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DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSION[SM]

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Although a new year is fast approaching, you still have time to implement several tax and financial planning related strategies to make the most of 2007—and to soundly position yourself for 2008 and beyond.

2007 Year-end Wealth Planning

Last-minute strategies for saving, managing and gifting your money

This newsletter aims to highlight certain strategies you may or may not be aware of, provide updates on any relevant changes that came into effect in 2007 and remind you about crucial deadlines and "to do's." In the following pages, you will find information and last-minute tips on many important topics, including:

Tax changes for 2007

Why year-end is a good time to rebalance your portfolio

Strategies for retirees and preretirees

Ways to fund your child's education

Company retirement plan strategies for business owners

Effective charitable giving

This special newsletter also includes a year-end wealth planning checklist that brings together on one handy page many of the strategies discussed in this newsletter.

We recommend that you speak with your tax advisor to better understand how any tax planning strategy might affect your particular situation. And as always, your Smith Barney Financial Advisor would be pleased to work with you and your tax advisor to help you implement any financial and tax planning strategies.

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AT SMITH BARNEY

Tax Update

Time Could Be Money When It Comes to Recognizing Gains

Investment income, such as that from capital gains and dividends, is taxed at a different rate than earned income. Because these rates are subject to change, you might be able to take advantage of this by planning when to recognize certain long-term capital gains.

In recent years, there have been a number of tax law changes. In 2003, Congress lowered the maximum dividend and capital gains tax rates for most (but not all) dividends and capital gains to 15% for qualifying taxpayers. Taxpayers in the 10% and 15% tax brackets are eligible for an even lower rate of 5%. In 2008, the rate for taxpayers in the 10% and 15% tax brackets falls to zero. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) extends the cuts for two more years through December 31, 2010.

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2007 capital gains rates

- 28% for gains on collectibles and on qualified small business stock
- 25% on certain gains from the sale of some types of depreciable real estate property
- 15% for other gains

Source: CCH Financial Planning Toolkit,™ 2007.

Strategy:

Different rates could apply to long-term capital gains in 2007 through 2010, so it's important to check with a tax advisor on what you owe—and to plan when it might be advantageous to recognize certain gains, if possible.

AMT Changes and How to Address Them

The Alternative Minimum Tax is a concurrent tax system that is calculated by disallowing some of the exemptions, deductions and credits that you use to calculate your standard income tax. You will then owe whichever tax is higher—the AMT or your "normal" amount. Taxpayers with children, mortgages, deductible expenses and those who live in high-tax states are usually subject to the higher AMT rates.

For the majority of people subject to the AMT, the following changes for 2007 amount to a tax increase:

- The AMT exemption amount (the amount that is not included in AMT income) has decreased to $33,750 ($45,000 if married filing jointly or qualifying widow(er); $22,500 if married filing separately)
- The minimum exemption amount for a child under age 18 has increased to $6,300
- The additional exemption for taxpayers who provide housing for a person displaced by Hurricane Katrina has expired
- Credits for child and dependent care expenses, the elderly or the disabled, education, residential energy, mortgage interest and District of Columbia first-time homebuyers are no longer allowed against the AMT. Instead, a new tax liability limit applies, which is your regular tax minus any tentative minimum tax (figured without any AMT foreign tax credit.)

Source: IRS, 2007.

Strategy:

It is critical for you to talk with your tax advisor before year-end to determine if you will be subject to the AMT. If you are, then instead of trying to increase your deductions in 2007, your tax advisor may suggest that you try to decrease your "non-AMT" deductions and increase your income. (This is the exact opposite strategy you would implement if you were not subject to AMT.)

Portfolio

Not a Wash

Beware When Selling Depreciated Securities

If your capital losses exceed your capital gains this year, you may deduct the net loss from your ordinary income, up to $3,000. Capital losses greater than $3,000 may be carried over to future tax years. Should you decide to sell depreciated securities, beware of the wash sale rule.

You cannot deduct losses from sales or trades of stock or securities in a wash sale. A wash sale occurs when you sell or trade stock or securities at a loss, and within 30 days before or after the sale you:

1. Buy substantially identical stock or securities;
2. Acquire substantially identical stock or securities in a fully taxable trade; or
3. Acquire a contract or option to buy substantially identical stock or securities.

