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Conference Call Transcript

TSM - Q2 2003 TSMC Earnings Conference Call

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PRESENTATION

Operator

Welcome to Taiwan Semiconductor Manufacturing Company Second Quarter 2003 Results Webcast Conference Call. Today's event is hosted by Mr. Harvey Chang, Senior Vice President and Chief Financial Officer and Dr. Rick Tsai, President and Chief Operating Officer. This conference call is being webcast live via the TSMC website at www.tsmc.com and only in audio mode. Your dial-in lines also are in listen-only mode. At the conclusion of the management presentation, we will be opening the floor for questions. At that time, further instructions will be provided as to the procedure to follow if you will like to ask any questions. Please be advised for those participants who do not yet have a copy of the press release. You may download it from TSMC's website at www.tsmc.com. Please also download the summary slides in relation to today's quarterly review presentation. Once again the URL is www.tsmc.com. I would now like to turn the conference over to Dr. Elizabeth Sun, Head of Investor Relations for TSMC for the cautionary statement before the main presentation by Mr. Chang and Dr. Shih. Please go ahead.

Elizabeth Sun - Taiwan Semiconductor Manufacturing Co. - Director of IR

Good morning and good evening to all participants this is Elizabeth Sun Head of Investor Relations for TSMC. Before we begin, I would like to state that management's comments about TSMC's current expectations during -- made during this conference call are forward-looking statements subject to significant risk and uncertainties and that actual results may differ materially from those contained in the forward-looking statements. Information up to those factors that could cause actual results to differ materially from TSMC's forward-looking statements may be found in TSMC's annual report on Form 20-F filed with the United States Securities and Exchange Commission on June 23, 2003, and such other documents that the company may file with our submit to the SEC from time to time, and now I would like to the conference call over to Mr. Harvey Chang, our Senior Vice President and Chief Financial Officer.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Welcome to our second quarter conference call. Let me begin this conference call by giving you the highlight of our 2003 second quarter operating results. Our second quarter, total revenue amounted to \$49.9b NT and net income after tax is roughly \$11.7b NT. Earnings per share is 58 cents NT. At the end of second quarter, [inaudible] \$69.6b NT cash. Our total long-term debt remained unchanged at about 35b. During the second quarter total

wafer shift is 887,000 wafers versus 694,000 in the first quarter. On the utilization several [inaudible] indicated to us that if we only disclose our overall utilization, as we had in the past, it is difficult for them to figure out -- to model that our gross margin. So we tried to make. So starting from second quarter that we will also disclose the utilization rate of the fab that directly own and operated by TSMC, which are the most [relevant] numbers to gross margin. Also, When we calculate the overall utilization we are no longer taking the [inaudible] capacity to consideration because that could be another distorting factor. And after all these adjustments now our overall utilization for the second quarter that is on the TSMC fab plus [inaudible] plus [wafer tax] and [SSMC] but not including [inaudible]. That will be 88% and as to fab directly owned and operated by TSMC. Utilization values are higher at 90%.

Let's go to the second page. If we do a year-over-year comparison, compared to second quarter last year, our revenue grew roughly 13% primarily because [workers] shipment grew 15% versus last year and utilization compared to last year were 85.2% [fairly close] and the gross margin eventually closed at 37%.

Operating expense also those at the level of roughly 10%. As to non-operating expense. This year second quarter non-op is roughly \$1.3b higher and I will talk about it a little bit later why there is an increase of \$1.3b. As to profit before tax is \$12.5b and profit before tax margin is actually, roughly the same as last year that is 25% and the tax expense there is a significant difference in income tax primarily because the tax on source [inaudible]. They had a such a interpretation down from weekend or prior to tax credit, that is only in this year. Actually, we also had a fairly deep [inaudible] for the first quarter release because of this change in laws interpretation we and [inaudible] more useable type of credits than the last year. As a result our tax expense for this quarter is \$0.8b with the last year of \$1.6b. So less significant reduction in our tax expense as a result our net profit after tax margin is about 2% higher than the last year. On a sequential comparison basis if we compare the second quarter result with the first quarter this year was improved roughly 27%, primarily because of [inaudible] in your wafer shipment from the 694,000 wafers to 887,000 wafers. The wafer shipment grew about 28%. Also, because [inaudible] to see the more advanced technology on our continue to grow where products are at [.018] or more advanced levels.

Total revenue now really account for 62% of our total revenue. The resolved ASP also went up by roughly 4% compared to financial [pacers], although the increase of wafer shipment that caused the revenue to grow, but those the non-wafer related revenue such as [Mac], [CP] testing their revenue growth rate is much lower than the 28% we see in the wafer shipment. That's another factor that is the sales recurrent provision in second quarter this year is much higher than the first quarter this year due to a one final reversal on the sales return may be in the first quarter. And these two factors may fully accounted for the difference between the growth rate of the net sales then of wafer sales.

