

Consumer Products Barometer™

Business outlook 3Q 2007

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Quarterly highlights

In 3Q 2007, PricewaterhouseCoopers interviewed 59 US-based consumer products 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 third quarter 2007 Consumer Products Barometer results show that despite increasing uncertainty about the US economy, revenue projections are steady, prices are also holding and expectations for international sales remain stable. Amid a drop in optimism about the nation's economic outlook, concern rose about future demand and tightening margins, and oil/energy prices remained the top barrier to business growth. Compared to the prior quarter, fewer businesses plan to hire new workers and approve major new investments of capital in the months to come. Fewer too, plan for M&A activity during the next 12 months. As a group, however, consumer products executives appear resilient and remain confident in their own companies' abilities to meet prospective revenue growth targets.

Key findings:

- Uncertainty about the US economy grew. In 3Q 2007, 29 percent of consumer products executives were optimistic about the 12-month outlook for the US economy, down 24 points from the prior quarter and 35 points from a year ago. The 71 percent not optimistic were largely uncertain (46 percent). Optimism about the 12-month outlook for the world's economy also faltered, but not as severely.
- Concern about demand and decreasing profitability rose sharply from the prior quarter. Concern about demand rose 20 points to 37 percent, and anxiety about decreasing profitability rose 23 points to 36 percent. As crude oil levels moved above \$90 per barrel in 3Q 2007, 59 percent (an 8 point rise) of consumer products senior executives cited oil/energy prices as the leading major barrier to their own companies' growth over the next 12 months. Other noteworthy concerns cited were legislative/regulatory pressures (36 percent) and pressure for increased wages (34 percent).

- There are signals of reduced spending ahead. Only 37 percent plan major new investments of capital over the next 12 months, off 14 points from last quarter, while prospective mean investment dropped from 6.1 percent to 4.2 percent of total sales. On the hiring side, 32 percent plan net additions to their workforces over the next 12 months. The outlook for operational spending remains positive for new product/service introductions, IT, marketing, sales promotions, and advertising. But, plans for potential business acquisitions dropped almost a third to the 25 percent level. Overall, prospective M&A activity dropped from 51 percent last quarter to 31 percent.
- Despite growing uncertainty, revenue growth projections show signs of resiliency. Senior executives of consumer products companies maintained their own companies' 12-month revenue growth projections, averaging 6.8 percent, which is slightly above the prior quarter and about a point ahead of last year's projection. Currently, 92 percent plan for growth, and 21 percent expect double-digit growth.
- International sales projections remain steady. International sales' contribution to total revenues is projected at 19 percent over the next 12 months, the same as the last quarter and a year ago.
- Those concerned about the cost of oil/energy (59 percent of total) are fighting notable higher costs with higher prices and reflect above-average concern about decreasing profitability over the next 12 months (40 percent), yet they appear resilient and report steady revenue growth projections.

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
	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07	2Q-3Q '07	
Optimistic about US economy	64%	72%	50%	53%	29%	↓	7
Optimistic about world economy	60%	71%	67%	63%	50%	↓	9
Expect positive revenue growth	83%	84%	82%	85%	92%	↑	19
Average growth rate expected	5.7%	6.6%	4.8%	6.3%	6.8%	↑	19
Planning major new investments	43%	56%	48%	51%	37%	↓	23
New investments as a % of sales	4.7%	8.1%	5.5%	6.1%	4.2%	↓	23
Planning to hire	28%	30%	30%	40%	32%	↓	21
New workers as a % of workforce (net)	-1.4%	-1.1%	+0.5%	-2.1%	+1.1%	↑	21
Expected barriers to growth							
• Oil/energy prices	53%	54%	70%	51%	59%	↑	25
• Lack of demand	32%	40%	30%	17%	37%	↑	25
• Legislative/ Regulatory pressures	15%	32%	34%	32%	36%	=	25
• Decreasing profitability	21%	22%	20%	13%	36%	↑	25
• Pressure for increased wages	26%	34%	28%	25%	34%	↑	25
• Lack of qualified workers	19%	30%	26%	21%	29%	↑	25
• Monetary exchange rate	21%	20%	16%	25%	29%	=	25
• Higher interest rates	24%	22%	26%	26%	27%	=	25
• Taxation policies	13%	14%	20%	13%	24%	↑	25
• Competition from foreign markets	26%	26%	32%	28%	24%	=	25
• Capital constraints	7%	12%	12%	13%	12%	=	25

Economic views

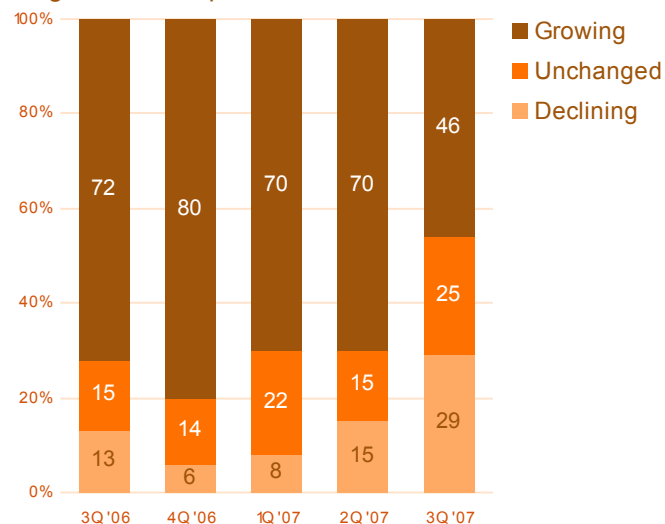
View of the US economy, this quarter

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

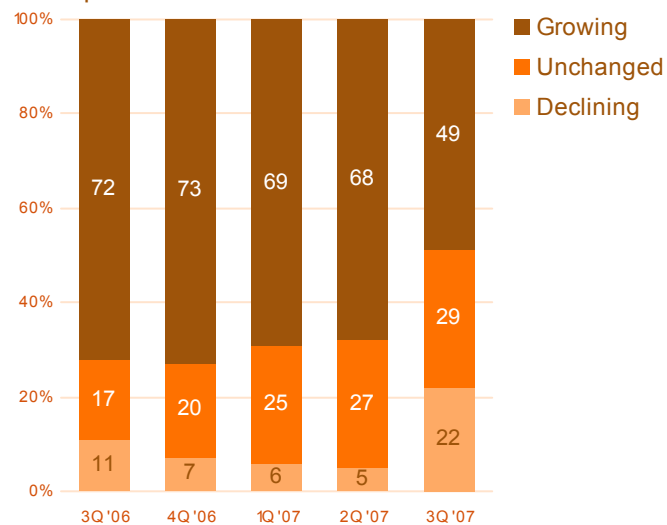
Only 46 percent of consumer products senior executives believe the US economy continues to grow, down 24 points from last quarter's 70 percent. An increasing number, 29 percent, now believe it is declining (up 14 points), while 25 percent view it as unchanged.

