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Conference Call Transcript

ACN - Accenture Q1 Fiscal 2010 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Accenture's first-quarter fiscal 2010 earnings conference call. At this time, all phone lines are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions). With that said, today's conference is being recorded, and with that I would now introduce your opening speaker for today, Managing Director of Investor Relations, Richard Clark. Please go ahead.

Richard Clark - *Accenture - Managing Director, Investor Relations*

Thank you, Doug, and thanks, everyone, for joining us today on our first-quarter fiscal 2010 earnings announcement. As the operator just mentioned, I'm Richard Clark, Managing Director of Investor Relations. With me this afternoon are Bill Green, our Chairman and Chief Executive Officer and Pamela Craig, our Chief Financial Officer. We hope you've had an opportunity to review the news release we issued a short time ago.

Let me quickly outline the agenda for today's call. Bill will begin with an overview of our results. Pam will take you through the financial details, including the income statement and balance sheet, along with some key operational metrics. Bill will then provide some insights on what we are seeing in the market and how we are positioning our business. Pam will then provide our business outlook for the second quarter and full fiscal year 2010, and then we will take your questions.



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As a reminder, when we discuss revenues during today's call, we are talking about revenues before reimbursements, or net revenues. Some of the matters we will discuss on this call are forward-looking and you should keep in mind that these forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include but are not limited to general economic conditions and those factors set forth in today's news release and discussed under the Risk Factors section of our annual report on Form 10-K and other SEC filings.

During our call today we will reference certain non-GAAP financial measures which we believe provide useful information for investors. You can find reconciliation of those measures to GAAP on the Investor Relations section of our website at accenture.com. As always, Accenture assumes no obligation to update the information presented on this conference call. Now let me turn the call over to Bill.

Bill Green - Accenture - Chairman & CEO

Thank you Richard and thanks everybody for joining us today. We continued to drive our business with discipline this quarter but also with an eye to the future. This enabled us to deliver strong profitability and solid cash flow for the quarter while at the same time positioning us to ride the wave of economic recovery. More than ever, we remain keenly focused on our client and their needs and on generating real value for them and for our shareholders. Here are a few highlights from the quarter.

Revenues were \$5.4 billion, within our expected range of \$5.3 billion to \$5.5 billion. We achieved very solid operating margin of 13.9%. Earnings per share were \$0.67. New bookings were \$5.5 billion, with particularly strong consulting booking of \$3.5 billion. We generated free cash flow of \$184 million, and we continued to have an exceptionally strong balance sheet, with a cash balance of \$4 billion after returning more than \$1 billion to shareholders during the quarter.

While the economic environment remains challenging, we are beginning to see signs of improvement in certain industries and markets. Overall we feel good about our position in the market and are seeing positive momentum. We are staying very close to our clients, enhancing our relationships and helping them with their most important initiatives. Our focus remains on delivering value, expanding the breadth and depth of our services with current clients, attracting new clients to Accenture and leveraging our strong marketplace position. With that let me turn the call over to Pam who will provide some more detail on the numbers.

Pam Craig - Accenture - Chief Financial Officer

Thank you Bill. Happy holidays to you all, and thanks for listening today. Before we get into the numbers, let me provide some further context about how we see our business right now.

While we continue to work through the economic challenges that began to affect our business in January 2009 and that are clearly evident in the revenue comparisons year-over-year for this quarter, our pipeline of qualified opportunities has continued to expand and is now at a higher level than it was before the downturn. This is most evident in our consulting bookings -- the highest in the year and up over 20% since Q4. So while we are continuing to manage our business through a challenging environment, we are now taking clear steps -- such as in recruiting and business development -- to position our business for growth. Although this quarter was tough on a comparative basis, our revenues were within our expected range, we delivered strong operating margin, and we continued our track record of cash flow generation.

So let's get into the numbers. Unless I state otherwise, all figures are US GAAP except the items that are not part of the financial statements or that are calculations.

New bookings for the quarter were \$5.53 billion and reflected a positive 3% foreign-exchange impact compared with new bookings in the first quarter last year. Consulting bookings were \$3.51 billion. Outsourcing bookings were \$2.02 billion.

On bookings, in consulting we recorded our highest level of bookings in the last four quarters. In management consulting, our bookings reflected heightened client interest in projects focused on risk management, strategic sourcing and global expansion activities, and cost take-out remains a priority. In technology consulting, bookings grew significantly, as clients have sought our services to consolidate data centers, virtualize their infrastructures, and address cyber security. Systems integration bookings were strong across our spectrum of services, including ERP add-ons and extensions, as well as small and medium-sized custom builds.



Outsourcing bookings were lower than expected in the quarter, as clients are still cautious about signing large multi-year contracts. While the number of signings was up, they continued to trend smaller in size, be tighter in scope and have a higher proportion of services to be performed by our global delivery network. That said, our qualified pipeline in outsourcing is the highest it's been in six quarters, and we do see scope expansions on existing contracts starting to loosen up.

Now, turning to revenue. Net revenues for the first quarter were \$5.38 billion, a decrease of 11% in US dollars and 12% in local currency from the same period last year. These revenues reflected a foreign-exchange impact of positive 1% compared with Q1 last year. Consulting revenues were \$3.12 billion, a decrease of 15% in US dollars and 16% in local currency. Outsourcing revenues were \$2.26 billion, a decrease of 4% in US dollars and 5% in local currency. The year-over-year consulting revenue decline was influenced most by two of our operating groups -- Communications & High-Tech and Products. Their consulting revenues declined significantly in local currency due to clients' continued caution about initiating new work and expanding the scope of existing projects. Products results also included a significant reduction in revenues at two large clients as a result of completing several large projects and transitioning from front-end consulting to outsourcing services.

I was pleased to see the beginning of a turnaround in Financial Services, where we saw a significant uptick in demand for consulting services. That group's pipeline and bookings were at the highest levels in five quarters, and the revenue run rates were up sequentially on a per workday basis. As we assess where we are with our consulting business overall, the upshot is we believe that we've hit the bottom on a sequential revenue-per-net workday basis and that we will now begin to turn positive.