On the utilization, that utilization for this quarter is overall [inaudible] is 88% compared to last quarter of 69%, as this is a significant growth and gross margin also grew from 26% last -- first quarter to 37% in the second quarter. On the non-operating expense as mentioned that we see a significant increase, primarily size down some of the facilities and equipment, then our cash to our Fab-7, which is of the older aiding [fab] we have, and we write-down \$1.2m on the asset value. As a result, our non-operating expense is about 1.08b higher than the first quarter. On the investment income and losses, we -- during the second quarter we realized some of the equities that were originally invested by [Neustar] which is our venture capital for managers. As a result, we have a significant special gain in this quarter which is roughly 1.5b and then offset by some of the operating losses incurred by Wafertech and SSMC that's resolved from the [what's been] our loss [of positive] \$0.8b compared to last quarter this is a much better result of the net income before tax is \$12.5b which is 201% gross in the last quarter therefore after-tax also significant growth of 169%.

The next slide will give you a picture of our balance sheet and some of the key financial ratios. So there is no significant change on the balance sheet, end of the second quarter we feel that -- quite a lot of cash. Our financial structure remains quite healthy. We are -- we virtually compare to operate as to a Japanese company. Our receivable and [inventory], they are paying at a very healthy level and look at the ratio that ROEs improved from last quarter 5.8% to 15.7%, [ROA] had a significant improvement.

And on the cash flow, which is the next slide that you will see that we continue to generate strong cash flows from operations. During the second quarter, net cash flow from operations is \$23b including \$11.7 from net profit, and \$15.5 from depreciation and amortization. And for expenditure during the quarter \$7.2b, and also during the quarter we regained \$13b preferred share, also [saved] roughly \$0.5b [inaudible].

Finally, we released our June revenue number about two weeks ago. After that, there were some analysts speculating that we end-up with very high inventory end of June. So, the fifth slide is explaining that because that estimate is wrong, we actually -- our inventory has very good growth. In terms of days inventory we have already shown that the days inventory is about 38 days versus 37 in the first quarter. As far as the absolute dollar value is concerned the total inventory at the end of second quarter is roughly \$11.3b versus the \$10.1 last quarter. I think I should take the opportunity to reiterate that.

Lets turn to the [business] side, a quick look at our revenue breakdown by technology and you will see the most noticeable is [inaudible] the 0.13 micron product now during the second quarter are really accounting for 17%. This is the 11% of this quarter. And then total of 0.18 and the more advanced technology 0.18, 0.15 and 0.13, altogether they now account for 62% of total revenue that is

53% in the first quarter. If you look at the breakdown by application from computer, communication and consumers, the second quarter actually we see a similar growth from 13-16%. Computer rose from 41-43%, Communication [inaudible] 38 down to 34%. A geographical breakdown actually, they stay pretty much the same as the first quarter this year. North America was 76%, second quarter to 77%. Second quarter; Europe 4%, and Asia Pacific 12%, and Japan 7%. Breakdown by customer type; Fabless versus IDM, it goes in computer as long as consumer seems to be favoring more the Fabless customers. So, the second quarter for Fabless customer actually revenue generated for them accounted for 73%, which was 68% in the first quarter. IDM; 26%, was at 32%.

The next chart actually saw [inaudible] ASP trend but because [we built] on adjustments on the utilization. So, actually this is a new chart which we [inaudible]. It is the new definition to figure out the fabulous fab [inaudible] utilization the past six quarters and put it on the chart for your reference. And ASP [inaudible]. We will see the in-store capacity by fabs. You will see that our actual capacity during last quarter, that's the second quarter this year is about 590,000 wafers. [Capacity] right now, we have [inaudible] this quarter it is 1,012,000 wafers. The last chart is actually a recap of the major events during second quarter and the first -- early part of July. And I will leave that to your reference.

Finally, I think we come to our guidance for the third quarter. As we look into the third quarter, we basically feel that the third quarter will be a pretty good quarter. Although it is [inaudible] already means that we see a very strong quarter in the second quarter. Third quarter, we actually [inaudible] high-single digit percentage point on a sequential basis that is -- it can be anywhere between 5-9%. Our ASP; I think ASP will stay firm, and the potential may be for marginal improvement. Revenue from advanced-process technology should account for approximately 2/3 of total revenue, an improvement of approx. 62% over 2Q03. for [inaudible] performances, they showed account worth of [inaudible] this quarter, also those full board utilization rate including wafer tax and [inaudible] that is managed well [inaudible] on TSM's [inaudible] was entirely [90%]. [inaudible] utilization was slightly higher than overall. We managed an improve in cellular and communications [inaudible] we expect softness on the cellular side. Capital expenditure we have indicated number of [inaudible] just to expect that we are in the range of 1-1.5b. Now I have seen that we already entering the first quarter. Right now this is the estimate is that we should be near to the mid point. [inaudible] so we should be close to 1.25. That's my presentation today and since we will open it up for questions. [inaudible] if you have anything to have.

**Rick Tsai - Taiwan Semiconductor Manufacturing Com. -
President and COO**

No, I think we should proceed.

QUESTION AND ANSWER

Operator

Thank you. At this time, we will open the floor for questions. If you will like to ask a question, please press "*" then "1" on your touchtone phone now. Questions will be taken in the order in which they are received. If at anytime you will like to remove your question from the questioning queue, please press "*" then "2." Please limit your questions to one at a time to allow all participants an opportunity to ask questions of the management members. One moment please for the first question. And our first question comes from Shekhar Pramanick with Prudential. Please go ahead with your question.

