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JNPR - Juniper Networks Corporate Conference Call to Discuss
Integrated Operating Plan

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CORPORATE PARTICIPANTS

Kathleen Nemeth *Juniper Networks, Inc. - VP of IR*

Shaygan Kheradpir *Juniper Networks, Inc. - CEO*

Robyn Denholm *Juniper Networks, Inc. - CFO and COO*

CONFERENCE CALL PARTICIPANTS

Ben Reitzes *Barclays Capital - Analyst*

Ehud Gelblum *Citi - Analyst*

Rod Hall *JPMorgan Securities Inc. - Analyst*

Kulbinder Garcha *Credit Suisse - Analyst*

Amitabh Passi *UBS - Analyst*

Tal Liani *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Greetings and welcome to the Juniper Networks Integrated Operating Plan. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Kathleen Nemeth, Vice President of Investor Relations. Thank you Ms. Nemeth, you may begin.

Kathleen Nemeth - *Juniper Networks, Inc. - VP of IR*

Thank you operator. Good afternoon and thank you everyone for joining us today.

On our call today Shaygan Kheradpir, Chief Executive Officer will provide an overview of our integrated operating plan. Robyn Denholm, Chief Financial and Operations Officer, will join us for the Q&A portion of the call.

Please remember when listening to today's call that statements concerning Juniper's business outlook, economic and market outlook, strategy, future financial operating results, and overall future prospects are forward-looking statements that involve a number of risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including economic conditions generally or within the networking industry, changes in overall technology spending, and spending by communication service providers and major customers, the network capacity requirements of service providers, the timing of orders and shipments, manufacturing and supply chain constraints, variation in the mix of products sold, customer perception and acceptance of our products, rapid technological and market change, litigation, the potential impact of activities related to the execution of our integrated operating plans, and other factors listed in our most recent 10-Q and the press release furnished with our 8-K filed with the SEC today.

All statements made during this call are made only as of today. Juniper undertakes no obligation to update the information in this conference call in the event facts or circumstances change after the date of this call. Please note that today's call is scheduled to last for 30 min. With that, I will turn the call over to Shaygan.



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Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Thank you, Kathleen, and thank you all for joining us today. As I indicated in our last quarterly call, I have been actively reviewing the Company's business lines, operating model and capital structure to develop an integrated operating plan.

Today, I would like to share with you the details of that plan. This plan is focused on accelerating growth and increasing shareholder value and ties together all the different aspects of how we're going to operate in 2014 and beyond.

Before I dive into it, let me say that having done an extensive review of our business and product portfolio, I am very confident about this plan. It includes input from a variety of key stakeholders from customers to shareholders to employees and addresses four key priorities.

First, an innovation focused strategy that capitalizes on Juniper's engineering expertise across routing, switching, security, control and network management and that is most aligned to being a leading provider of secure High-IQ Networks and serving the needs of cloud builders. These are the fastest growing networking segments and it is where we excel as a company. Second, in order to execute this strategy, capture the opportunity ahead and more quickly respond to market dynamics, we will implement a One-Juniper structure. This framework will create a more focused, connected, agile and execution oriented Company.

Third, these changes will result in a more efficient cost structure, including structurally reduce costs and increasing operating margins. Fourth, an aggressive new capital allocation program that increases shareholder returns, while preserving flexibility for future growth.

Now let me walk through each of these areas in more detail. Our strategy is to be the leading provider of High-IQ Networks and best in class cloud builder and it's based on our deep knowledge and experience with customers. The world is changing and the opportunity is large. So, what are we seeing? Information and data must be able to be accessed around-the-clock and on demand.

Rising interest in private clouds. An increasing number of apps in the cloud and growing public cloud needs all to present a significant and rapidly growing opportunity that Juniper will help customers capture. Meanwhile, data volumes moving across networks continue to grow and will accelerate as more and more devices and machines are connected, but as the opportunity grows, so do the challenges.

