genworth lost earnings from the share impact of Amersham and Universal and then that takes you to a post deal EPS of \$1.54 to \$1.60.

And then the final pieces, you know, these numbers exclude the impact of the purchase accounting at Amersham which is the in-process research and development write off that is required to be taken as well as the inventory and term market value write-offs, and then any gain or loss that we have on the sale of the 35% of Genworth in the IPO. So as you said, we are about 30 days away from being able to kind of firm up these estimates and communicate them to everybody but that is the way the guidance for the year now lays out with the higher estimates in the first and second quarter. Then I thought I would take one other look at the 2005 outlook. We have shown you this chart before. And how we feel about the portfolio going into next year. First of all, at the top of the stack is energy. 2004 is the bottom of the bubble. We see double digit growth for '05. Service and end units are attracting to plan. We've got great global growth in China and Iraq. Oil and gas wins. So we feel very good about that and I think we got a lot of credibility based on the forecasts we had here. In the middle of the growth engines.

This is really a continuation of the performance we see in 2004 and on top of that you get the benefit from the deals. When you get into 2005 we will be out of the phase where we have more deal costs and integration costs and the one-timers and into the positive synergy momentums so we are really feeling great about what our healthcare business and entertainment media business at NBC Universal will be having for us and we think we will continue to have favorable markets for transportation and the growth platforms as we showed you and the buildout of the infrastructure will continue and just a tremendous outlook for commercial and consumer finance as we go into '04 and '05.

Then on the bottom the cash generators. We are not counting on a lot here. We're counting on another good year. But, if you look at the leverage we are getting today in our cash generator businesses, with a little economic pick-up we think those favorable markets will continue and good execution will continue as always in GE and the Genworth IPO is on track and then we'll deal with pension as a noncash change in 2005, whatever it is. We're going to have to see what that is based on both the pension fund return this year as well as interest rates but we have very strong momentum when you look forward and you look at the strength of this portfolio.

Jeffrey Immelt - General Electric - Chairman, CEO

Great. Thanks, Keith. And so I will just wrap up I think a couple of messages. Results very solid as Keith said. Taking the low end of the range out and having the range hit 1 \$1.59 to \$1.65. Broad based momentum. I think more importantly we're seeing real strength across the company as I said earlier kind of the broadest strength we have seen in several years. The company is stronger than ever. Triple A rated. Great balance sheet. Consistent double digit cash flow, the financial services asset quality is very strong, and values continue to drive momentum.

We are executing on portfolio transformation as planned. We are really creating a faster growth industrial company. A more capital efficient financial service company and '04 is kind of working just the way we thought and really gives us great tail wind as we look at the future. So feel great about the company and looking forward to having your questions. Bill.

William Cary - General Electric - V.P., Corporate Investor Relations

Great, thanks, Jeff and Keith. We would like to now have Nicole, open the call up for questions and take it from there.

QUESTION AND ANSWER

Operator

Thank you. Ladies and gentlemen if you wish to ask a question, please press star one on your telephone. If your question has been answered or you wish to withdraw your question please press star two. Out of courtesy to all participants please limit yourself to one question. Our first question comes from Kerry Sturten of Bernstein. Your question, please.

Kerry Sturten - Bernstein - Analyst

Thank you. Just obviously the growth story is unfolding here really well, it was a great quarter. But, I did have a question about healthcare. You know, with sales up 17% and operating profit up 11%, just trying to figure out, you know, why that relationship exists where profit isn't up as much. Is it all related to the CT and MR equipment sales, volumes there, are you playing a sort of market share approach on pricing in Europe given foreign exchange right now? Just can you talk a little bit about why there is what I perceive to be a gap there.

Jeffrey Immelt - General Electric - Chairman, CEO

You know Kerry, what I would say is that there is at least two factors going on. One is that, you know, as Keith mentioned the CT and MR orders are higher margin rates so it is a worst mix and we still have some of the acquisition related expenses with Instrumentarian so you have the revenue without the full earnings fall through and really the combination of those two things, I think, explain the entire gap between 17 and 11.

Kerry Sturten - Bernstein - Analyst

Okay.

