

News & Information

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Subsidiary Tracking Stock
Sony Communication Network Corporation
Consolidated Financial Results for the year ended
March 31, 2005



Sony Communication Network Corporation (hereinafter, the "SCN Group"), a subsidiary the performance of which is linked to a tracking stock issued by Sony Corporation, announced today its consolidated results for the year ended March 31, 2005 (the period from April 1, 2004 to March 31, 2005).

These results are based on the generally accepted accounting standards of Japan.

- **For the year ended March 31, 2005, achieved the large sales, largest income.**

During the year under review, sales increased 3.0% compared with the previous fiscal year, to 39,302 million yen. Operating income of 2,624 million yen and ordinary income of 2,540 million yen were recorded. Net income of 4,107 million yen was recorded, which included gain on issuance of stock by equity investee and subsidiary stock stemming from their public offerings. Each of these figures were records.

- **So-net subscribers total 2.45 million, of which 640,000 are broadband subscribers**

The number of broadband subscribers increased by 16.4% from 550,000 at the end of the year earlier period to 640,000. Also, the total number of So-net subscribers increased by 6.5% from 2.30 million at the end of the year earlier period to 2.45 million.

- **Fiscal Year 2005 Forecast**

For the year ending March 31, 2006, the SCN Group aims for double-digit growth based on further expansion of Internet-related services and revenue growth in Internet provider services. In terms of profitability, the SCN Group expects a decrease in income due to increases in investments in the portal area and customer acquisition costs.

(Please refer to P.14)

Consolidated Results for the year ended March 31, 2005

	(Millions of Yen)		
	Year ended March 31		Change (%)
	2004	2005	
Sales	38,166	39,302	+3.0
Operating income (loss)	(870)	2,624	—
Ordinary income (loss)	(911)	2,540	—
Net income (loss)	(412)	4,107	—

[Summary of Operational Results and Financial Condition]

a. Operational Results

Summary of Consolidated Operations (April 1, 2004 to March 31, 2005)

During the year under review, Japan was struck by a series of natural disasters including typhoons, floods, and earthquakes. With regards to the Japanese economy, household consumption expenditures were rather weak. However, personal consumption of digital consumer electronics and automobiles propped up the economy, and investment in capital goods in the non-manufacturing sector turned to a firmer trend. Due to such factors, the economic recovery continued.

In the Internet sector, the number of users in the market as a whole increased, with the number of always-on-broadband Internet users, including users of ADSL, FTTH, and cable, passing 18 million as of the end of December 2004.

Under these economic conditions, the SCN Group worked to strengthen its contents services for broadband. The SCN Group began to offer services such as “My So-net,” “So-net Blog,” and “So-net Mini-homepage Service,” all of which are personal services to be used enjoyably on an individual basis.

Furthermore, the SCN Group actively implemented measures in order to acquire broadband connection subscribers, including promotional campaigns for free installation and connection, new subscriber promotional activities in conjunction with telecoms carriers, and phone-based informational efforts aimed at transitioning users to broadband.

As a result of these factors, at the end of March 2005, the total number of So-net subscribers was 2.45 million, an increase of 150,000, or 6.5%, over the year earlier total of 2.30 million. Within this total, the number of broadband So-net subscribers (including users of such services as “Flets” which is operated by regional NTT East and NTT West Corporations) was 640,000, an increase of 90,000 (16.4%) over the year earlier figure of 550,000.

Regarding sales, during the year under review, sales increased 3.0% to 39,302 million yen, compared with 38,166 million yen in the year earlier period.

In the area of Internet provider services, the number of new subscribers to ADSL and FTTH increased. However, the number of narrowband subscribers decreased and there was the effect of free promotional campaigns. As a result, sales in this area decreased.

In the area of Internet-related services, sales increased. This was a result of an increase in sales of mobile phone-related contents; viewer fees for CS broadcasting and streaming video, mainly of Korean dramas; contributions from sales of DVDs; and strength in sales at consolidated subsidiaries So-net M3 Inc. and Skygate, Co., Ltd..

In the area of merchandise sales, sales strongly increased as a result of sales of cards for using the wireless connection service “Bitwarp” and sales of goods related to animation and J-League.