If you sell stock and then your spouse or a corporation you control buys substantially identical stock, you also have a wash sale.

Strategy:

If your loss was disallowed because of the wash sale rules, add the disallowed loss to the cost of the new stock or securities. The result is your cost basis in the new stock or securities. This adjustment postpones the loss deduction until the disposition of the new stock or securities. The holding period of the old stock is added to the holding period of the newly acquired stock.

Wash Sale Rules: Key Dates

Friday, Nov. 30: Last day to "double up" for 2007 (doubling up on a security allows you to recognize a loss without missing any potential appreciation during the wash sale period).

Monday, Dec. 31: Last day you can sell a security this year for a loss.

Thursday, Jan. 31, 2008: If you sold a security for a loss on Dec. 31, 2007, you can avoid the wash sale rules if you wait until January 31, 2008 or later to repurchase the same or substantially similar security.

Rebalancing Act

Do You Have Too Many Eggs in One Basket?

Since you need to consider selling securities if you want to harvest losses before year-end, now is a good time to assess your overall asset allocation. Smith Barney offers a complimentary Asset Allocation Analysis to determine whether your portfolio is still operating according to your goals, time horizon and risk tolerance. If you own your employer's stock in your 401(k) plan or other employer-sponsored retirement plan, this analysis can also be helpful in determining if you have "too many eggs in one basket"—and whether you should diversify out of these holdings.

If your portfolio needs rebalancing, your Smith Barney Financial Advisor will work with you to find an appropriate allocation. Your Financial Advisor can also help identify investment programs that offer automatic rebalancing, along with explaining any fees that may be involved.

Shifting to Income or Growth—or Both

Since long-term capital gains and qualifying dividends can be realized at the relatively favorable rate of 15%, investors seeking current income with some growth opportunity may want to consider shifting a larger percentage of their taxable portfolios to high-quality equities that have a history of increasing their dividend payments. (Note: There is no guarantee that a stock will continue to pay dividends. So, if you need to generate after-tax cash flow, some fixed-income investments may be better suited for meeting your goals, especially during retirement.)

Make Tracking Expenses, Profits and Losses Easier with FMA®

With a Smith Barney Financial Management Account℠ (FMA®), you can keep track of your deductible expenses and the sale of your securities. At tax time, a Smith Barney FMA simplifies the gathering of the information your tax advisor needs to calculate your taxes. Ask your Financial Advisor for more information on the benefits of an FMA.

Retirement

Tip Sheet: Preretirees

- **Be aware of the percentage of assets you hold in your employer's stock.** Starting in 2007, you have more flexibility to diversify out of the company stock held in your 401(k) and other defined contribution plans. Ask your employer for more information.
- **Contribute to your retirement account.** Most employer-sponsored retirement plans allow you to direct money from your paycheck to the plan on a pretax basis. The maximum 401(k) contribution limit for 2007 is $15,500—or $20,500 for those who are age 50 or older by year-end.
- **Don't forget your IRA.** Anyone with earned income can contribute to some type of IRA by year-end. Even if you don't have earned income, but you have a spouse who does, you are eligible for your own spousal IRA. The maximum contribution for 2007 is $4,000—or $5,000 for those who are age 50 or older by year-end. The IRS allows individual and married filers to direct any federal tax refund into their own IRAs.
- **Roth conversions for higher income IRA holders coming soon.** You may want to consider converting your Traditional IRA to a Roth IRA if your adjusted gross income for 2007 is $100,000 or less. You will pay current income taxes on the converted amount, but you will benefit from tax-free withdrawals of your funds during retirement. (For Traditional IRA holders who earn more than $100,000, an opportunity to convert your IRA to a Roth IRA is coming in 2010. Building your Traditional IRA assets now can be particularly important if you want the opportunity to convert as much as possible to a Roth IRA.)

Phased Retirement

Some employees who are approaching retirement would like to continue working, but on a reduced schedule. It is now possible for these employees to tap into their company's pension plan and receive some income while still working so they can supplement a smaller paycheck. Check with your employer to see if and how they allow these types of withdrawals. Also, be sure to consider how the early withdrawal of funds from your pension plan might affect your retirement income when you are fully retired.

