

Consumer Products Barometer™

Business outlook 2Q 2007

In cooperation with
BSI Global Research, Inc.

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Quarterly highlights

In 2Q 2007, PricewaterhouseCoopers interviewed 53 US-based consumer products manufacturing executives about their current business performance, the state of the economy and their expectations for business growth over the next 12 months. We then compared their business outlook to the prior quarter's results to see how the 12-month outlook has changed. The final step was to compare their views to a wider panel to help us understand how the industry differs from the broader population.

The 2Q 2007 results of the Consumer Products Barometer show that consumer products executives remain optimistic that both the US and world economies will sustain growth over the next 12 months. They have raised their 12-month revenue growth projections to 6.3 percent and expect international sales to contribute to 19 percent of total revenue. Overall, they perceive oil/energy costs as having less of an impact on revenue growth than in prior quarters. The majority plan to increase capital investments, but a rise in new hiring for the sector is expected to be offset by some larger-scale layoffs. Prospective M&A activity, along with greater pricing flexibility, also appears to be generating some renewed confidence.

Key findings:

- The majority of senior executives at large consumer products businesses are optimistic that the US economy will grow over the next 12 months, up 3 points over the prior quarter to 53 percent, but still off the 61 percent level a year ago. Even more are optimistic that the world economy will grow (63 percent), though this level has dropped slightly from the prior quarter.
- With stronger expectations for the world economy, senior executives of consumer products businesses have raised their own companies' 12-month revenue growth targets to an average of 6.3 percent. This is above the prior quarter's target of 4.8 percent and in line with a year ago (6.2 percent).

- Price flexibility appears to be having a positive impact on large consumer products businesses. In 2Q 2007, 51 percent increased their prices, 15 points higher than in the prior quarter and a year ago. More companies concerned about the costs of oil/energy as a barrier to growth raised their prices: 56 percent versus 46 percent for their less vulnerable peers. Costs were also higher for 64 percent, with a strong correlation to those concerned about oil/energy costs. The net result in 2Q 2007 was a tightening of margins: 26 percent reported that gross margins increased, 36 percent reported a decrease, which is a net minus 10 percent reporting a decrease in gross margins.
- In 2Q 2007, there is notably less concern about the impact of oil/energy prices on revenue growth. Although 51 percent are still concerned that the cost of oil/energy is a barrier to growth, this number dropped 19 points from the prior quarter's results. Concerns about oil/energy costs looked to be a potential deflator last quarter, but this quarter those who report being concerned about oil/energy costs expect revenue growth comparable to their less vulnerable peers (averaging 6.5 percent versus 6.1 percent, respectively).

A quarter-by-quarter comparison of the key indicators shows the business outlook for the next 12 months and how the views of the panel have changed each quarter. (See chart 1.1.) The pages that follow provide a detailed look at each survey question for the previous five quarters of the survey.

Key indicators for the business outlook

Chart 1.1 Key indicators for the business outlook

A quarter-over-quarter comparison of the key indicators shows how the 12-month outlook has changed each quarter. The change column indicates the movement of opinion from the last two quarters.

Business outlook, next 12 months among large consumer products businesses	2006			2007		Change	Page
	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07	1Q-2Q '07	
Optimistic about US economy	61%	64%	72%	50%	53%	=	7
Optimistic about world economy	55%	60%	71%	67%	63%	=	9
Expect positive revenue growth	91%	83%	84%	82%	85%	=	19
Average growth rate expected	6.2%	5.7%	6.6%	4.8%	6.3%	↑	19
Planning major new investments	34%	43%	56%	48%	51%	=	23
New investments as a % of sales	8.6%	4.7%	8.1%	5.5%	6.1%	↑	23
Planning to hire	34%	28%	30%	30%	40%	↑	21
New workers as a % of workforce (net)	+1.0%	-1.4%	-1.1%	+0.5%	-2.1%	↓	21
Expected barriers to growth							
• Oil/energy prices	73%	53%	54%	70%	51%	↓	25
• Legislative/ Regulatory pressures	25%	15%	32%	34%	32%	=	25
• Competition from foreign markets	25%	26%	26%	32%	28%	=	25
• Higher interest rates	18%	24%	22%	26%	26%	=	25
• Monetary exchange rate	18%	21%	20%	16%	25%	↑	25
• Pressure for increased wages	25%	26%	34%	28%	25%	=	25
• Lack of qualified workers	27%	19%	30%	26%	21%	↓	25
• Lack of demand	21%	32%	40%	30%	17%	↓	25
• Taxation policies	9%	13%	14%	20%	13%	↓	25
• Decreasing profitability	14%	21%	22%	20%	13%	↓	25
• Capital constraints	21%	7%	12%	12%	13%	=	25

Economic views

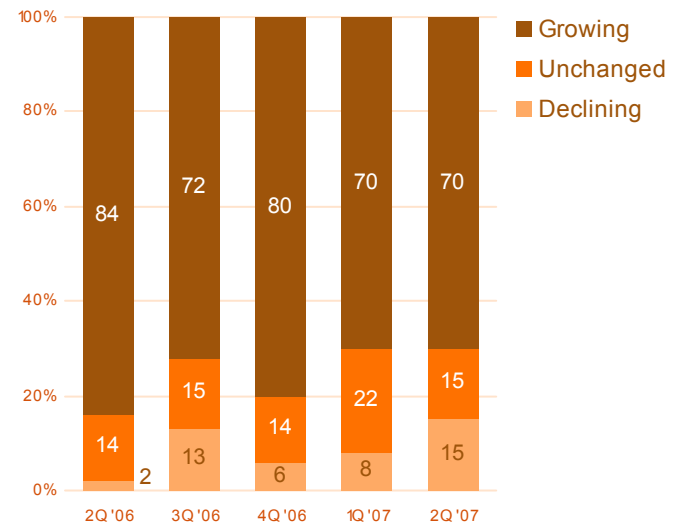
View of the US economy, this quarter

Which best describes your view of the US economy this quarter?

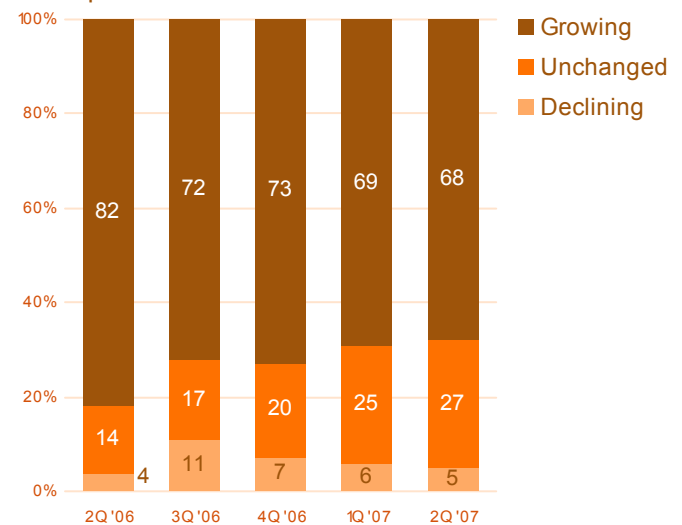
Seventy percent of consumer product senior executives believe the US economy continues to grow. This view is consistent with last quarter's 70 percent, but well below last year's 84 percent. Note that an increasing number (15 percent) believe it is declining.