Operator

Our next question comes from Deane Dray of Goldman Sachs. Your question, please.

Deane Dray - Goldman Sachs - Analyst

Thank you. Good morning. First as a clarification on the first quarter results what would be the industrial sales X acquisitions and X FX and then a question on your outlook on energy, please.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

You know, FX is probably 3 to 4 points both industrial and capital. Acquisitions, you know, it is -- if you look at acquisitions and dispositions, it is basically offset because we have the insurance dispositions so it is kind of offset if you look at it in total. We have a little bit of revenue growth from the acquisitions. More on the capital side not so much on the industrial side and then the dispositions are probably offsetting most of that.

Deane Dray - Goldman Sachs - Analyst

Good. And then if we go back to your '05 outlook on energy when you talk about a 15% and this is the first growth rate we have seen post bubble, how much of that growth is coming from backlog both from services and units you expect to deliver and how much are you just waiting for further confirmation on orders?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Well, we're going have to -- we have obviously a nice backlog with the services businesses and the TSAs which is a third of the service business there now. The rest of that service business comes in and parts flow and it is pretty steady. As long as people are generating power that is going to come in. The oil and gas backlog has come up but in terms of how much of that relates to '05 we have to update you as we get closer to EPG. I think we are very solid on the backlog that we have for '04 for both gas turbines, steam turbines, oil and gas. Wouldn't be typical for us to have a big backlog number for equipment for '05 here.

Deane Dray - Goldman Sachs - Analyst

Okay. Thank you.

Operator

Our next question comes from Jeff Sprague at Smith Barney. Your question, please.

Jeffrey Sprague - Smith Barney Citigroup - Analyst

Thanks. Good morning. First just a clarification on Q2. The 39 cents excludes deal impact, but kind of looking at the stronger momentum that you have, I'm just -- and the fact that maybe Genworth is happening a little later than you might have thought, that, you know, that actually you could be comfortable with that number including the deal impact given the orders and everything else that is going on?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

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Well, we -- you know, we that talked all along about having a little bit of an impact from both Amersham and Vivendi and if you look at the supplemental data we say it is probably 2 cents from the deals in the quarter including the lost earnings at Genworth. We do anticipate Genworth going early in May and we won't have that segment of earnings any more and that is just going to be the reality. We are working on the portfolio, we are seeing a lot of great momentum, obviously in the orders and in the execution. And, you know, I feel really good about kind of the numbers we've laid out there for your but we will update you at EPG as we get closer and obviously we'd love to have it be better, too.

Jeffrey Immelt - General Electric - Chairman, CEO

You know, Jeff, I think we will have the same kind of momentum we got in the first quarter. We'll have probably nine business growing double digit and with both great revenue and bottom line growth so we think that is going to be sustained.

Jeffrey Sprague - Smith Barney Citigroup - Analyst

Okay. Great. And on power, just looking at the progression in the backlog that you have. Is it conceivable that power profits are up in the fourth quarter or is it really Q1 '05' before we see a kind of year-over-year profit turn in the business.

Jeffrey Immelt - General Electric - Chairman, CEO

No, I think it is king to be close when we get to the end of the year. It's going to be close but I think it is clearly that we start to turn the quarter fully in the first quarter of '05.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Yeah. I think the turn starts in the fourth quarter, Jeff, but I think you will see it in the first quarter. Again, the way I would think about this is our service business in energy is, continues to execute very well. I think you ought to look at that with a great deal of stability. The unit sales are actually, you know, kind of on the high end of what we have been talking about. Global sales are very strong. And so we feel pretty good about, you know, how the global kind of power business looks right now. And basically it is unfolding kind of the way we have seen it? If you look at the first and second quarter just X the terminations, Jeff. You are talking about high single digit downs, 8-9% down in the first and second quarter and right now the op profit estimate and our plan for the fourth quarter is a single digit positive.

Jeffrey Sprague - Smith Barney Citigroup - Analyst

Great, thanks a lot.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Yep.

Operator

Our next question comes from John Inch of Merrill Lynch. Your question, please.

John Inch - Merrill Lynch - Analyst

Thank you, good morning.

Jeffrey Immelt - General Electric - Chairman, CEO

Hi, John.

