

**Exelon Corp.***Company▲*

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Q1 2011 Earnings Call

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Apr. 27, 2011

*Date▲***— PARTICIPANTS****Corporate Participants****Stacie Frank** – Vice President-Investor Relations**John W. Rowe** – Chairman & Chief Executive Officer**Matthew F. Hilzinger** – Chief Financial Officer, Treasurer & SVP**Kenneth W. Cornew** – Senior Vice President**Christopher M. Crane** – President & Chief Operating Officer**Joseph Dominguez** – Senior Vice President-Federal Regulatory Affairs**Denis P. O'Brien** – Executive Vice President**Phillip Barnett** – Senior Vice President and Chief Financial Officer**Other Participants****Dan L. Eggers** – Director, Credit Suisse (United States)**Jonathan Arnold** – Managing Director, Deutsche Bank Securities, Inc.**Hugh N. Wynne** – Senior Analyst, Sanford C. Bernstein & Co., Inc.**Michael J. Lapedes** – Research Analyst, Goldman Sachs & Co.**Brian Chin** – Analyst, Citi**Paul B. Fremont** – Research Analyst, Jefferies & Co., Inc.**Ali Agha** – Analyst, SunTrust Robinson Humphrey**Julien Dumoulin-Smith** – Associate Analyst, UBS Securities LLC**Angie Storzynski** – Analyst, Macquarie Capital (USA), Inc.**— MANAGEMENT DISCUSSION SECTION**

Operator: Good morning. My name is Theresa and I will be your conference operator today. At this time I would like to welcome everyone to the Exelon First Quarter Earnings Conference Call. [Operator Instructions] After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Please note that during the question-and-answer period, please, limit your questions to one. Thank you.

I would now like to turn the call over to Ms. Stacie Frank, Vice President of Investor Relations. Please go ahead.

**Stacie Frank, Vice President-Investor Relations**

Thank you, Theresa, and good morning, everyone. Welcome to Exelon's First Quarter 2011 Earnings Conference Call. Thank you for joining us today. We issued our earnings release this morning. If you haven't received it, the release is available on the Exelon website.

The earnings release and other materials we will discuss in today's call, contains forward-looking statements and estimates that are subject to various risks and uncertainties as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K and Exelon's other SEC filings for a discussion of factors that may cause results to differ from management's projections, forecasts and expectations and for a reconciliation of operating-to-GAAP earnings.

Leading the call today are John Rowe, Exelon's Chairman and Chief Executive Officer and Matthew Hilzinger, Exelon's Senior Vice President and Chief Financial Officer. They are joined by

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several other members of Exelon's Senior Management team who will be available to answer your questions.

We've scheduled 60 minutes for this call, and I'd now like to turn the call over to John Rowe, Exelon's CEO.

**John W. Rowe, Chairman & Chief Executive Officer**

Thank you, Stacie. It's a shame to waste such a talented woman on the Safe Harbor notice, but that seems to be your lot in life.

In the first quarter, we again turned in very strong operating and financial performance. Our operating earnings were \$1.17 per share, which beat both our expectations and those we had read on the Street. It won't always happen, but it sure is nice when it does.

Our earnings at Generation were helped by the performance of our units in Texas, during a February cold snap there. They were helped, as you expected, by the roll-off of the PPA between Exelon Generation and PECO. They were also helped by the positive effects of bonus depreciation, which lowered Pennsylvania income taxes.

On the operating side, our nuclear fleet turned in a 94.8% capacity factor during the quarter. Congratulations to Chip Pardee and Mike Pacilio.

Our first quarter performance gives us confidence that we will be well within our guidance range for the full year of \$3.90 to \$4.20 per share. Matt will discuss the financial results in more detail shortly. I want to talk about a couple of other issues that concern you and concern us.

The EPA proposed these rules last month on Air Toxics and on 316(b). Both were proposed on time and in ways that were generally consistent with what we expected. We remain confident that EPA will issue the final Toxics Rule, and expect that rule to go into effect as planned with compliance in late 2014 or early 2015.

There has been a lot of noise about these rules and there will continue to be noise as people fight them. I don't think the noise will go away, but I don't expect Congress to do anything to change the rules. The EPA is simply enforcing the requirements of the existing Clean Air Act as that Act has been interpreted by the courts, including the Supreme Court of the United States. The last major amendments to that Act are now over 20-years old. Neither the rules nor their implementation should be a surprise to anyone.

My confidence is bolstered by the fact that the Senate failed to pass legislation that would stop EPA from regulating greenhouse gases. That legislation only got 50 votes, so it seems highly unlikely that the Senate could find the required 60 votes it would need to block EPA's health rules on mercury, arsenic, or other toxins. If the Senate didn't choose to block carbon regulation, it is not going to pass legislation that most people believe will negatively impact the health of babies, children and pregnant women.

According to the EPA's estimates, the health benefits from controlling mercury could be as high as \$140 billion, while the cost of compliance would only be around \$11 billion. While one should take these numbers with a little skepticism on both sides, it's hard to argue that the cost benefit differential is not huge.

On the reliability front the impact is manageable. Each DERC region has excess generating capacity. Two-thirds of the coal fleet has already installed or is in the process of installing the

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controls necessary for compliance. And much of the capacity from coal plants that do retire can be replaced by underutilized existing gas plants.

For Exelon's fossil units, the proposed rules have minimal impact. We have already made the decision to retire our Eddystone Units 1 and 2, and Cromby station, with the first two of these units set to retire at the end of next month. We are evaluating compliance options at Eddystone 3 and 4, and Schuylkill oil peaker. Our share of the expected compliance cost at [ph] Kanema (7:00) station, where we own 21%, is expected to be small. Coupled with the Transport Rule, which will be finalized in June, we believe that our plant owners will evaluate compliance with the Toxic Rule on a holistic basis.