Customers must improve the efficiency and elasticity of their networks, bringing down total cost of ownership to maximize profitable growth and increase revenue. The solution, High-IQ networks. High-IQ networks and cloud environments require an integrated ensemble of routing, switching, security and network intelligence and control, and are characterized by rapid service creation, highly automated and operationally efficient, super secure, hyper scale, delivering a coherent actionable intelligence and insight, virtualization with cloud control.

Why the network? Because the toughest problems in the cloud today are in the network, and it has to be the first mover to unlock strategic business value for our customers. More and more we're seeing a convergence of network architectures for service providers. Wireless and wire-line carriers, content, cable, [web-todaro] companies and cloud building enterprises.

We are targeting the fastest growing areas of the market and the fastest growing customer segments within those areas. We view these segments in the following way. First, service providers, cable and content providers where the network experience is fundamental to their business model and to national infrastructures.

Second, the web-todaro companies who are also at the forefront in building advanced secure intelligent networks. Third, an important set of enterprise customers who are also building large-scale internal clouds, such as financial services and national governments. And finally, there is a set of enterprise customers who will be customers of other segments or will evolve to view network as mission critical to their business.

We intend to focus on High-IQ Networks and cloud builders. An area of the market expected to grow significantly and we are well-positioned. 50% of Juniper's FY13 revenue growth was comprised of web services content and cable customers. These customers are looking for new revenue growth, speed to market, service quality, operational and capital efficiency.



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All elements that Juniper's strengths can help build. This is why our strategy of becoming a leading provider of High-IQ Networks and best in class cloud builders is such a great opportunity. We believe we are uniquely positioned to play a key role in facilitating and accelerating these changes for our customers.

Only Juniper can leverage its strength in systems, silicon and software, to build the kind of networks that fit where our customers want to be and importantly, where the market is evolving to. High-performance, agile, secure, automated, context aware networks in an open framework. The demand for High-IQ Networks and secure cloud environments that our customers are seeking requires security, switching, core and edge routing, virtualization capabilities and network intelligence, all working seamlessly together.

This is a value proposition that Juniper alone can offer. At the heart of this solution is the network. Real-time and automated choices between physical or virtual resources to provide network performance and agility at the lowest cost of delivery. Resource scaling in moments, not months, and applications awareness working using actionable insight and context learned from and executed by the network to deliver the best possible experience.

An omnipresent security coordinated across all resources and connections. To enable this integrated approach, where we will be viewing routing, switching, security, control and network management as one integrated product portfolio. Over the near to medium term, we will be reviewing our portfolio to ensure that our solutions are centered on these key strategic areas while providing an integrated leveraged and focused set of solutions for our customers.

That is our strategy. How does that impact our structure as an organization? This plan is about optimizing our Company's structure through an approach we are calling, One-Juniper. One-Juniper is about aligning our organization around our strategy including coalescing our immense engineering talent, go-to-market teams and R&D resources to provide quality and depth on what matters to our customers.

We will simplify our organizational structure to increase efficiency and reduce management layers. Another important element of One-Juniper is customer connectedness. We will be closer to our customers than ever before to ensure we can anticipate and co-create with them to meet their ever-changing needs.

I think of this as an outside-in customer imperative fused with inside-out innovation. In short, One-Juniper is about reinvigorating Juniper's heritage of a mission driven culture through results driven execution.

The third pillar to our integrated operating plan, is our improved cost management, which is tailor-made for our strategy and the competitive environment. In the IOP, cost reductions will result in \$160 million in annualized operating savings from the Q4 2013 level, which will be fully realized exiting Q1 2015. Improved resource allocation is expected to result in significant near and long-term operating margin expansion.

We're targeting 25% operating margin for full-year 2015, and approximate 580 basis points improvement from 2013 with operating expenses comprising approximately 39% of revenue. While we will provide further detail on our next financial results call, I will tell you these efforts will center on initiative that will strengthen our competitive position. We are realigning our R&D and our strategic priorities to ensure we are focused on the highest return opportunities.