Chart 2.1 View of the US economy, this quarter

Large consumer products businesses



All respondents



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

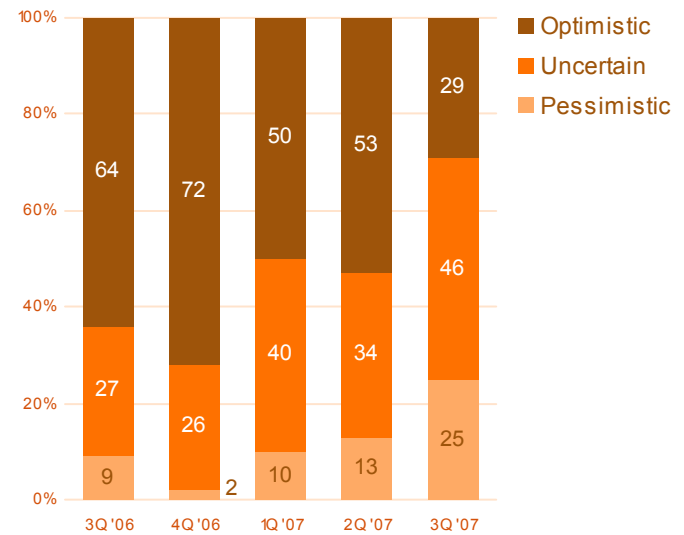
View of the US economy, next 12 months

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

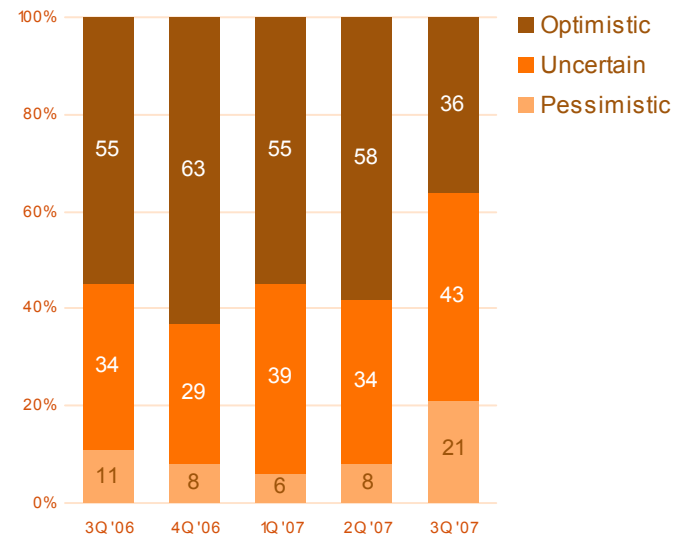
Optimism about the 12-month outlook for the US economy also dropped precipitously among senior executives of consumer products companies. Only 29 percent are now optimistic about the prospects for the US economy, off 24 points from 53 percent the prior quarter. The number of pessimistic viewpoints — 25 percent — nearly doubled last quarter's 13 percent number.

Chart 2.2 View of the US economy, next 12 months

Large consumer products businesses



All respondents



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

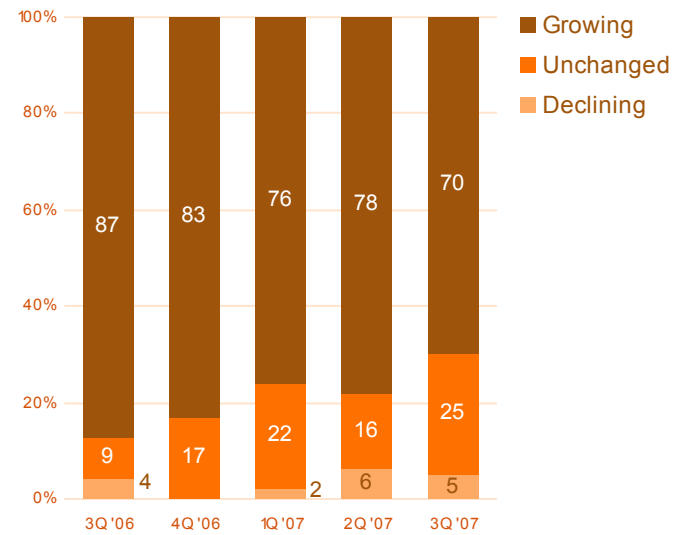
View of the world economy, this quarter

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

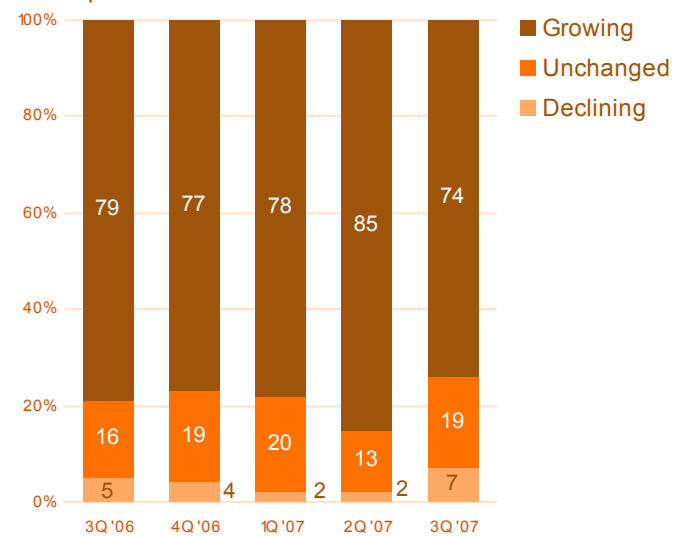
In sharp contrast to views about the US economy, 70 percent of those marketing abroad view the world economy as growing, off only 8 points from 78 percent in the prior quarter. Only 5 percent view the world economy as declining. Consumer products executives, who were more optimistic about the world economy than the broader consensus a year ago, 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 3Q 2007, large consumer products businesses n = 56, all respondents, n = 118.

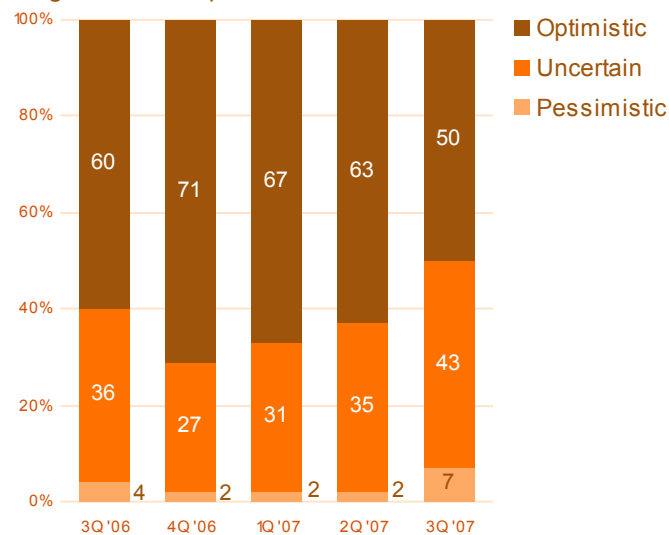
View of the world economy, next 12 months