Turning to 316(b), we are pleased with EPA's decision to avoid a one-size-fits-all rule-making. They have allowed flexibility in compliance methods and timelines. Their rules enable cost benefit analysis, and give discretions to state permitting authorities.

Cooling towers are not mandated as the best technology available for all plants. It appears to us that screen technology can be employed to comply with the impingement requirements at a small fraction of the cost of cooling towers. We expect the final rule on 316(b) sometime in July next year. Turning to the RPM capacity market, you all know that May will be an important date for us. As we have discussed in the past, the environmental regulations will have an impact much earlier than their compliance dates, particularly in PJM where the capacity market looks forward three years. The EPA's proposed regulations, along with power market fundamentals, will be key inputs in to the capacity auction, the results of which will be known on the 13th of May.

Coal prices continue to phase upwards, which help; natural gas prices remain low, which does not. Bidding behavior for coal generators and also for demand response will be key. These are the big open questions that will impact – affect capacity auction results. Demand response may also be impacted by PJM's filing at FERC this month to clarify the rules for how demand response is measured and eliminate double counting issues.

It now appears that the legislation passed earlier this year to incent new gas generation will not have an impact on this year's PJM auction. We are also pleased that FERC in its recent decision involving PJM's minimum offer price rule, called the MOPR, acted decisively in defending competitive markets and the value they bring to customers. FERC rejected exemptions from them, MOPR for state action, like that in New Jersey, which were designed to incent new capacity with out-of market mechanisms.

When we take all of this together, our view remains that the results of the auction for Exelon's fleet will be similar or slightly better than last year, but we simply won't know until we see it.

On the nuclear front, we are, of course, following the events in Japan every day, as are you. They will be a focus for us and for our regulators, as they should, for the next several years. It is clear that the situation in Japan will have implications for the industry here, but it is still too early to define or quantify those implications.

The NRC is taking an active role to continue its strong record of ensuring the safety of the U.S. nuclear fleet. We know that certain areas will get more attention. Probably the maintenance of spent fuel pools, the adequacy of containment structures to withstand extreme events, and emergency planning procedures to deal with the sustained loss of power.

At this point, we don't see significant near-term implications for the license renewal process. We are fully engaged and will work with regulators, industry groups and elected officials to satisfy everyone with the operation of our fleet. We have completed the four recommended actions from WANO and INPO, performed lockdowns at each of our plants and verified that the capabilities to

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mitigate extreme events that we have designed into the process. Nothing in that review raised new doubts about the safety of our plants.

Chip Pardee has testified before the Senate Environment and Public Works Committee, and at the Senate Forum in Illinois hosted by Senators Durbin and Kirk. He has briefed members of Congress and their staff on Exelon's response procedures specifically. We expect some increased fees from the State of Illinois. Currently we are working with the Illinois Emergency Management Association in that regard.

Exactly what the U.S. Nuclear industry will be required to do is still an open question and putting an estimate on any cost is premature. But we do expect there could be incremental oversight or process changes, and we will deal with those issues squarely.

Until we have a better picture of how things may change, we have not modified our uprates for the plants. So far in 2011, we have spent \$65 million, of the \$450 million capital expenditure program planned for this year. A large part of that is associated with turbine replacements at Dresden, Quad Cities and Peach Bottom.

We received NRC approval earlier this month for 32-megawatts of uprates at Limerick, which we will bring online this year. We will continue to evaluate the power uprate program as we go, but at this point it is too early to make any changes. It continues to appear to be a net benefit for shareholders.

On other fronts, we continue to pursue ways to increase our value. Exelon Generation is trying successfully to reduce congestion around our units in the Midwest. We have discussed in the past, the transformer replacement at the Rising substation near Clinton, which is on schedule to be completed later this year.

In addition, Generation will invest approximately \$5 million in re-conductoring a 345kV line to reduce congestion around our Quad Cities plant.

In our Wind business, we are moving forward with 230-megawatts of wind in advanced development in Michigan. We will look for opportunities to develop our Wind portfolio further, but are insistent that they be based on long-term contracts.

So, the last quarter was filled with a number of significant events. Life is never boring for Exelon, or its analysts, or for its shareholders, but we have turned in a very good quarter and I am very proud of what the Exelon team delivered for you this quarter.

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**Matthew F. Hilzinger, Chief Financial Officer, Treasurer & SVP**


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Thank you, John, and good morning, everyone. My key messages for today are on Slide 5. I'll begin by discussing our first quarter results and then I'll give an update on our latest market views and load results.

In the first quarter of 2011, Exelon's operating earnings were \$1.17 per share, compared to \$1 per share in the first quarter of 2010. Our earnings improved over last year as a result of higher realized energy prices, mainly in the Mid-Atlantic region, due to the end of the PECO power purchase agreement, higher capacity revenue and higher nuclear volumes, due to fewer refueling outages this year, compared to the prior-year.

Exelon's first quarter results were better than our guidance range because of three principal reasons: First, favorable revenue net of fuel in Texas, due to an extreme weather event in

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February; second, a position change in Pennsylvania state bonus depreciation policy; and third, favorable O&M that is primarily timing in nature.

The weather event in Texas occurred in early February when cold weather and unit outages caused ERCOT to implement emergency procedures. Our ERCOT generation assets performed well, which contributed approximately \$0.02 per share to our bottom line. Exelon's first quarter results also reflect a \$0.03 benefit related to bonus depreciation in Pennsylvania. Historically, Pennsylvania disallowed the recognition of bonus depreciation in the same year it's allowed for federal purposes; however, in February the Pennsylvania Department of Revenue issued a bulletin permitting the recognition of 100% bonus depreciation in the same year it's recognized for federal purposes.