Turning to outsourcing revenues. The 5% local currency decline reflected last year's higher-than-normal level of contract terminations and restructurings. These events impacted our results after the first quarter last year, primarily in Financial Services and to a lesser extent in Communications & High Tech and Resources. Outsourcing revenues in comparison to last year continue to be affected by what we began to see in the third quarter last year. We responded to our clients' needs to reduce their overall costs through the shift to lower-cost resources at reduced price levels, fewer scope expansions on existing contracts, and contracts operating at lower volume levels.

Moving down the income statement, gross margin was 33.1%, up from 31.4%, a 170-basis-point increase over Q1 last year. The change primarily reflects the recent implementation of our new sales-effectiveness model. This led to the reclass of some non-contract activities, previously in cost of services, to sales and marketing. Additionally, this quarter's gross margin reflected further improved contract profitability in outsourcing.

Sales and marketing costs were \$622 million, or 11.6% of net revenues, compared with \$563 million, or 9.4% of net revenues, for the first quarter of last year. This increase in sales costs is due to the implementation of our sales-effectiveness model I just mentioned, including our efforts to build our pipeline.

General and administrative costs were \$412 million, or 7.7% of net revenues, compared with \$507 million, or 8.4% of net revenues, for the first quarter last year. Last year's SG&A expense did include a \$72 million provision for bad debt, a 120-basis-point impact. Excluding the impact of the bad-debt provision, G&A costs in relation to revenues rose 50 basis points. Although we continue to monitor and manage G&A costs to a lower level in local currency than last year, they decreased at a rate less than revenue. Nonetheless, G&A costs under 8% of revenues are a very strong result.

Operating income for the quarter decreased 8%, to \$746 million, resulting in a 13.9% operating margin. That is a 40-basis-point improvement over Q1 last year.

Our effective tax rate for the quarter was 30.5%, compared with 26.6% in the first quarter last year. Last year's first-quarter tax rate reflected the impact of favorable final determinations.

Net income before noncontrolling interests, formally known as income before minority interest, for the quarter was \$525 million, compared with \$593 million for the first quarter last year, a decrease of 12%. On September 1, 2009, we adopted guidance issued by the FASB on non-controlling interest.

Diluted earnings per share were \$0.67, compared with \$0.74 in the first quarter last year. This difference reflects a \$0.07 decrease from lower revenue and operating income in local currency, a \$0.04 decrease from a higher effective income tax rate, offset by a \$0.02 increase from a lower share account, a \$0.01 increase from higher non-operating income, and a \$0.01 increase from favorable foreign-exchange rates.

Now let's turn to some key parts of our cash flow and balance sheet. Free cash flow for the quarter was \$184 million, resulting from cash generated by operating activities of \$219 million, net of property and equipment additions of \$35 million. For the same period last year, free cash flow was \$396 million. The reduction in free cash flow was driven primarily by an increase in DSOs since August 31.



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Turning to DSOs, our day services outstanding were 32 days, up four days from last quarter's historically low level of 28 days. We continue to focus on strong working capital management. Our total cash balance at November 30 was \$4 billion, versus \$4.5 billion at the end of August.

Turning to some key operational metrics. We ended the quarter with global headcount of 176,000 people, and we now have 83,000 people in our Global Delivery Network.

In Q1, our utilization was 88%, up 200 basis points from Q4. Attrition, which excludes involuntary terminations, was 12%, up from Q4 and down from 13% in Q1 last year. Lastly, we currently plan to higher approximately 45,000 people around the world this year.

Before I turn things back to Bill, I will comment on our ongoing objective to return cash to shareholders through share repurchases and dividends. In the first quarter we repurchased or redeemed approximately 12 million shares for \$451 million, at an average price of \$38.17 per share, including 250,000 shares repurchased in the open market. At November 30, we had \$4.5 billion of share repurchase authority remaining. Also, in November we paid our 5th annual cash dividend to holders of Accenture plc Class A ordinary and Accenture SCA Class 1 common shares. The dividend payment of \$0.75 per share was \$0.25, or 50%, more than the dividend we paid last year, for a total of \$551 million. We are on track to begin our first semi annual dividend in the third quarter.

In summary, our Q1 results reflect our people's relentless focus on our clients and their business. We have adapted to what has now become normal but first became evident in the beginning of this calendar year. We are focused both on executing well in this environment -- on the business we have, as well as on driving the new opportunities that are on the horizon. Now Bill will give you an update on what we see on the horizon, and then I will finish up with our business outlook.

Bill Green - Accenture - Chairman & CEO

Thank you Pam. Let me just say a few things about what we are seeing out there in the market and also provide a little more detail on what we are doing to position ourselves for the upturn and future growth.

While there is still plenty of uncertainty, there are some positive signs. Things seem to be stabilizing, with early signs of recovery in certain industries and markets, and frankly this improvement differs on a company-by-company basis. Our clients have become accustomed to today's world, with its new set of challenges and opportunities. Their actions to improve from the past year have taken hold and are beginning to yield improved operating results. Businesses are looking toward the future again.

We are seeing some early signs that technology spending is beginning to come back, although the picture will become more clear as we get further into the new calendar year. Against that backdrop, here is what we are doing. Our strategy initiative and our human capital strategy projects, which we completed this past summer, are yielding nicely. From those, we are on boarding new talent and the best people are choosing Accenture. We are driving new technology and industry offerings in the market and getting very strong take-up. We are executing our geographic expansion strategy in key emerging markets across the world and preparing to enter additional promising markets. We have enhanced our alliances with the winners in the technology space, and we are attracting important new clients to Accenture that are the leaders in their industries around the world.