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

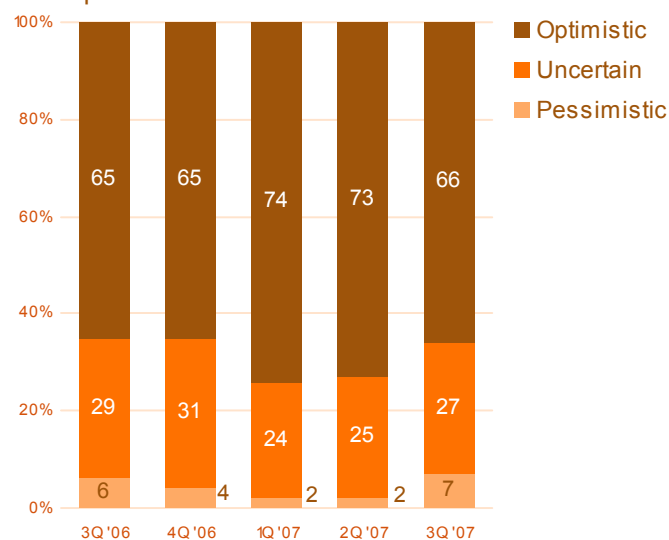
Currently, 50 percent of consumer products senior executives whose businesses market abroad are optimistic about the prospects for the world economy, 13 points below the prior quarter's 63 percent. The views of executives of companies that market abroad have fallen 16 points below the broader consensus (66 percent), which remained much more bullish than consumer products businesses.

Chart 2.4 View of the world economy, next 12 months

Large consumer products businesses



All respondents



Note: In 3Q 2007, large consumer products businesses n = 56, all respondents, n = 118.

Company performance

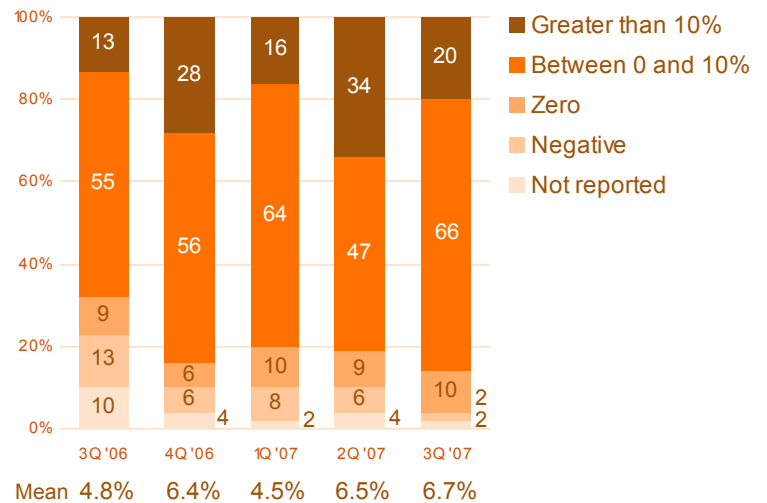
Company revenue growth, calendar year

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

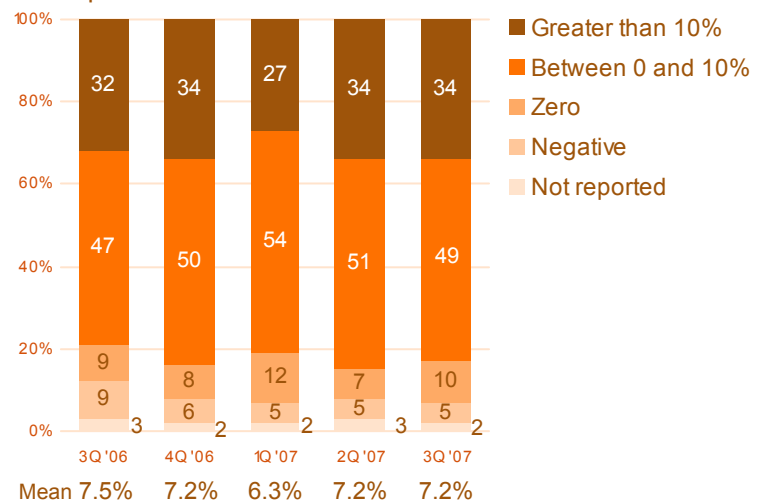
Despite an uncertain economic outlook, 86 percent of consumer products company executives expect revenue growth in 2007, with 20 percent expecting double-digit growth and 66 percent expecting single-digit growth. Overall, the average growth estimate rose to 6.7 percent from 6.5 percent the previous quarter. The pace of revenue growth expected in 2007 among US-based consumer products firms remains below the broader consensus 7.2 percent average for the current year. (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 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

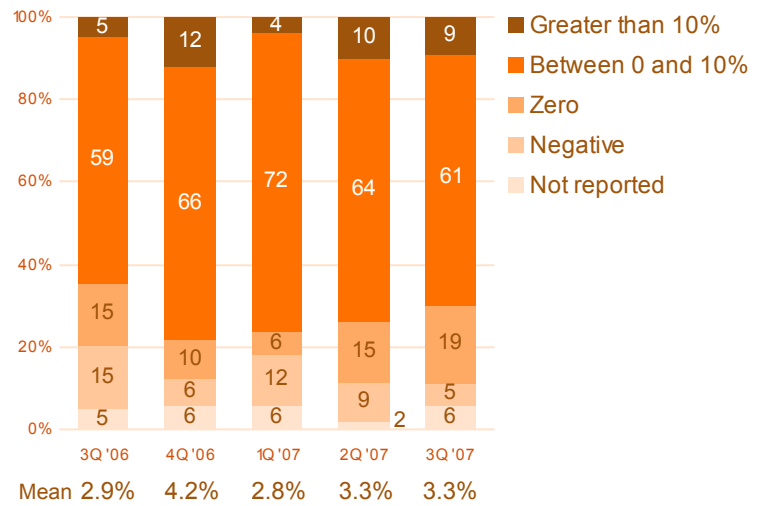
Industry growth rate, calendar year

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

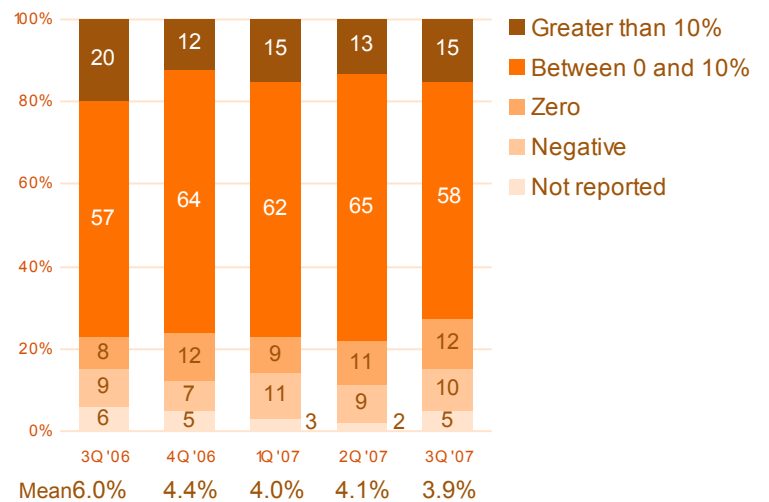
The estimate for the average industry growth in 2007 is now 3.3 percent — same as the prior quarter. Note that the industry growth estimate is typically lower than the average company growth rate. US-based industrial manufacturers anticipate an average growth rate of 6.7 percent for their own companies in 2007, more than two times greater than the estimated growth rate of 3.3 percent for their industry.