Regarding operating income, there was a significant improvement. During the year under review, an operating profit of 2,624 million yen was recorded, compared with an operating loss of 870 million yen in the year earlier period.

Regarding the main factors in the improvement, in cost of sales, although there were increases in line costs associated with increases in the number of broadband subscribers, there were reductions in outsourcing costs associated with the integration of access points, in network usage costs, and in leasing costs for servers and such, so the cost of sales ratio improved over the year earlier period. Furthermore, in selling, general, and administrative expenses, although there were increases in sales-related costs for customer acquisition, there were decreases in outsourcing costs stemming from transitioning from temporary workers to contractors, which went along with more efficient use of call centers. The SCN Group also reviewed sales and marketing costs.

Regarding ordinary income, there was significant improvement. During the year under

review, ordinary income of 2,540 million yen was recorded, compared with an ordinary loss of 911 million yen in the year earlier period.

Also, 205 million yen of non-operating income was recorded, which included 50 million yen of dividends received and equity income of 52 million yen. 289 million yen of non-operating expenses were recorded, which included loss on disposal of tangible fixed assets and loss on leasing contracts of 164 million yen.

Regarding net income before income taxes, during the year under review, income of 6,494 million yen was recorded, compared with a loss of 534 million yen in the year earlier period. This included an extraordinary gain of 5,501 million yen which included gain on sale of subsidiary stock of 2,876 yen from the public offering of So-net M3, Inc. on the Tokyo Stock Exchange Mothers Board and gain on issuance of stock by equity investee and subsidiary stock of 2,599 million yen related to So-net M3, Inc. and DeNA Co., Ltd. On the other hand, under extraordinary loss, with regards to investment in others that are not publicly traded, there was a decrease in valuations stemming from a worsening of financial conditions in investee companies and as a result, a loss on revaluation of investments in other securities of 978 million yen was recorded. Also, a provision for allowance for doubtful accounts of 182 million yen was recorded. In addition, a loss on impairment of long lived assets of subsidiaries of 295 million yen was recorded. As a result, extraordinary loss totaled 1,546 million yen. Furthermore, current and deferred income tax charges of 2,282 million yen were recorded, and minority interest income of 105 million yen was recorded.

Regarding net income, compared with a net loss of 412 million yen during the year earlier period, net income during the year under review was 4,107 million yen.

Sales by Category

Year ended March 31, 2005

		Year ended March 31, 2004 (millions of yen)	Percentage of total (%)	Year ended March 31, 2005 (millions of yen)	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	30,731	80.5	28,720	73.1	(6.5)
	Internet- related services	6,523	17.1	9,396	23.9	44.0
Merchandise sales		912	2.4	1,185	3.0	29.9
Total		38,166	100.0	39,302	100.0	3.0

Three-months ended March 31, 2005

		Three-months ended March 31, 2004 (millions of yen)	Percentage of total (%)	Three-months ended March 31, 2005 (millions of yen)	Percentage of total (%)	Year-on- year change (%)
Operating revenue	Internet provider services	7,491	78.3	6,989	71.3	(6.7)
	Internet- related services	1,812	19.0	2,408	24.5	32.9
Merchandise sales		260	2.7	411	4.2	58.4
Total		9,562	100.0	9,807	100.0	2.6

《Operating revenue》

ISP services

In this category, the SCN Group worked to enrich its broadband-focused new service plans, including ADSL, FTTH, and wireless, as well as its service areas. Also, in the area of value-added connection services, the SCN Group added the IP phone service “So-net Phone” to its FTTH plans.

- Connection Services
 - FTTH
 - So-net Hikari (TEPCO (Tokyo Electric)) (UCOM) apartment course V100 established
 - ADSL (higher speeds, expanded area)
 - 1M, 50M courses started
 - Wireless LAN (increase in service’s availability to different model types)
 - MVNO bitwarp PDA course available on a total of 12 model types
- Valued-added Connection Services
 - So-net Phone—introduction of set offerings for all broadband plans
 - Start of So-net Phone P’ service
 - Start of “Site Select” contents-filtering service
 - Start of offering of McAfee security service

Although there was an increase in unit prices related to the increased proportion of broadband subscribers, there was a negative impact from free promotional campaigns throughout the year as well as a decrease in narrowband subscribers. As a result, sales of Internet provider services for the year ended March 31, 2005 were 28,720 million yen, a decrease of 6.5% compared with the prior fiscal year. Such sales accounted for 73.1% of total sales, a decrease of 7.4 percentage points.