Chart 2.1 View of the US economy, this quarter

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

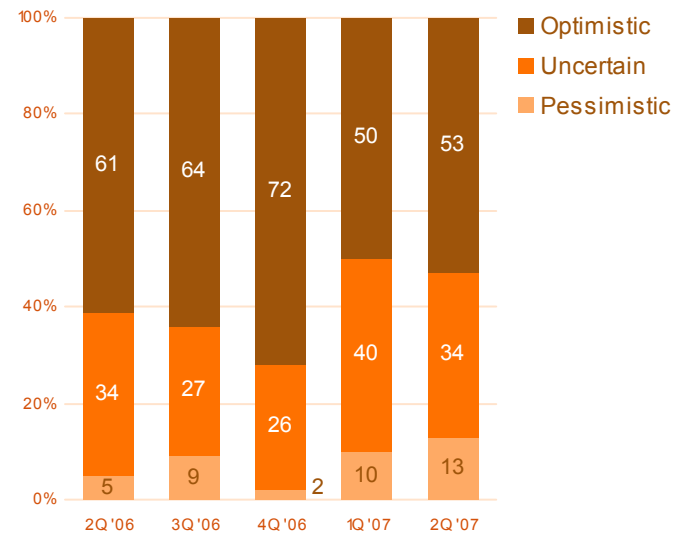
View of the US economy, next 12 months

Looking ahead over the next 12 months, how do you feel about the prospects for the US economy?

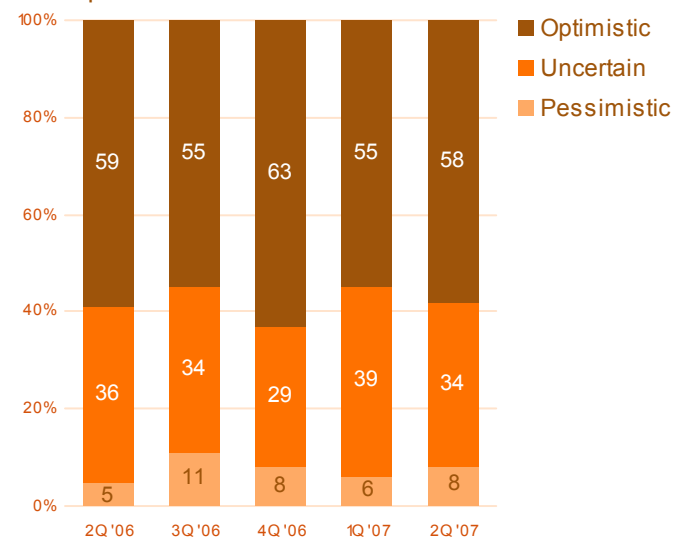
Fifty-three percent of senior executives of consumer products companies are optimistic about the prospects for the US economy, up from the 50 percent level of the prior quarter but well below the 61 percent a year ago. Their views have fallen below the broader consensus over the past two quarters.

Chart 2.2 View of the US economy, next 12 months

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

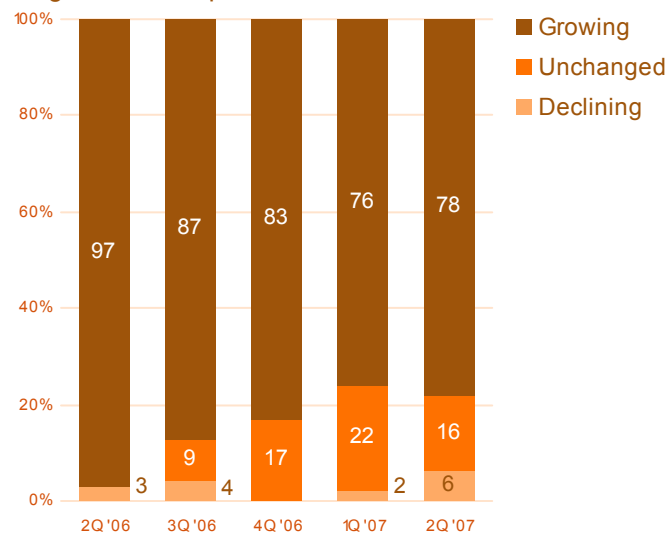
View of the world economy, this quarter

Which best describes your view of the world economy this quarter? (international marketers only)

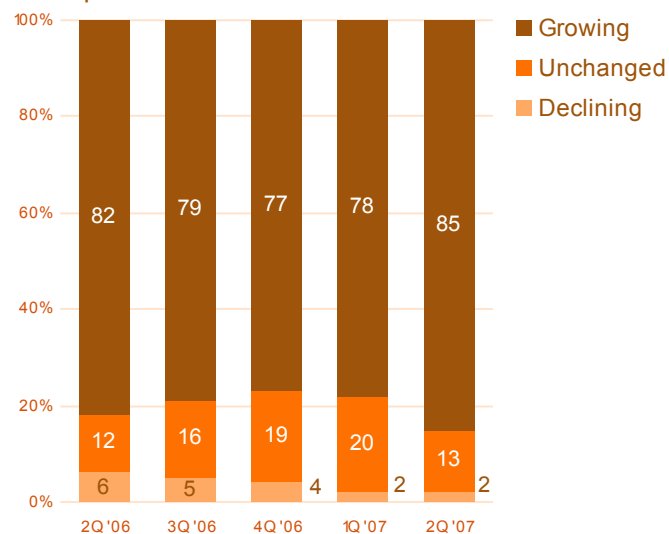
Of those marketing abroad, 78 percent view the world economy as growing, up 2 points from 76 percent in the prior quarter. For much of the prior year, consumer products executives have been more optimistic about the world economy than the broader consensus, but they have fallen behind in the past two quarters.