In addition our pipeline of opportunities is growing. We are focused on accelerating the sales cycle of these opportunities and converting them. And we are exploiting our unique and differentiated consulting strength and our track record of superior execution to both win in the short-term and position Accenture with clients for longer-term value-based relationships.

Let me remind you of a few things that we discussed and covered on the last earnings call. In our core business we launched new programs for leveraging our industry depth and differentiation. These include hot areas such as marketing transformation, risk management, sustainability, and infrastructure development. Our industrialization agenda is producing meaningful improvements on the quality and cost-to-serve front. Our client coverage model has been expanded and strengthened for more "time over target" and higher yield from our business-development activities. And our business process outsourcing's enhanced and more profitable operating model is delivering as predicted.

And, in emerging growth areas let me highlight three. In digital marketing, our new Accenture interactive business and the Accenture Intelligent Digital Platform have great traction across a range of industries. On smart grid we continue to be the leader in innovative smart grid technology around the globe. This has global momentum and has opened a new world of leveraging advanced technologies in other key industries that we serve. And lastly, in analytics, we have important new alliances that are underway and with our propriety analytics assets and numerous analytics patents, they are serving as a great launch pad for this business and it is becoming a cornerstone of delivering high performance.

As I mentioned last quarter we plan to provide more details on these initiatives at our investor and analyst conference in the spring. With that let me turn it back to Pam for the business outlook.

Pam Craig - Accenture - Chief Financial Officer

Thank you Bill. As a reminder, each quarter we provide an outlook for the next quarter's revenue and an update on our annual outlook for the full fiscal year.

As I mentioned in our Q4 call, the first half of fiscal 2010 will be challenging year on year, given the 6% local-currency revenue growth in the first half of fiscal '09. While we do see continuing positive signs, we remain cautious about timing, particularly as we move from calendar 2009 to calendar 2010.

For the second quarter, we expect revenues to be in the range of \$5.1 billion to \$5.3 billion, which assumes a foreign-exchange uplift of approximately 7% for the quarter. This range reflects the rates over the past two weeks.

Now, turning to the full fiscal year, we are assuming a foreign-exchange impact of positive 5% for the full fiscal year. Based on our qualified pipeline, we see strong demand for our services, particularly in consulting, and we see good future business taking shape. We continue to expect our fiscal year 2010 revenue outlook to be a 3% decline to a 1% increase in local currency, although the first quarter's results and the second quarter's outlook would tilt us to the lower end of the range. Our ability to land higher in the range will depend on the pace and timing of recovery in calendar 2010.

We continue to expect new bookings for the fiscal year to land in the range of \$23 billion to \$26 billion. We continue to expect operating margin to be 13.4%. You should expect some fluctuations quarter to quarter, as we have seen in the past. We continue to expect our annual effective tax rate to be in the range of 30% to 32%. We are slightly updating our outlook for earnings per share for the full fiscal year to a range of \$2.67 to \$2.75, an increase of \$0.03, which reflects the 1% change in our foreign-exchange assumption.

Finally, we continue to expect operating cash flow to be in the range of \$2.39 billion to \$2.59 billion, property and equipment additions to be \$290 million, and free cash flow to be in the range of \$2.1 billion to \$2.3 billion. Regarding free cash flow for Q2, we do expect a slight uptick in DSOs and to substantially complete our restructuring severance payments.

There is still quite a bit of uncertainty in the environment, given that indicators are mixed in most of the economies around the world. Although the demand environment has started to improve, predictability and timing are still a challenge. We are doing what we said we would do: focusing on profitable revenue growth first and foremost; maintaining a strong balance sheet; and continuing to return a substantial portion of the cash we generate to shareholders.

Richard, let's take some questions.

Richard Clark - Accenture - Managing Director, Investor Relations

Thanks Pam. Operator, would you provide instructions for those on the call?

QUESTION AND ANSWER

Operator

Absolutely. (Operator Instructions). We'll go first to Rod Bourgeois with Bernstein. Please go ahead.

Rod Bourgeois - Sanford C. Bernstein & Co.

Hi guys. I wanted to first start with the guidance. The data points on the pipeline sound really encouraging and consistent with what we are seeing elsewhere in the industry, but I guess if you are tilting the guidance to the lower end of the prior range, I'm trying to reconcile that with the really positive commentary about the pipeline. Is that just a timing issue where the pipeline is taking off, but you still need time to book it and translate it into revenues and you may not capture all of that before -- you may not capture all of that until well into your fiscal '10? Is that the issue on why pipeline looks so good but the revenue guidance outlook has a little less conviction attached to it maybe?

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Pam Craig - Accenture - Chief Financial Officer

Hi Rod. Yes. I think that is a fair characterization. If you look at how the first quarter came out, the second quarter outlook -- it's really based on that. If you just continued that, it would tilt it probably toward the low end of the guidance. However, based on how things come through after we turn the corner on the calendar here into calendar 2010, I think that's the part that we are just still not sure exactly how that timing will come out, and so based on that, it could lead to the higher end of the guidance, and that's just where we are right now and how we see it.

Rod Bourgeois - Sanford C. Bernstein & Co.

So just to clarify, it sort of implies that your November quarter revenues were maybe softer than what you hoped for, but at the same time the pipeline increase was maybe better than what it could have happened. It seems like you were very pleasantly happy with the pipeline. Is that an accurate characterization, where the near-term revenues were soft but the pipeline uptick was even better than what it was hoped for?

Pam Craig - Accenture - Chief Financial Officer

I think soft is too strong a word. I think it was, I think we came in within the guidance. It was slightly on the lower end but nonetheless that's what we expected for the quarter. And I think the pipeline is strong at this point.

Rod Bourgeois - Sanford C. Bernstein & Co.

Specifically on the pipeline, are you seeing more of the larger transformational type deals, or is the consulting market rebound still reliant on a lot of the shorter cycles, smaller deal sizes?