As a result, PECO and ExGen will recognize a lower than expected state tax expense for 2011. In addition, the \$0.03 recognized in the first quarter, we expect to recognize an additional \$0.03 of favorability for this item during the course of the year.

The key drivers for ExGen's quarter-over-quarter earnings are on Slide 6. You may recall in our fourth quarter 2010 call in January, we highlighted our expected increase in revenue at ExGen due to the expiration of its power purchase agreement with PECO. This contributed \$0.19 per share to Generation's earnings in the first quarter.

On Slide 7 you can see a snapshot of our hedge position as of March 31st. You will notice from the chart on the left and from our updated hedge disclosures, that our hedge percentage for 2012 is closer to a ratable level. Based on our commodity views, we completed the majority of our sales during the higher priced periods during the quarter. In addition, the amount of put options has remained relatively unchanged since the end of last year.

You can see from the chart on the right that 2012 and 2013 PJM West Hub prices started and ended the quarter around the same level, while NiHub prices have not fully returned to the levels of year end, despite the recovery of gas to year-end levels. We continue to leave a reasonable, open position in the Midwest in 2013 in order to allow more time for price recovery.

Looking at the back end of 2014 and '15 forward curves in the chart on the bottom right, you can see that the rebound in price recovery was more pronounced in the last half of March, compared to earlier in the quarter. In addition to increases in gas and coal prices, and the events in Japan, we believe a portion of this reflects the impact of the recently proposed Air Toxics Rule. We recently updated our analysis of the Air Toxics Rule and a revised estimate for the projected impact on energy prices as in the range of \$4 to \$6 per megawatt hour.

We believe that the 2014 and 2015 PJM West Hub forward prices shown in the chart reflect most of this uplift. However, based on our analysis, it appears that only a limited amount of the potential uplift is reflected in NiHub's 2014 and 2015 prices. As a reminder, our portfolio is essentially open in 2014 and '15, which allows us to capture that upside when it's priced into the forward markets.

ComEd's year-over-year earnings are on Slide 8, and additional details are available in the earnings release attachments issued earlier today. Approximately \$0.06 of the quarter-over-quarter reduction in EPS was due to last year's catch-up benefit for the uncollectible rider that we booked in the first quarter of last year.

Turning to Slide 9 for ComEd's load results, ComEd's quarter-over-quarter weather-normal total load decreased by 0.1%, compared to last year, as a result of lower usage in the residential class. The quarter results are in line with our expectations and we anticipate the Chicago area housing market conditions will continue to challenge year-over-year growth in the residential class. We expect to see positive growth in the residential sector in the third quarter of this year, assuming Chicago area home prices have bottomed out by now.



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As predicted, Large C&I continued to deliver year over year growth and Small C&I had a modest increase over the prior year. We continue to anticipate flat load growth for the year, compared to the prior year, and as such our prior forecast remains unchanged.

Earlier this month, we received the ALJ's proposed order in the ComEd's distribution rate case filed last June. The ALJ proposed \$166 million revenue increase, which had a \$14 million calculation error, bringing the actual amount to \$152 million. This compares to the ICC staff reply brief amount of \$113 million. We expect the Commission's final order by the end of May, which will become effective in June 2011.

At the end of May, the Commission will also issue their final order for ComEd's alternative regulation proposal, which is designed to establish a recovery mechanism for proposals such as Smart Grid.

In legislative news, the Public Utilities Committee of the Illinois House held summary hearings over the last few weeks for Illinois House Bill 14. As a reminder, this is legislation that would enable ComEd to make major investments in the electrical grid to modernize the system, and would also provide a formula rate mechanism for more timely recovery of ComEd's costs.

We are working to build broad stakeholder support for the bill, and we expect to know more before the spring session of the Illinois General Assembly, which ends in late May.

PECO's quarter-over-quarter key drivers are on Slide 10. PECO's earnings now reflect the new distribution rates from the gas and distribution rate cases approved last year.

Turning the Slide 11, PECO's weather-normal total load growth for the quarter decreased by 1.1%, compared to the prior year, but was slightly better than our projections. The quarter-over-quarter 1.1% decrease was principally driven by Large and Small C&I, partially offset by modest growth in residential. The growth in the residential class is due to better-than-expected improvements in key economic factors, mainly increases in real disposable income.

Large C&I load growth was negative this quarter, compared to the first quarter of 2010, primarily due to inventory restocking that took place in the first quarter of 2010 and lower usage in the pharmaceutical sector. Our outlook for load growth for the full year has not change, as we continue to expect total load to be flat for the year.

Turning to our cash sources and uses on Slide 12. We are expecting to generate cash from operations of \$4.3 billion this year. Our end of year cash forecast remains the same at approximately \$400 million, which factors in the dividend and investment in our growth projects, such as uprates and wind development projects that are currently underway. We are generating strong cash flows and we have also taken concrete steps to further strike at our short-term and long-term liquidity positions.

In January, we reduced our 2012 through 2014 cash requirements by contributing \$2.1 billion to our pension funds and increased the funded status from approximately 70% to nearly 90%. In February, we refinanced \$6.4 billion of credit facilities at Exelon, GenCo and PECO with favorable rates and terms, and the agreements are in place for five years with an option to extend them for two one-year periods. This gives us flexibility to manage future refinancings.

These steps, along with a continued focus on financial discipline and cost management, positions us well to meet our funding requirements including dividend and grow capital and maintain strong credit metrics. As an additional note, we have provided in the appendix to today's slide on Page 40 more details on the specific calculation of Exelon's consolidated credit metrics.