Chart 3.2 Industry growth rate, calendar year

Large consumer products businesses



All respondents



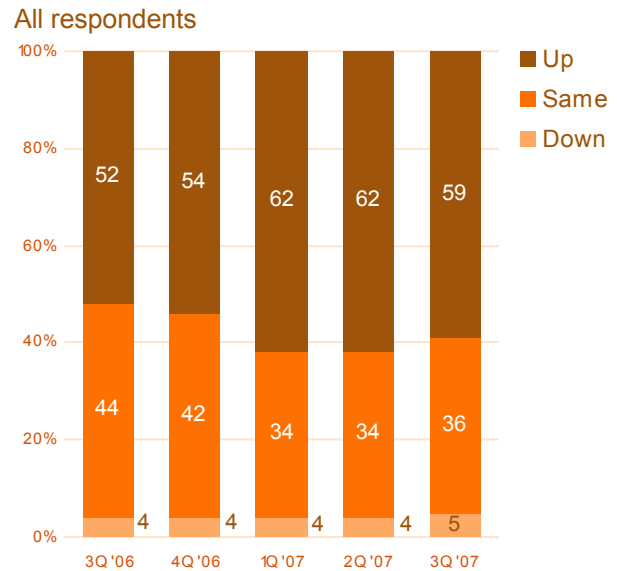
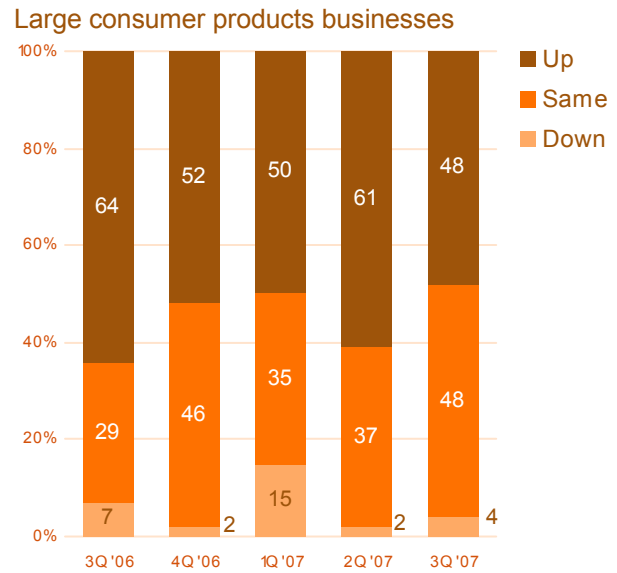
Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

International sales

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

International markets continue to show positive growth for consumer products companies that sell abroad. Quarterly performance moderated somewhat in 3Q 2007, as 48 percent of international marketers increased sales abroad, off 13 points from the prior quarter and below the 64 percent figure of a year ago. Only 4 percent of companies showed a quarterly decrease in international sales in 3Q 2007, a notable reduction from 1Q 2007's 15 percent.

Chart 3.3 International sales



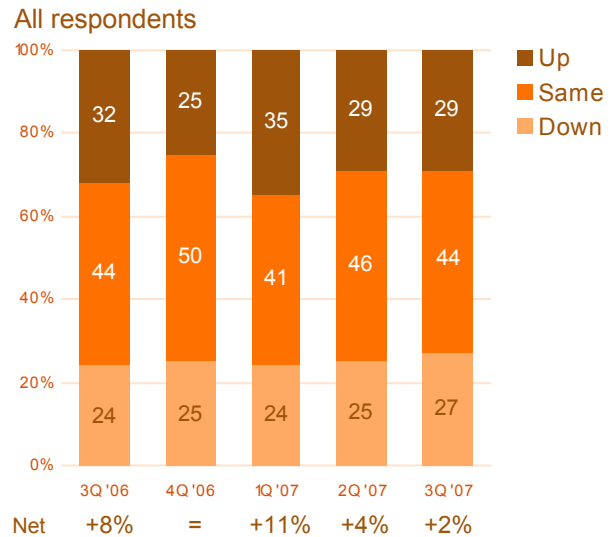
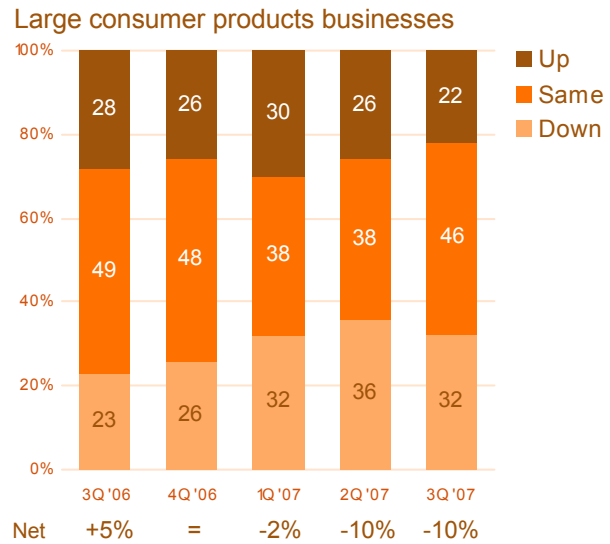
Note: In 3Q 2007, large consumer products businesses n = 56, all respondents, n = 118.

Changes in gross margins

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

In 3Q 2007, gross margins remained tight for consumer products businesses: 22 percent were higher, but 32 percent were lower. Gross margins in 3Q 2007 were a net negative 10 percent, 15 points lower than a year ago.

Chart 3.4 Changes in gross margins



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

Changes in costs and prices

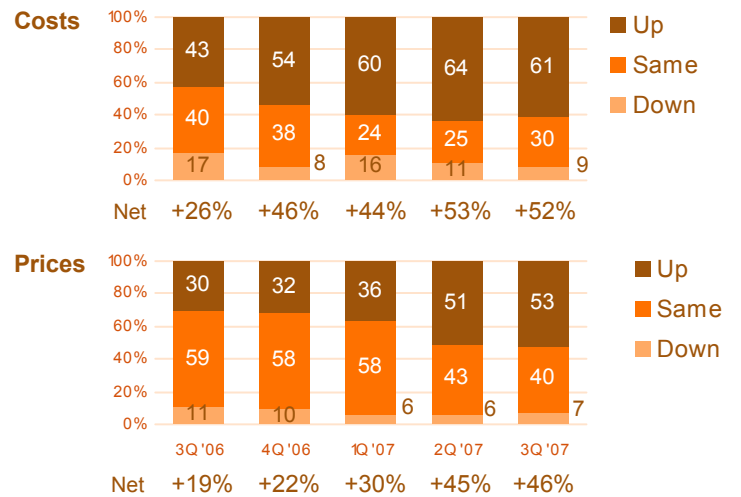
Are costs up, down or the same compared to three months ago? Prices?