Chart 2.3 View of the world economy, this quarter

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

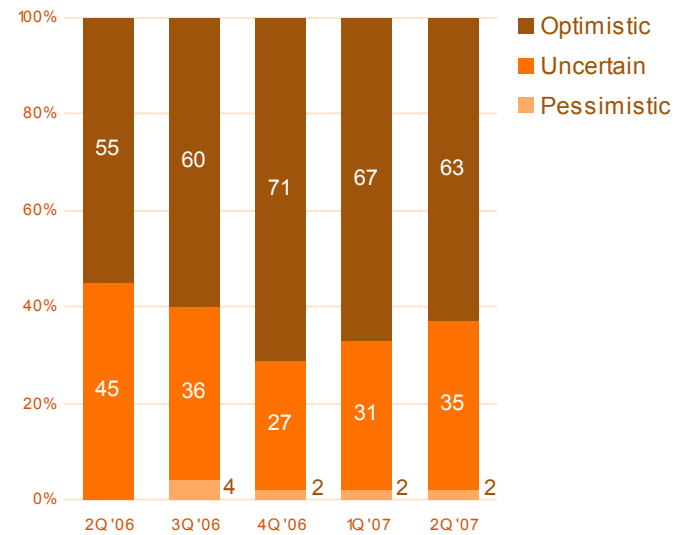
View of the world economy, next 12 months

Looking ahead over the next 12 months, how do you feel about the prospects for the world economy? (international marketers only)

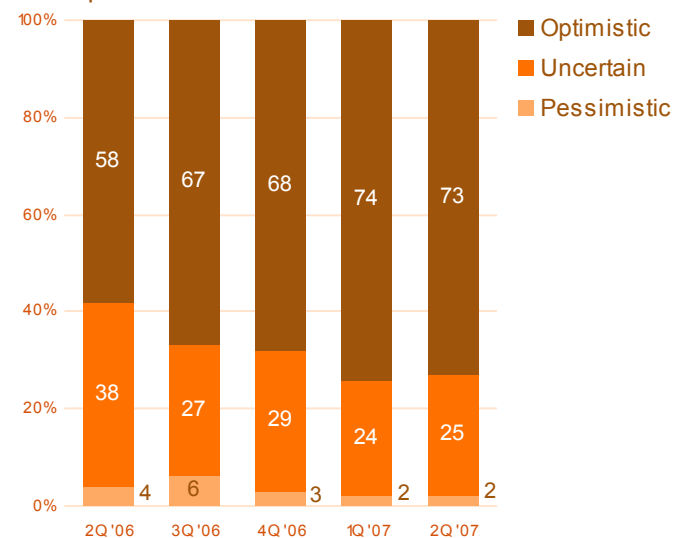
Sixty-three percent of consumer products businesses that market abroad are optimistic about the prospects for the world economy, 4 points below the prior quarter's 67 percent, but well above the 55 percent level of a year ago. The view of those marketing abroad has been lower than the all-company consensus over the past two quarters and is now 10 points lower.

Chart 2.4 View of the world economy, next 12 months

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Company performance

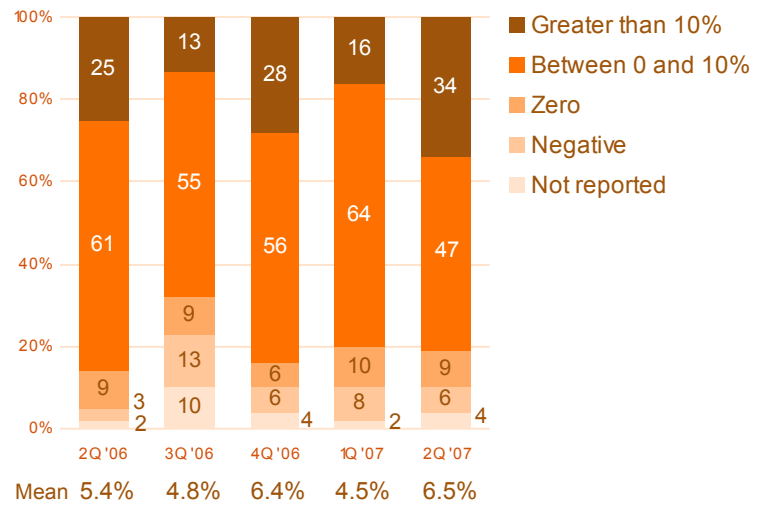
Company revenue growth, calendar year

What is your company's estimated revenue growth rate for the calendar year?

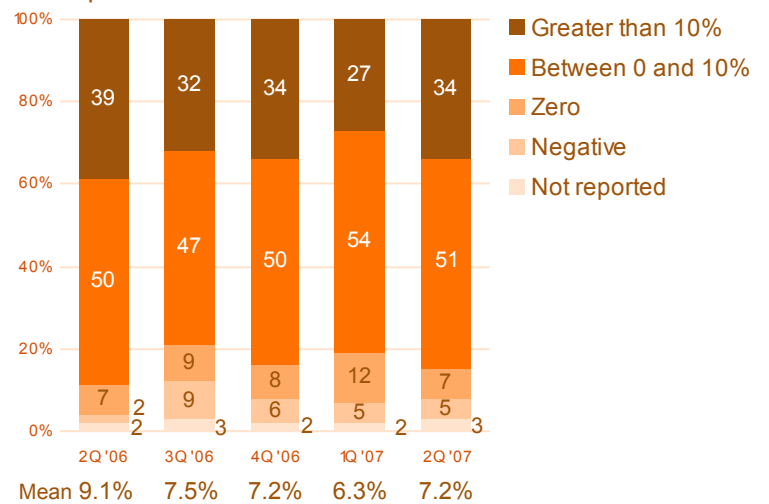
Currently, 81 percent of consumer products companies expect revenue growth in 2007, with 34 percent expecting double-digit growth and 47 percent expecting single-digit growth. Overall, the average growth estimate has risen to 6.5 percent from 4.5 percent the previous quarter. Expected revenue growth is still below the broader consensus 7.2 percent average. (For more information on revenue expectations, see chart 4.1, revenue expectations, next 12 months.)

Chart 3.1 Company revenue growth, calendar year

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

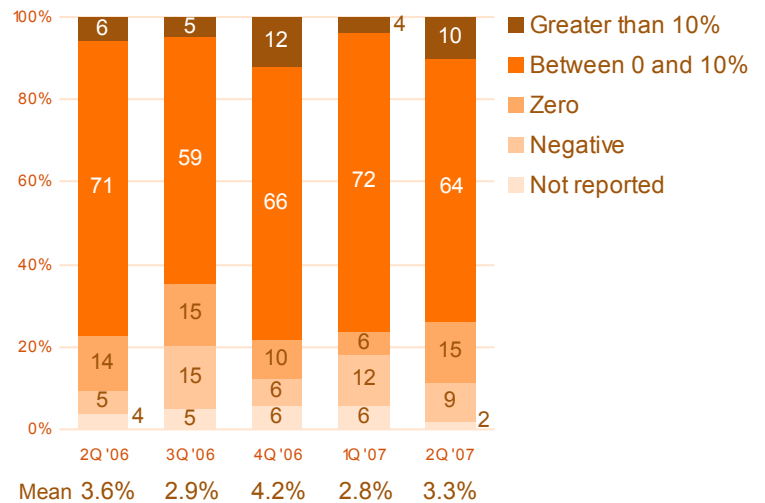
Industry growth rate, calendar year

What is your industry's estimated growth rate for the calendar year?