As a result, we expect that historical R&D spend, as percentage of revenue, to trend down over time. At the same time, we are focusing our go-to-market on high-growth segments and will be right sizing and centralizing G&A functions. We're taking a balanced approach to cost management and prioritizing and strengthening our focus on innovation that matters.

To ensure 100% accountability, we have established a Cost Control Committee led by me. In addition, we have retained the McKinsey Technology Cost Structure Team, as an independent consultant to advise on execution. We will update you each quarter on our progress against our cost reduction objectives and the 2015 operating margin goal.



Now let's talk about our capital return program. Our Board has authorized a \$2 billion share repurchase program to be completed by the end of Q1 2015. This will include \$1.2 billion to be repurchased through an accelerated share repurchase, to be entered into shortly. We are also initiating a cash dividend of \$0.10 per share in Q3 2014 with the intention to grow it over time.

The plan will be funded by onshore cash, as well as newly issued debt. The structure of this plan allows us to preserve our investment-grade ratings, which is a critical factor given our customer base and maintains our flexibility to invest in innovation and growth. We intend to continue to review our capital return policy for additional capital return over time.

Finally, as part of our ongoing assessment of the composition of its Board of Directors, we also announced today that the Board will nominate for election at the 2014 Annual Meeting of Stockholders, Kevin DeNuccio and Gary Daichendt, as new Independent Directors. In addition, Kevin Johnson will retire from the Juniper Board at the end of this month. In summary, I am very pleased with our integrated operating plan and I want to thank our amazing Juniper team around the world who have been instrumental in helping me develop and shape our IOP.

To recap, our strategic focus is on the highest growth opportunities in networking as customers migrate to High-IQ Networks and best in class cloud environments, and this is where Juniper excels. Our optimized One-Juniper structure reinvigorates the heritage of the mission driven culture. Our enhanced operational efficiency is expected to result in a 25% operating margin for 2015, and approximate 580 basis points improvement versus 2013.

Our aggressive capital return plan will return a minimum of \$3 billion of capital to shareholders over the next three years, including more than \$2 billion in share repurchases through Q1 2015. We will initiate \$0.10 per share quarterly dividend to commence in 3Q 2014 with the intention to grow it over time. I look forward to working with our two new highly qualified Independent Directors, to be nominated to Juniper's Board.

When I first spoke with you on the January results call, I shared with you that I came to Juniper as an agent of change, and I am excited to ramp the execution of our IOP and deliver results. Thank you for your time today. Robyn is here with me, and we are happy to take your questions at this time.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session.

(Operator Instructions)

Ben Reitzes of Barclays

Ben Reitzes - Barclays Capital - Analyst

Hello, thanks a lot Shaygan, good to be speaking with you. I'm a numbers guy, and I am running the numbers here and I am getting \$2 in earnings for 2015 using this plan on street consensus revenue.

I was wondering, its hard at this time, but, do you think the consensus revenue expectations for mid-single-digit grower, mid-to-high single-digit grower, is that the kind of growth that you're thinking of for Juniper? So that we can kind of come up with a number for 2015, the revenue is the missing piece here and it would be good to hear your view on where you think that could shake out or what kind of range is. Thanks a lot.



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Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Hi Ben, good to be speaking with you and I look forward to seeing you next week at MWC, hopefully, in Barcelona. We're not, on this call going to guiding into the future.

What I can tell you, and I can pass it to Robyn, is the plan is tuned for growth, that is sort of number one, and for the OpEx numbers and the ratios that we have put in the summary, that it just went through, with that I'm going to pass to Robyn. And Robyn do you want to give anymore color on the projections and the EPS and so-forth?

Robyn Denholm - Juniper Networks, Inc. - CFO and COO

Yes, thanks, Shaygan. Thanks, Ben.

In terms of the range that we've put out there, 25% is our target operating margin for 2015. We also mentioned in the prepared remarks that if you take the Streets consensus for revenue for 2015, our OpEx for 2015 will be approximately 39% of revenues.