Costs, in 3Q 2007, increased for 61 percent of consumer products businesses and decreased for only 9 percent — a net of 52 percent with higher costs. Directionally on the high side, net costs are 26 points above a year ago.

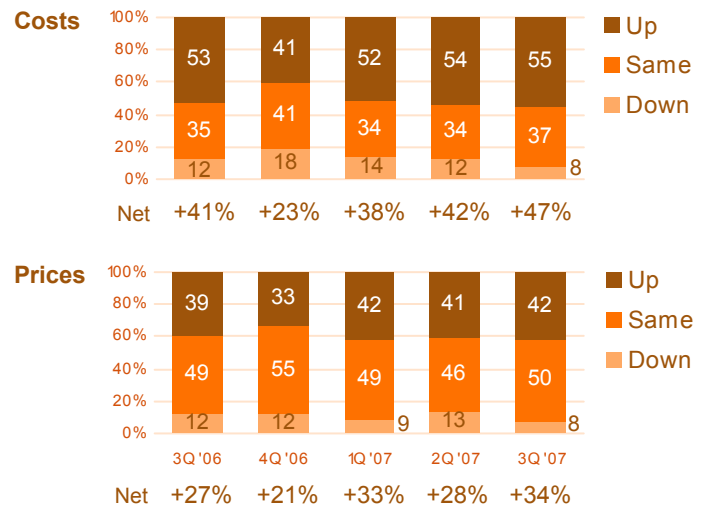
A net 46 percent of consumer products businesses increased prices this quarter (53 percent raising prices and 7 percent lowering them), similar to last quarter's net 45 percent but a substantial 27 points above the net percentage reported a year ago.

Chart 3.5 Changes in costs and prices

Large consumer products businesses



All respondents



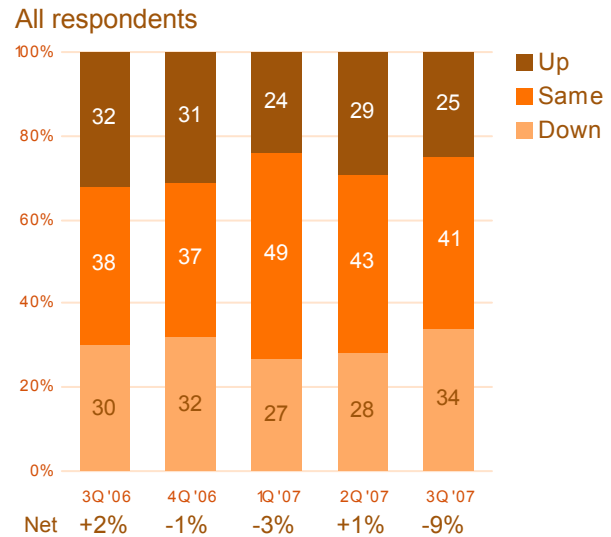
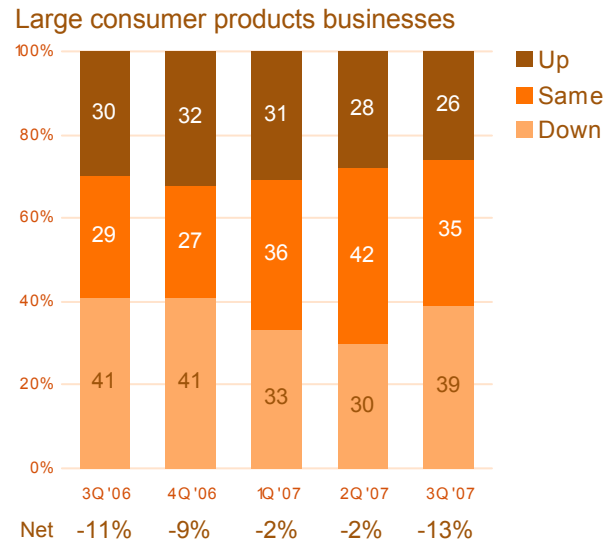
Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

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 13 percent of consumer products manufacturers: 26 percent reported higher inventories, 39 percent lower and 35 percent about the same. This is lower than the prior quarter, and directionally similar to a year ago.

Chart 3.6 Inventory movement



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

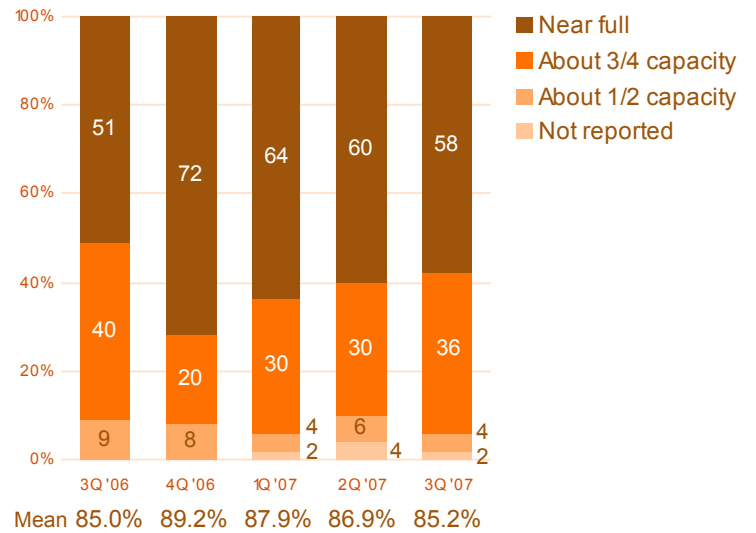
Level of operating capacity

What is your organization's current operating capacity?