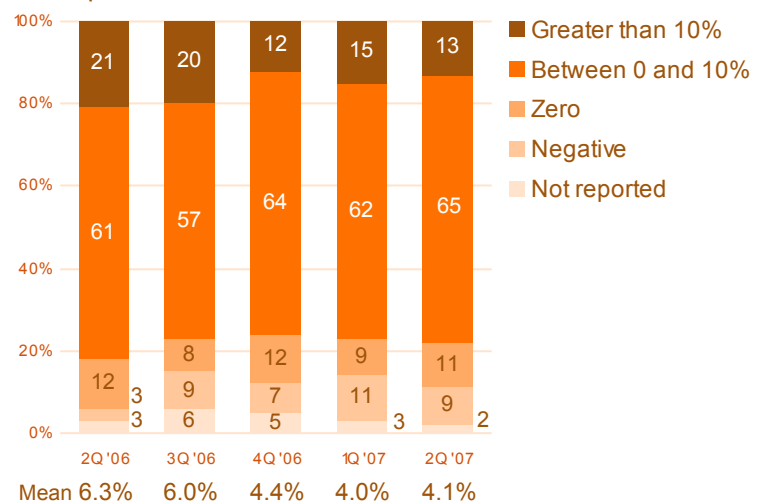
The estimate for the average industry growth in 2007 is now 3.3 percent — slightly below the 3.6 percent level a year ago. Note that the industry growth estimate is typically lower than the estimate for the company growth rate. US-based consumer products companies anticipate an average growth rate of 6.5 percent for their own companies in 2007, two times greater than the estimated growth rate of 3.3 percent for their industry. Industry growth for consumer products businesses is below the all-industry consensus of 4.1 percent.

Chart 3.2 Industry growth rate, calendar year

Large consumer products businesses



All respondents



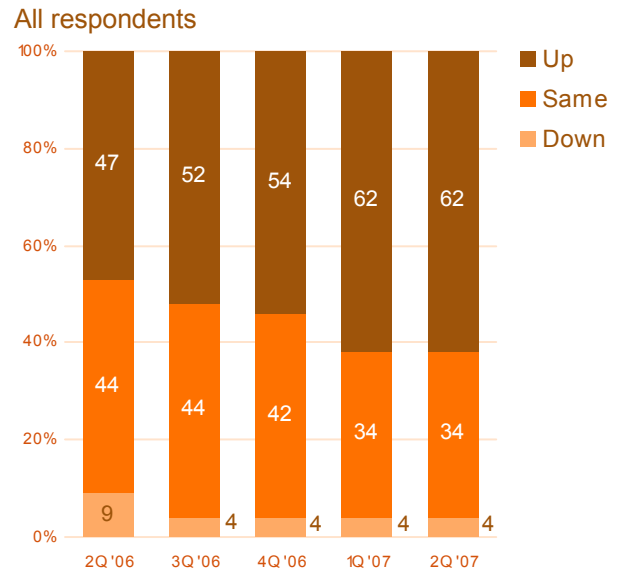
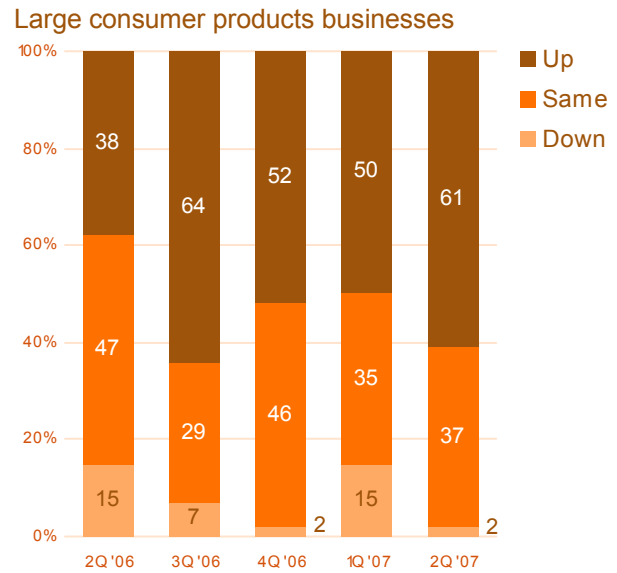
Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

International sales

Are international sales up, down or the same compared to three months ago?

International markets continue to strengthen for consumer products companies who sell abroad. One of the strongest quarterly performances was reported in 2Q 2007, as 61 percent of international marketers increased sales abroad, up 12 points from the prior quarter and notably higher than a year ago, 38 percent. Companies showing a quarterly decrease in international sales dropped to 2 percent in 2Q 2007, a notable reduction from last year's 15 percent.

Chart 3.3 International sales



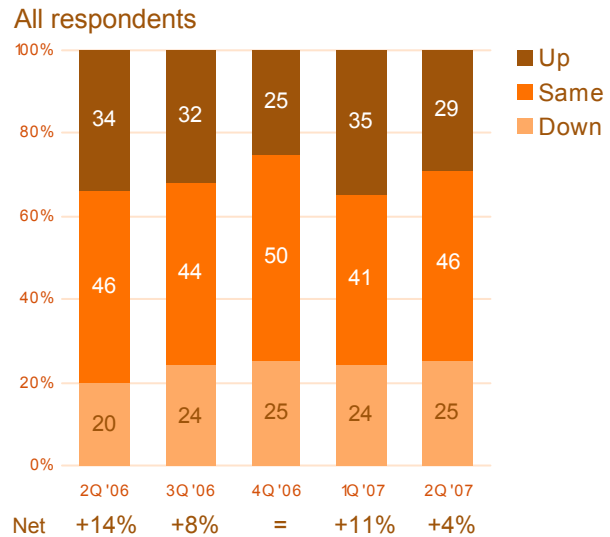
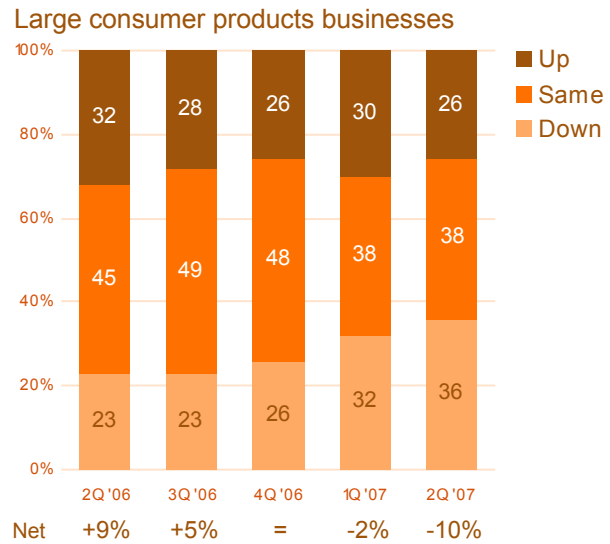
Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Changes in gross margins

Are gross margins up, down or the same compared to three months ago?