Shekhar Pramanick - Prudential Equity Group - Analyst

Yes Hi. Good evening. Two sets of questions, Rick, first question for Rick. Could you give us a little color how the wafer stocks have been trending in last couple of weeks and what you expect forward. The second question, do you expect first two movements in Fab 12 Phase II than Fab 14?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Wafer fab movement is pretty steady -- I mean as we guided in our guidance that we should -- we are running at about over 90% of utilization, so that is steady. Fab 12, Phase II versus Fab 14 -- I mean we are still working on the RF capacity trend for next year, but if -- I would expect we will feel of course Fab 12 phase I up to certain level now we have Fab 14. Since the Fab 14 just about everything is ready including the [inaudible] and the facility, but the timing of the startup yet to be decided.

Shekhar Pramanick - Prudential Equity Group - Analyst

My last question, you know, the third quarter looks like computer is -- percentage of going of a mix is somewhat going down and consumer and communication is getting stronger. Do you think that somewhat change into the Q4 based on kind of expectation you have at this point?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

No the Q4 number is not that clear yet Its not that clear yet. We -- [inaudible], you know, is roughly 2-3 months, but we don't expect this pattern to be very attractive though. It's actually for some quarter computed number all over a little down, but I wouldn't call

that a major down, its flattish, probably another way of describing that.

Shekhar Pramanick - Prudential Equity Group - Analyst

Right. Thank you.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think the question is eventually obvious that probably during the fourth quarter the consumer segment will continue to grow. But there is -- it's a hard way to predict that the growth rate computer versus communication.

Shekhar Pramanick - Prudential Equity Group - Analyst

Thank you.

Operator

Thank you. Our next question comes from Mark Fitzgerald with Bank of America Securities. Please go on with your question.

Mark Fitzgerald - Bank of America Securities - Analyst

Can you give us some sense what's going on in the trailing-edge technologies and from a pricing point of view and particularly from a competitive point of view for the Chinese foundry showing up in that segment?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Can you define trailing technology a little better [inaudible] geometry--?

Mark Fitzgerald - Bank of America Securities - Analyst

Less than 0.18 micron or greater than 0.18 micron.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Greater than 0.18. Okay, as Chenming said in the in the [optimum] basis, of course, our utilizations for our 0.25 remains lower than we like. However, [Dave], in second quarter, it is still receptacle I think above 80% for both technology [nodes]. Pricing, of course, we continue to keep pricing pressure for all technologies and we are seeing some competition from different foundries. But I think

TSM - Q2 2003 TSMC Earnings Conference Call

we are still able to -- we feel technology is, as I said earlier, above and beyond 80%.

Mark Fitzgerald - Bank of America Securities - Analyst

Do you see SMIC in chasing Taiwanese design houses that might be customers for you?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think it is [chasing] many different customers be they in Taiwan or in the U.S. or elsewhere.

Mark Fitzgerald - Bank of America Securities - Analyst

Thank you.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yeah

Operator

Thank you. Our next question comes from Timothy Arcuri with Deutsche Bank. Please go ahead with your question.

Timothy Arcuri - Deutsche Bank - Analyst

Hi guys. Actually I have two questions. First of all, to make your full year CAPEX guidance, you have to have CAPEX up about 68% if you look at the second half versus the first half. Could you give us an idea of how much of that is already committed with your suppliers?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

[inaudible].

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

I would say that most of them already committed.

Timothy Arcuri - Deutsche Bank - Analyst

So you would say that most of that has already been ordered, and there is just a small amount -- there is a small amount left over to order?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Well no. The way we define capital expenditure, you need to be very careful about this. We are talking about actual payments. Actually, there is a time lag there. So don't get so excited about it because these are [inaudible] the lower number of [CH] in the first half are actually the slower activities that we experienced a second half lag here. And the higher number you see eventually are the activities of first half this year.

Timothy Arcuri - Deutsche Bank - Analyst

Sure. Okay. Well, can you then give us an idea of what your commitments or what your order patterns might look like in the second half of the year versus in the first half of the year?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Go ahead.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Actually, I don't have the number with me. And I am -- I just worry that the actual -- I think several portion will be [inaudible] to sort of reconcile how we present it because this can be easily confusing people, and I rather not talk about it.

Timothy Arcuri - Deutsche Bank - Analyst

Okay. And maybe if I can put one more question in. You know, you've indicated that you've been trying to hold off for kind of 90% utilization before your order for more capacity. What do the equipment lead times look like right now? And how long can you continue to hold off given that you're going to be at or above 90% in Q3?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Are you are talking about--

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

TSM - Q2 2003 TSMC Earnings Conference Call

And you are talking 90nm?

Timothy Arcuri - Deutsche Bank - Analyst

No, no. I am just kind of talking about all over--

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Okay, I am sorry. Okay Rick, please carry on.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

I think equipment lead time depending on of course the equipment. The longest one may go up to seven, about eight months, the shorter one of course three months or so. So we are managing that very carefully. We can work it very closely with our [inaudible]. And we have been able to get their cooperation to control the lead time to the level that we can manage our capacity build up to a reasonable flexibility.