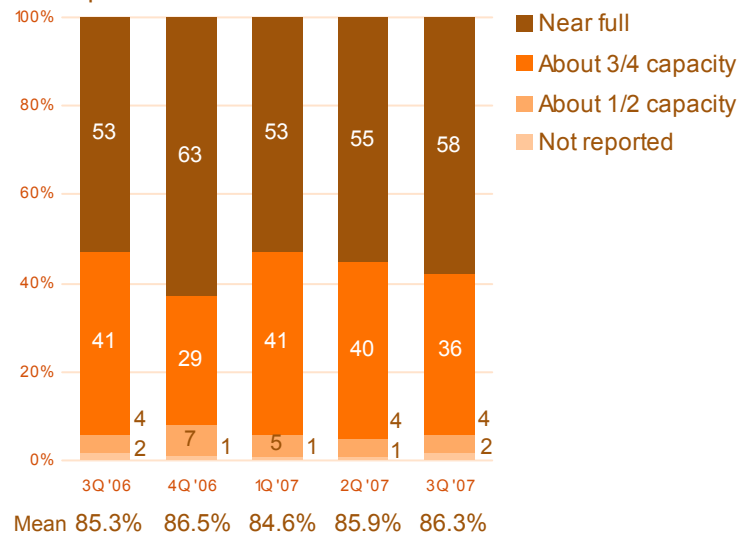
Operating capacity is an estimate of the current level of permanent staffing compared to what is needed for full-capacity output. In 3Q 2007, the average level of operating capacity for consumer products businesses was an estimated 85.2 percent — slightly below the prior quarter, but consistent with a year ago. This quarter, 58 percent claimed to be at or near full capacity.

Chart 3.7 Level of operating capacity

Large consumer products businesses



All respondents



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

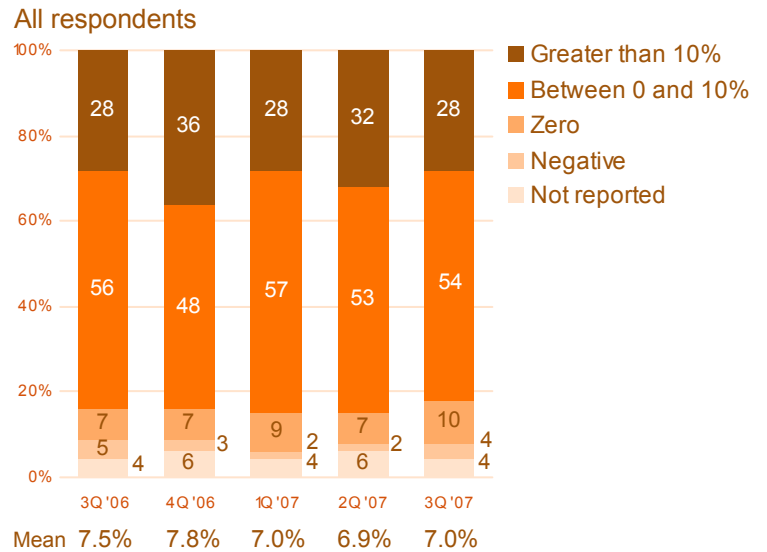
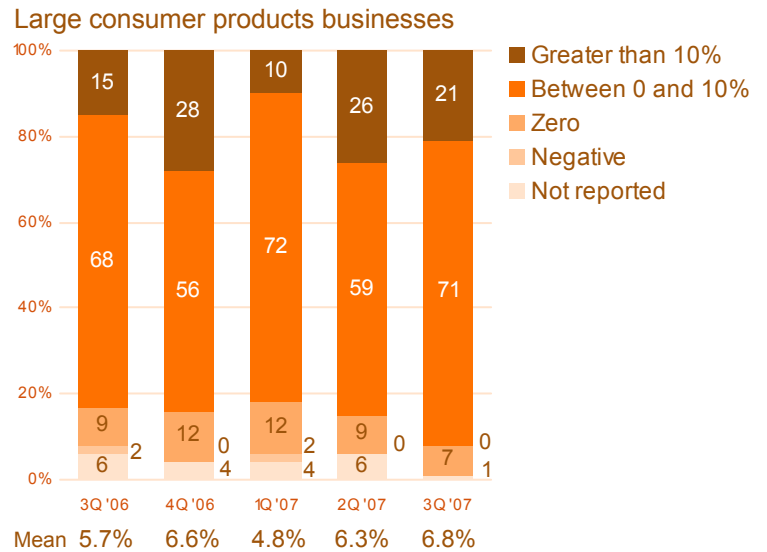
Business outlook, next 12 months

Revenue growth, next 12 months

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

In the face of sharply declining optimism about the US economy's prospects, consumer products senior executives projected higher revenue growth rates for their own companies over the next 12 months. The 6.8 percent average is above the prior quarter's projected 6.3 percent, and well ahead of the 5.7 percent projection a year ago. Currently, 92 percent plan for growth over the next 12 months, with 21 percent expecting double-digit revenue growth.

Chart 4.1 Revenue growth, next 12 months



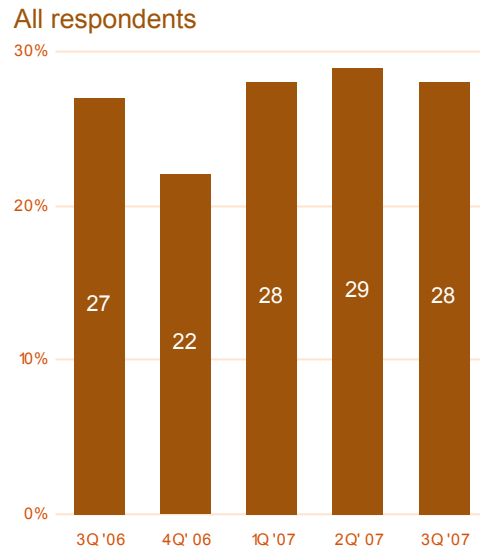
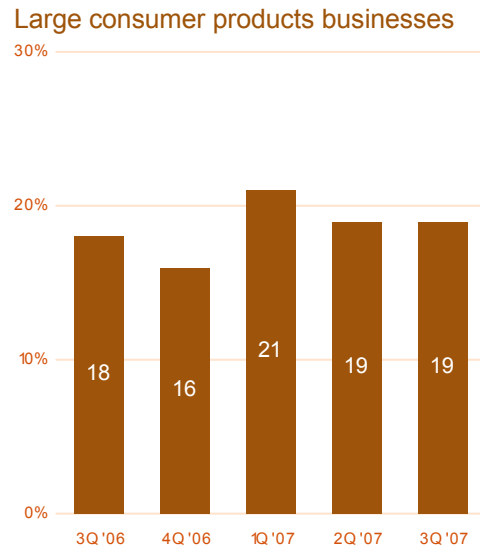
Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

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 total revenue is projected at a continued 19 percent over the next 12 months, slightly higher than the 18 percent a year ago. The broader consensus consistently outpaces consumer products businesses selling abroad in projected revenue contributions from international sales — 28 percent versus 19 percent in the current quarter's projections.

