

# FINAL TRANSCRIPT

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**WMT - Wal-Mart Stores, Inc. at ISI Group Retail Summit**

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## CORPORATE PARTICIPANTS

### Roz Brewer

Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

## CONFERENCE CALL PARTICIPANTS

### Greg Melich

ISI Group - Analyst

## PRESENTATION

### Greg Melich - ISI Group - Analyst

Don't need to introduce Wal-Mart at all. Obviously the largest retailer in the world, probably the largest company in the world now. I know it's close to Exxon depending on the price of oil.

But what is always neat about Wal-Mart is when we have someone like Roz Brewer who is Executive Vice President of the Company and President of Wal-Mart's Eastern Division, I can also say that Roz is effectively running probably the second largest retailer in the world by taking any division like Wal-Mart East; it's certainly a massive and important retailer in its own right. So, Roz, I want to thank you very much for coming and I'll let you -- I'll hand it off to you from there.

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**Roz Brewer** - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

So, good morning. I notice there are a few people standing in the back. It looks like they are about to shut the door. I will give it a few seconds. Thank you.

So, good morning. I recognize many of you all in this room as I have addressed this group in different formats over the past 18 months or so. But I would also like to recognize a few members of my Wal-Mart East business unit team that is here with me today. And Gregg Sullivan joins me. He is the Senior Vice President and he represents three states; the state of Georgia, South Carolina and Alabama. Stand up, Gregg.

And then also joining us is the Regional General Manager for North Georgia representing eight markets, Karen Edwards, roughly 80 stores. And then you'll meet later on members of my team as we tour the store and you will get a chance to interact with each and every one of us, and I will also be there too. So as we go through the Q&A period, feel confident if we don't get everything answered, I will be there with you and we will cover everything later.

So as many of you all know, we embarked upon a different structure about 12 months ago. But in that, I was named the Executive Vice President of the East Business Unit for Wal-Mart Stores. This represents roughly 42% of the US stores operating in the US.

It's 1600 stores, I have roughly 500,000 associates across those stores and I also manage the supply chain for my business; the HR, financial capacity roles; but in addition to that, the supply chain and logistics. Across the East Business Unit, there roughly is 30 distribution centers both hot and cold DCs, and they are represented geographically in this area so that you clearly understand we are represented. We live here, we are headquartered in Atlanta. So we have roughly about 55 people in our office just actually 10 miles north of here.

So this has worked very well for us as we have embarked upon the new strategy and understanding of how we are going to get closer to the customer, and you will hear more about that. But let's talk a little bit about the fiscal year 2012 objectives.

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There's four objectives I'm going to talk to you about so that you can align with where we are right now, leaving last year and embarking upon a pretty aggressive plan to turn our business around. But we are going to refocus ourselves on our basic business models that have proven out to do well for us years and years in past history.

It is what the Company was built on. And so this -- first of all let's talk a little bit about that model, and that model is EDLC -- everyday low cost, leading us to everyday low price. And in that model, we're really focused on delivering positive comps. It's about regaining that top line that we think is very important to us.

It is a four-point plan, it's a four-point plan. The first part of that plan is the EDLP price leadership position and regaining that position.

Secondly, it's about the broadest assortment possible. Third, it's about improve the remodel program. And then lastly, it's about the multichannel initiatives that we have embarked upon over the last year or so.

So first of all, let me dive a bit into this price leadership position because I want to make sure everybody fully understands. You'll be seeing a lot of commercials and advertising around this and I want help you understand what this means to our Company.

Wal-Mart starts with EDLP and price leadership. That's the way this Company was built many years ago, 48 years ago, and it is deeply penetrated in our US business.

It's price focused and it's on the basket versus item pricing. So for [many of you all know] you might walk into our stores, you might see one or two off item where you might see us get beat on price. But I will talk to you about our new process of ad matching. Our basket will always be where we have our best performance.