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Before I close, I just want to reiterate John's earlier statement about 2011 guidance. I continue to believe that we will deliver a full-year operating guidance comfortably within the range of \$3.90 to \$4.20 per share, especially considering our better-than-expected earnings in the first quarter, and the additional \$0.03 we expect to recognize from Pennsylvania bonus depreciation during the rest of the year.

For the next quarter, we expect operating results in the range of \$0.90 to \$1 per share. That concludes my remarks and we can now take questions.

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## QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Dan Eggers with Credit Suisse.

**<Q – Dan Eggers – Credit Suisse (United States)>:** Hey. Good morning, guys. I guess first question, just as it relates to kind of the RPM outlook, with the EPA rules draft rules that are out there, and some decisions on demand response. Have you guys gotten more or less enthusiastic about the outlook for this auction from what you guys thought you were seeing at the fourth quarter hump?

**<A – John Rowe – Chairman & Chief Executive Officer>:** Well, Ken is always enthusiastic, so I'll let him answer the question.

**<A – Kenneth Cornew – Senior Vice President>:** Yeah. I think we are where we've been talking about being for the last few months. We see the two big drivers in RPM being how the supply side is in to this auction. And that is the coal plants and how they bid their costs, given the environmental regulation John talked about, and how much demand response shows up for the auction. So right now, we see – our modeling shows a result that's very similar to last year's. If less demand response shows up and generators bid their cost, we could see some upside.

**<Q – Dan Eggers – Credit Suisse (United States)>:** Okay. And I guess maybe, kind of ancillary question. When you look at the NiHub pricing and you're not seeing any sort of response for the Toxics Rules or much of a margin for the coal generators. Who are you seeing out transacting in the curve to kind of bid away what seems like kind of obvious changes in the market? And as you guys match your hedging strategy, is there even a greater temptation to kind of lay off hedging, given the mismatch between the market today, and the underlying fundamentals?

**<A – Kenneth Cornew – Senior Vice President>:** As Matt indicated, we do see upside in NiHub prices. I continue to look at spot heat rates, and historical heat rates for the last couple of years and see heat rates in the 7.5 to 8.0 range and in the forwards we're still seeing the low 6s for heat rates. So I believe there is upside in NiHub prices, and that continues to rationalize itself in the spot market.

As Matt said, we are adjusting our hedging strategy in accordance to that belief and keeping some more position open at NiHub, relatively speaking. And in '14 and '15 in particular, we're largely open as we indicated. So we see that our portfolio is well positioned to take advantage of that upside. That market is not overly liquid, particularly when you talk about trading in the '14, '15 timeframe, so we expect to see more rational pricing as that market starts to develop more trading activity as time goes on.

**<Q – Dan Eggers – Credit Suisse (United States)>:** Ken, this last question is kind of on the market liquidity. Are you guys seeing much liquidity selling '13 and '14 power today in any market? And – or is it too fragmented to get a read on what ultimate marketing – market conditions are going to be?

**<A – Kenneth Cornew – Senior Vice President>:** We're seeing really good liquidity at West Hub. And that market is – has a lot of participants. At NiHub it's – it tends to be more in lumps. When the Illinois Power Authority comes out to procure more power going forward for – on behalf of operating ComEd customers, we would likely see more liquidity at that time in the NiHub market, but the NiHub market is relatively thin in that '14, '15 timeframe in particular.

**<Q – Dan Eggers – Credit Suisse (United States)>:** Okay. Thank you, guys.

Operator: The next question is from the line of Jonathan Arnold with Deutsche Bank.



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**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** Hi, guys.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Morning, Jonathan.

**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** I'd just like to follow up on Dan's question a bit. You say you're largely open in '14 and '15, which implies that you have got some positions on in those years, and you also said the market's very illiquid. So is this a change? Have you done some hedging that might have been contributing to pressuring the curve? Or – and are you sort of backing off doing that? Or is it – have you really just done nothing?

**<A – Kenneth Cornew – Senior Vice President>:** Jonathan, we have done some hedging in 2014 commensurate with our ratable hedging program. We did see at the beginning of the quarter some pressure on NiHub prices, likely driven by [ph] EdgeNi's (30:02) doing some hedging. We did most of our hedging early in the quarter and we think the market's rebounded somewhat because that pressure has backed off.

**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** Okay. So you're less – you were more active and now you're less active in those out years basically?

**<A – Kenneth Cornew – Senior Vice President>:** That's correct. And obviously, we look for all the different channels. We talk about the hedge, not just underlying OTC transactions; it's the retail business, it's potential put option strategies, it's different locations like AD-Hub. It's different locations in the East, relative to load auctions and the retail business. So there are a wide variety of channels for us perform our hedges in 2014.

**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** And Ken, as you sort of try to gauge the timing for when the market sort of will reflect your view of fundamentals, and then kind of where we're heading on environmental? Does the rule – do the rules have to go final? Or what's the catalyst? Is it just a time issue? How far away we are? Do you...

**<A – Kenneth Cornew – Senior Vice President>:** Jonathan, I'd say a lot of it is how far away we are, and I think it's going to be time. Clearly, if the rules become final and more knowledge is out there as to what the plants are actually doing that will end up being reflected in power markets, so that will help. But I think time is the biggest issue right now and it's just going to take some time for the markets to rationalize what we think they will.

**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** Okay. And, and if I may just, I noticed that the nuclear uprate CapEx that you reference in the slide tick down from \$475 million to \$450 million for this year. Was – intuitively, I guess you'd think the cost of doing things like this might be on the rise. Has the scope changed? Or is it the cost that's changed? What drove that?