In 2Q 2007, gross margins tightened considerably for consumer products businesses: 26 percent were higher, but 36 percent were lower, leaving a net negative 10 percent. This net percentage is 8 points lower than the prior quarter. The broader group's net percentage difference was positive 4 percent.

Chart 3.4 Changes in gross margins



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

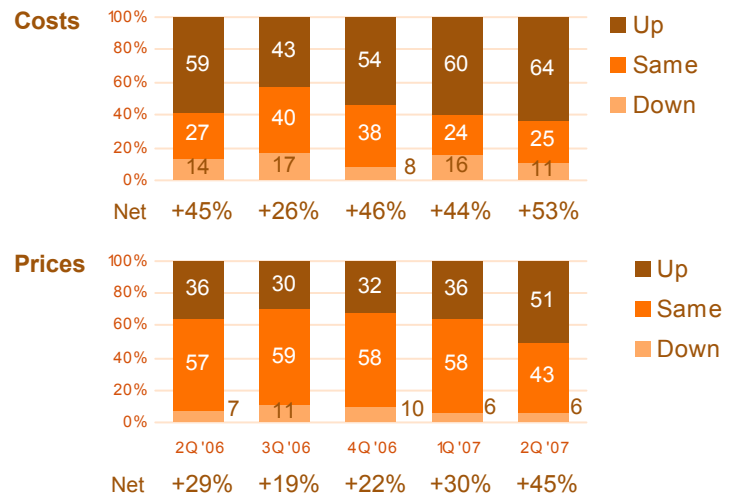
Changes in costs and prices

Are costs up, down or the same compared to three months ago? Prices?

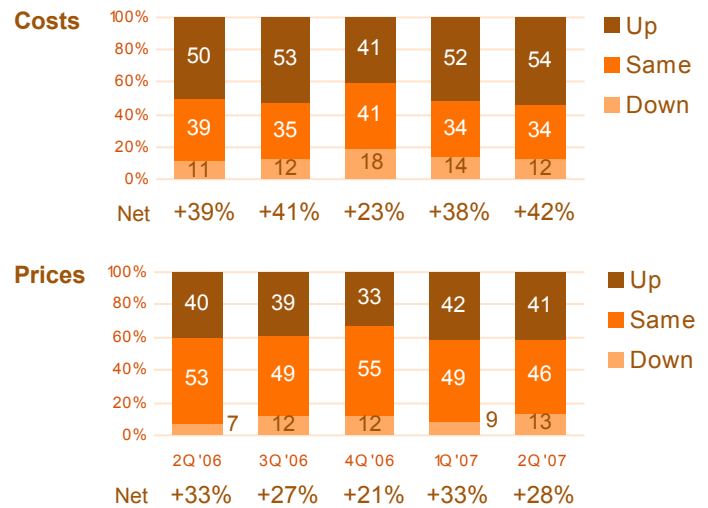
Costs, in 2Q 2007, increased for 64 percent of consumer products businesses and decreased for only 11 percent — a net of 53 percent with higher costs. Directionally on the high side, net costs are 9 points above the previous quarter, and 8 points above a year ago. Fifty-one percent of consumer products businesses raised their prices and only 6 percent lowered them — a net of 45 percent with higher prices. Net prices were 15 points above the prior quarter and 16 points above a year ago. The upward changes in costs and prices are both well above the all-industry consensus.

Chart 3.5 Changes in costs and prices

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n = 130.

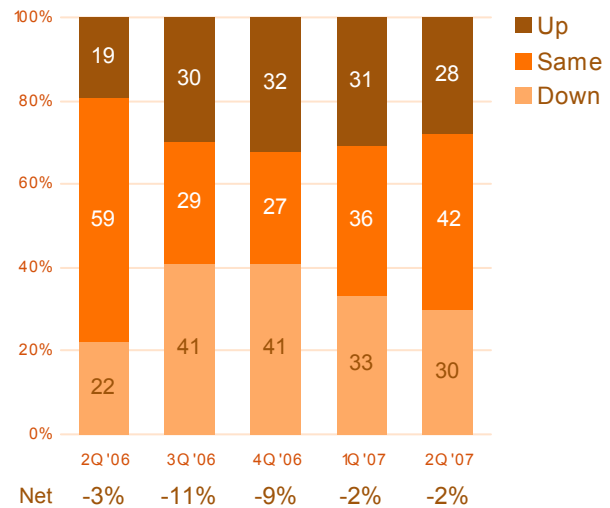
Inventory movement

Are finished inventories as a percent of sales up, down or the same compared to three months ago?

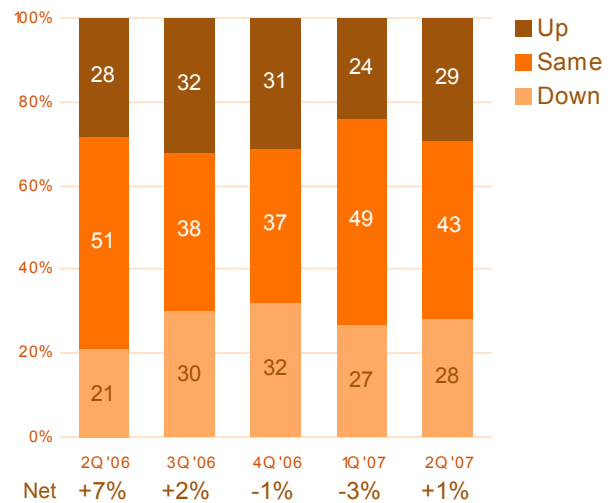
Overall, net inventories were down for 2 percent of consumer products manufacturers: 28 percent reported higher inventories, 30 percent lower and 42 percent about the same. This is similar to the prior quarter and, directionally, the same as a year ago. The broader peer group shows a similar pattern, although slightly on the upside this quarter.

Chart 3.6 Inventory movement

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

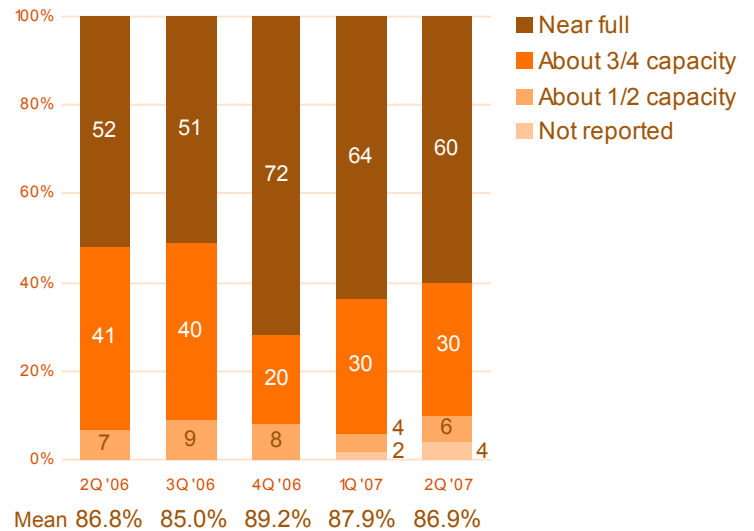
Level of operating capacity

What is your organization's current operating capacity?