Yesterday we launched a new advertising campaign, and I'm going to show you a bit about that later on. But we actually announced the advertising campaign to support this everyday low price because in terms of the focus on EDLP, you'll see the line also with our everyday low cost position, you'll see it attached to our broadest assortment. You will see it attached to our remodel program. And so all of this is done in concert actually to get us back to doing business the way we're normally used to doing business.

So we are reinvigorating our price leadership position and actually focusing on our promise to bring the products back in the store in addition to getting the stores well-suited to be really intense in terms of how we want to promote inside the store. So when you see our return to Action Alley. You'll see promotional intensity, you'll see price leadership and you'll see the right assortment in the stores. So we're staking our claim to really deliver the low price every day that we are very much used to.

So Wal-Mart has a customer as the center of everything we do. We are focusing on what the customer wants from a pricing standpoint, what our customer wants in our stores from an assortment standpoint.

And this is a combination of really one-stop shopping for us, and that has been our best performance. When we do that well, that is when Wal-Mart succeeds. And we realize that and we are returning to that.

It is about low prices every day on everything. So our store managers are also engaged in this. You'll see that as you tour the stores later on today, is that our store managers and our product buyers will be checking pricing on a regional level and on a national level and we will be responding to that.

Also we are working a lot more closely with our suppliers to deliver on national pricing. And it is on a per item basis, and then we will pass the savings onto our customers.

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The second element of this pricing initiative is a strong propensity to add matching. And in this, the customer doesn't have to bring the ad in because of the work that our store managers are doing and our buyers are doing to know what's happening around our stores.

So a customer can come in and tell us about what they have been seeing, we will know that as they approach the register, and our cashiers are able to adjust there. In fact we actually have a new commercial on the air that shows some of that. And if -- I'm not quite sure if the group is ready, if they could actually run that -- if you could, roll the first three commercials for me? Thank you.

We also have some other commercials that also reinforce not only (multiple speakers) good.

(video plays)

Great. So while you're setting up the next commercial, a couple things I want you to recognize is that we are aligning our advertising campaign with the things that mean the most to us, and it's about assortment and price.

But in addition to that, we are engaging everyone in this discussion. So our 1.4 million associates are able to talk about this at the store level, but also our associates are featured in our commercials.

So those are our actual associates, and you'll see that as we roll the next commercial as well. We're also able to do this not only on a national basis, but are refocused on returning to store the community and representing our customer. You'll also see that we're able to do these commercials on a regional basis.

So the next commercial that you will see is one taken from my area in Philadelphia. So let's run that one.

(video plays)

Great, so I hope what you see in this -- this is a new national campaign, began running early this week, and it will be supplemented also with new in-store signage also supporting the new message around everyday low price and the reassortment. You'll see signage that will say it's back.

And this is actually signaling to the customer that we have listened to them, we know what their needs are and we're putting those units back in the store, those SKUs back in the store. You'll see the new signage in the stores in the May timeframe.

So the advertising campaign first, notice that it does a couple of things. It aligns with our message, but it also creates a seasonal message while we're talking about everyday low price and reassortment in our stores. So what you'll see from an advertising perspective is a lot better alignment to what our real message is and how we're trying to recapture and regain.

In addition to this, you'll see Action Alley merchandise and displays that also help communicate this message. Price is so important as we face these higher commodity increases and things such as inflation and commodity items, and we have been seeing that.

But historically as gas prices rise, we will talk about that for a minute, we see a couple of things happening. We see our customer returning to stock-up trips. When they come in our store, they know they're going to stock up, they're going to build their pantry.

But also we're also seeing higher income families come back to Wal-Mart for the lower prices that we are representing in our stores. So this is actually playing into our business model.

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Regarding inflation, and where we are with that, costs are rising on many products, including even our apparel business as we know where cotton is moving right now. The Wal-Mart motto is EDLC and that drives and fuels our ability to deliver everyday low pricing.