Clearly, as Shaygan said we are not guiding to our revenue forecast for that period of time but that will help you with the math. In terms of, again on the model, you do look at numbers, so if you look at the OpEx glidepath that we're looking at, we expect many of the actions already underway, we will expect some of the impact to start in Q2 of 2014 and we will see some more in Q3 and Q4 and then get to our new run rate as we exit Q1 of 2015.

Kathleen Nemeth - Juniper Networks, Inc. - VP of IR

Next question, please?

Operator

Ehud Gelblum of Citi.

Ehud Gelblum - Citi - Analyst

Can you hear me okay?

Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Yes Ehud, I can.

Ehud Gelblum - Citi - Analyst

The Q4 2013 OpEx, seems to be a baseline number. That included \$15 million in litigation expense for the (inaudible). When this taking off \$160 million run rate, that \$40 million a quarter, does that include the \$15 million? So, I assume that the litigation goes (inaudible), so that gives you \$15 million automatically and then (inaudible) \$25 million from there? That is question number one.

Question number two is after we get to the run rate of about \$500 million or so (inaudible) for Q1 2015, does it sort of stay at that rate and then (Inaudible) (Inaudible) throughout the year that can begin Q1 as your lowest revenue quota, so as we go throughout the year (inaudible) some pretty nice (inaudible) optimum margin levels (inaudible).



Finally, the original plan from (inaudible) asked for \$200 million and you're getting \$160 million, can you give a little color on what things they wanted you to cut that you are not telling (Inaudible) what's the difference between the \$200 million that they asked for and the \$160 million that you are providing in this plan? Thanks.

Shaygan Kheradpir - Juniper Networks, Inc. - CEO

It was hard to hear you all the way through. I think there were a few questions bottled in their. I think the answer to your first question is, yes, it does include it and I will have Robyn say more about it.

As far as the cost cuts, these are structural cost cuts that, as Robyn said, we will -- the actions we'll be front loaded, for the most part, and the cost will come out over the period of time to hit the steady-state number in first quarter 2015. And from that point onwards, because they're structural, they're out of the system.

Now, in terms of how you count it, you can count it in a couple of different ways. If you go off the street consensus, if you do the math there, it's roughly \$192 million in steady-state savings in 2015, if you do the math that way. If you do it versus how we ended Q4 of 2013, you get a slightly different number.

It all depends on where you hang the reference from but, suffice it to say, there will be structural, the actions will be front loaded, and exit run rate first quarter 2015, you multiply that quarter by four and you get the numbers because they are structural, they're not going to come back.

We can share the math with you but essentially if you do off-the-street numbers \$192 million in steady-state savings. We are very confident that we can achieve this and we will give you quarterly updates.

We have a lot of actions, actually I have a book in front of me of all the action accountabilities that were going to be doing here. We're pretty confident about that. The number is actually quite close plus or minus the \$200 million number that was put out there. Robyn, do you want to say anything else?

Robyn Denholm - Juniper Networks, Inc. - CFO and COO

No. I think you covered it Shaygan.

Operator

Rod Hall, JPMorgan

Rod Hall - JPMorgan Securities Inc. - Analyst

Just a couple of quick ones.

I wanted to see, Shaygan, if you could maybe talk about, since you're kind of new to the business, why hire McKinsey? What is it that you think they bring to the party that helps with execution? And then also, if you could -- I don't know if you can clarify a little bit, we all kind of know what you mean by High-IQ Networks and all of this sounds good to us, it sounds pretty similar from what we hear from other company's.

But, I wonder if you could talk about, I'm sure that in there there's a pretty specific plan that you've got or some specific thoughts, I wonder if you might be able to help us understand how this is different from the direction Juniper might have been going before, and how you think it differs from other peoples approach, as well?



Shaygan Kheradpir - Juniper Networks, Inc. - CEO

So, let me take maybe your last one first because I think that is a little bit more in there and the first one, I think, is relatively easy. Your last question is actually a really good one. Because, Rod, it's quite a deep and sophisticated topic and one that I think Juniper is uniquely situated to capture this opportunity.