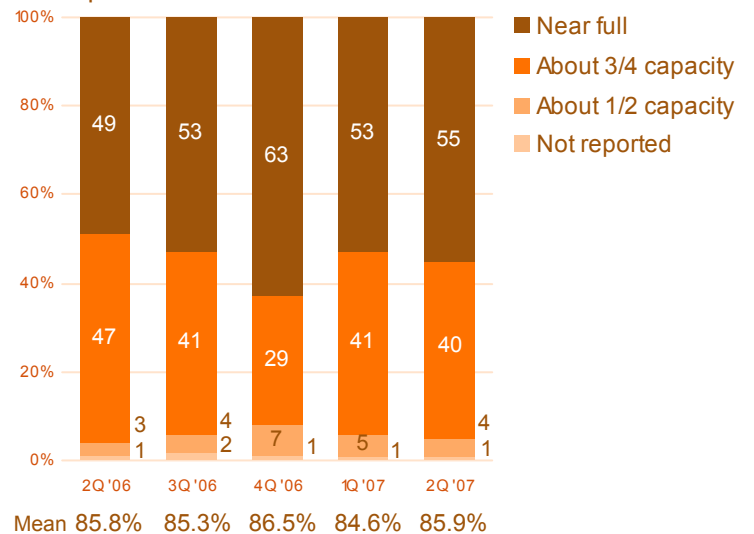
Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 2Q 2007, the average level of operating capacity for consumer products businesses was an estimated 86.9 percent of capacity — slightly below the prior quarter, but consistent over the past year. This quarter, 60 percent claimed to be at or near full capacity. It is common for the broader consensus — 55 percent reportedly at or near full capacity in 2Q 2007 — to report a slightly lower operating capacity compared to the industry group.

Chart 3.7 Level of operating capacity

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Business outlook, next 12 months

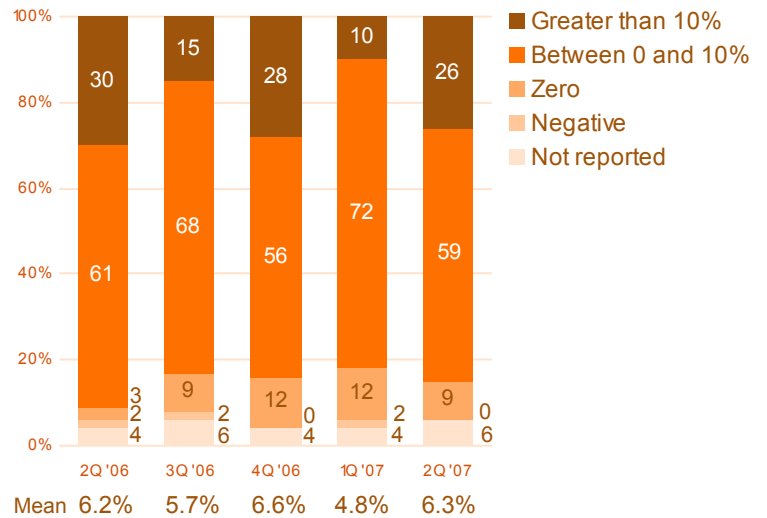
Revenue growth, next 12 months

What is your organization's estimated revenue growth rate for the next 12 months?

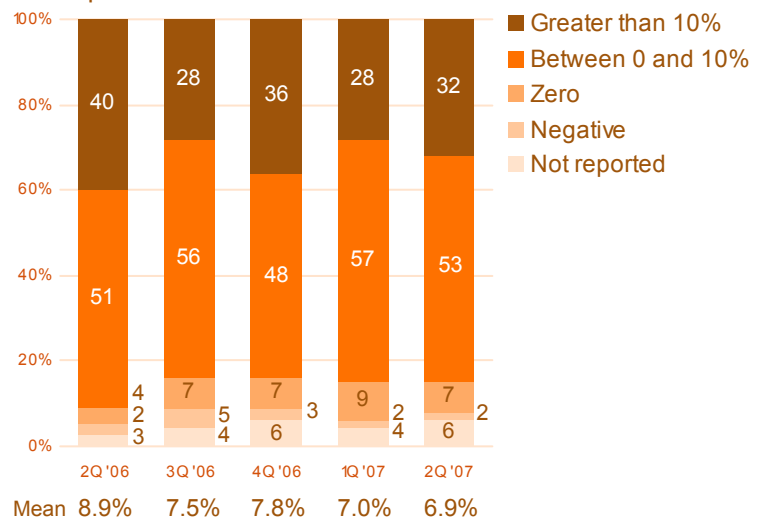
Showing quarter-to-quarter volatility, consumer products businesses project a higher revenue growth rate for their own companies over the next 12 months. The 6.3 percent average is above the prior quarter's projected 4.8 percent, but in line with the 6.2 percent projection a year ago. Currently, 85 percent plan for growth over the next 12 months — 26 percent expect double-digit revenue growth and 59 percent expect single-digit growth. Compared to last quarter's results, the pace of revenue growth over the next 12 months is now closing in on the broader consensus — 6.3 percent for the industry versus 6.9 percent for the consensus group.

Chart 4.1 Revenue growth, next 12 months

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

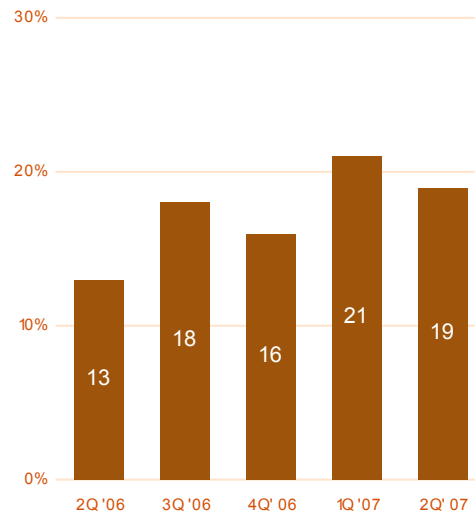
International sales, next 12 months

What percent of your business' total revenues over the next 12 months do you expect to be derived from international sales?

Of those selling abroad, the contribution of international sales to large consumer products businesses' total revenue is projected at a reasonably high 19 percent over the next 12 months, comparable to 21 percent in the prior quarter but notably higher than the 13 percent a year ago. Consumer products businesses selling abroad are consistently outpaced by the broader consensus in projected revenue contributions from international sales — 19 percent versus 29 percent in the current quarter's projections.