Tip Sheet: Retirees

- **Consolidate "orphaned" 401(k) accounts into one IRA.** Rolling your company 401(k) or other retirement accounts into one IRA when you retire or receive a distribution from your pension plan may improve tax efficiency for you and your heirs. Consolidating your IRAs makes the management and monitoring of your investments much easier, especially if you are age 70½ and need to take your required minimum distributions.
- **Take advantage of new rules for non-spouse beneficiaries.** Starting in 2007, non-spouse beneficiaries of 401(k), 403(b) and 457(b) plans may roll inherited plan assets to an IRA. The IRA must be maintained as an Inherited IRA (children and other non-spouse beneficiaries can't roll inherited retirement plan assets to their existing IRA). Note: Some employers may still be working out the details of this feature.
- **Be clear on your required minimum distributions (RMDs).** Once you reach age 70½, you are required to withdraw a calculated taxable amount from your IRAs (except your Roth IRAs) or from your company's retirement account. Failure to take your RMD carries a heavy tax penalty of 50% of the amount you were required to withdraw. You may postpone your first distribution to April 1 of the year following the year you reach 70½. However, doing so would give you two taxable distributions in one year.
- **Complete a tax-free IRA to charity transfer.** If you are age 70½ or older and have an IRA from which you are required to take a Required Minimum Distribution (RMD), you have a last opportunity to donate up to $100,000 from your IRA tax-free. However, the funds have to be transferred directly from your IRA to your favorite qualified charity by Dec. 31, 2007 in order to obtain this expiring tax benefit. If you have a Smith Barney IRA, be sure to call your Financial Advisor as soon as possible so that the transfer can be made in time.

RMD Help

Smith Barney has several support systems to help you meet your RMD obligation:

- RMDs from a Smith Barney IRA are displayed on your account statement, which you can check any time on smithbarney.com.
- By automating your RMD withdrawals, you can simplify your life and not worry about accidentally forgetting to make your annual withdrawal.
- Your Smith Barney Financial Advisor can provide information about upgrading your IRA to a Smith Barney IRA/FMA®, so you can take advantage of features ranging from automatic funds transfers to automatic reinvestment in another Smith Barney account.*

*Withdrawals, such as FMA checks, AFT payments and Direct Payments, are treated as taxable distributions (except Roth IRAs which are tax-free if certain conditions apply). While Smith Barney does not withhold tax on this money, the account holder may be responsible for payment of quarterly estimated taxes.

Children

Custodial Accounts Versus 529 College Savings Plans

If you are interested in funding an education account for a child and, at the same time, interested in estate planning, you might consider contributing to either a 529 College Savings Plan or a custodial account—either an UGMA or UTMA—by year-end. These accounts are very different and the tax laws have changed the taxation of custodial accounts, so it is crucial to discuss your plans with your tax advisor and Smith Barney Financial Advisor before taking action.

UGMA and UTMA Custodial Accounts

Children with investment income are subject to specific tax rules. The tax laws regarding children with earned income may be different. In all cases, you should check with your tax advisor before putting money in a child's name.

- Capital gains and most dividends for a child in the 10% to 15% tax brackets will incur a 5% capital gains and dividend tax rate on amounts eligible to be taxed to the child.
- Under current tax legislation, the capital gains and dividend tax rate will be eliminated for taxpayers in the 10% to 15% tax brackets for the 2008, 2009 and 2010 tax years.
- Interest income is taxable at ordinary income tax rates.

529 College Savings Plans

529 plans offer one of the few tax-free ways to save for college and graduate school—if the withdrawals are used for qualified higher education expenses. For parents and grandparents concerned with estate planning, 529 plans allow a $60,000 contribution ($120,000 for married couples) in 2007 for each child without being subject to gift tax rules. A gift tax return must be filed for this tax year.

This one-time contribution to a 529 plan will affect other gifting plans to the same child over the next five years. Be sure to contact your tax advisor to review any other gifts you may have in mind for the same child if you are considering this strategy.