**<A – John Rowe – Chairman & Chief Executive Officer>:** Chris, will get that.

**<A – Christopher Crane – President & Chief Operating Officer>:** Yes. No, Jonathan. It's just timing. The project scope hasn't changed. Execution in billing, things like that have some flexibility as we work through the projects, but they're still on budget and we'll adjust the timing over the next quarters, and we're still on schedule.

**<Q – Jonathan Arnold – Deutsche Bank Securities, Inc.>:** Okay. Thank you.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Thanks, Jonathan.

Operator: Your next question is from Hugh Wynne with Sanford Bernstein.

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**<A – John Rowe – Chairman & Chief Executive Officer>:** Morning, Hugh.

**<Q – Hugh Wynne – Sanford C. Bernstein & Co., Inc.>:** Morning. Congratulations on the quarter.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Thanks a lot.

**<Q – Hugh Wynne – Sanford C. Bernstein & Co., Inc.>:** Just a – I'd like to get your updated views on what impact we might expect on kind of maintenance CapEx for the nuclear fleet. From Fukushima Daiichi and the cooling tower regulation, I know that we don't have the NRC recommendations in hand, so it's impossible to give a detailed response to what you're going to say. But on the other hand, I think you've mentioned that the adequacy of containment structures is obviously an issue that's going to arise from their analysis.

So if we had to begin to think about the implications of Fukushima Daiichi and the cooling tower regulations on your fleet, could you perhaps talk to the units that might be affected? And how we might scale potential capital expenditure implications for the fleet?

**<A – John Rowe – Chairman & Chief Executive Officer>:** I'll let Chris start, because he knows the detail much better than I. Try to give you a little frosting at the end. Go ahead, Chris.

**<A – Christopher Crane – President & Chief Operating Officer>:** To just break it down, the way that 316(b) was issued for review, we feel there's a lot more flexibility, and it's not one size fits all, which would drive us in to more expensive remediation methodologies through cooling towers. So we have and will continue to evaluate our fleet, but we do not see a material increase in capital expenditure required for the cooling towers.

Now that said, it's a state by state interpretation and we'll continue to monitor over the next couple of years as permits come up how we work within the states. Our biggest issue on – in that area has been and is reflected in our decision at Oyster Creek based off of the state's decision there for the Barnegat Bay.

On Fukushima, we think that the analysis that is underway will continue to support the design, the structural design of our various reactor types. And it will reaffirm our operating strategies to ensure that we do not challenge those, the structural integrities, if a potential event happens. We see the expense and the focus coming more in operating strategies in preparations for beyond design basis accidents, things you just can't anticipate. And we'll work with the regulator and the industry on those. We have differentiated ourselves significantly in operating strategy, and everybody's read the articles over the last couple of weeks that have been in most of the papers, and they've heard from the U.S. regulators and the Administration and many politicians about those differences. So we're not anticipating large capital expenditures, maintenance CapEx or installation of any major upgrades, and we'll just continue to work.

Trying to quantify the expense where we think more of it will come in. It's too early now. Again, I don't see it as significantly material at this point, but Chip Pardee is leading the industry group, working with NEI and INPO to make sure that we're closely in communication with the regulators and the Administration or politicians so we can resolve the concerns and continue with the high safety records and preparation standards that we have.

**<A – John Rowe – Chairman & Chief Executive Officer>:** I can't do the detail as well as Chris does. You all know that we can't preclude the possibility of some material CapEx requirement. But I really think you ought to focus on the fact that from, everything I know, I think I'm speaking for my colleagues, too, the fundamental problems here were not with the Mark I containments themselves.

The fundamental problems here were with getting fuel to the diesel generators and responding to a situation that they lost outside power. And that is something we've already done a lot to address at

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our plants, and as Chris started to say, in fact did say, we've already been doing things to deal with that and expect to be asked to do some more. Chris, did I overstate that?

**<A – Christopher Crane – President & Chief Operating Officer>:** No. No. That's right.

**<Q – Hugh Wynne – Sanford C. Bernstein & Co., Inc.>:** If I could just ask one quick follow-up to that. Your plants are located near two large metropolitan centers, and I think one of the more remarkable things about the Fukushima Daiichi disaster is that the scale of the evacuation that was required from the vicinity of the plant. Have state officials indicated that there's any concern on their part regarding evacuation plans or the feasibility of evacuation in the event of a problem?

**<A – Christopher Crane – President & Chief Operating Officer>:** No. We haven't had any dialog with the states on any level of concern about that. It will be a subject that will come up. We believe our current evacuation plans are at the right level. They don't just stop at 10 miles. I mean, we talk about the 10-mile EPZ. We actually do have monitoring out further than 10 miles where protective actions could be stated, if warranted. I think the reality is our operating practices would prevent us from getting beyond that limit.

You'll hear a lot from anti groups using that as a major issue, and they'll be trying to use that to attack specific plants that they've been after for years. But we don't see that as being a valid issue. And we think that the debate will take place and the regulator will be looking at it, but we don't see any changes or anticipate changes.

**<Q – Hugh Wynne – Sanford C. Bernstein & Co., Inc.>:** Great. Thank you very much.

Operator: Your next question comes from Michael Lapidès with Goldman Sachs.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Good morning, Michael.

**<Q – Michael Lapidès – Goldman Sachs & Co.>:** Good morning, guys. Congrats on a great quarter.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Thank you.

**<Q – Michael Lapidès – Goldman Sachs & Co.>:** I got a question for you. In the EPA analysis of the HAP MACT Rule, they outlined that the anticipated amount of wet scrubbing was going to be minimal and that it was going to be mostly dry sorbent injection and maybe a little bit of dry scrubbing. Just curious, do you think that's viable both on Appalachian coal and PRB coal? And how do you think about what the potential different uplift in power prices would be under one set of solutions, meaning maybe wet scrubbing versus under another dry scrubbing and sorbent injections?