Chart 4.2 International sales, next 12 months

Large consumer products businesses



All respondents



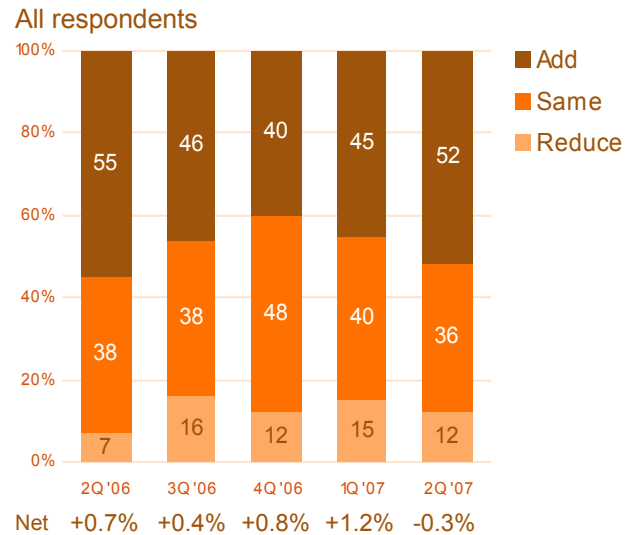
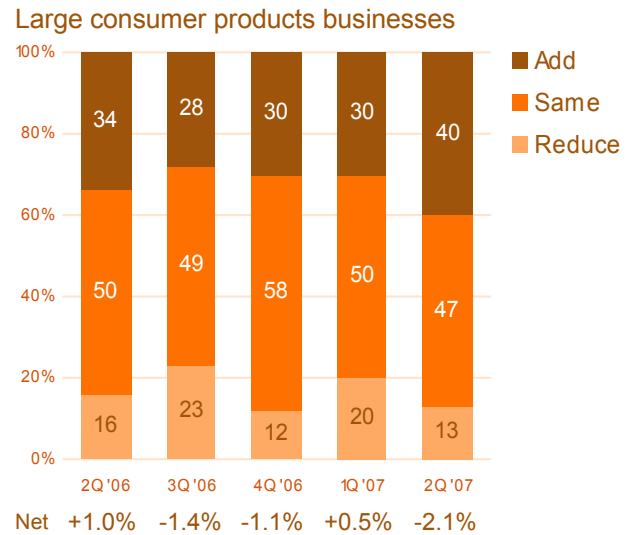
Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Percent planning to hire

Do you plan to add or reduce the number of full-time equivalent employees over the next 12 months?

Compared to the previous four quarters, more consumer products businesses — 40 percent— are planning to add employees to their workforce over the next 12 months. Fewer are planning to reduce the number of full time-equivalent employees, but the total number of planned layoffs is higher than the total number of additions. As a result, the net projection is at negative 2.1 percent. In the prior quarter, the net projection was at plus 0.5 percent, so composite workforce projections for the next 12 months are sharply lower. Consumer products manufacturers planning to add employees to their workforce project a much higher revenue growth rate over the next 12 months — 7.7 percent versus 5.4 percent for those staying the same or reducing.

Chart 4.3 Percent planning to hire



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Percent planning to hire by type of employee

What types of employees do you plan to add or reduce over the next 12 months?

Over the next 12 months, consumer products businesses will primarily be looking for white-collar management support and sales/marketing executives to hire.

More interest in the professionals/technicians category was found in the broader consensus — 30 percent versus 15 percent. The broader consensus is also more interested in blue collar production workers — 25 percent versus 17 percent for consumer products manufacturers.

Chart 4.4 Percent planning to hire by type of employee

Large consumer products businesses

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Planning to hire (net)	34%	28%	30%	30%	40%
• White collar support	23%	13%	18%	14%	30%
• Sales/marketing	25%	9%	24%	16%	21%
• Production workers	16%	11%	16%	10%	17%
• Professionals/technicians	21%	17%	18%	10%	15%
• Skilled labor	21%	9%	12%	8%	11%

All respondents

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Planning to hire (net)	55%	46%	40%	45%	52%
• White collar support	27%	16%	21%	25%	27%
• Sales/marketing	26%	20%	25%	23%	22%
• Production workers	24%	14%	17%	20%	25%
• Professionals/technicians	34%	29%	26%	25%	30%
• Skilled labor	22%	15%	20%	22%	20%

Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

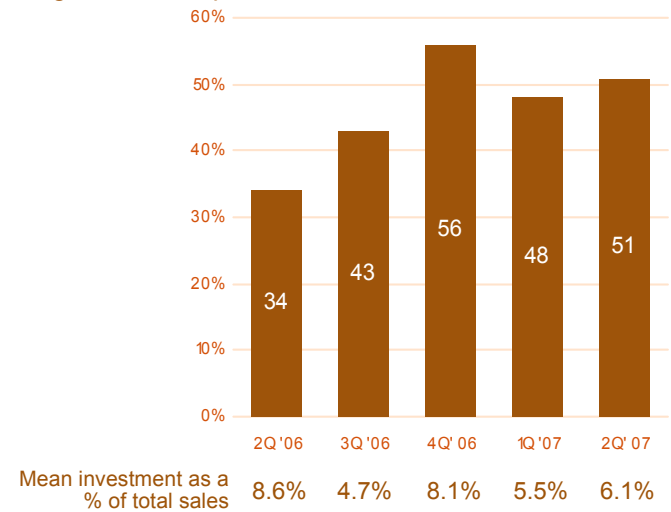
Percent planning major new investments of capital

Are you actively planning any major new investments of capital over the next 12 months? If so, what percent of total sales to you expect to invest?

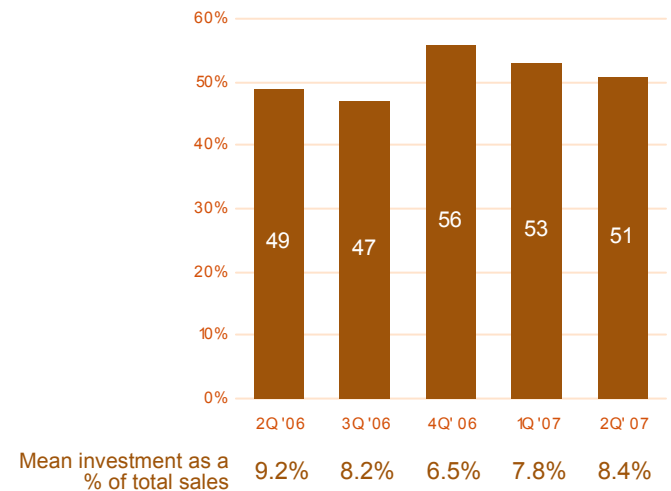
Half (51 percent) of consumer products businesses plan for major new investments in business growth over the next 12 months. The mean investment is moderate at 6.1 percent of total sales. Overall, plans for major new investments among consumer products manufacturers have been consistently strong over the past five quarters, and rivals the broader consensus, although the mean investment as a percent of total sales is lower for the all-industry group.