So we're always finding ways to pull costs out of the system. We're looking at productivity at store level, we're working with our vendors to deliver the best cost and therefore price and then so that we can pass that onto the customer.

In reality there's going to be a little bit of play in there, right? Because we have to make sure that we're managing shareholders' expectation, and not only their expectation, but delivering the margin that keep us all in business. So it will be a play in there between what the customer needs, what pricing has to hit for the customer and then returning shareholder value.

But given our size and scale, we are very confident that we have the ability to do that best. We can do that best.

So most importantly as we work with our suppliers, these are the conversations we're having. And we can review the cost and price structure to make sure that we get this in the right order and so that we can deliver exactly what we need to our customer base.

We're also again a Company that is really concentrated on delivering profit for our shareholders and there's pressure on both sides. But we will manage that.

In emphasizing this new ad match campaign though, it does give us a chance right now to guarantee more than ever some pretty significant parts of our business. It also helps us get to the second initiative which is the broadest assortment available. So we are returning SKUs to the stores.

Since last fall, we have brought in about 8500 SKUs back into the store as we had planned. We mentioned that as we ended the year.

It's about 11% on average in terms of what we are returning to the store. This has worked well for us as we looked at our inventory turns and we're noticing that our turns are flat right now.

So we feel like these 85 units have been the right thing to do, the customer is responding to that. So we have done very well. We feel very good about that position.

We have already brought back some of the customers' favorites in terms of our local ability to respond to customers. Categories such as hardlines, you'll see if you look at our fishing category, we have definitely put a lot of focus on that.

That's where we had reduced a large number of SKUs. And we since we have actually replaced those units in the stores, we're seeing really nice movement in those areas.

And these kind of efforts will continue. You'll see it in outdoor living as you tour the stores, but you'll see where we placed the focus and we are getting the response.

In addition too, you probably heard a lot of discussion about our fabrics and crafts. And so that's even returning to our stores. So it's listening to the customer and making sure we are responding to what they need.

So we have got to have the right SKUs, the right size, and the right brand for the particular shopping occasion. And we are committed; no shovels in Miami, fur boots in Miami. We've moved far beyond that now.

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But we continue to focus our store on the community strategy and making sure that our store managers can respond. Just to give you a couple of examples of that, as we go back to Action Alley, 30% of features in Action Alley can be selected by that store manager.

So they have the ability to know who their customer is and respond to that. So on those features in Action Alley that is returning, 30% would be selected by the store manager. 70% would be driven by home office, national merchants, merchandising, and driven on a national basis.

So they have decision-making power in that respect and it's making a difference as the customers shop our stores because the products and the SKUs are representing what they want to purchase. So let me give you a couple of examples of that.

And as you can see here in some of the advertising, so we are aligning the marketing as I mentioned and then we are aligning the stores so that they can represent the customer in order to get the SKUs back and then we're going to show that we're bringing the broad assortment back to the customer.

The third area that I mentioned to you is around our remodeling program, and so improving our remodeling program, driven by in order to deliver a better customer experience. There's a couple avenues in there that I want you to think about when you think about improving our remodeling program.

First of all, Project Impact causes us to reduce many SKUs. So as we are returning back the SKUs to the store, we are readjusting those fixtures in order to accommodate those SKUs returning to the stores.

But as we bring back those SKUs and add assortments, we are relaying many of those categories in the stores. So you will see that in terms of our remodel improvement program. So we're improving it so we can accommodate that SKU replacement.

The second area is reducing the cost to remodel. And so in that plan, this year we approximately have about 10 to 12% of the stores in the US going to be remodeled.

That's pretty much staying on target where we have been, remodeled this year, and our goal is to deliver those in 40% less time. So we are taking cost out of that remodel process as well, so it's getting back to getting the SKUs on the shelf and then allowing us to reduce cost.