Timothy Arcuri - Deutsche Bank - Analyst

Okay thanks.

Operator

Thank you, our next question comes from Parnab Sharma with Daiwa Institute of Research. Please go ahead with your question.

Parnab Sharma - Daiwa Institute of Research - Analyst

Gentlemen congratulation for good second quarter results. I have one question about your Fab 7, it appears like the capacity on the Fab 7 is coming down, could you please elaborate a little bit like why you are reducing the capacity there?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Well said, something is well as Harvey said earlier all the eight-inch facility and -- we although, and although with older technology -- though we are -- so we try to upgrade other Fabs or increase our incremental capacity in other Fabs. So, in some cases, we have to move some equipment around.

Parnab Sharma - Daiwa Institute of Research - Analyst

So, are you disposing some equipment from Fab 7 now?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Well, we have continuous look at the situation and we move the equipment, we didn't move the equipment from Fab 7 to other Fabs.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

We are [inaudible]

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Probably we will be sending it to--

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Upgrading it. Our retrofitting in those equipment is -- given the examples that we actually continue to increase our 0.18 technology capacity, with minimal capital expenditure and when we felt we will be able to do that, we are actually upgrading and [inaudible] that should effect 7 because we are tearing them apart and only those tools are and try to make better utilization of the data.

Parnab Sharma - Daiwa Institute of Research - Analyst

Okay. Second question is on the mask and other product revenue side. Would you elaborate like how many percentage of your revenue came from the mask on last quarter and whether your margins on -- gross margins on this product is comparable to your group level margin or to lower or higher than the group level margins?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well they are -- well basically at along the 10% plus/minus 2% level each quarter. So they -- which is a very -- a little bit from quarter-to-quarter, but they are always in their range. The margins from mask -- if I remember correctly they are pretty good, they are actually higher -- significantly higher than our wafers. On a [inaudible] they are probably bit lower.

Parnab Sharma - Daiwa Institute of Research - Analyst

And today, I think, your chairman has mentioned about like your Low-K technology is leading ahead of IBM and could you give us some idea like whether you got some of the roadmaps of your

TSM - Q2 2003 TSMC Earnings Conference Call

customer, which probably was given to the IBM over the last 6 months has come back to you? Any type of -- those type of ideas or probably maybe your Low-K prototype activities -- how it is stepping out?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Our Low-K, we do have customers using our 0.13 micron Low-K process. The volume is still small. We continue to refine that technology and for the customers who need the equipment or power saving. And we expect to role more wafers at a quite a higher volume later on, you know, 3 to 6 months later.

Parnab Sharma - Daiwa Institute of Research - Analyst

Three to six months later.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Yes. We do believe we will be one of the -- actually I don't know of other companies who is providing 0.13 micron with Low-K in production. We tend to...

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Regarding our news release our [inaudible] has being close to our both visible examples in terms of using our Low-K technology.

Parnab Sharma - Daiwa Institute of Research - Analyst

Yes. Thank you very much.

Operator

Thank you. Our next question comes from William Dong with UBS. Please go ahead with your question.

William Dong - UBS Warburg - Analyst

With two questions. Actually the first question I have is want to get a sense of what is your plan in terms of migrations and do we plan to go from 0.13 to 0.11, is there a plan for offering upon 0.11, that's the first question.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

We'll all get that [inaudible]. Please contact them, sorry, we have [inaudible] in the afternoon.

William Dong - UBS Warburg - Analyst

That couldn't click the answer; that was kind of confused and I want to make sure I got the answer right.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

We are in the process of developing a 0.11 technology as a shrink version of 0.13, mainly for cost and we will -- that will be in production rather soon.

William Dong - UBS Warburg - Analyst

Okay, alright, great and the second question I have is for Vanguard, I wanted just to get a, make some clarification with one way of looking at it by excluding it from our calculation are we trying to look at it more from the way of Vanguard is somewhat of an independent company unless has an affiliate?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think the reason why we try to exclude it is because Vanguard has laid the full-term capacity the way they look to us. But we actually don't have an agreement or a contract that's going to either -- this is not sort of a pure commitment that is [inaudible] nor we have the obligation to use their facility. So actually volume put the Vanguard capacity into our [inaudible] and then actually, I think a lot of times this is actually distorted. That's why I think that if we [inaudible] or try to look at the utilization and try to derive that what the close module be. Of course the Vanguard include a formula we are only competing further.

William Dong - UBS Warburg - Analyst

Okay got it. Thank you.

Operator

Thank you. Our next question comes from Bavin Shah with J.P. Morgan. Please go ahead with your question.

Bavin Shah - JP Morgan - Analyst

Yes, one--

TSM - Q2 2003 TSMC Earnings Conference Call

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Are you calling from airplane. [inaudible].

Bavin Shah - JP Morgan - Analyst

No, no, no I am in Taipei. When you say computer is flattish you mean as a percentage of revenues in third quarter or flattish in absolute terms? In other words.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

In absolute terms.