John Inch - Merrill Lynch - Analyst

Hi, just on GE capitals tax rate, 22% was higher than a year-ago, do you think it's going to be higher for the year which alludes to a higher quality earnings? Why is that, Keith? Could you maybe just walk through some of the drivers behind the differences this year versus last year.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Sure. The rates for the quarter is 22%. Up about five and half points from last year. There is really one main factor and then another little one that I have here. The main factor is we've had pretty good growth in pretax income and over 80% of that growth in pretax income has come in the U.S. And those are obviously earnings that are taxed at a higher rate and so that is a little over 3 points of the impact. And then in addition, with with the higher pretax income we also have some higher state taxes and we have a little lower mix of less insurance earnings which drive some of those higher state taxes as well in terms of mix.

John Inch - Merrill Lynch - Analyst

Okay. And then Jeff, in terms of China, what were your sales there this quarter and where do you see total company China sales ending for the year?

Jeffrey Immelt - General Electric - Chairman, CEO

The total sales are somewhere in the 3.5 billion, you know, \$3.5 billion to \$4 billion range, John, for the year. And just to kind of give you a sense of the plastics orders were up 40% in the first quarter. Medical was up 15%. Power was very, you know, very

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strong in terms of completing the bundled buy. The engines orders again are very strong there. So the orders are up, do you guys have a number on that one, Bill? , the total?

William Cary - General Electric - V.P., Corporate Investor Relations

John, what? I'm sorry. John, we'll have to get you the total China orders for the quarter.

John Inch - Merrill Lynch - Analyst

Well that's fine I'm just wondering if China, I think, based on the 5 billion target you laid out before, Jeff, does it appear that China is heading to exceed those expectations? Based on what you are seeing today?

Jeffrey Immelt - General Electric - Chairman, CEO

I think, John, what you are going see this year is going to be 30-40%. So the internal goal we had to hit five by next year was 3.6 and I think we are right on track to do that.

John Inch - Merrill Lynch - Analyst

Great. Thank you.

Operator

Our next question comes from Scott Davis of Morgan Stanley. Your question, please.

Scott Davis - Morgan Stanley - Analyst

Thanks operator. Good morning, everybody.

Jeffrey Immelt - General Electric - Chairman, CEO

Good morning, Scott.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Good morning, Scott.

Scott Davis - Morgan Stanley - Analyst

I was wondering if we could focus a little bit on some risks out there. Maybe some three standard aviation events something like an air Canada liquidation and some of your U.S. Air exposure and

just talk about, a little bit how you are positioned to handle those risks and maybe refresh your exposure there.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

You know, just from an exposure perspective we have done a hell of a job managing our risk at both Air Canada and U.S. Air. We obviously are secured in our position. We feel like whatever risk we have is reserved. And, you know, I think we're prepared for the worst. We don't want it to happen and we are working on obviously being very constructive but I don't see it as something that you know as you refer to a three standard aviation event. We are really pretty confident about kind of where we are with both those carriers today.

Scott Davis - Morgan Stanley - Analyst

Okay. Can you refresh that exposure a little bit? How much at each?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

In Air Canada, the numbers I have, Air Canada what I have is about \$2.6 billion. Total. And U.S. Air we're looking at about \$2.5 billion excluding the unfunded regional debt commitments.

Scott Davis - Morgan Stanley - Analyst

Okay. Great. Thanks, guys.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Yep.

Jeffrey Immelt - General Electric - Chairman, CEO

And again, I would just, you know, Scott, again the assets we feel great about the assets in both places and with no planes on the ground and kind of the remarketing and other scales we've got, you know, this business is in as good a shape as it has been in since 9/11 for sure.

Scott Davis - Morgan Stanley - Analyst

Fair enough.

Operator

Our next question comes from Martin Sanky (ph) of Neuberger Berman (ph). Your question, please.