Bill Green - Accenture - Chairman & CEO

I guess I'd say, I'm not sure I'd call them small or shorter, but the big transformational deals have not become in vogue again yet. People are still putting their foot in the water, up to their ankles, up to their knees. They are doing supply chain strategies, they are doing rationalizations, they are doing all kinds of things, but that big billion-dollar transformational thing that you see in the pipeline, those are a lot harder to come by.

We do see a higher volume of smaller things. That said, they're important things. These are must-dos for these companies, and thanks to the consulting savvy that we have at the top of the business, I think it puts us in a very good position to not only get those things done but also benefit from the downstream work that historically comes our way from those.

Rod Bourgeois - Sanford C. Bernstein & Co.

One final question. You mentioned the uncertainty attached to moving from calendar '09 to calendar 2010. Is that uncertainty at all related to issues that you are seeing in your large clients' budgeting process, or is the budgeting process looking more normal this year and you are just being prudently cautious until you actually see it fully come into fruition.

Bill Green - Accenture - Chairman & CEO

Well I'd say when we cross into 2010, if it comes back half as well, as it dropped when we went into 2009 -- we are going to be in hog heaven because there's just a lot going on out there. If you think back to when we crossed over into 2009, it was profound across all industries. So I would tell you that my sense, and I've been out on the trail a lot, is people are feeling better, broadly better about the economy, broadly better about their business, they're planning to invest in 2010. They are not going to do it on the first or second of January. They are going to see a few weeks how things unfold, but then they are prepared to make investments in improving their business performance, and all that is wind that is at our back as opposed to our nose.



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Rod Bourgeois - Sanford C. Bernstein & Co.

Sounds good. Thanks guys.

Operator

Our next question is from Moshe Katri with Cowen and Company.

Moshe Katri - Cowen & Co.

Thanks. And, great execution guys. Looking at your outsourcing bookings, they were down sequentially. Did you have any major deferrals during the quarter? And then are we talking about weakness in any specific areas on the outsourcing side?

Bill Green - Accenture - Chairman & CEO

We had some things slip as we always do. I think -- I expected us to do a little better in the outsourcing bookings. We did have a few big things slip at the last minute, which happens -- I guess happens every quarter, truth be told -- but I was a little disappointed in it. But certainly makes -- things didn't go away, which I guess is what's important to me, and both in the BPO side and the AO side, we are starting to get better pipelines in that space than we've had in some time. So I feel good about the business over the medium term. I would have liked to have seen a better bookings for the quarter.

Moshe Katri - Cowen & Co.

And then there's been a lot of talk obviously in the last quarter about pipeline conversion rates. Have we seen any improvements on that side, either on outsourcing or on the consulting side during the past few months of the quarter?

Bill Green - Accenture - Chairman & CEO

I guess I'd say win rates are pretty consistent, and nobody is in a hurry -- would be I guess the way I put it. In the remainder of the calendar year, which is just the month that we have left or the days that we have left, there are certainly people that are targeting getting things done this calendar year in their companies, but people have been particularly thoughtful in my opinion, and more interested in getting it right than getting it started would be the way I would put it -- and I think that's had some drag on the business but frankly, I think it's good because we have a chance to make sure we are getting it right as opposed to just getting it started.

Moshe Katri - Cowen & Co.

Last question, on the UK, I think it's about 10% or so of revenues. Can you give us an update on what you are seeing in that market? Thanks.

Bill Green - Accenture - Chairman & CEO

The UK has been on our list for a long time. The UK market is -- frankly if you stand back and look at it -- probably the worst hit by the downturn. We have stabilized nicely in the UK. We are starting to get some momentum back in that business. The leading companies are starting to invest. There's no question. Those leading companies are global in nature for the most part. That market we see as much more stable. We have done a good job of getting our supply and demand aligned in the UK, and we have several of our top leadership people specifically with feet on the street over there in terms of bringing in new business, and that has helped us a great deal. So we feel we are getting on a good trajectory with that.

I would just also add that we did make a change in leadership in the United States -- broadly North America -- and it wasn't as much a leadership change but an operating model change, and we are starting to get good yield from that as well in terms of looking at the pipeline and the amount of feet on the street we have in the United States.

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Operator

Our next question is from Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang - JPMorgan

Hi Pam. I wanted to clarify something you said around consulting revenue per workday bottom. Did I hear that correctly? Can we interpret that to mean adjusting for seasonality, we should start to see some sequential revenue growth in consulting? Starting at the end of the third quarter?

Pam Craig - Accenture - Chief Financial Officer

Yes. In consulting, the way we look at sequential, and I know this is a little bit confusing, but it's not like a month-to-month thing. It really is on per workday, what is the revenue per workday. So as we go forward here in consulting, we are expecting it sequentially, on this per-workday basis, to turn positive in the second quarter.

Tien-Tsin Huang - JPMorgan

But obviously fewer workdays overall in the second quarter?

Pam Craig - Accenture - Chief Financial Officer

That's right. The second quarter because of the holidays, and them being holidays all around the world, has five or six less workdays usually each year.

Tien-Tsin Huang - JPMorgan

Got it. Can certainly use those holiday. Next question --

Bill Green - Accenture - Chairman & CEO

We don't like the holidays.

Tien-Tsin Huang - JPMorgan

That's right. We want to get utilization, which is actually my next question. My next question was on utilization rate. Running pretty hot I guess at 88%, which I assumed helped the gross margin beat our forecast quite handily. My question is, both of these metrics, are they sustainable from here or should we expect both metrics to trend lower as we progress through the year -- utilization and gross margin.

Bill Green - Accenture - Chairman & CEO

Let me do utilization and I'll let Pam as the steward of margins. The utilization has been hot and continues to be hot. 88% is too hot, particularly in a market that is starting to expand. So we mentioned we are going to be bringing in a lot of people this year, and that involves two things -- it involves building bench and it involves particularly investment in consulting talent. So you can expect, we'd just like to run the Company with an eight in front of it and have some flexibility in there to make sure we can get the right people where we need.