Chart 4.2 International sales, next 12 months



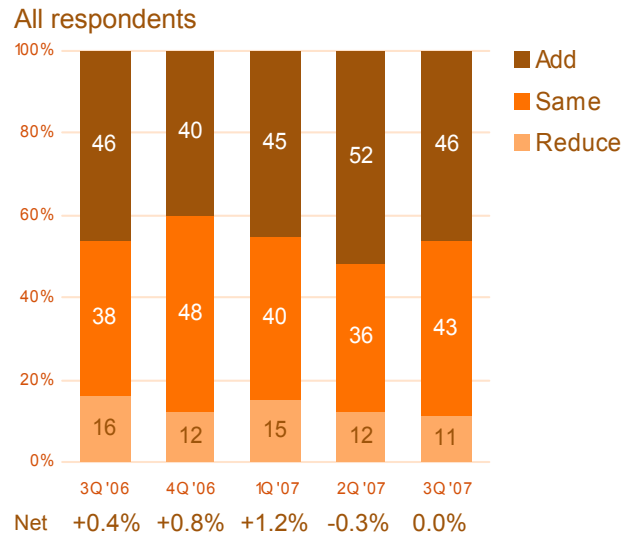
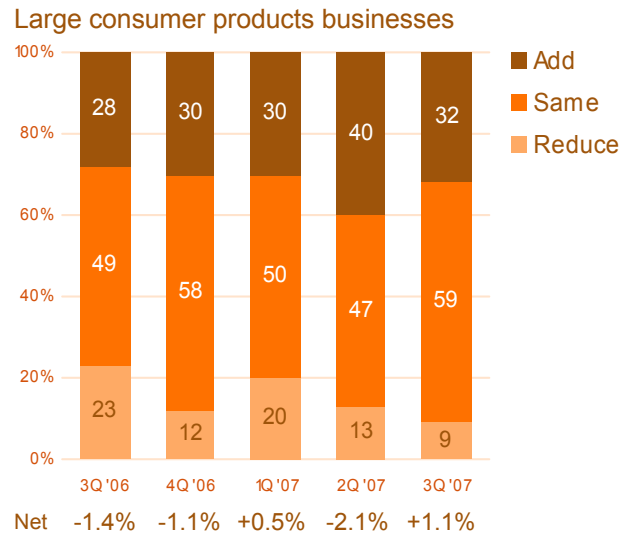
Note: In 3Q 2007, large consumer products businesses n = 56, all respondents, n = 118.

Percent planning to hire

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

Fewer consumer products businesses — 32 percent, off 8 points from the prior quarter — plan to add employees over the next 12 months. Fewer also plan to reduce the number of full time-equivalent employees (9 percent). But in the absence of major layoffs, the net projection is at positive 1.1 percent. In the prior quarter, the net projection was at negative 2.1 percent, so composite workforce projections for the next 12 months are higher. Consumer products manufacturers planning to add employees to their workforces project a much higher revenue growth rate over the next 12 months — 10.0 percent — nearly double the 5.3 percent staying the same or reducing.

Chart 4.3 Percent planning to hire



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

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 to hire. The broader consensus demonstrates slightly more interest in blue-collar production workers — 21 percent versus 15 percent for consumer products manufacturers. More interest in the professionals/technicians category was found in the broader consensus as well — 28 percent versus 10 percent.

Chart 4.4 Percent planning to hire by type of employee

Large consumer products businesses

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Planning to hire (net)	28%	30%	30%	40%	32%
• White collar support	13%	18%	14%	30%	20%
• Production workers	11%	16%	10%	17%	15%
• Skilled labor	9%	12%	8%	11%	14%
• Sales/marketing	9%	24%	16%	21%	12%
• Professionals/technicians	17%	18%	10%	15%	10%

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Planning to hire (net)	46%	40%	45%	52%	46%
• White collar support	16%	21%	25%	27%	22%
• Production workers	14%	17%	20%	25%	21%
• Skilled labor	15%	20%	22%	20%	17%
• Sales/marketing	20%	25%	23%	22%	14%
• Professionals/technicians	29%	26%	25%	30%	28%

Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

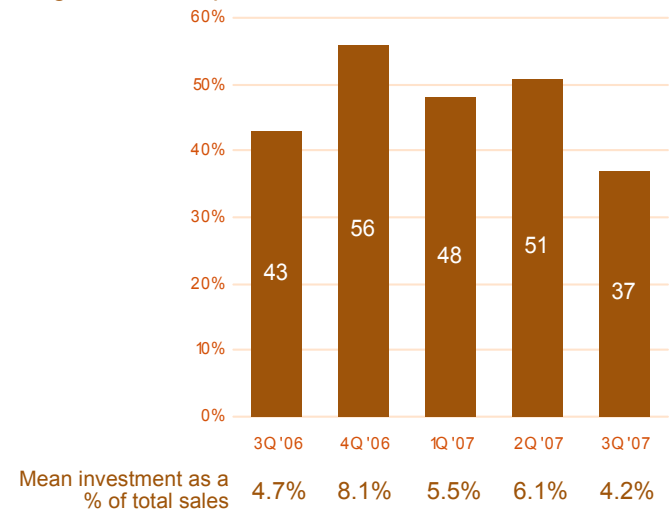
Percent planning major new investments of capital

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?

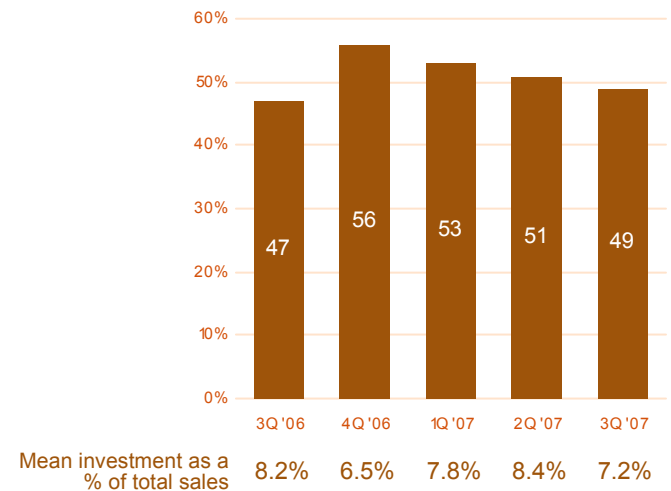
In a sharp drop-off, only 37 percent of consumer products businesses plan for major new investments of capital over the next 12 months, off 14 points from the prior quarter's 51 percent. The mean investment dropped to 4.2 percent of total sales. Overall, plans for major new investments among consumer products manufacturers have been consistently strong over the past three quarters, but have fallen below the broader consensus.

Chart 4.5 Percent planning major new investments of capital

Large consumer products businesses



All respondents



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

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 still lead the way among large consumer products businesses: new product or service introductions; information technology; marketing and sales promotion; advertising; and research and development. But plans for business acquisitions are notably lower this quarter.