Internet-related services

In this category, as in the prior fiscal year, the SCN Group actively worked to develop and introduce broadband contents. At the same time, the SCN Group worked to make its content operations more efficient by careful focus and selection

- Broadband contents
 - Korean dramas enjoyable over the Internet and CS broadcasting
- Personal services
 - Individualized portal service “My So-net”
 - Communication interface “So-net Mini-homepage Service”
 - Communication interface “So-net MonDo”

- Regarding to consolidated subsidiaries, affiliated companies
 - So-net M3. Inc. Increases in member doctors and “MR-kun” adopting companies.
 - Skygate, Co., Ltd. With recognition of the site’s ease of use, sales were about double.

Also, sales of consolidated subsidiaries expanded. As a result of these factors, sales in this category during the year under review increased 44.0% to 9,396 million yen. Sales in this category accounted for 23.9% of total sales, an increase of 6.8 percentage points.

《Merchandise sales》

In this category, throughout the year there were increases in sales of products related to fashion sites, as well as theatrical-related DVDs. Also, there were healthy sales of PC cards for using the “bitwarp” PDA plan and of goods related to sports, such as soccer, and animation. As a result, sales in this category during the year under review increased 29.9% to 1,185 million yen. Sales in this category accounted for 3% of total sales, an increase of 0.6 percentage points.

Results of Consolidated Subsidiaries and of Affiliated Companies Accounted for by the Equity Method

The SCN Group includes the following four consolidated subsidiaries: So-net Sports.com Corp. (“SSC”), So-net M3 Inc. (“M3”), So-net M3 U.S.A. Corp., and Skygate, Co., Ltd. (“SG”). The SCN Group includes the following two affiliated companies accounted for by the equity method: Label Gate Co., Ltd. (“LG”) and DeNA Co., Ltd. (“DeNA”). During the year under review, equity in net income of affiliated companies of 52 million yen was recorded, compared to a loss of 30 million yen in the year earlier period. This was a result of an increase in profitability at DeNA, although LG continued to record a loss.

Among these companies, SG, a consolidated subsidiary, raised the recognition level of its site through increased usage of its services, including air ticket purchases and hotel reservations. However, although its sales were good, it continued to suffer from a severe situation in terms of profitability. Also, M3 and DeNA listed on the Tokyo Stock Exchange Mothers Board in September 2004 and February 2005, respectively.

b. Analysis of Financial Condition

Assets, Liabilities, Stockholders' Equity

At the end of the year under review, total assets were 21,091 million yen, an increase of 8,090 million yen over the end of the year earlier period. This was mainly due to an increase in current assets of 8,689 million yen.

The increase in current assets was mainly due to increases in the combined amounts of deposits in Sony Group company and cash and bank deposits of 8,459 million yen (as a result of proceeds from the sales and issuance of M3 stock) as well as deferred tax assets increasing by 190 million yen. Non-current assets decreased by 599 million yen. While software increased, there were decreases in amortization of goodwill and loss on impairment of certain investments in others as well as a decrease in deferred tax assets stemming from usage of tax loss carryforward.

On the other hand, total liabilities at the end of the year under review increased by 3,174 million yen. This was due to an increase in current liabilities of 2,925 million yen and an increase in long term liabilities of 249 million yen. The increase in current liabilities was mainly due to the recording of account payable related to Sony Group consolidated tax.

Minority interest was 840 million yen at the end of the year under review, an increase of 781 million yen over the year earlier period, due to the listing of M3.

Shareholders' equity increased by 4,135 million yen over the year earlier period mainly by recording net income of 4,107 million.

Cash Flow

Cash and cash equivalents were 10,640 million yen at the end of the year ended March 31, 2005, an increase of 8,459 million yen from the end of the year earlier period. During the year under review, the SCN Group generated 3,911 million yen of cash in operating activities, generated 2,349 million yen of cash in investing activities, and generated 2,201 million yen of cash in financing activities.

