

— PARTICIPANTS

Corporate Participants

Deborah A. Stapleton – Investor Relations Counsel, Ambarella, Inc.

Fermi Wang – Chief Executive Officer

George Laplante – Chief Financial Officer

Other Participants

Ross C. Seymore – Analyst, Deutsche Bank Securities, Inc.

Kevin E. Cassidy – Analyst, Stifel, Nicolaus & Co., Inc.

Vidya Balakrishna Adala – Analyst, Morgan Stanley & Co. LLC

Quinn Bolton – Analyst, Needham & Co. LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen and welcome to the Ambarella Fiscal Q3 2012 Financial Results Conference Call. At this time all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Deborah Stapleton. Ma'am, you may begin.

Deborah A. Stapleton, Investor Relations Counsel, Ambarella, Inc.

Thank you. Good afternoon everyone and welcome to Ambarella's Q3 FY'13 conference call. Our speakers today are Dr. Fermi Wang, President and CEO, and George Laplante, CFO.

Before we begin, I'd like to remind you that the primary purpose of today's call is to provide you with information regarding our fiscal third quarter 2013 performance. The discussion today and the responses to your questions will contain forward-looking statements regarding our financial prospects, market growth and demand for our solutions, among other things. These are subject to risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize or should our assumptions prove to be incorrect, our actual results could differ materially from these forward-looking statements. We're under no obligation to update these statements.

All of the risks, uncertainties and assumptions, as well as other information are potential risk factors that could affect our financial results are more fully described in the documents that we file with the SEC, including the final prospectus for our initial public offering. Access to our third quarter results press release, historical results, SEC filings and a webcast replay of today's call can all be found on the Investor Relations portion of our website.

Now, I'll turn the call over to Dr. Fermi Wang.

Fermi Wang, Chief Executive Officer

Thank you Deborah and welcome everyone to Ambarella's first conference call as a public company. Thank you for joining us today.

First of all, we're very pleased with our fiscal Q3 results. Revenue of \$35.7 million, up 24% year-over-year. Non-GAAP net income was \$8.1 million or \$0.31 per diluted ordinary share, up from \$5.9 million or \$0.23 per share for the same period a year ago. Our gross margin was 64.5% compared with 65% in Q3 of 2012, overall a very healthy quarter for Ambarella. Thanks to all our employees for their dedication and hard work to achieve these results. We continued our revenue growth in the sports camera, automotive and IP security markets in this quarter. Revenue in our broadcast market was steady and consistent with our expectations and continue to deliver solid gross margin.

In the expanding sports camera market, Q3 saw the leading sports camera brand, introduced new product family based on Ambarella's A5s and A7 SoC. This includes the first wearable sports camera with support for both 1080p60 and the 4K for Ultra HD video revolution. Additionally, many of the sports cameras now include the Wi-Fi connectivity to Smartphone, enabling the phones to be used as the viewfinder, remote control, and also providing video playback, the Smartphone also being able to video, upload and the streaming to internet.

GoPro is a leading maker of wearable sports camera, introduced its HERO3 family of camera that include the Wi-Fi and the 4K video options, both based on Ambarella solutions. Liquid Image, the vendor of our sports camera customers, won the 2013 CES Innovation Award for two of its new products, the EGO Wi-Fi equipped mountable sports camera and the Apex HD camera Snow Goggle. And the Drift Innovation, a European maker of sports camera, just introduced the HD Ghost, a wireless connected HD camera. Both of these are Ambarella solutions.

We expect that this market will continue to expand as consumers increasingly enjoying the benefits of hands-free action sports photography and the ease of use enabled by wireless connectivity to Smartphones. In terms of the IP security market, we're enjoying rapid growth. Our revenue from this market grew more sequentially on a year-over-year in the third quarter, driven by growth in the market as well as design wins with both new and existing customers.

During Q3, we saw continued growth in the professional IP camera market led by major IP camera makers, including Axis of Sweden, the market leader in IP camera, Bosch of Germany, and [ph] Avigilon (5:14) of Canada. Axis and Bosch both introduced multiple new HD camera based on Ambarella solution during this quarter. The market for security camera is transitioning from analog standard-definition camera to digital high-definition camera, transmitting video over IP networks. Camera makers are looking for higher-resolution video with improved low-light performance to enable tracking and identification of people and objects.