One of the things I mentioned last time is not leaving profitable revenue growth on the table, and at 88% frankly, you could be doing that. And so I think we are doing a good job now of making sure we continue to run with lots of economic discipline but at the same time make sure that we have the horses we need to take advantage of the business that is out there.



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Pam Craig - Accenture - Chief Financial Officer

On the gross margin, there is, I mentioned that there's some shift into sales and marketing, and really that was just about implementing our new sales-effectiveness model, making that clear in terms of how people spent their time. So I think there is a piece of that that is a permanent shift into sales and marketing from gross margin. The time in gross margin were non-contract activities where sometime had been spent.

Tien-Tsin Huang - JPMorgan

So that's the new starting point to work from, the 33%.

Pam Craig - Accenture - Chief Financial Officer

Yes. It reflected, again, good outsourcing profitability and clearly, a couple hundred basis points really in terms of the shift.

Tien-Tsin Huang - JPMorgan

Okay. Last one really quick. Just the headcount, the 45,000 that you are looking to add which I believe is net, what's the mix there between GDN and non-GDN count?

Pam Craig - Accenture - Chief Financial Officer

It's gross headcount -- I don't know what you mean by net, but that is the number of people that we expect to hire, and a substantial portion is in the GDN.

Tien-Tsin Huang - JPMorgan

Great, thanks a lot. Happy holidays.

Operator

Our next question is from Darrin Peller with Barclays Capital.

Darrin Peller - Barclays Capital - Analyst

Thanks. Just a quick commentary on the operating groups. Would you mind giving a little more color on the specific groups? You touched on Financial Services showing some specific strength in the pipeline. And clearly the margins were up quite a bit as well. Any sense on how, the types of projects in that vertical specifically, and then maybe comment briefly on the others as well?

Pam Craig - Accenture - Chief Financial Officer

Yes. First in financial services, as you mentioned we did -- we are seeing some signs of turnaround there, with consulting improving first, so I think that that's helping the profitability with some higher-margin consulting work. Clients are definitely more engaged. Insurance remains the most resilient across the Financial Services industry group, but really broadly in FS we see consulting opportunities in post-merger integration, cost reduction, finance and performance management, risk and regulatory management, that type of work. That's definitely kicking in in Financial Services. You want me to go through the others?

Darrin Peller - Barclays Capital

Is there anything that really stood out on the other operating groups, that would be helpful.



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Bill Green - Accenture - Chairman & CEO

Let me just hit a couple of highlights I guess. I think the Resources group, that used to be very ERP and energy-related, now it's sort of across all the businesses within Resources and tons going on in the smart grid, and really, related technologies, related to energy efficiency and reliability, and sustainability, and that is just a global phenomenon. I think today in the press there was an article that we had ten smart grid projects in China alone. That is the nature of that thing. That is kind of new frontier for Resources and we still have the big base of ERP work but a lot of these front-end things that we are doing around the grids and electricity broadly is going to pick up nicely.

And then of course, in the US, as we all sit and look for whatever is going to happen in Washington having to do with legislation, regulation, what have you on health, our business in health continues to be very good as it relates to both the payor and providers sections and then our traditional business that was in pharma. So that we have good momentum on it as well.

CHT [Communications & High Tech] is a challenge. It's going great in Asia, but in Europe and in North America, the telecom sector is particularly challenged. Some of that is just structural things that are going on in the industry, some of that is just individual company and competitive things, but we are trying to put more power behind that one and get some things turned around there.

But basically there's not -- there aren't any of our operating groups that are outpacing the other ones. They are all fighting the good fight every day in the market.

Pam Craig - Accenture - Chief Financial Officer

Just in Products, Pharma and Automotive, they have restructuring going on, so that is creating opportunity for us. Retail has clearly been hit hardest, but the clients are cautious there, but consumer goods companies, they've been cautious but they are picking up a lot of activity in cost reduction, globalization, BPO, that sort of thing. As usual, it's a good mix around the world and around the industries.

Bill Green - Accenture - Chairman & CEO

I would just mention one other thing -- and that is when we look at a lot of what is happening and what's coming back, it's less about an industry and more about a technology or an offering. For instance, our technology consulting business is just roaring back, with data center consolidations, virtualization, security, IT governance in general, just a ton going on there, and so that's affecting all the industries. So in some ways we are seeing the recovery more in the horizontal view across our business than the vertical view that we traditionally look at the world in.

Darrin Peller - Barclays Capital

Okay, that's helpful. You mentioned the guidance for EPS was up a few cents -- I think it was partly related to the FX -- foreign-currency changes, the assumption changes -- yet the operating-margin guidance was 13.4% for the full year even with your 13.9% in this quarter. Can you just help me understand exactly how, just reconcile that for us?

Pam Craig - Accenture - Chief Financial Officer

Sure. First of all in the earnings per share, the change is entirely due to the foreign-exchange assumption. We are not changing anything as it relates to the guidance. And similarly on the operating margin, it's always lumpy how operating margin occurs through the year. The first quarter is typically a stronger quarter, and that was the case here. And so we are going to continue to manage to operating margin and we are going to continue to make the investments in our business, and we still see a 13.4% as the right place to land this year.

Operator

Our next question is from Jason Kupferberg with UBS.



Jason Kupferberg - UBS Warburg

Thanks. Good afternoon, guys. I had a question in terms of -- rather than talking about the conversion of pipeline to bookings -- just wanted to touch on the conversion of bookings to revenue. And I'm looking specifically in consulting, because you did have a pretty solid quarter here of consulting bookings in Q1 -- better than most folks were expecting, yet the revenue outlook for Q2 is a little bit on the light side -- again, relative to expectations, and I know typically consulting bookings convert with revenues relatively quickly. So, is there anything going on there just in terms of client hesitancy of actually ramping up some of these new consulting bookings, and if there is, would you expect some of that to ease as we move into the new calendar year and new budgets get established?