**<A – John Rowe – Chairman & Chief Executive Officer>:** Well, since I thought all this stuff was coming I sold the coal, so I'm not the expert on that and I'm going to let Joe Dominguez, who is, respond to that one.

**<A – Joseph Dominguez – Senior Vice President-Federal Regulatory Affairs>:** Thanks, John. I think it is going to be different for PRB units where we have predicted for some time that DSI is an option. I think you're probably going to see more scrubbing, more wet scrubbing and dry scrubbing on Appalachian units, and perhaps a little bit more than EPA has predicted in its models.

Where DSI applies there's, obviously, going to be a variable cost impact, and we're going to look very carefully at what happens with SO<sub>2</sub> emissions. And there's a potential there that you could see on a megawatt-hour basis an increase in variable cost of somewhere between \$4 to \$8, depending on how much SO<sub>2</sub> has to come out if you use a dry scrubber. In that instance, the impact isn't

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necessarily felt in the capacity market but on the energy side of the equation where units remain they don't retire, but they have higher variable cost and higher dispatch costs.

**<Q – Michael Lapidès – Goldman Sachs & Co.>**: Got it. John, just curious, different topic. Your kind of latest thoughts on industry consolidation, on M&A, and on your broader portfolio of assets and companies?

**<A – John Rowe – Chairman & Chief Executive Officer>**: My latest thoughts are just what my thoughts have been for several years. I keep saying that consolidation makes sense in this industry; that it's essential in this industry. We always look, and we're as cold-blooded as it can be when it comes down to the economics. We won't overpay for a deal and we won't enter transactions that give away all of our upside to a power market recovery. It's really important to us. We've talked to enough of you about it to know that you don't want us to do that. We won't give up our financial discipline and we're committed to protecting our investment grade rating.

I mean, we know that we would have a prettier more balanced company if we had a larger share of regulated operations along with our generating business, but simple plain old shareholder value trumps that sort of strategy every time. So we are where we have been. I'm reminded, my troops didn't tell me to say this so I'm probably out on a limb, but the Pope was asked to comment on Mel Gibson's movie about the crucifixion and he said, it was as it was. We are as we were.

**<Q – Michael Lapidès – Goldman Sachs & Co.>**: Got it. Okay. Thank you. Much appreciate it, guys.

Operator: Your next question is from Brian Chin with Citigroup.

**<Q – Brian Chin – Citi>**: Hi. Following up on Hugh Wynne's question on the gigawatts for coal retirements, can you give a little bit more color on how you thought about the site-wide averaging rule? And how many units may not be shut down because they happen to share a site with another unit that has been cleaned or scrubbed? Can you just give a little bit more color on how you thought about that?

**<A – John Rowe – Chairman & Chief Executive Officer>**: Yeah. Joe, you want to cover that?

**<A – Joseph Dominguez – Senior Vice President-Federal Regulatory Affairs>**: Sure. Presently, Brian, we don't see the site-wide averaging as being an option that's going to be available to a lot of units. It doesn't necessarily affect our retirement analysis at all materially.

**<Q – Brian Chin – Citi>**: Okay. Great. Thank you. That's it.

Operator: Your next question is from Paul Fremont, Jefferies & Company.

**<A – John Rowe – Chairman & Chief Executive Officer>**: Morning, Paul.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: Goo morning, and thank you. I guess, John, you've mentioned in past conference calls, you've talked about possible combinations I guess with Nicor, with Progress. I was just wondering if we could get a comment out of you on maybe advantages or disadvantages of combining with a company like Constellation.

**<A – John Rowe – Chairman & Chief Executive Officer>**: We don't comment on anything specific that hasn't already gone by. And we won't. This lady is not for commenting on rumors.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: Second question would be with respect to your prediction of – I think it was – what, \$4 to \$6 of higher energy prices based on what's coming down

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from the EPA. Can you give us a sense of what gigawatt retirement assumptions you come to for PJM?

**<A – Kenneth Cornew – Senior Vice President>**: We still expect to see a retirement of somewhere between 9 and 11 gigawatts in the PJM territory, Paul.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: And is that mostly – is that sort of biased towards the eastern part of PJM because of the Appalachian coal versus the – versus being able to comply with DSI for PRB?

**<A – Kenneth Cornew – Senior Vice President>**: I think it's more balanced. We continue to look at smaller units being economically challenged to the extent the DSI opportunity makes it a little bit easier to comply. Natural gas prices and power prices aren't making it easier economically for these units. So when you look at the whole picture of value for smaller coal units, very, very challenged right now, and particularly challenged if we see lower capacity results in the next auction.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: And sort of my last question is I guess Calpine in one of its – during its Analyst Day sort of talked about the impact of trona on variable cost as being in the \$5 to \$15 range. Is that sort of consistent with what you would project as an increase in variable cost, using DSI?

**<A – John Rowe – Chairman & Chief Executive Officer>**: Joe, you want to cover that?

**<A – Joseph Dominguez – Senior Vice President-Federal Regulatory Affairs>**: Yeah. I just gave a number, a range of \$4 to \$8. And I've seen estimates that are \$10 or more. I think to get to those numbers you're really using DSI to capture a lot of SO2. To just capture mercury and capture hydrochloric acid, the numbers are going to be significantly lower. But it's going to depend on how those particular owners decide to use DSI to capture SO2 for Transport Rule purposes. So could be as high as that. We see the range being \$4 to \$8.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: And your \$4 to \$8 also includes the various waste disposal costs that are associated with it? Or not?