Bavin Shah - JP Morgan - Analyst

As a percentage and it will be down?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yes.

Bavin Shah - JP Morgan - Analyst

Okay. Alright and by excluding Vanguard from third quarter onwards does it mean that you will not be booking any revenues at the top line level from Vanguard in the third quarter?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

We continue to put the revenues, but what we tried to indicate here is that because those revenues from Vanguard are on commission basis only. So, they have very little impact on the gross margin.

Bavin Shah - JP Morgan - Analyst

Right. So, in your guidance for the third quarter, the revenues from Vanguard are included?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yes.

Bavin Shah - JP Morgan - Analyst

Okay, thank you.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

We don't know how to include it because our financial statement has to be included.

Bavin Shah - JP Morgan - Analyst

Right, okay, thanks.

Operator

Thank you. Our next question comes from Ashish Kumar with CSFB. Please go ahead with your question.

Ashish Kumar - CSFB - Analyst

Thank you. First of all congratulations on very good results. Sir, already -- excuse me -- already the Fabs are running at very high capacity utilization, and your CAPEX still is sort of tracking to the mid point, and also I believe in the afternoon Mr. Morris Chang suggested that, he expects, you know, semi growth in '03 to be 7% a bit lower than his earlier estimate. And he guided to 2004, of 11%, much lower than what Wall Street is expecting, should this -- sort of suggest that, you know, you are not perhaps seeing as much optimism as number of industry observers expect or are expecting from the market?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

We are not suggesting anything. We just tell you what we see that from our market research. And if you want to, the [inaudible], that has been great now. The [inaudible] are new [inaudible], the market, much higher than any of these industry observers has brought in the market. And that just all we are saying. And by the all 7% is not downward adjustment. I think Morris really indicated it 2-3 months ago. Yes. We feel that we are a [inaudible].

Ashish Kumar - CSFB - Analyst

Sure. Thank you very much.

Operator

TSM - Q2 2003 TSMC Earnings Conference Call

Thank you. Our next question comes from Ivan Goh (ph.) with Jestner (ph.). Please go ahead with your question.

Ivan Goh - [Jestner] - Analyst

Hi. Good evening gentlemen. I just got a couple of questions. Firstly, I know that in this year, you're still expending your eight-inch capacity. I just wanted to find out in the next year, would you have any more space to put in any eight-inch -- additional eight-inch capacity?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

This year for eight-inch capacity, we had increased mostly by, as Harvey said earlier, either retrograding some of the tools to up to with some upgrade or we kind of a -- we did purchase some tools last year, which we kind of did not use until this year. So next year -- but the -- I think our fabs are getting -- eight-inch fabs are getting pretty full, I think [most of them]. But you know in principle, our chairman said in the afternoon, our strategy is to increase our capacity with the 300mm capacity rather than eight-inch.

Ivan Goh - [Jestner] - Analyst

But will that be the same kind of upgrade effort next year like you did this year?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Well, for 300mm?

Ivan Goh - [Jestner] - Analyst

No, 200mm.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

200?

Ivan Goh - [Jestner] - Analyst

Yes, 200.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Your know that's -- we'll have to depend on the business conditions. If the business condition we're in -- if we can get really a [inaudible] return, we will do that [on a] upgrade basis.

Ivan Goh - [Jestner] - Analyst

Right. This afternoon the chairman also made some pretty long-range forecast for 90nm saying that, you know, it would probably be about 2006 before we get revenues coming up also and 90nm crossing 10% of your total revenues. I just wanted to get an update on a more near-term outlook. You know, how is 90nm running for you in the next one, two, or three quarters?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think the -- I need to clarify this. I think what [inaudible] did is try to teach whoever asked that question how to actually apply [inaudible]. I don't think he is actually forecasting; that was the situation. I don't think we can really forecast what happens in 2006. And Rick, maybe you'll want to add something about it.

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

Oh yes. I mean on a short term we put 90nm, I mean the development work is moving quite well. We are doing our qualification work with our technology, and also as Morris said in the afternoon, as we move into the more and more advanced technology, the number of users is getting lower than before. I guess that's also one of reason that, you know, he said that [inaudible] is getting stressed out compared to a few years ago.

Ivan Goh - [Jestner] - Analyst

Okay. And my last question, Thomas is; you said that wireless comm is stronger than wireline comm into the third quarter. I just wanted to find out within the wireless comm segment, is it more of wireless LAN or wireless mobile, you know, that is stronger into the third quarter.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

That includes wireless mobile.

Ivan Goh - [Jestner] - Analyst

Above wireless LAN?

TSM - Q2 2003 TSMC Earnings Conference Call

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Wireless LAN actually is not as strong as wireless mobile. I think if mobile is mobile phone as well base stations, and blue tooth devices, these are the actually stronger ones in the wireless.

Ivan Goh - [Jestner] - Analyst

Would wireless LAN be increasing on a quarter-on-quarter basis?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Right now, we still [see them in our increasing trend].

Ivan Goh - [Jestner] - Analyst

Okay Thank you so much.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

They had pretty good goals during the second quarter.

Ivan Goh - [Jestner] - Analyst

Thank you.