We also need to continue to drive modular resets in many departments. In our health and beauty aids department, you will see it in stationery to accommodate fabrics and crafts returning. Electronics is adjusting.

If you recall, we had expanded electronics and in order to get that category -- to accommodate that category, we are readjusting that now. So you will see changes in toys, hardware, cooking and dining. Those are all examples of areas in the store that we are readjusting.

And the TV mod reset is moving to replace where the technology is going. So we are in the process of those modular resets right now. We're also looking at categories like our bike mods and looking at adult bikes which is a growing category, and what we think is an opportunity for us to optimize there.

The fourth area that I would like to talk to you about today is the multichannel work that we've been doing. And so actually, let's talk a little bit about this whole concept of multichannel retailing and how it allows our customers to shop for items. And it's about providing access, EDLP access to our entire customer base.

So where people want to access Wal-Mart, we want to provide that opportunity for them. There's several places where you can access Wal-Mart, and that's walmart.com, but also during the checkout, a new concept around pickup today. And so let me talk to you about this pickup today process.

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It is a new option where you are able to go online and you are notified via text or e-mail when your product is in the store. We hope to deliver that product to you within six hours.

And so you will be given a text message back or an e-mail back to say that what you ordered is in the store waiting for you in the store that you prescribed in your e-mail and you can pick it up today. We are rolling it out in my BU as we speak in the next week and we will have it within all our stores within the next three weeks.

And so this is just an example of how we plan to provide access to Wal-Mart's everyday low pricing through immediacy, really responding to that compelling reason to shop for price and to get the products that Wal-Mart offers in the day that you want them, so within -- usually in about four hours, and our goal is no more than six hours.

So you'll see many of these kinds of multichannel options coming from Wal-Mart as we look at this area, but that is a final point out of the four points in terms of where we are taking the business for this fiscal year 2012. You'll see these things play out in our stores today as you walk the store with us later on this afternoon.

At this point, I'm open for question and answers and, Greg, if you want to help facilitate that. Thank you.

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## QUESTIONS AND ANSWERS

**Greg Melich** - ISI Group - Analyst

If you could follow up a little bit more on the new ad campaign and how it brings in the assortment. You mentioned how in the ad campaign you're highlighting some of the SKUs have come back and (multiple speakers) sneakers and the camouflage paint.

Give us a little more color as to tie it into some of the categories you mentioned -- toys, electronics, and the changes going on there. Are we going to see more in toys, are we going to see more in --?

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**Roz Brewer** - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

Right. You are going to see -- what we have done is we're learning more about what our customer wants on a very minute level in certain areas.

And so for instance, if you take all of our coastal areas where fishing is a very important category, we have really taken that to the next level and provided every point of fishing gear that you can possibly imagine at a price point that is very, very attractive and it fits with our EDLP position. That's one of the categories we are replacing.

Fabrics and crafts was one of those categories that we walked away from about 12 to 18 months ago. We're returning fabrics and crafts.

In addition to that, if you look at our drygoods area, our food business where we had reduced the number of SKUs and the variety of SKUs, we're going back to different flavors and quantity sizes where it makes sense. We're really responding to where customers have said -- my brand is -- and we've got to remember, Wal-Mart sells brands.

And when we remove the SKU, that's one thing that we really got a recommitment from our customer on is that they want their brands. And so when we made some eliminations in our food business, we are getting those brands back in the store and giving the customer actually what they want. So that's just a small view of what's happening there.

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You'll also see even in our apparel business, one of the categories that's doing well for us is Just My Size which is full-size, full-figured women apparel. That's doing very well. We had removed that, that's coming back and that's done very nicely for us as we put it back in the stores, Greg, has done well.

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**Unidentified Audience Member**

(inaudible question - microphone inaccessible)

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**Roz Brewer** - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

Yes, so in electronics, if you understand what we did with Project Impact, we actually expanded electronics. And as we all know, where the electronics category is going, it's still a very vibrant category, but their smaller unit items being sold, we're much more aligned with Apple right now. We are offering the iPad and the iPhone and those kinds of items, and it's really does not require as much space as we had projected in the year past.