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Martin Sanky - Neuberger Berman - Analyst

The question I would have is -- is two-fold. You know, we mentioned the tax rate by both GE manufacturing and GE capital sort of bouncing around this quarter. Are we going to see a similar tax rate moves as the quarters progress just as, just due to the unevenness of things or can we model a consistent tax rate?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Martin, I think if you look at the page we had on the first quarter results where I talked about the tax rates. I didn't talk about it. I should have. The total year estimates for us on the industrial tax rate right now that we're using is 24-26%. So the first quarter rate does reflect what our total year estimate is and, you know, we expect to have it somewhere in that range. So we're right on track and I -- you know, the one thing that I would say is that, you know, when you look at the deals we have to look at what the impact of some of those transactions will be but right now that is our estimate including everything we know. And GE Capital at 22% we've modeled the full year at 20-22.

Martin Sanky - Neuberger Berman - Analyst

Okay. So that would include the Genworth impact.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

That does include what we have for Genworth today.

Martin Sanky - Neuberger Berman - Analyst

Okay. And similarly for the dilution while you estimate it's going to be 5 cents for the year and I think you mentioned earlier in the Q&A, two cents for the second quarter?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Right.

Martin Sanky - Neuberger Berman - Analyst

Does it sort of go two and one or at three and out?.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Yeah, we've put on the website. We think it's about two cents in the second quarter. About two cents in the third quarter and about a penny in the fourth quarter. And that's the way we have it kind of

modeled out. As we said we're about 30 days away from being able to update you on that as well as you know the impact of the other noncash stuff.

Martin Sanky - Neuberger Berman - Analyst

Okay, Thanks.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Yep.

Operator

Our next question comes from Dan of Khoshiba of KSA Capital Partners. Your question, please.

Daniel Khoshiba - KSA Capital Partners - Analyst

Thank you. My question has already been asked. Good quarter.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Thanks.

Jeffrey Immelt - General Electric - Chairman, CEO

Thank.

Operator

Our next question comes from Bob Cornell of Lehman Brothers. Your questions please.

Robert Cornell - Lehman Brothers - Analyst

Yeah, thanks everybody. Following up on some of the capital tax, the capital issues. Does look like the GE capital earnings were conservatively stated, to mean you throw out the tax rate question. The provision for losses on financing receivables is up 25% and change in the quarter. I mean, why is that, Keith and it does suggest a conservatively stated quarter?

Jeffrey Immelt - General Electric - Chairman, CEO

Well, the provision for losses is what it needs to be based on the risks we have in the portfolio. It is really driven by asset growth. If you look at the coverage, reserve coverage as a percent of financing assets is right about consistent with what it has been.

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1.67% is the number. So we're really right on track with what we've been doing. I think what you're seeing there, Bob, is just tremendous growth in the consumer finance assets and as a result we have to make sure we have our reserves commensurate with whatever we have in the risk in that portfolio.

Robert Cornell - Lehman Brothers - Analyst

Yeah, just on that subject you mentioned that securitization gains were down, I think in the consumer portfolio. What were they down for the whole set of businesses for the quarter and what do you expect for the year?

Jeffrey Immelt - General Electric - Chairman, CEO

Securitization in the quarter was \$17 million in net income. Last year we had actually a negative in securitization as we ran off our Home Depot securitization portfolio so, you know, the total for the quarter was 17. And we have basically been saying it's going to be 2 to \$300 million of securitization for the year in total.

Robert Cornell - Lehman Brothers - Analyst

What was last year.

Jeffrey Immelt - General Electric - Chairman, CEO

It was about the same. About \$200 million.

Robert Cornell - Lehman Brothers - Analyst

Just a final question on the engine equipment, the gas turbine business what is going on with pricing on those units and especially where are you pricing the unit units you are selling in the China market.

Jeffrey Immelt - General Electric - Chairman, CEO

You know, Bob, I think pricing is tough. You know it's certainly tougher than it was during the bubble. I would say that, you know, it is not so much China, I mean I think Europe pricing is certainly below last year. Again, the -- the units are better, the units are stronger than what we have seen. And the service pricing and the service growth continues to be very attractive. So, you know, we have taken a lot of cost out of the business so we have got capability to, you know, to run even the gas turbine unit business and remain profitable even as we go through the bubble.

Robert Cornell - Lehman Brothers - Analyst

You guys have said that the engine equipment business, the gas turbine, steam (INAUDIBLE) would be about break even this year. Is that the way it is looking. Sounds like it is if doing a little better than that.