Operator

Thank you. Our next question comes from Daniel Haler (ph.) with Merrill Lynch. Please go ahead with your question.

Daniel Haler - Merrill Lynch - Analyst

Hi, a quick follow up on capacity. How much 0.13 eight-inch will you be adding in terms of -- I assume you are still doing some upgrades or is the upgrades pretty much finished? Could you comment -- clarify that?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Kind of marginally, I think, we are going to go up to maybe about 34,000-35,000 per month by the end of the year.

Daniel Haler - Merrill Lynch - Analyst

And that's just eight-inch?

Rick Tsai - Taiwan Semiconductor Manufacturing Co. - President and COO

Yeah.

Daniel Haler - Merrill Lynch - Analyst

So what is it now?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think, now it roughly 28-30 range.

Daniel Haler - Merrill Lynch - Analyst

Okay, and as you upgrade those facilities, what is the net capacity loss given the 0.13 has more process steps, imagine throughput goes down a bit. So, how much would you then loose from whatever you are upgrading at -- I am assuming you are upgrading from 0.18?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Actually, you know, then the total capacity did not go down. I mean you got -- as you probably know all our 0.13 micron eight-inch capacity realizing the [inaudible]. The total capacity actually is not going down. We registered by the way move number of the audio questions about that, certainly we did move some tools and through that test we surely have those revised [inaudible] 0.13, but without reducing the 0.18, 0.15 capacity.

Daniel Haler - Merrill Lynch - Analyst

Actually you just crammed more tools under the same strap. Okay.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I am ready for every -- whatever it takes.

Daniel Haler - Merrill Lynch - Analyst

Right. Okay. So then in terms of modeling, kind of, 0.13 capacity, how much then comes from 300 mm on top of that 34K number you talked about?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well we -- the current plan is to move up to about 14,000 -- oh no I am sorry 10,000 for 0.13 -- 10,012 [inch] region by the end of the year.

Daniel Haler - Merrill Lynch - Analyst

How much of your 300 mm right now is on 0.13; I thought you were doing some different technologies there?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

No. We are both putting 0.13 and 0.15; 0.13 capacity, we [acknowledged], probably about 7K.

Daniel Haler - Merrill Lynch - Analyst

Okay. And so basically all of that 10K by yearend is pretty much 0.13 then or will there be some 0.15 still on that 300 mm?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

For the 10K, I just mentioned, all are 0.13. We do have some extra 0.15 capacity.

Daniel Haler - Merrill Lynch - Analyst

Then that total 300 mm wafers then is 14K by yearend then?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yeah, roughly.

Daniel Haler - Merrill Lynch - Analyst

Okay. Great, thanks. It's very clear. Thanks.

Operator

Thank you. Our next question comes from Michael McConnell with Pacific Crest Securities. Please go ahead with your question.

Michael McConnell - Pacific Crest Securities - Analyst

Yeah, just a quick question on your pricing, looking at the back half of the year, it appeared from an outsider's view that you are on relative driver's seat with respect to your running pretty highly utilized that leading edge, at least to 0.13 micron; and your major US competitor last week currently is having some yield difficulties, could you talk a little bit about the possibility for a price increase in the back half of the year and just the possibility of that, and what kind of you look for when you, kind of, gaze the possibilities of price hiking in general?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think on the [inaudible] it's really high, basically we don't see the possibility of an increasing wafer price throughout the year. [Currently] it is price upwards just and I think it is [inaudible]. For our specific customers the price is on [inaudible] and the volume improved since there -- we might be able to reaffirm our other improvements on ASPs.

Michael McConnell - Pacific Crest Securities - Analyst

Okay, so the marginal improvement that you alluded to with regards to ASPs is for the third quarter; that would just be your revenue -- that 0.13 micron increasing higher than anticipation or just may be filling out to be...?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Greg, it is primarily going higher -- this is primarily a [color] mix factor.

Michael McConnell - Pacific Crest Securities - Analyst

Okay, okay great and you were great, kind of, breaking out the communications end market which products were kind of, you know, tracking up and tracking flat At least, could you kind of go into PCs -- just you know where are your graphic customers going and also looking in consumer what products look to be moved up in the third quarter and down?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well that is something I guess for not being able to attend your conferences. So that means I can also do a [speech] on the next conference as well. On the PCs, let me take a look enough. PC for second quarter, I think a stronger growth segment are hard disk drive, graphics and chipsets, and currently seeing that we're seeing softening and that both of the areas [its kind of] [inaudible] that's was noticeable.

TSM - Q2 2003 TSMC Earnings Conference Call

Michael McConnell - Pacific Crest Securities - Analyst

I am sorry, what was softening?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

The [inaudible].

Michael McConnell - Pacific Crest Securities - Analyst

[inaudible].

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

And then on the consumer, we continue to see gain to be very strong. Also, set-top box and digital camera, they also looked pretty good.

Michael McConnell - Pacific Crest Securities - Analyst

Okay, great, thank you very much.

Operator

Thank you. Our next question comes from Emory Hamiz (ph.) with Neuberger Berman. Please go ahead with your question.