<Cash flows from operating activities>

During the year ended March 31, 2005, regarding cash flows from operating activities, the SCN Group generated 3,911 million yen, compared with the year ended March 31, 2004 when the SCN Group generated 129 million yen. During the period under review, the main factors included net income before income taxes of 6,494 million yen, compared with a net loss before income taxes of 534 million yen in the year earlier period. Included in net income before income taxes during the period under review were gain on sale of subsidiary stock of 2,876 million yen and gain on issuance of stock by equity investee and subsidiary stock of 2,599 million yen not related to cash inflows.

<Cash flows from investing activities>

During the year ended March 31, 2005, regarding cash flows from investing activities, the SCN Group generated 2,349 million yen, compared with the year ended March 31, 2004 when the SCN Group used 529 million yen. The main factor in the period under review was proceeds from sales of subsidiary stock of 3,162 million yen, by the stock offering when consolidated subsidiary So-net M3 Inc. listed on the Tokyo Stock Exchange Mothers Board.

<Cash flows from financing activities>

During the year ended March 31, 2005, regarding cash flows from financing activities, the SCN Group generated 2,201 million yen, while during the year ended March 31, 2004, the SCN Group used 800 million yen. During the period under review, this reflected the issuance of new stock at the time of the listing of the Group's consolidated subsidiary So-net M3 Inc. on the Tokyo Stock Exchange Mothers board.

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Condensed Consolidated Statements of Income

For the year ended March 31, 2005

(Millions of yen)

	Year ended March 31				Change
	2004		2005		
Sales		38,166		39,302	3.0%
Cost of sales		23,569		22,056	
Gross profit		14,598		17,245	
Selling, general and administrative expenses		15,468		14,622	
Operating income (loss)		(870)		2,624	—%
Non-operating income					
Equity in net income of affiliated companies		—		52	
Other	261	261		152	205
Non-operating expenses					
Equity in net loss of affiliated companies		30		—	
Other	271	302		289	289
Ordinary income (loss)		(911)		2,540	—%
Extraordinary gain					
Gain on issuance of stock by equity investee and subsidiary stock		613		2,599	
Gain on sale of investment in affiliate and subsidiary stock		81		2,876	
Gain on sale of fixed assets		—	695	25	5,501
Extraordinary loss					
Loss on revaluation of investments in other securities		90		978	
Loss on impairment of long-lived assets		87		295	
Writeoff of goodwill		84		—	
Loss on withdrawal from certain operations		56		—	
Loss on issuance of stock by equity investee		1		1	
Provision for allowance for doubtful accounts		—		182	
Loss from relocation of certain business unit		—		76	
Extraordinary depreciation		—	318	14	1,546
Net income (loss) before income taxes		(534)		6,494	—%
Income tax current		16		2,360	
Income tax deferred	(163)	(147)		(77)	2,282
Minority interest income		25		105	
Net income (loss)		(412)		4,107	—%

For the three-months ended March 31, 2005**(Millions of yen)**

	Three-months ended March 31				Change
	2004		2005		
Sales		9,562		9,807	2.6%
Cost of sales		5,763		5,571	
Gross profit		3,799		4,237	
Selling, general and administrative expenses		3,743		4,015	
Operating income		56		221	294.9%
Non-operating income					
Equity in net income of affiliated companies	—			11	
Other	53	53		67	78
Non-operating expenses					
Equity in net loss of affiliated companies	26			—	
Other	77	103		195	195
Ordinary income		6		105	1757.5%
Extraordinary gain					
Gain on issuance of stock by equity investee		—		777	
Extraordinary loss					
Loss on revaluation of investments in other securities	62			100	
Loss on issuance of stock by equity investee	0			0	
Loss on withdrawal from certain operations	2			—	
Loss on impairment of long-lived assets	87			—	
Write-off of goodwill	84			—	
Provision for allowance for doubtful accounts	—			49	
Loss from relocation of certain business unit	—			39	
Extraordinary depreciation	—	235		14	202
Net income (loss) before income taxes		(229)		680	—%
Income tax current	70			370	
Income tax deferred	15	85		(306)	64
Minority interest income		5		46	
Net income (loss)		(320)		569	—%

Condensed Consolidated Balance Sheets

(Millions of yen)