Pam Craig - Accenture - Chief Financial Officer

No, not on the bookings, Jason. I think it's more just how we see Q2. Q2 is usually a light quarter, lighter of the four and just in terms of how the stuff manifests itself among the four quarters, we just may have had slightly different assumptions than were out there.

Jason Kupferberg - UBS Warburg

Okay. Now, in terms of reinvestments back into the business, which I think you just mentioned as one of the factors why margins are going to be lower during the balance of the year than they were in Q1 based on your full-year guidance. Can you drill in a little bit there -- you mentioned 45,000 hires and most of those in the GDN, but assuming business development is part of this as well, can you drill down into specific skill sets that you are focused on heading or which of the industry groups might be seeing the bigger increases in terms of business-development funding and any other color there would be terrific.

Pam Craig - Accenture - Chief Financial Officer

It's across the board, and you mentioned it when you get to that point of building the business, you are going to see that -- the recruiting, the hiring, business development -- and really it's across the board around the world in terms of where we're building the business. And then also in our offerings and how we build out the horizontal things that Bill mentioned. We are putting effort into that and we are investing in those things very intentionally.

Jason Kupferberg - UBS Warburg

One longer-term question. When we think about the Global Delivery Network, as of this past quarter is roughly, what, 47ish percent of total Accenture headcount, and obviously the bulk of the new hires in fiscal 2010 will be in the Global Delivery Network as well. Over time do you guys think about some structural level at which the GDN could potentially max out as a percent of your total headcount just based on where you see customer demand trending over the next several years? Is there any framework for us to think about along those lines?

Bill Green - Accenture - Chairman & CEO

No. I think the GDN has gotten dramatically more capable. It's moved from a horizontal thing to a vertical thing as it specializes and focuses on the industries that we serve. We put the centers of excellence across the GDN broadly, and so the level of work that gets done in there just keeps going higher and higher up the food chain. That works very well for us in terms of economics and in terms of integration -- the envisioning and architecting work connected down to getting-the-work done thing.

And the other thing that will happen is right now we have incredible demand for talent in our consulting business. So this stuff ebbs and flows. We are bringing them on by the thousands in the Global Delivery Network, but we are looking for direct-entry, senior-level people in major developed markets around the world for our consulting business, and each of those people will drive a pyramid full of talent. So I think you'll see over the quarters, you'll see some acceleration in the headcount in the developed markets and consulting as well.



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Jason Kupferberg - UBS Warburg

Could I just ask one follow-up on that because it's an interesting point. It sounds like what you are saying is more and more of your addressable market broadly speaking is becoming offshorable, if you will, because the global delivery network is becoming more capable. Does that inherently create any more of a cannibalization effect to your top line over the longer term, because obviously the bill rates are going to be lower there even though relative to an on-site person performing the same type of work.

Bill Green - Accenture - Chairman & CEO

Yeah, but if you think about the stuff we are investing in and the things that we are doing, the nature of the smart-grid things that we are doing isn't GDN stuff. The nature of the digital marketing stuff, the analytic stuff, all of this is core innovative stuff that is done with the client's face on the other end of it. It's not as if the work just drifts into the offshore space. We replenish with the innovation of the front-end things, and that becomes a bigger and bigger piece of our mix. If you looked over ten years, we've seen this ebbing and flowing two or three times over the last ten years, and I think we're at the beginning of another period of time where a lot more content-rich, high-end, heavy knowledge-capital work gets done in the consulting space in the big markets of the world.

Jason Kupferberg - UBS Warburg

Got it. Great. Have a nice holiday guys.

Operator

A question from Julio Quinteros with Goldman Sachs.

Julio Quinteros - Goldman Sachs & Co.

Great. Bill can I just start with you real quickly, comparing the recovery that you guys are looking at 2010 versus the timeframe 2003, 2004 as we were coming out of it? One thing that I want to dig into is that there is a bit more of a technology push in what seems to be happening out there. Would you characterize the difference in terms of the recovery, and is there a technology angle to this that could actually help push things along further as we go forward into 2010?

Bill Green - Accenture - Chairman & CEO

The good news is that the last downturn that we recovered from was minor by comparison and somewhat isolated. In other words, there were a lot of pieces of the business, there were a lot of pieces of geography and a lot of pieces of industry that were isolated from that downturn. In this one there are very few that are isolated. So that's one thing, just in terms of people's mental state and activity, returning to the business world. So I guess that's the first thing.

Interesting also is, people have stretched their labor capacity about as far as they can. The productivity improvements are profound that have been delivered in the last 12 months in industry, but people are holding on by their fingernails to those improvements, and in order to have those improvements be sustainable over time or to have a platform to continue to improve performance, they have to leverage technology to get to the next level, and I think that's the thing. It's not any of the gee-whiz stuff, it's not Cloud, SaaS [software as a service] and all that, that's all interesting stuff -- but it's how that intersects with the fact that what do people do now that they squeezed the lemon so tight, they've got as much performance as they can get out of the assets they have, what do you do for the next act, and I think that's the thing that will cause people to look for technology to find a way to get leverage.

Julio Quinteros - Goldman Sachs & Co.

Got it. And if you had to point to a specific example, it sounded like you were using things like virtualization-type technologies and data centers - is that the crux of what you end up trying to accomplish or is there some other technology component to this?

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Bill Green - Accenture - Chairman & CEO

I think there's back-of-the-house and front-of-the-house stuff. There is back-of-the-house stuff, which is all about that, the data center. The virtualization thing is like a no brainer. But there is how do you enable the workforce, and that has to do with... if you take smart metering -- or the smart-grid phenomenon is the back-of-the-house thing, but the smart metering and what you do with truck rolls and utilities is the front of the house thing. And I think if you look across financial services, retail, consumer products broadly, you see all these technologies that are sort of waiting on the edge. And look at the eHealth agenda. That is the front-of-the-house stuff. People have done the back of the house. So I think there is technology innovation on both sides of it, and I think we tend to think about the data center in the back of the house, and I think tons of the opportunities of the future are enabling the people that face the customers, and when we look across telecom, when we look at utilities, when we look at what we are doing in retail and consumer products, it's all sort of the front-of-the-house innovation that I think will drive a lot of investment.