We have learned that, we understand that clearly now. So we are actually going to reduce that pad size so that we can accommodate the other areas that we want to expand in the store and bring back possibly a little larger apparel, a little larger stationary so that we can really respond to what the customer wants. So that is really the strategy, Greg, is to reduce electronics as you see us go back and reposition our remodel.

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**Greg Melich** - ISI Group - Analyst

You mentioned one aspect of consumer behavior that has changed with higher gas prices which is a positive for you guys. I was wondering, are there other aspects of behavior that are changing related to gas prices as well?

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**Roz Brewer** - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

Well, we are just seeing a few purchasing habits. We still see our customer financially strapped, so we do see that peak at first of the month and at pay cycles. And so we think that's representative of their wallet being stretched a lot more.

So that is something that we are seeing. So from an operational standpoint, we're making sure that our stores are staffed very, very well at the first of the month because we know our peak periods better than ever. So when we see these gas prices hit us, we know what's happening to our customer's wallet and we respond to it from a customer service level.

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**Unidentified Audience Member**

You also mentioned though that you're seeing higher income families come back to the stores. So I was just curious, is that -- is there anecdotal evidence of that or is there some type of empirical evidence to suggest that that is happening?

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**Roz Brewer** - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.

I actually don't have the actual data on that. I don't know, Carol, if you have any data there. But we're just seeing that empirically just because of the stores that are in certain ZIP codes and we're seeing how they are performing over time. So I couldn't tell you if that category alone is actually pulling, but the stores in those particular zip codes, we are seeing a lift.

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**Greg Melich - ISI Group - Analyst**

On the follow-up, is there anything on opening price point? I know as the consumer has been under pressure, they have been hitting more of the opening price point. Do you see that at all?

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**Roz Brewer - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.**

Yes, that's a very good question, Greg. As we see commodity prices increasing, we see the need to actually pull more OPP merchandise particularly on the food side and our basics business back into the store. You'll see that on the food side for sure, and we are working as we look at new apparel opportunities to see what OPP basics we can do in the stores as well.

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**Unidentified Audience Member**

This is sort of related to Greg's question. Wal-Mart used to be famous for being very tough to get price increases through.

And I think more recently and over the last few years, that reputation and I think that ability changed. And so when you had commodity spikes a couple years ago, we saw packaged food companies passing through price increases, in some cases once a quarter or a couple times a year. Has Wal-Mart with your new strategy, will Wal-Mart change in terms of going back to their old ways of being a lot tougher on proposed price increases?

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**Roz Brewer - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.**

I think that is a good question to really talk about right now because we have done something that we haven't done in a good number of years. Many of you all know our cycle in terms of how we manage our business. We just completed our year beginning meeting with our fiscal ending Jan 31. We have our year beginning meeting in end of February/beginning of March.

This year we had a supplier summit and our suppliers were involved in our year beginning meeting and therefore our planning sessions. And so in this whole initiative embarking on fiscal year 2012, we are engaging with our supplier partners to have those very discussions about how are we going to look at commodity pricing increasing, how are we both going to take care of the customer.

Because as Wal-Mart grows, our vendors grow. We're very clear about that. And when we don't grow, they don't grow. That's very clear to us.

So we are taking this to a different level and we are engaging them on terms of how we are going to do this and how we create win-win strategies. And so that's very different than what we have done in the past years is to start the year off with those discussions and with them in the room.

So they heard everything in terms of what our associates heard, our vendor partners are very clear on our strategy for this year. So we hope that this partnership that we have with them -- I would tell you that our supplier relationships are the strongest as they have ever been in many years because of the way we are approaching this this time.