	March 31 2004	March 31 2005	Difference
ASSETS			
Current assets	<u>7,363</u>	<u>16,052</u>	<u>8,689</u>
Cash and bank deposit	840	3,861	3,021
Notes and account receivable, trade	3,891	3,755	(136)
Inventories	130	212	82
Deposits in Sony group company	1,342	6,779	5,438
Deferred tax assets	356	546	190
Other	828	967	140
Allowance for bad debt	(23)	(69)	(46)
Noncurrent assets	<u>5,637</u>	<u>5,039</u>	<u>(599)</u>
Property, plant and equipment	<u>256</u>	<u>181</u>	<u>(75)</u>
Furniture and fixtures	162	122	(40)
Other	94	59	(35)
Intangible assets	<u>2,263</u>	<u>2,126</u>	<u>(137)</u>
Software	1,286	1,576	290
Goodwill	708	425	(283)
Other	269	126	(144)
Investment and other assets	<u>3,118</u>	<u>2,732</u>	<u>(386)</u>
Investment in affiliates and others	1,495	1,471	(24)
Deferred tax assets	773	642	(132)
Other	849	739	(110)
Allowance for bad debt	—	(119)	(119)
Total assets	<u>13,001</u>	<u>21,091</u>	<u>8,090</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities	<u>5,167</u>	<u>8,092</u>	<u>2,925</u>
Account payable, trade	2,463	2,553	90
Accrued expense	1,711	1,936	226
Accrued income taxes	197	877	680
Accrued bonuses	239	244	4
Accrued customer incentive program	81	145	64
Other accruals	—	4	4
Other	475	2,333	1,858
Long-term liabilities	<u>140</u>	<u>388</u>	<u>249</u>
Accrued severance costs for employees	93	111	18
Accrued severance indemnities for directors	47	49	2
Other	—	228	228
Total liabilities	<u>5,306</u>	<u>8,481</u>	<u>3,174</u>
Minority interest	<u>58</u>	<u>840</u>	<u>781</u>
Common stock	5,246	5,246	—
Additional paid-in capital	4,765	4,765	—
Retained earnings (accumulated losses)	(2,373)	1,734	4,107
Unrealized gain on investment securities	—	27	27
Foreign currency translation adjustments	(1)	(0)	1
Total stockholders' equity	<u>7,636</u>	<u>11,771</u>	<u>4,135</u>
Total liabilities and stockholders' equity	<u>13,001</u>	<u>21,091</u>	<u>8,090</u>

Consolidated Statements of Additional Paid-in Capital and Retained Earnings and Accumulated Losses

(millions of yen)

Item	Year ended March 31, 2004	Year ended March 31, 2005
Additional Paid-in Capital		
Balance at beginning of fiscal year	4,765	4,765
Balance at the end of period	4,765	4,765
Retained Earnings (Accumulated Losses)		
Balance at beginning of fiscal year	(1,961)	(2,373)
Increase		
Net income	-	4,107
Decrease		
Net loss	412	-
Balance at the end of period	(2,373)	1,734

Consolidated Statements of Cash Flow

(Millions of yen)

	Year ended March 31	
	2004	2005
I. Cash flows from operating activities		
Net income (loss) before income taxes	(534)	6,494
Depreciation and amortization	836	753
Extraordinary depreciation	—	14
Loss on impairment of long-lived assets	87	295
Amortization for goodwill	311	283
Write-off of goodwill	84	—
Gain on issuance of stock by equity investee and subsidiary stock	(613)	(2,599)
Loss on issuance of stock by equity investee	1	1
Equity in net loss (income) of affiliated companies	30	(52)
Loss on revaluation of investments in other securities	90	978
Gain on sale of investment in affiliate and subsidiary stock	(81)	(2,876)
Stock issuance costs	—	13
Loss on withdrawal from certain operations	56	—
Loss from relocation of certain business unit	—	76
Increase in accrued bonuses	22	4
Increase in accrued severance costs for employees	28	18
Increase in accrued severance indemnities for directors	17	2
Increase (decrease) in allowance for bad debt	(24)	165
Increase in customer incentive program	81	64
Increase in other accruals	—	4
Interest income and dividends	(9)	(57)
Interest expenses	3	0
Foreign exchange loss	—	2
Loss on disposal of fixed assets	93	91
Loss on sales of tangible fixed assets	10	0
Gain on sales of tangible fixed assets	(1)	(25)
(Increase) decrease in account receivable, trade	(89)	136
(Increase) decrease in inventories	149	(82)
Increase in other current assets	(136)	(269)
Increase in accounts payable, trade	36	90
Increase (decrease) in accrued expenses	(199)	186
Increase in other current liabilities	61	146
Sub Total	309	3,855
Receipt of interest and dividends	9	57
Payments for interest	(3)	(0)
Payments for income taxes	(186)	(1)
Net cash provided by operating activities	129	3,911