Emory Hamiz - Neuberger Berman - Analyst

I had a question about your lead times, could you comment whether you see them extending, is this the leading edge at this point?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think the 0.13-micron, our lead times probably are between 12-14 weeks for the 0.13-micron.

Emory Hamiz - Neuberger Berman - Analyst

And did that make any change in your visibility and how far does your visibility extend out in the third quarter and maybe even to fourth quarter given the extension in your lead times?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Our visibility even with visibility of our--.

Emory Hamiz - Neuberger Berman - Analyst

Demand for wafer orders.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well usual visibility is spread between 2-3 months. Usually it doesn't change much over the year if, I mean if [new demands are away].

Emory Hamiz - Neuberger Berman - Analyst

Okay. Thank you.

Operator

Thank you. Our next question comes from Perry Mennin with Deutsche Bank. Please go ahead with your question.

Perry Mennin - Deutsche Bank - Analyst

Yes. Thank you. Just could you give me some more ideas exactly in terms of modeling for Vanguard how to book the revenues? What if I -- I mean is there going to be a change in the way you book the revenues?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

No, no.

Perry Mennin - Deutsche Bank - Analyst

No. So I keep the capacity that's basically the right way to possibly go ahead going forward.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Can you repeat your last sentence please?

Perry Mennin - Deutsche Bank - Analyst

TSM - Q2 2003 TSMC Earnings Conference Call

Do I keep the capacity on an continue as if -- I mean what you gave was for reference in terms of what is under your management but in terms of a revenue it would seem as if the capacity is continuing to be there, would that be correct?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yeah.

Perry Mennin - Deutsche Bank - Analyst

Okay.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

At least for the time being, yeah.

Perry Mennin - Deutsche Bank - Analyst

Okay and just one more question sir that is the -- you said that point -- 300mm is now mainstream and so your price reference that you gave to the customer on a [di] based basis if I were to look, would it be same as an 8 inch for 0.13, and for 300mm at 0.13?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Oh, yeah.

Perry Mennin - Deutsche Bank - Analyst

Okay. Yeah, thank you.

Operator

Thank you. Our next question comes from Johnny Chen with Credit Suisse First Boston; please go ahead with your question.

Johnny Chen - Credit Suisse First Boston - Analyst

Congratulations on a great quarter, just like to understand a little bit more about your strategy in the area of design service. Recently [inaudible] TSMC [campaign] of developing and licensing IC designs for customers. Is that true or what is [inaudible]?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Your words are bit a broken. You said though -- you said for the TS -- is your question about whether TSMC wants to use our own design service or--.

Johnny Chen - Credit Suisse First Boston - Analyst

Yes. There is -- [recently] you talked that TSMC may enter the main [pointer] business with [Xiaoping] and licensing IC designs for customers. Is that true or will TSMC continue to do so? Design service [inaudible] like [inaudible] unit?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

You know -- I assume primarily we too use what we call DCA Partners in our growth. But the [inaudible] of course was major one, which we also have invested, but we are also looking with several others both in Taiwan and the U.S. We do have some capability internally, but that is limited. So, we cannot provide [inaudible] implementation [inaudible] internally, but very selectively.

Johnny Chen - Credit Suisse First Boston - Analyst

Thank you.

Operator

Thank you. Our next question comes from Shalesh Gently (ph.) with Nomura. Please go ahead with your question.

Shalesh Gently - Nomura - Analyst

Hi, congratulations. I wanted to just explore a bit on the [dibase] pricing. How has the proportion of the 0.13 micron [dibase] pricing change from previous quarter to this quarter, and majority of your [dibase] pricing customers are they or 300 mm now?

Rick Tsai - Taiwan Semiconductor Manufacturing Com. - President and COO

I don't really have that statistics. [inaudible] do you?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

No I don't think we really look at it on that basis.

Shalesh Gently - Nomura - Analyst

TSM - Q2 2003 TSMC Earnings Conference Call

Okay thanks.

Operator

Thank you. Once again ladies and gentlemen if you do have a question please press "1" then -- I am sorry please press "*" then "1" on your touchtone telephone now. One moment please, for the next question. And our next question is from [Daniel Haler]. Please go ahead with your follow up question.

Daniel Haler - Merrill Lynch - Analyst

Sorry just one more then I will go away. On terms of the masks ready for 0.13, I was just wondering what kind of applications do you expect to see on 0.13, 300 mm products, and then second part of the question, I guess, is what's the flow in terms of designs, new designs, and your mask activity that you are seeing move to the 300 mm node, given that, you know, obvious remarks, plans up to go there?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

The application wise, I really don't care. We don't see major difference between eight-inch and 300 mm. Of course, other than some very, very small volume products, that basically we have -- we obviously, especially obvious for high volume products, make them all sense to move to 300 mm, but because of the [inaudible] cost.

Daniel Haler - Merrill Lynch - Analyst

I guess, I was trying to get sense of your going from 28K-34k for just, you know, for just, you know, its a pretty small increase, when would you start to see some of your high volume products, graphics moved to NML.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well they are already there. Computer communication major products are already in 300 mm as in some of the consumer also.