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**Unidentified Audience Member**

On the ad matching campaign, I'm interested in how you're hoping to avoid checkout time disruptions. If I bring in an ad from Family Dollar for \$3.99 Tide and it's not the exact same SKU, do we have to have that conversation at the register or how's that going to work?

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**Roz Brewer** - *Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.*

So we have done extensive training, and actually it's interesting you should bring that up. We actually did even retraining in the past seven days because we knew when these ad campaigns hit, we want stores ready.

So we have done tons of training. The other thing is that we are putting the customer back in the center.

I think you will see that there will be a minimal amount of bickering. Although we're not a gimmicky kind of Company, our front end actually knows how to make these transactions happen. And again, they don't need to bring the ad in with them.

We will have done the work already to know what the pricing is around the store. We would've looked at national competitive pricing, and then our cashiers will know that as the customer comes to the front end.

So we have gone through those processes with them so that it clicks, clicks, clicks and doesn't slow down our front end because that's very important to us. It can't be laborsome, it can't be confrontational. This is our ad match guarantee. So we plan to stand behind it.

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#### **Unidentified Audience Member**

Can you talk about the implications for inventory or inventory growth as you seek to restore the merchandise assortments to what I think you called the broadest assortment possible?

**Roz Brewer** - *Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.*

Sure. So we have returned about 8500 SKUs right now. When we ended, if you look at our fourth-quarter earnings, you would have seen an increase of about 9.9% in terms of inventory growth.

I am very pleased with where we are on inventory turns. They are flat.

So I feel like we're returning the right SKUs. And so we are doing exactly what we need to do.

Investment in inventory is important to us right now. We need to do that to get those SKUs there, and we are managing it. Right now with our inventories being flat, it's less of a concern for us right now.

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#### **Greg Melich** - *ISI Group - Analyst*

I think we have time for one more question. If there's one out there, I will take it. If not, I will take it myself. There is one out there, all right.

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#### **Unidentified Audience Member**

I was just wondering if you could speak regionally to any big differences in the payroll cycle and/or just the overall tone of business.

**Roz Brewer** - *Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.*

Sure. So in some of our low income areas -- and let's talk about the -- as an example, the Mississippi River delta area where the income levels are sub \$30,000 a year, that is our customer. And so we're seeing a couple of things happening.

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We are seeing increased need for WIC, SNAP; and WIC being Women Infants and Children. So some of those are the governmental based programs. What we are seeing is a couple of things.

Those programs are now having to allow funds available throughout the months. So in previous years, there was a controllable number of people engaged in these programs where they'd had access to their card at the beginning of the month. Now what we are seeing is that is throughout the month because the number of folks on those programs are greater.

We're also noticing that there is a change with the number of people who are now eligible for those programs. We're having to help them understand how these programs work in our stores.

So customers who weren't on the WIC and SNAP before are now on WIC and SNAP, these governmental programs, and we are helping them understand what they need to either sign up. The other thing we're doing is we're having to call out in our stores what are WIC products, what are EBT products and SNAP products. So we're seeing that.

Then we're actually seeing a real close tie to the pay cycle. So we're still seeing that midnight shopping in our stores when that EBT card -- it's like a debit card -- when it is ready and it is funded.

There are people who are in the store at midnight because they know it turns on and they have shopped from like 10:45 to Midnight and they're waiting for that card and then our lines open up and we have had some of our busiest hours at midnight.

We float our staffing that way, we float our on-shelf availability to that style in those ZIP codes that we know it's critical in. So we have done that in response to where our customer base is moving. But that is our customer and we respond to them.

**Greg Melich - ISI Group - Analyst**

Roz, that's great. I want to thank you very much. You have got a whole great team here, very helpful, and you'll be at the store later?

**Roz Brewer - Wal-Mart Stores, Inc. - EVP and President, Walmart East, Walmart U.S.**

I'll be at the store later if there are other questions.

**Greg Melich - ISI Group - Analyst**

Great (multiple speakers) thanks again, Roz.

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