**<A – Joseph Dominguez – Senior Vice President-Federal Regulatory Affairs>**: No. That just is the variable cost. If you're talking waste disposal you're talking about the residue and the ash treatment. We're going to see how the coal ash rolls come out. That's going to be incremental to the numbers that we talked about.

**<Q – Paul Fremont – Jefferies & Co., Inc.>**: Thank you.

**<A – John Rowe – Chairman & Chief Executive Officer>**: Thank you, Paul.

Operator: The next question comes from Ali Agha with Suntrust.

**<Q – Ali Agha – SunTrust Robinson Humphrey>**: Thank you. Good morning.

**<A – John Rowe – Chairman & Chief Executive Officer>**: Good morning.

**<Q – Ali Agha – SunTrust Robinson Humphrey>**: John, when I hear your message on the fact that the fundamentals obviously in the forward curves and are not being reflected in the forward curves. Is there anything that Exelon can do proactively in anticipation of that return to fundamentals, i.e., would a share buyback be something you could consider, given your confidence in how the markets will ultimately move? Is that something you would consider?



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**<A – John Rowe – Chairman & Chief Executive Officer>:** We could consider it, but we aren't going to do it. We got in a lot of anxiety with credit rating agencies over having one done with what they thought was one too many before and it would be very unlikely that we would do a share buyback. We do believe these fundamentals will turn out for our benefit. We want to keep our balance sheet strong as we work through the trough. And the best places we can react to this are places you've already asked about, which are things we can do with Ken's hedging strategy, his efforts to find longer-term contracts that reflect these realities and our effort to reach the market more effectively, so we're less dependent on pure spot prices.

**<Q – Ali Agha – SunTrust Robinson Humphrey>:** Okay. Second question, and you addressed that earlier as well. Assuming that the right value is out there and can be obtained by Exelon, I mean, conceptually when you look at your portfolio you mentioned the fact that perhaps having a slightly more regulated balance may be good. But at the end of the day, are there any sort of holes, if you will, in the portfolio that you think need to be filled? For example, do you think that you would need a bigger marketing organization to go with your large generation fleet?

**<A – John Rowe – Chairman & Chief Executive Officer>:** That's asking the lady the question she already refused to answer, and our virtue will remain intact, at least, insofar as I can protect it. Look, we've talked about the things that interest us many, many times. We're not coy about that. We'd like more regulated assets, if the price is right. We like more generation assets, especially nuclear and gas, if the price is right. We like more renewables, if the price is right and we get enough contracts. We like safer channels to market and we won't say anything about any specifics.

**<Q – Ali Agha – SunTrust Robinson Humphrey>:** Understood. Last question, could you remind us in your '011 guidance, what is the implied ROEs assumed for ComEd and PECO versus what the actuals were in '010?

**<A – John Rowe – Chairman & Chief Executive Officer>:** Matt, will you do that breakout?

**<A – Matthew Hilzinger – Chief Financial Officer, Treasurer & SVP>:** Yeah. I will. So on PECO and I'll start with '11 on PECO because it's really I think it's most relevant now that they've got their new rates in, but their – the guidance was around 12%. And the bonus depreciation will probably push them a little bit higher on that, maybe up closer to 13%, but that's partly what we're seeing at – mostly what we're seeing at PECO.

At ComEd, we target an ROE of 10% and that's what we would expect out of ComEd over the long-term. I think in 2011, we might see something closer to 9% to 9.5%, but we're going to largely see how the ComEd rate case comes out, but we're going to eventually, as we go into '12, see somewhere around 10% plus.

**<Q – Ali Agha – SunTrust Robinson Humphrey>:** Thank you.

Operator: Your next question comes from Julien Dumoulin-Smith with UBS.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Good morning.

**<Q – Julien Dumoulin-Smith – UBS Securities LLC>:** Good morning. I wanted to follow-up a little bit on the prepared remarks you spoke about in uplift from the Toxics Rule of about \$4 to \$6 a megawatt hour. I was wondering if you could provide a little bit more granular view as to what the constituents were. I don't know if you were trying to get at that from, call it a DSI-trona perspective or if that was more of a comment relating to retirements?

**<A – Matthew Hilzinger – Chief Financial Officer, Treasurer & SVP>:** It's a combination. When we run our models and particularly in the Midwest, we don't see that the Midwest prices are reflecting an uplift from these rules, and our models are indicating a \$4 to \$6 uplift from retirements



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and from increased cost to dispatch. That combination of elements are both reflected in the \$4 to \$6. As we said before we think we are seeing that in West Hub prices, eastern part of PJM. We don't see those uplifts reflected in the NiHub prices at this time.

**<Q – Julien Dumoulin-Smith – UBS Securities LLC>:** Great. And just to be clear about it, \$4 to \$6 applies to both PJM West and – or PJM East, rather, for your portfolio and NiHub?

**<A – Matthew Hilzinger – Chief Financial Officer, Treasurer & SVP>:** It does. It does and it's hard to decompose what's actually driving market prices, but we think largely that \$4 to \$6 should show up in the future in the NiHub price and right now at least a lot of it is showing up in the West Hub price, in the '14, '15 timeframe.

**<Q – Julien Dumoulin-Smith – UBS Securities LLC>:** Great. And then maybe a follow up on hedging policy and all that. I'm looking at or contrasting your first quarter disclosures against your 4Q for the Midwest, just looking at the 2013. It looks as if hedge prices implied were fairly low, if you kind of do the back of the envelope math, if you will. But then, conversely, there was a very high implied price the last quarter versus the EI. So could you perhaps in aggregate comment? Are the '13 hedges -you spoke about liquidity previously, are they biased towards peak? Or off-peak? Or is there some way to think about that at all just as we look at future, call it, as you roll forward in to new hedges?