Julio Quinteros - Goldman Sachs & Co.

Great. Thanks. And just Pam really quickly on the sources of upside, I realize you said that on some of the margins there can be lumpiness, et cetera, but if you look that 13.9%, it looked like there was a 30- or 40-basis-point improvement on a year-over-year basis. What was the source of that? It looked like utilization could have been a big driver. Were there other components there that would have driven the improvement on a year-over-year basis in your operating margin?

Pam Craig - Accenture - Chief Financial Officer

Obviously utilization was part of it. We did have improved outsourcing profitability. Last year did have the bad-debt provision in there. So as usual, there are a lot of things that go into the mix of managing to operating margin, and we were really pleased with this result.

Julio Quinteros - Goldman Sachs & Co.

Got it. But target for the full year unchanged at 13.4%, correct?

Pam Craig - Accenture - Chief Financial Officer

Correct.

Julio Quinteros - Goldman Sachs & Co.

Got it. Good luck.

Operator

Our next question is from George Price with Stifel Nicolaus.

George Price - Stifel Nicolaus

Hi. Good afternoon, good evening everybody.

Pam, I wonder if we can talk a little bit just to drill into the revenue-growth guidance and some of the components, given this quarter's report and the guidance for next quarter. First thing, any changes to the consulting and outsourcing growth expectations in terms of constant-currency growth for fiscal '10? I believe last quarter you said it was consulting would be low single-digit negative, outsourcing was going to be flat to low positive.



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Pam Craig - Accenture - Chief Financial Officer

It's basically consistent with what I said last time. Q2, expecting consulting to be high single to low double-digits negative, and outsourcing mid single-digits negative, and then in the second half of the year consulting low single to mid-double-digits positive. And outsourcing low single to low double-digits positive.

George Price - Stifel Nicolaus

Okay. And then – so this is going to be the bottoming quarter then for outsourcing, coming up, fiscal 2Q?

Pam Craig - Accenture - Chief Financial Officer

That's how we see it at this time, George. Yes.

George Price - Stifel Nicolaus

Okay. And working a little bit to try to model that relative to how currency seems to be shaping up, and I know it's awfully tough to model currency going forward -- with a 5% headwind now for the year, it seems like, first of all, the guidance does imply a pretty significant snap back in the second half of the year, and even with that snap back and the 5% currency headwind, it seems like there could be further downside than the negative 3%. I'd like to just get more comfort as to how much visibility or how much confidence you have in that.

Pam Craig - Accenture - Chief Financial Officer

Well, first of all the 5% is I think a tailwind. That's how I see it, because it makes the dollars higher.

George Price - Stifel Nicolaus

I'm sorry if I said headwind, I meant tailwind.

Pam Craig - Accenture - Chief Financial Officer

In terms of the local currency growth, negative 3% to positive 1% -- we've kept that range, we've pushed it hard. We've looked at it from every direction in terms of the guys that run our business, the guys that run the operating groups, consulting, outsourcing around the world, etc., and I think that we are very comfortable with that range in terms of how we see the business right now.

George Price - Stifel Nicolaus

Okay. And if I could ask about a couple of the verticals, Asia Pac revenue growth was down 2% in constant currency, holding on better. What was going on there?

Bill Green - Accenture - Chairman & CEO

I think that Asia by and large has navigated through the downturn pretty well. There are certain segments that were impacted, but our SEAAK [Southeast Asia, Australia, Korea] business has been particularly good. China wasn't as hot as it had been, but we had a plan of 40%, so you come in at half of that, it's still a pretty good result. So on balance a lot of the business held up nicely there, and the market held on. The other thing is that we are doing a lot of new stuff there as opposed to traditional work.



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Pam Craig - Accenture - Chief Financial Officer

We had very strong growth in Singapore and Malaysia but we did have a decline in Japan.

George Price - Stifel Nicolaus

Okay. And last thing just to clarify a prior answer, Pam, the 45,000 hires this year, the question was gross or net. You are not expecting to add 45,000 people to your total headcount right? That's going to be, you are going to net out attrition out of that?

Pam Craig - Accenture - Chief Financial Officer

I get what you mean by net now. Yes. Exactly. Attrition will be part of that, but the number of people we plan to hire is 45,000.

George Price - Stifel Nicolaus

Got you. Thank you.

Operator

Our next question is from Ed Caso with Wells Fargo Securities.

Ed Caso - Wells Fargo Securities

Good evening. My question is on the use of free cash flow. If you can give us a sense between your bias or dividends and then repurchase. And then within repurchase, how much would come from the inside and how much would come from being out in the market?

Pam Craig - Accenture - Chief Financial Officer

Well, we haven't really changed our bias here. As you know, last quarter, Ed, we announced that we were going to be going to a semiannual dividend in the third quarter. We are still on track to do that and of course we raised the dividend 50% this year.

So we are continuing to do that, and we do expect share repurchases this year to be, at this point, roughly the same as they were last year, and the mix of those is very price-sensitive, because interestingly the founders will present them to us when the price is high, and of course we probably are in the open market maybe when the price is -- we think the price is attractive. So it's just sort of the way it works.

Ed Caso - Wells Fargo Securities

Can you give us a sense if the price is right, would you dip into the \$4 billion number, or maybe the way to ask the question is -- what's the level of cash that you desire to hold to run the business?

Pam Craig - Accenture - Chief Financial Officer

We have plenty of cash to run the business. It's certainly below that level that we need for that.

Operator

Our next question is from Bryan Keane with Credit Suisse.



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Bryan Keane - Credit Suisse

Hi. Good afternoon. I just want to ask, the key to the story right now is this reversal between 2Q and 3Q, and in the guidance, 2Q is going to be negative, almost double-digits down, and 3Q it starts to reverse and 4Q even stronger. Can you help us understand the model, Pam, why that happens?