Investors should consider the Plan's investment objectives, risks, charges and expenses carefully before investing. The Offering Statement contains this and other information about the College Savings Plan. Investors need to read the Offering Statement carefully before investing. For information on different College Savings Plans, contact the Smith Barney office nearest you or go to www.smithbarney.com

2007: Children under age 18

In 2007, for a child under age 18, the first $850 of investment income generated within a calendar year is tax-free. Investment income of $851 to $1,700 is taxed at the child's rate. Then investment income gains above $1,700 are taxed at the parent's highest marginal rate. This is known as the "kiddie tax."

Education Funding Analysis

Your Smith Barney Financial Advisor can provide a complimentary Education Funding Analysis that shows how much you may need to cover your children's education expenses when they are ready to enter college. This analysis will calculate the cost of tuition and other expenses for specific colleges, and show you how much you need to contribute to a 529 plan on a monthly or annual basis until your children leave for college.

2008: Children under age 19 or children who are full-time, dependent students under age 24

In 2008, the ages for these rates rise to children under 19 or who are full-time, dependent students under age 24. The kiddie tax does not apply to a child who is married and files a joint return for the year or to distributions from certain qualified disability trusts.

Grading Your Choices

Given recent changes in the tax law, custodial accounts have become a less efficient way for a family to lower its taxes. A more effective way to save for college is to open a 529 College Savings Plan, which allows investors of all income levels to put aside money for a child's education and to withdraw these funds tax-free for qualified education expenses.

Some parents shift appreciated securities to children to pay for education expenses because the child's tax bracket is lower. However, Congress has closed this loophole by extending the kiddie tax to full-time students age 24 or under. This makes 2007 the last year that some of the kiddie tax can be avoided if a parent gives appreciated securities to a dependent child.

Business Owners

Make a Plan to Embrace Your Savings

If you are a business owner whose company offers a retirement plan, many changes have occurred in the management of these plans—and more changes are in the offing. You should contact your ERISA lawyer or retirement plan administrator to make sure you are in compliance in all areas.

If you already have a retirement plan in place, you can help enhance your 2007 retirement savings by contributing up to the plan limits by year-end.

Type of Plan	Under Age 50	Age 50 or Older
Traditional/Roth IRA	$4,000	$5,000
401(k)/403(b), 457, SEP*	$15,500	$20,500
SIMPLE IRA	$10,500	$13,000

*Only SEP plans established before 1997 may allow employees to make pretax contributions.

Strategies for Business Owners

- **Open a retirement plan by year-end.** If you do not have a company retirement plan, call your Smith Barney Financial Advisor to get one started. To make a contribution for 2007, the plan has to be established by December 31. Your Financial Advisor can provide information on the options that are available to you.
- **Evaluate your current retirement plan.** Your Financial Advisor can prepare a complimentary Retirement Plan Evaluation that will assess your current program and determine the ideal type of plan for your business, based on your personal and business goals.
- **Open a Smith Barney Business FMA®.** A Smith Barney Business FMA can help you and your tax advisor calculate your business's profit and loss at year-end. The Business FMA provides gain/loss accounting and tracking on debit card activity (what you charged and to whom), deposits, automatic fund transfers, checks written and more. You'll get a year-end summary statement detailed and summarized by category—a great organization tool for you and your tax advisor.
- **If your small business is establishing a retirement plan,** explore tax credits. If you have at least one non-highly compensated employee (earning no more than $100,000 in 2007), and no more than 100 employees, you can take a tax credit up to $500 a year for the first three years to defray plan start-up costs. You may also deduct additional plan expenses as business expenses—your tax advisor can offer more information on how this provision may affect your tax situation.

Giving

Charitable Donations

Here's What's New for 2007

New recordkeeping requirements for cash contributions: You cannot deduct a cash contribution, regardless of the amount, unless you keep as a record of the contribution, a bank record (such as a canceled check), or a written communication from the charity. The written communication must include the name of the charity, date of the contribution and amount of the contribution.

Contribution of clothing and household items: Only items that are in good used condition or better can be claimed as a tax deduction.

Disaster relief: You can deduct contributions for flood relief, hurricane relief or other disaster relief to a qualified organization. However, you cannot deduct contributions earmarked for relief of a particular individual or family. Qualified organizations include nonprofit groups that are religious, charitable, educational, scientific or literary in purpose, or that work to prevent cruelty to children or animals. Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986, is a list of organizations eligible to receive tax-deductible charitable contributions.