**<A – John Rowe – Chairman & Chief Executive Officer>:** I think you're asking about the effect of realized energy price in '13 at NiHub. Is that correct?

**<Q – Julien Dumoulin-Smith – UBS Securities LLC>:** Yes. Precisely.

**<A – Matthew Hilzinger – Chief Financial Officer, Treasurer & SVP>:** Yes. The large majority of that reduction in that effective realized energy price is merely the fact that we put on more hedges at lower prices and our previous hedges were at higher prices, so we're going to see the effective realized energy price come down. Coupled with that in this quarter, we looked at '13 NiHub prices and saw that the drop was primarily driven by summer and fall months, and our hedging position in the Midwest has a significant amount of energy sold in the Jan through May period because of the 3,000 megawatt ComEd swap. So we didn't see as much mark-to-market uplift on the swap commensurate with the price drop that we really modeled later on in the year, so that's helping drive down the effect of realized energy price. But again, the majority of that change is merely the fact that we're putting on more hedges in a lower market.

**<Q – Julien Dumoulin-Smith – UBS Securities LLC>:** Great. Well, thank you very much.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Thank you.

Operator: Your next question comes from Angie Storzynski with Macquarie.

**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** Two questions. One, could you quantify the uplift to first quarter results from the timing of O&M expenses?

**<A – John Rowe – Chairman & Chief Executive Officer>:** I think it was \$0.03. Matt?

**<A – Matthew Hilzinger – Chief Financial Officer, Treasurer & SVP>:** Yeah. It was \$0.03, and it was primarily related to generation in O&M spend in the nuclear operation and it's just simply some work that we had expected to get done and has been pushed off to the balance of the year. So it was clearly a benefit that we had in the first quarter, but we would expect to spend that through the balance of the year.

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**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** Great. And now about PECO, you mentioned the better-than-expected residential load growth. But your assumptions for '11 went up pretty significantly from 0.1% on a weather-normalized basis, up to 2.1% within one quarter. Could you explain in more details how is that possible?

**<A – Denis O'Brien – Executive Vice President>:** Hi. This is Denis O'Brien with PECO.

**<A – John Rowe – Chairman & Chief Executive Officer>:** Go ahead, Denis.

**<A – Denis O'Brien – Executive Vice President>:** Your question is about the residential numbers?

**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** That's correct.

**<A – Denis O'Brien – Executive Vice President>:** And the growth.

**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** Weather-normalized load growth expectations went up from 0.1% to 2.1%.

**<A – Denis O'Brien – Executive Vice President>:** That's just I believe economic growth that we project through the years, through the rest of the year as we have modeled with all of our economic data for the region. I'll ask Phil to add anything else to that.

**<A – Phillip Barnett – Senior Vice President and Chief Financial Officer>:** Yeah, I'd just add to it. As we look at the forecasted GNP for the Philadelphia metropolitan area, it's forecasted to be 3% for 2011. That's up from 2.3% of what we were expecting at the time we did the budget. We've also seen a pickup in the employment levels. Unemployment rate is projected to be down to 8.3% for 2011 versus 8.9% in 2010. We're also seeing a big pickup in real disposable income of 2.9%. We've also seen a steady growth in the number of customers and an increase in the confidence level of consumers as well. So it's just very positive signs on the macroeconomic conditions.

**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** Okay. And how is it reconciled with the energy efficiency initiatives in Pennsylvania and the fact that C&I load is actually weaker than what you expected.

**<A – Phillip Barnett – Senior Vice President and Chief Financial Officer>:** Yeah. We are seeing an impact on the energy efficiency programs overall. The deemed savings is about 1.2% reduction in load for 2011 versus 2010. On the large industrials what's happening there is we see – in 2010, we saw some restocking on the inventory in the first half of the year, which we don't expect to repeat as much in 2011.

We've also seen a couple large industrials pass some one-time load reductions in 2011. We had a large pharmaceutical company who was a little slow to transition to market and they ended up using their own gas generation supply load in the first quarter. We don't anticipate that to happen in the balance of the year. We also saw another large customer who had a substation that was out for over a month and basically had to import power from a different supplier. That, too, was a one time item, which we don't expect to happen again.

**<Q – Angie Storzynski – Macquarie Capital (USA), Inc.>:** Okay. Thank you.

Operator: Ladies and gentlemen, we have reached the allotted time for questions. I would now like to turn the call back to Mr. John Rowe for closing remarks.

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## John W. Rowe, Chairman & Chief Executive Officer

Thank you, everybody, and I appreciate the compliments on the quarter. We were very happy with it. I'd just like to finish with this little wrap up.

As we all know, the world that we were in love with came to an end back in 2008. Since that time, we have delivered operating earnings of \$4.20, \$4.12 and \$4.06. As you can tell from our results in the first quarter and our reconfirmed estimate range, we are in a very good position to give you numbers like that again this year. When next year and 2013 comes, we cannot fully overcome the downward pressure that has existed on electricity prices. You know that and have been pricing that in to our shares for at least a year, probably two years now. But I urge you to look at how well this machine is operating.

We continue to produce results that are better than the models indicate. I think we can keep doing that as we go forward, and you can't be sure until you see it, which is why we don't always put it in a forecast, but there are a lot of good things going on within this company, and there are good opportunities that Ken and his team keep finding in the power markets that you can't put just in a linear extrapolation.

So I feel very good about this quarter. I feel very good about last year, and I think we will continue to deliver you results that are just a little better than you might think by playing with your models. Meanwhile, thanks for your patience, and I appreciate the compliments on the quarter.

Operator: Thank you. This concludes Exelon's First Quarter 2011 Earnings Conference Call. You may now disconnect.

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