And essentially, it goes as follows and I'll just take 60 seconds to go through this. We have products like our edge routing with MX, we've got our core routing product at PTX and switching with our QFX and EX. We have our SRX products and so forth.

The way the Company is structured today, these are thought of as independent business units. We are missing the leverage that is running across these network elements. So, what is that leverage? The leverage is, without going too much into detail, because we don't want to give our intellectual property on this call away, is actually quite simple at what level, which is the routers know a lot about the users, the switches know a lot about the hosts, the core routers know a lot about traffic flows and the SRX's know a lot about insights of a tax and app level information.

If you're able to pull all this information together, you can do dramatic things relative to rapid service deployment, crushing operational expense for our customers, tracking security threats across the enterprise, as you know the security threats are no longer in one place, they may actually be inside your enterprise already and feeling out where they are. All this information is on the wire. To the extent that you can take this insight and make it actionable, it is big and its dramatic and not thought of these elements as pipes.

A lot to talk about here but suffice to say we're very excited and completely aligned in the company on this issue, and, in fact, we've shared this with a number of our really key customers across or verticals and they're all very excited about it as well, and they totally get it and they can't wait for these capabilities to be unleashed in their companies and enterprises.

As far as the McKinsey conversations, I think is pretty simple. Personally, I have been at this structural cost efficiency all of my career. A job from a place I came, as Ben can tell you, from Barclays, I was responsible for driving that initiative as well. We have all the details, we know what we are doing in terms of step-by-step, I have all the transparencies visibility accounts ability close looped to make sure we checked tangible observables and make sure the costs will come out.

We just need some extra help and resource so the teams on the ground have the extra resources to be able to do this in a very predictable manner, very surgical manner, that makes the company stronger as we come out of it, and we need some extra help in that. That's why we have McKinsey because frankly, we are also running the company relative to High-IQ Network and cloud building and being with our customers and shareholders and employees and so forth and so on.

The extra help, we're very excited to have them and I've actually worked with them before and with great experience. Thank you.

Operator

Kulbinder Garcha of Credit Suisse

Kulbinder Garcha - Credit Suisse - Analyst

Hi Shaygan. Thanks for the question.

My question is, what are you baking gains in terms of the sustainable level of gross margin for Juniper? The reason why I ask, is obviously, it seems to be that you've implied that you can remain stable where over any long period of time, not only for Juniper but for the industry, it seems gross margins have been coming down.



With the implicit indication of your gross margins are somewhat more stable, maybe the 25% level of margin you guys can stay at. What is going to drive that going forward? Is anything the product engineering side is also changing beyond the operating cost-cuts? Is it new products that we're going to hear about of the course of this year? Any color there would be helpful.

Then the last, is with the cash return you're doing with what you're left onshore, what is your thoughts with respect to the needs that Juniper may need to address these segments in M&A? Many thanks.

Robyn Denholm - Juniper Networks, Inc. - CFO and COO

Kulbinder, I will answer the gross margin question and then I will handed over to Shaygan to answer the other question.

In terms of gross margins, we have actually seen good gross margins in our product area over the last period of time. What we have seen is that, obviously, gross margins are a factor of the competitiveness of the products, which we have great products in market today and will continue to have great products in markets across routings, switching and security.

We have a higher proportion of our revenues today that is software and obviously given the strategy that Shaygan outlined that will continue. If you think about the other side of the equation, on the cost side of gross margin, the cost of goods sold area, we have done significant work in that area in the supply chain and taking out costs. In terms of that area. We will continue to be focused on it.

Today, we just talked about our operating expenses, but we have many initiatives that are ongoing around the cost of goods sold area. Our view is our gross margins have been strong and they will continue to be good gross margins, although we are not giving you any specific guidance as it relates to gross margins in 2015 on this call.

In terms of the second part of the question?

Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Thanks, Robyn. Hi Kulbinder. As Robyn said, on COGS, we are not guiding but we continue to work hard on efficiency and costs in COGS as well. Not only on OpEx, that's a good point.

I would say relative to your question, the top answer is, the reason Juniper is where it is with the great growth rate and great margins is because our products have high value content. High-value content that the customers pay for.

With this new added dimension we are adding, which is High-IQ and cloud builder, the value of the content, the content within our products is just going to increase. I think that is an issue, just wait to see our product lines, our product world maps, as we unveil them but that's essentially the answer. We continue to work on the cost side of the cause, at the same time, this new strategy is beautiful, from a high-value content and increasing that in our product lines.

Kathleen Nemeth - Juniper Networks, Inc. - VP of IR

Operator, we have time for two more questions.

Operator

Amitabh Passi, UBS



Amitabh Passi - UBS - Analyst

I had a clarification and then a question.

On the clarification, Robyn, I apologize if you talked about this but, can you give us any sense of the incremental leverage you may or thinking about assuming?

And then my question, Shaygan for you, was you spoke a lot about the importance of High-IQ networks, which we define as an integrated ensemble for routing, switching, and intelligence. I didn't hear you say much on optics and optical transport. I wonder how you see or what you see the role of optics in your portfolio and how do you plan to address that?

Robyn Denholm - Juniper Networks, Inc. - CFO and COO

Let me talk about leverage or debt. We did say it in the prepared remarks, Amitabh, but we do expect to take on new debt over this next period of time given market conditions and that type of thing. The timing will be relatively soon.

Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Yes, Amitabh, on your question, again a good question. We don't have time to go too much into the detail here other than saying that all layers of OSI stack are in play here, from layer 1 to 7, to make these networks have those characteristics that our customers demand and, of course, optics is one of those layers.

Just stay tuned, we haven't omitted it and we haven't forgotten about it, but this is not the subject for this call.

Robyn Denholm - Juniper Networks, Inc. - CFO and COO

As you know Amitabh, PTX product range is doing very well in the marketplace.

Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Yes it is. (inaudible)

Operator

Tal Liani of Bank of America

Tal Liani - BofA Merrill Lynch - Analyst

I listened to all of your answers, fascinating, but it looks like you're trying to do everything. In the history of Juniper was that when the company tried to do everything, there was just not enough budget for everything. In all of the projects were kind of short funded and the question is, what don't you do? From a product portfolio,

you spoke about execution, you spoke about returning value to shareholders, very clear plans. What about portfolio? What are the areas where you think you can deemphasize to free-up money for the things you want to do?



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Shaygan Kheradpir - Juniper Networks, Inc. - CEO

Hi Tal, it's good to speak with you. Actually this is a very focused, very focused plan. Not try to do everything, but it does try to do things that are extremely important to the customers as the build cycle is kicking into high gear in High-IQ Network and cloud building and that we are very excellent at. At the core of what is happening in the networks.

Rest assured that based on the usual things you do, which is, you do [Inaudible] product lines relative to their growth and of profitability and the fit to this strategy, we have done a very detailed bottoms of work on places where we need to invest and grow, places where we need to reposition, places we need to transition and so forth and so on.

We have done all of that work and it's actually a much more focused line of attack on our product lines that we have ever had before. The team is very excited about it because they think that is what we need right now, is focus on what matters most to customers and that we excel at. Where the market is growing the fastest, which is the build cycle in High-IQ Networks and cloud ecosystems.

A lot, again, to talk about here, but rest assured, that your comment was very well taken and throughout this entire process to make sure that we really focused the company and not try to do everything, which you correctly have pointed out. It doesn't really work.

Kathleen Nemeth - Juniper Networks, Inc. - VP of IR

That is all the time we have for this afternoon. We would like to thank you so much for making time in your schedule. We realize you have very short notice and you have a busy day, so we appreciate it and we look forward to talking to you again soon. Thank you operator.

Operator

Thank you. Ladies and gentlemen this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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