Jeffrey Immelt - General Electric - Chairman, CEO

It will do a little better, I think, Bob. Again, I think, the volume is a little bit better. We have done a good job on the cost out. The pricing is tougher for sure. But, you know, the business is executing pretty well. I think just to echo what Keith said on the financial services, Bob, I think if you go back over the past couple of years I think if you look at the strength of the business from a, you know, from a portfolio standpoint a risk management standpoint is as good as we've had it for the last couple of years.

Robert Cornell - Lehman Brothers - Analyst

Yeah. Looks good.

Jeffrey Immelt - General Electric - Chairman, CEO

Thanks, Bob.

William Cary - General Electric - V.P., Corporate Investor Relations

Nicole, I think we've got time for about one more question if we have it, please.

Operator

Thank you. Our final question is from Brian Langberger of Langberger and Company (ph).

Brian Langberger - Langberger and Company - Analyst

Hey, my last is getting longer as the call goes. Just a couple things. Diving down a little bit. Infrastructure and healthcare you ran through some numbers that sounded really good but a bit quickly. If you could first take infrastructure and just talk about year-over-year sales and profit change for water, sensing and security. And then maybe talk about the orders in each of those and go a little bit slower and kind of break out what the core number would be if you took out deals and currency and also in healthcare you gave some pretty strong numbers. Again, if you could take out the currency and deal impact and talk about the underlying that would be very helpful?

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

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Let me give you a little bit about infrastructure. I did go through those pretty quickly. For starters if you look in the quarter, first quarter, you go orders reported basis, water was 37%.

Brian Langberger - Langberger and Company - Analyst

Plus 37 water uh-huh.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Security 44%.

Brian Langberger - Langberger and Company - Analyst

Uh-huh.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Sensing up 10%.

Brian Langberger - Langberger and Company - Analyst

Got it.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

And our Fanic business up 15. So overall 29% up on a reported basis.

Brian Langberger - Langberger and Company - Analyst

Yeah.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

You know, if you strip out the impact of acquisitions we have I don't have a separate number for FX but strip out acquisitions water was up 8. Securities up 34. Sensing up 18. Fanics up about 5. So, you know, overall a pretty broad great organic growth in that portfolio. I don't have the operating profits by each of those segments but it is all up around that 20%.

Brian Langberger - Langberger and Company - Analyst

Okay. This is certainly helpful. And move over to healthcare.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Healthcare, you know, I gave you some of the revenues in the quarter.

Brian Langberger - Langberger and Company - Analyst

Yeah. Those are the numbers I was asking for if we were to take out deals and currency.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

There aren't a lot of separate numbers for deals in some of these businesses. I mean (INAUDIBLE) is kind of the business. PET up 15. Packs up 18. China up 20. MR down 15 and CT flat were the revenue in the quarter.

Brian Langberger - Langberger and Company - Analyst

Got those.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

And again, most of those don't have any real transaction impacts.

Brian Langberger - Langberger and Company - Analyst

What about currency.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

You know on total for the company it is three to four points so I would say it is probably similar.

Brian Langberger - Langberger and Company - Analyst

Okay. Thank you very much.

Keith Sherin - General Electric - CFO, Sr. V.P.-Finance

Great, thanks.

Jeffrey Immelt - General Electric - Chairman, CEO

Thanks. Look, I just I want to conclude by thanking everybody. I thought they were great questions. As I said, this was a great week for GE between the 77 award and closing Amersham and closing out a good first quarter with with a lot of good momentum for Q2 and we feel great about where the company is and we think we got a ton of momentum. Bill, I will turn it back over to you.

GE - Q1 2004 General Electric Earnings Conference Call**William Cary - General Electric - V.P., Corporate Investor Relations**

Great. Jeff and Keith, thanks very much. I just want to thank everybody for their time and attention this morning. As I mentioned all the materials that we reviewed today are on our web site and we ask that you have a chance to spend some time with those. JoAnn and I will be available this afternoon to take your questions. And again thanks very much for your time.

Operator

Ladies and gentlemen, this does conclude your conference call for today. You may all disconnect and thank you for your participation.

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