Strategies for Charitable Gifting

- **Combine small donations.** If you usually give small amounts to your local church or at local fundraisers, you might want to combine your donations and make one gift by check or transfer. This way you will have a record of these amounts for tax purposes.
- **Contribute to your charity by year-end.** If you want to use appreciated stock to make your donation, contact your Financial Advisor as soon as possible so the transfer can be made by year-end.
- **Look into opening a Smith Barney FMA account.** An FMA can help you track your donations by allowing you to code your checks.
- **Consider a donor-advised fund.** A donor-advised fund makes it easy to consolidate the funds you have earmarked for charitable gifting into one account where these funds will be professionally managed and you will have one record of your donations. Ask your Financial Advisor about Citi® GIFT, which allows you to make a charitable donation in 2007 and take a tax-deduction, if you are eligible. Then, you can decide at a later date how to distribute these funds.

Year-end Wealth Planning Checklist

Here is a summary of some planning strategies to consider and discuss with your tax advisors and Financial Advisor before year-end:

- ☐ Have your tax advisor estimate your adjusted gross income and tax rate and determine now if you have an AMT liability for 2007.
- ☐ Ask your Financial Advisor for help rebalancing your portfolio to remain in line with your goals, time horizon and risk tolerance.
- ☐ Ask your Financial Advisor about losses on securities you may want to sell and how to comply with wash sale rules if you intend to repurchase the same or substantially identical securities anytime soon.
- ☐ Ask your Financial Advisor about matching up the sales of any securities that have losses to potentially offset some of the capital gains you may owe.
- ☐ Fully fund your retirement accounts as soon as possible. Take advantage of complimentary analysis offered by Smith Barney.
- ☐ Check with your company's benefits department about when you have to use any flexible spending funds you've accumulated.
- ☐ If you are age 70½ or older, don't forget about taking a required minimum distribution (RMD) from your Traditional, SEP or SIMPLE IRA for 2007. (If you have these retirement accounts at Smith Barney, your IRA statement will show the amount you need to withdraw.)
- ☐ If you want to use appreciated stock to make your charitable donation, contact your Financial Advisor as soon as possible so the stock transfer can be made by year-end. You can also arrange to contribute appreciated stock to a donor-advised fund, which may allow you to take a deduction in 2007 while you have the ability to distribute your donations at a later date.
- ☐ If you are age 70½ or older and taking RMDs from a Traditional IRA, you have one last opportunity to donate up to $100,000 from your IRA tax-free. The funds must be transferred directly from your IRA to a qualified charity by December 31, so act now to allow time for this transfer.
- ☐ Talk to your Financial Advisor about gifting up to $12,000 per child to a 529 College Savings Plan. If you have UGMA or UTMA accounts set up for a child, find out how you can transfer these funds to a 529 account for more tax benefits.
- ☐ If you own a business, establish a qualified retirement plan by December 31, 2007 to be eligible for a contribution for this year.
- ☐ Talk with your Financial Advisor about developing a borrowing plan to cover your tax obligations—one that helps to unlock value in the assets you own, without liquidating those assets or using cash.*
- ☐ Ask your tax advisor about deductible expenses for 2008 and whether it would be advantageous for you to prepay these in 2007.
- ☐ Complete any gift transfers by year-end to reduce your estate—and to feel good. You are entitled to transfer up to $12,000 per person in 2007 without incurring any federal gift tax, while spouses together may donate up to $24,000. These annual gifts may be in addition to any direct tuition or medical payments made on behalf of another person.

* When used wisely, borrowing can be beneficial to your total wealth management.

Borrowing against securities may not be suitable for everyone. If the value of the securities should decline below a minimum level, you may be subject to a collateral call without specific advance notice, requiring you to deposit additional cash or securities. If you cannot do so, all or a portion of your collateral could be liquidated, and a potentially taxable event could result. You are not entitled to choose which securities are sold or any extension of time to meet a collateral call. A concentrated portfolio holding a single or few securities may be subject to greater risk of a collateral call than a diversified portfolio; a diversified portfolio will tend to be less subject to a sharp decline resulting from the negative performance of a single security.

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Diversification does not ensure against loss.

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