Chart 4.5 Percent planning major new investments of capital

Large consumer products businesses



All respondents



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Percent planning to increase operational spending

Over the next 12 months, where do you expect to increase spending?

Looking ahead over the next 12 months, five types of increased expenditures lead the way among large consumer products businesses: new product or service introductions; marketing and sales promotion; information technology; advertising; and research and development. Plans for business acquisitions are also notably higher this quarter. The broader consensus was lower on four of five types of expenditures, equal only on IT. The consensus was higher than consumer products manufacturers in geographic and facilities expansions. Business acquisitions were on the rise in 2Q 2007, but still somewhat below the consensus.

Chart 4.6 Percent planning to increase operational spending

Large consumer products businesses

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Percent planning to increase spending (net)	82%	81%	92%	90%	87%
• New product or service introduction	57%	47%	56%	64%	59%
• Marketing & sales promotion	46%	34%	58%	44%	49%
• Information technology	39%	51%	66%	50%	47%
• Advertising	41%	32%	48%	38%	45%
• Research and development	25%	34%	36%	40%	38%
• Business acquisition	21%	26%	20%	24%	36%
• Facilities expansion	30%	28%	42%	32%	30%
• Internet commerce	23%	30%	34%	26%	28%
• Geographic expansion	14%	26%	26%	24%	26%

All respondents

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
Percent planning to increase spending (net)	85%	83%	86%	92%	88%
• New product or service introduction	47%	46%	44%	47%	49%
• Marketing & sales promotion	30%	31%	32%	35%	31%
• Information technology	45%	49%	50%	46%	47%
• Advertising	25%	22%	24%	24%	25%
• Research and development	31%	30%	26%	30%	34%
• Business acquisition	36%	39%	38%	38%	40%
• Facilities expansion	37%	35%	40%	35%	36%
• Internet commerce	11%	18%	21%	20%	25%
• Geographic expansion	31%	33%	39%	37%	38%

Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Expected barriers to business growth

Over the next 12 months, will any of the following represent barriers to business growth?

The impact of oil/energy prices tops the list of concerns for the next 12 months among consumer products manufacturers. The oil/energy barrier was also clearly highest in the broader consensus. At a lower level, concerns about legislation/regulatory pressures and competition from foreign markets were also cited. Compared to last quarter's results, a fiscal barrier also increased among consumer products manufacturers: the dollar's lower monetary exchange rate. Those who are concerned about oil/energy costs (51 percent of total) have above-average concerns for four other potential barriers: legislative/regulatory pressure (48 percent); higher interest rates (41 percent); competition from foreign markets (37 percent); and monetary exchange rates (33 percent). As noted earlier, those concerned about the cost of oil/energy reported higher costs and lower revenue projections for the next 12 months. The broader all-industry consensus showed greater levels of concern for lack of demand, lack of qualified workers and competition from foreign markets.

Chart 4.7 Expected barriers to business growth



Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Plans for M&A and other business initiatives

Over the next 12 months, do you expect to participate in any of the following new business initiatives?

Plans for M&A activity among consumer products businesses over the next 12 months rose 15 points to the 51 percent level in 2Q 2007, notably higher than a year ago (32 percent). Forty-five percent plan to purchase another business, while 9 percent might divest parts of their own businesses and 4 percent plan equity carve-outs or spin-offs. Other business initiatives planned include new strategic alliances, expansion to new markets abroad, new joint ventures and development of manufacturing or distribution facilities abroad. Of these initiatives, the greatest decrease is seen for expansion to new markets abroad, down from its high of 50 percent in the prior quarter to 30 percent. The all-industry consensus reflects more plans for new strategic alliances and new joint ventures.

Chart 4.8 Plans for M&A and other business initiatives

Large consumer products businesses

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
New business initiatives (net)	55%	66%	70%	74%	72%
• M&A activity (net)	32%	43%	38%	36%	51%
- Purchase another business	30%	32%	26%	30%	45%
- Sale part/all own business	5%	11%	14%	6%	9%
- Equity carve-out/spin-off	5%	9%	2%	4%	4%
• New strategic alliance	23%	26%	36%	34%	36%
• Expand to new markets abroad	25%	34%	26%	50%	30%
• New joint venture	9%	15%	24%	22%	15%
• New facilities abroad	21%	15%	18%	20%	15%
• Close/reduce facilities abroad	2%	9%	10%	6%	8%
• Reduce activity in markets abroad	2%	4%	2%	10%	2%

All respondents

	2Q '06	3Q '06	4Q '06	1Q '07	2Q '07
New business initiatives (net)	65%	68%	69%	72%	75%
• M&A activity (net)	45%	47%	47%	45%	56%
- Purchase another business	42%	40%	40%	38%	48%
- Sale part/all own business	10%	10%	13%	14%	15%
- Equity carve-out/spin-off	4%	5%	2%	6%	9%
• New strategic alliance	29%	30%	32%	38%	42%
• Expand to new markets abroad	32%	31%	28%	35%	34%
• New joint venture	21%	19%	17%	22%	25%
• New facilities abroad	14%	17%	19%	17%	17%
• Close/reduce facilities abroad	6%	9%	8%	7%	9%
• Reduce activity in markets abroad	4%	4%	5%	7%	7%

Note: In 2Q 2007, large consumer products businesses n = 53, all respondents, n= 130.

Survey demographics and research methodology

Demographics

Who	Senior financial executives of US-based, publicly held organizations	
Interview dates	May 5, 2007 to August 6, 2007	
Average number of employees	All respondents (130) 8,573	Large consumer products businesses (53) 8,326
Average business unit revenues	\$2.60 billion	\$2.38 billion
Average enterprise revenues	\$6.88 billion	\$7.83 billion
Market capitalization	\$13.11 billion	\$14.62 billion
Industry sectors	Products 82% Manufacturing 74% Trade/Distribution 3% All other 5% Services 18%	Products 100% Manufacturing 100% Trade/Distribution --- All other --- Services ---

Methodology

PricewaterhouseCoopers' Consumer Products Barometer is a quarterly telephone survey conducted by the independent research firm BSI Global Research Inc. The survey panel consists of senior executives from a geographically balanced sample of large, publicly held companies in the United States. Ninety-five percent of the panelists hold titles such as president, CEO, CFO, VP of finance, treasurer, controller, internal audit director or related.

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About the research:

The Consumer Products Barometer is one in a series of quarterly business outlook surveys from PricewaterhouseCoopers. The Barometer provides a view on the direction of the economy, including revenue growth, new investments, new hiring plans, emerging business barriers and more. Other Barometer surveys include the Trendsetter Barometer, which tracks fast-growth private companies; the Management Barometer, which tracks a cross-sector of large publicly held companies; and the Manufacturing Barometer, which tracks the views of US industrial manufacturers. In addition to the quarterly business outlook, we hear from our panelists about special issues they face as the business climate changes. Results of the quarterly business outlook surveys and special issue surveys are available from www.barometersurveys.com.

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