Pam Craig - Accenture - Chief Financial Officer

Well, I think that it's -- of course, dependent on what happened last year, right, and you started out the first quarter 9%, second quarter 3% and then we went negative. So as you are coming up here, and we mentioned we are going positive sequentially on a per-workday basis in consulting, so when you start to do those compares, it starts to kick in. It's that, and then how we convert a pipeline that has grown significantly from a year ago.

Bryan Keane - Credit Suisse

Okay. And it works the same way in outsourcing? You said outsourcing for the second half high single to low double positive, which is a big change from the down mid single that were expected in the second quarter.

Pam Craig - Accenture - Chief Financial Officer

Yes. With the outsourcing, last year really wasn't until more like third quarter that it hit us, with some of the cancellations and restructurings that we had in the business last year, and then just also in terms of how the complexion of how some of those deals changed in terms of size and that sort of thing. So we are expecting it to lag a bit -- the consulting -- and again it's based on those things and also the compare to last year.

Bryan Keane - Credit Suisse - Analyst

I think there were some cancellations that happened in Financial Services that started impacting the third quarter. So part of it is probably anniversarying that.

Pam Craig - Accenture - Chief Financial Officer

Right.

Bryan Keane - Credit Suisse

Last question for me. How does pricing look in consulting and outsourcing, and what is embedded in the guidance?

Pam Craig - Accenture - Chief Financial Officer

Well, the pricing is, well first of all in management consulting and the high-value consulting business, pricing is good, certainly stable. And when you look at the technology businesses broadly, certainly over the past year we have had pressure to reduce costs. We've been able to respond very well by shifting work to the Global Delivery Network and then being able to maintain the margins on that, but that has put pressure on prices overall. I think again, though, that's stable and we are getting -- we are working through that and getting closer to the end of that cycle.

Bryan Keane - Credit Suisse

And then do you start to see price increases as we move into fiscal 2011, or how do we think about that?



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Bill Green - Accenture - Chairman & CEO

It's hard to tell right now. We were delighted with price stability. Some of the consulting stuff -- the high-value stuff -- is pricing in a lot more favorable way. I think 2011 is a different world than the one we've been in right now, and I hope -- the thing that hasn't gone away in all this is the drive for competitiveness on a global basis, and I think as people get back into the game, they are going to start doing what they always do -- fighting to raise their game, and are going to try to do it without adding headcount, and I think the implications of that are exceptionally good for the back half of 2010 and 2011 for our company.

Bryan Keane - Credit Suisse

Okay. Great. Congratulations on starting to see at least the recovery in consulting. Looks great.

Richard Clark - Accenture - Managing Director, Investor Relations

Operator we have time for one more question please.

Operator

Very well. That final question will come from the line of Ashwin Shirvaikar with Citigroup.

Ashwin Shirvaikar - Citigroup

Hi. Most of my questions have been answered. A couple of odds and ends. One is, I know you don't comment specifically on variable compensation, but with consulting utilization running 88% is pretty hot. You work smart people very hard, presumably you pay them very well. Are you looking at variable comp coming back somewhat, if you could have some qualitative comments?

Bill Green - Accenture - Chairman & CEO

I'll tell you my view. We plan to earn variable comp. The thing we used to call variable comp. Whatever that thing is -- annual bonus -- in our current terms, we build it in our plan. We drive the business to that plan. Our operating unit people are working to make their plan, and if they make their plans, we earn annual bonus and we get to pay it to our people.

It's sitting here right now. That's high on my agenda, and particularly being in a market where it's going to come back, and when the people are going to have opportunities. The thing I am most focused on is making sure we attract and retain the best talent out there and our ability to deliver what is a very modest level of bonus is important to our proposition to people.

Pam Craig - Accenture - Chief Financial Officer

And Ashwin, that gets finalized at the end of the fiscal year.

Ashwin Shirvaikar - Citigroup

Thanks. And one last question. The rebranding post Tiger Woods, is that likely to be a material, let's call it, \$50-\$100 million investment?

Bill Green - Accenture - Chairman & CEO

No I'm glad we went this deep in the questions before we got a Tiger Woods one -- somebody had to ask. No. Frankly, we are very relaxed about this. It was sad and unfortunate. We made a decision on behalf of our Company. We have incredible material that you'll start to see. We'll start



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rethinking our strategy and how to raise our game and our message as we get into next year. But we don't see an economic impact of it at all and frankly we are incredibly excited about the opportunity to kind of rebrand and raise our profile in the market.

Ashwin Shirvaikar - Citigroup

Thanks, and happy holidays.

Pam Craig - Accenture - Chief Financial Officer

Thank you, Ashwin. Same to you.

Bill Green - Accenture - Chairman & CEO

Let me just say a couple of quick things in closing and then we'll wrap up. Our continued focus on operating discipline and delivery excellence is what enabled us to turn in a strong quarter in this environment. While we are starting to see signs of recovery and we feel good about it, the environment also remains somewhat uncertain and challenging. But I think every day that goes by we get more confident, and broadly clients and business at large get more confident.

I do want to thank the 176,000 men and women at Accenture around the world for staying focused on what we do best. That is delivering for our clients day in and day out, and that of course enables us to deliver for our shareholders.

Thanks very much for joining us on the call today. We appreciate your continued support and look forward to talking to you again at our Q2 fiscal 2010 earnings call next year. And finally, I just want to wish everyone a happy and healthy and relaxing holiday season. All the best.

Operator

Ladies and gentlemen today's conference call is being made available for replay starting today at 7:00 p.m. in the Eastern Time Zone and running through Thursday, March 25, 2010. You can access our service by dialing (800) 475-6701 or (320)365-3844 and at the voice prompt enter today's access code of 120395.

That does conclude our conference call for today. Thank you for your participation. You may now disconnect.

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