Daniel Haler - Merrill Lynch - Analyst

Okay, but you said you had 7K on 7.15 thus a lot of it 0.15 but that because you said you had 7K currently 0.15.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

No, no 7k 0.13

Daniel Haler - Merrill Lynch - Analyst

Oh 7k is 0.13.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Oh yeah, I think it is 7.5 it is roughly 4K.

Daniel Haler - Merrill Lynch - Analyst

So on that 7k you have all those products you just mentioned already on the 7k, you have graphics and you have wire line all on 0.13 300 mm?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Well mostly our graphics and the wire list and some consumer.

Daniel Haler - Merrill Lynch - Analyst

Okay great and then so in terms and then second part of the question is when -- what's the inflow of new designs to the [inaudible] seeing a slow and steady migration over companies giving a tight capacity volume to take a greater risk on making of expenditures or it's pretty much of an, kind of, in place and people just waiting for demand.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I feel it's flowing steadily. We have took and because of the customers are walking with us in the expectation of your capacity [inaudible] in 300 mm. Well, all our customers understand our capacity strategy very clearly, you know, that's appealing the worker only pretty much only increase in 300 mm.

Daniel Haler - Merrill Lynch - Analyst

Okay. Thanks.

Operator

Thank you. Our next question comes from Bavin Shah. Please go ahead with your follow-up question.

TSM - Q2 2003 TSMC Earnings Conference Call

Bavin Shah - JP Morgan - Analyst

Yes, sorry. Because everybody is going to think about the implications for computer and market, so I am asking this question. From a volumes -- in terms of volume, will computer-related volume be flat, or up or down? I believe the previous comments have been revenue related.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I am not sure that I have [to add to] the precise number, but I believe the trend is some quarters are declining.

Bavin Shah - JP Morgan - Analyst

Thank you.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I would say a flattish to decline.

Bavin Shah - JP Morgan - Analyst

Okay. Thank you.

Operator

Thank you. Our next question comes from Perry Mennin. Please go ahead with your follow-up question.

Perry Mennin - Deutsche Bank - Analyst

Yes, it's a bit of -- I just wanted to take a classification. With PC segment coming down in terms of volumes and consumer and communications increasing, I would think that consumer and even some of the communication wafers have less layers put on them. So is that part of the reason why -- and that helps you process more wafers, is that part of the reason why you are having a high utilization than -- what I am asking is, is there a change in the masters from [that all], that is leading to increase utilization?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I think -- I would think that's maybe a second order you expect, if there is any.

Perry Mennin - Deutsche Bank - Analyst

Okay.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yeah. By the way, I just want to clarify the computer volume, you know, is still flat to declining. I don't want -- I don't think we want to give the people an impression that we are seeing a major decline. That will not be the case.

Perry Mennin - Deutsche Bank - Analyst

Thank you.

Operator

Thank you. Our next question comes from Michael McConnell. Please go ahead with your follow up question.

Michael McConnell - Pacific Crest Securities - Analyst

Hi. I think you just almost answered it. But on the PC side, you have two very large customers that are in the midst of a very significant product ramp right now. And you would imagine after that ramp that things would tick down probably in the back half of the year as our product is shipped out. Is that what's partially going on especially on the graphic side at least?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Yes. Actually I think your [inaudible] are pretty correct. I just want to say again the absolute volume still up there.

Michael McConnell - Pacific Crest Securities - Analyst

Okay. Thank you.

Operator

Thank you. Our next question comes from Parnab Sharma. Please go ahead with your follow-up question.

Parnab Sharma - Daiwa Institute of Research - Analyst

I have a follow-up with the mask business. For 90nm level mask, do you have any technology partner at this point, and where you are developing those materials and all those stuff related to that?

TSM - Q2 2003 TSMC Earnings Conference Call

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Actually, we do our own mask technology development in house. Obviously, we work with many key material suppliers and the tool suppliers, but basically we develop our own technology. We do have a very advanced and very -- advanced technology and efficient manufacturing. We have all the [PSM] [inaudible] capability in house.

Parnab Sharma - Daiwa Institute of Research - Analyst

And would you give us some update on multi-wafer projects. How it's going on, on 0.13 and 90nm level? And how many customers you might have signed in there?

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

I don't have the number of customers but they are very popular. But you can imagine why. But they are very popular and we are getting very high demand for -- especially for 0.13 and to a lesser degree 90nm because of its early stage in the development. But -- I am sorry, not in the development but the -- but still in its development stage.

Parnab Sharma - Daiwa Institute of Research - Analyst

Even if--

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

It's doing very well, quite well.

Parnab Sharma - Daiwa Institute of Research - Analyst

Thank you very much.

Operator

Thank you, Mr. Chang, there are no more questions at this time. Please continue.

Harvey Chang - Taiwan Semiconductor Manufacturing Co. - SVP and CFO

Okay I think that we really had a good the 65 minutes of call and I want to thank everyone participating in this call. And we'll see you

next time on our next release. Have a good morning and good evening.

Operator

Thank you, sir. Before we conclude TSMC's second quarter 2003 earnings webcast conference call today, please be advised that the replay of the conference call will only be accessible through TSMC's website at www.tsmc.com. Thank you all.

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