	(Millions of yen)	
	Year ended March 31	
	<u>2004</u>	<u>2005</u>
II. Cash flows from investing activities		
Payment for securities investment	(122)	(10)
Proceeds from sales of securities investment	231	3,162
Payment for acquisition of fixed assets	(37)	(45)
Proceeds from sales of fixed assets	4	26
Payment for acquisition of intangible assets	(971)	(749)
Proceeds from sales of intangible assets	0	—
Payment for deposits	(4)	(5)
Proceeds from deposits	1	—
Payments for long term prepaid expenses	(203)	(46)
Payments for loan	(178)	(55)
Repayment of loan	749	71
Net cash provided by (used in) investing activities	<u>(529)</u>	<u>2,349</u>
III. Cash flows from financing activities		
Payments of long term debt	(800)	—
Proceeds from issuance of subsidiary stock	—	2,201
Net cash provided by (used in) financing activities	<u>(800)</u>	<u>2,201</u>
IV. Effect of exchange rate difference on cash and cash equivalents	(1)	(1)
V. Increase (decrease) in cash and cash equivalents	(1,202)	8,459
VI. Cash and cash equivalents at beginning of year	<u>3,384</u>	<u>2,182</u>
VII. Cash and cash equivalents at end of the period	<u>2,182</u>	<u>10,640</u>

(Notes) Consolidated financial statements of the SCN Group are based on the standards conforming with the Generally Accepted Accounting Principles in Japan.

(For reference)

	(Millions of yen)		
	Year ended March 31, 2004	Year ended March 31, 2005	Change (%)
Increase in fixed assets	32	45	42.7
Increase in intangible assets	942	828	(12.1)
Depreciation of fixed assets*	110	108	(1.4)
Amortization of intangible assets*	657	604	(8.1)
	Three-months ended March 31, 2004	Three-months ended March 31, 2005	Change (%)
Increase in fixed assets	2	12	486.1
Increase in intangible assets	197	239	21.2
Depreciation of fixed assets*	35	55	56.8
Amortization of intangible assets*	164	163	(0.5)

* Included extraordinary depreciation of fixed assets shown as loss on withdrawal from certain operations and loss from relocation of certain business unit in the consolidated statement of income, as well as loss on impairment of long-lived assets (excluding the portion related to lease assets).

Consolidated Results Forecast

The SCN Group consolidated results forecast for the year ending March 31, 2006 is as follows.

	(Millions of yen)	
<u>Consolidated Results</u>	<u>Forecast</u>	<u>Year-on-year Change</u>
Sales	43,500	+11%
Operating income	1,300	(50%)
Ordinary income	1,500	(41%)
Net income	700	(83%)

The above forecast is based on the following assumptions:

- The number of So-net subscribers at the end of the year ending March 31, 2006 is expected to be 2.80 million.
- Within the total number of subscribers, the number of broadband subscribers is expected to be 800,000.
- Sales for certain categories are expected to be as follows:

Internet provider services	29,300 million yen (+2.0% over the previous fiscal year)
Internet-related services (included Merchandise sales)	14,200 million yen (+34.2% over the previous fiscal year)

Cautionary statement:

With regards to the consolidated results for the year ending March 31, 2005 which are described in this press release, current plans, forecasts, strategies, and beliefs, as well as statements that are not historical facts, are forward-looking statements about the future performance of Sony Corporation and the SCN Group. These forward-looking statements about future performance are not limited to statements that use words, such as “beliefs,” “expectation,” “strategy,” “forecast,” “prospect,” “anticipate,” or “possibility,” which explain future operational activities, results, happenings, and conditions. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. Therefore, SCN cautions you that a number of important risks and uncertainties could cause actual results to differ materially from those discussed in the forward-looking statements, and therefore you should not place undue reliance on them.