Chart 4.6 Percent planning to increase operational spending

Large consumer products businesses

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Percent planning to increase spending (net)	81%	92%	90%	87%	83%
• New product or service introduction	47%	56%	64%	59%	58%
• Information technology	51%	66%	50%	47%	48%
• Marketing & sales promotion	34%	58%	44%	49%	48%
• Advertising	32%	48%	38%	45%	48%
• Research and development	34%	36%	40%	38%	34%
• Facilities expansion	28%	42%	32%	30%	27%
• Business acquisition	26%	20%	24%	36%	25%
• Internet commerce	30%	34%	26%	28%	24%
• Geographic expansion	26%	26%	24%	26%	20%

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
Percent planning to increase spending (net)	83%	86%	92%	88%	88%
• New product or service introduction	46%	44%	47%	49%	48%
• Information technology	49%	50%	46%	47%	55%
• Marketing & sales promotion	31%	32%	35%	31%	30%
• Advertising	22%	24%	24%	25%	24%
• Research and development	30%	26%	30%	34%	32%
• Facilities expansion	35%	40%	35%	36%	33%
• Business acquisition	39%	38%	38%	40%	41%
• Internet commerce	18%	21%	20%	25%	19%
• Geographic expansion	33%	39%	37%	38%	33%

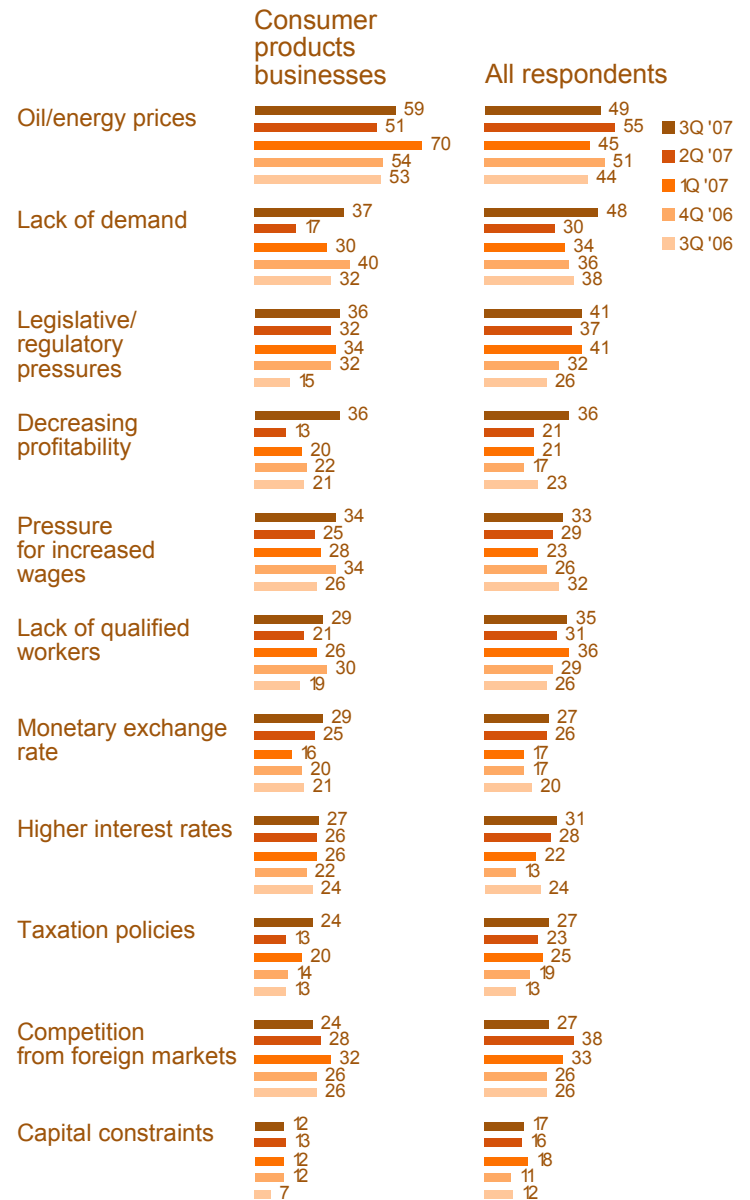
Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

Expected barriers to business growth

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

Oil/energy prices top the list of concerns among consumer products manufacturers once again. Two other concerns increased sharply this quarter — lack of demand rose 20 points to 37 percent and concern about decreasing profitability rose 23 points to 36 percent. A smaller increase was registered for taxation policies, which rose 11 points to 24 percent. Legislative/regulatory pressures also rose slightly. Those concerned about oil/energy costs (59 percent of total) have above-average concerns for three other areas: legislative/regulatory pressures (46 percent); pressure for increased wages (54 percent); and decreasing profitability (40 percent).

Chart 4.7 Expected barriers to business growth



Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n =132.

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 new business initiatives among consumer products businesses dropped from 72 percent to 61 percent. Plans for M&A activity over the next 12 months dropped 20 points to the 31 percent level in 3Q 2007, well below a year ago (43 percent). Twenty-five percent plan to purchase another business (off 20 points), 7 percent might divest part of their own business and 5 percent plan an equity carve-out or spin-off.

Other business initiatives planned include expansion to new markets abroad, new strategic alliances, new joint ventures and development of manufacturing or distribution facilities abroad. Of these initiatives, new strategic alliances decreased the most, off 9 points from the prior quarter's 36 percent.

Chart 4.8 Plans for M&A and other business initiatives

Large consumer products businesses

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	66%	70%	74%	72%	61%
• M&A activity (net)	43%	38%	36%	51%	31%
- Purchase another business	32%	26%	30%	45%	25%
- Sale part/all own business	11%	14%	6%	9%	7%
- Equity carve-out/spin-off	9%	2%	4%	4%	5%
• Expand to new markets abroad	34%	26%	50%	30%	29%
• New strategic alliance	26%	36%	34%	36%	27%
• New joint venture	15%	24%	22%	15%	14%
• New facilities abroad	15%	18%	20%	15%	14%
• Close/reduce facilities abroad	9%	10%	6%	8%	9%
• Reduce activity in markets abroad	4%	2%	10%	2%	3%

All respondents

	3Q '06	4Q '06	1Q '07	2Q '07	3Q '07
New business initiatives (net)	68%	69%	72%	75%	71%
• M&A activity (net)	47%	47%	45%	56%	45%
- Purchase another business	40%	40%	38%	48%	41%
- Sale part/all own business	10%	13%	14%	15%	8%
- Equity carve-out/spin-off	5%	2%	6%	9%	6%
• Expand to new markets abroad	31%	28%	35%	34%	32%
• New strategic alliance	30%	32%	38%	42%	39%
• New joint venture	19%	17%	22%	25%	32%
• New facilities abroad	17%	19%	17%	17%	18%
• Close/reduce facilities abroad	9%	8%	7%	9%	9%
• Reduce activity in markets abroad	4%	5%	7%	7%	5%

Note: In 3Q 2007, large consumer products businesses n = 59, all respondents, n = 132.

Survey demographics and research methodology

Demographics

Who	Senior financial executives of US-based, publicly held organizations	
Interview dates	August 8, 2007 to November 12, 2007	
Average number of employees	All respondents (132) 8,168	Large consumer products businesses (59) 6,479
Average business unit revenues	\$3.14 billion	\$3.29 billion
Average enterprise revenues	\$7.67 billion	\$8.33 billion
Market capitalization	\$11.24 billion	\$12.12 billion
Industry sectors	Products 81% Manufacturing 73% Trade/Distribution 2% All other 6% Services 19%	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, multinational 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 multinational 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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