Additionally, cameras are becoming increasingly intelligent, building analytics software to perform functions such as motion detection, face tracking, trip wire, and people counting. In September, Ambarella introduced its S2 IP Camera system on chip especially to address this demanding professional security market requirement. This SoC supports a new 4K Ultra HD video standard and it delivers multi-core CPU performance, which benefits [ph] analytics acceleration (6:17).

Designed in 32 nanometer process technology, the S2 uses very little power and enables development off a high-resolution video cameras in compact form factors. The S2 give our customers a flexible platform to create highly-intelligent IP camera with outstanding image quality.

In addition to professional IP cameras, we're also participating in new growth opportunities in consumer IP cameras with Wi-Fi connectivity. These cameras are used to monitor homes and are typically combined with the cloud-based service that enable alerts and video clips to be sent to a user's Smartphone.

In the growing automotive aftermarket, Ambarella provides SoC solution for video camera recorders. These are cameras mounted in the windshield of the cars that are used to record video, audio, speed and location, providing documentary evidence in the event of accidents.

In the third quarter, we estimate our revenue in this market grew both sequentially and year-over-year. We are seeing a significant transition from standard-definition to high-definition solutions in this market, which benefits Ambarella. We are a leading provider of a full HD 1080p30 video solutions with excellent low-light performance and a very low power consumption. These video cameras are very popular in high-traffic regions such as China, Taiwan, Korea and Russia, and we expect the demand for this camera to expand into other regions.

In our infrastructure business, Ambarella provides compression solutions for broadcast television and IPTV delivery equipment, supplying customers such as Harmonic, Ericsson and Motorola. In this market, demand for video delivery over IP networks in addition to requirements to transcode video between different video formats and resolutions is increasing. Ambarella's technology enables highly-efficient video compression and the ability to transcode between H.264 and MPEG-2 format.

We continue to see new growth opportunities in IPTV and the video transcoding equipment that will add to our traditional broadcast delivery equipment business. In terms of our new product development, during the third quarter, we began commercial shipment of the A7L, our first 32 nanometer acknowledged camera SoC. The A7L offers full 1080p60 video, outstanding still image quality, and with very lower power consumption.

Ambarella's highly efficient video compression algorithm and the A7L's multi-string encoding enables wireless video streaming applications. Ambarella is actively engaged with customers using A7L in multiple markets including sports, automotive, wearable and digital still cameras. As you can see, Ambarella is growing on several important fronts and we have many opportunities for additional profitable growth this year and beyond.

And now I will turn the call over to George Laplante, our CFO, to discuss the financial results.

George Laplante, Chief Financial Officer

Thank you, Fermi, and good afternoon, everyone. I would like to start with a reminder that our fiscal third quarter ended on October 31 and our fiscal year end is January 31.

During the call, my financial discussion will always refer to fiscal, not calendar periods. I'll start today's call with a summary of the financial results for the quarter ended October 31 and then move on to the outlook for Q4 of fiscal year 2013.

During the call I'll discuss primarily non-GAAP results and ask that you refer to today's press release for a detailed reconciliation of GAAP to non-GAAP results. In non-GAAP reporting we have eliminated stock-based compensation expense adjusted for income taxes.

As we discussed in connection with our IPO, the company has seasonality to both its revenue and gross margin. So I will include year-on-year comparisons for certain key operating metrics to assist in understanding of changes in our business.

Although we have seasonality to our revenues and related gross margins, our operating expenses do not materially fluctuate with revenue. Therefore, we may experience volatility to our operating margins due to changes in revenue from quarter to quarter.

I will now discuss the financial results for the company's key operating metrics. For Q3 2013, the company had net revenue of \$35.7 million, non-GAAP gross margins of 64.5%, non-GAAP operating expense of \$14 million, and non-GAAP net income of \$8.1 million or \$0.31 per diluted ordinary share.

For the quarter, GAAP net income was \$6.7 million or \$0.25 per diluted ordinary share. The company estimates that its annualized effective tax rate will be 11% for the current year.

The Q3 2013 revenue of \$35.7 million represented an increase of 24% over the \$28.8 million in revenue for the same period in the prior year. Camera market revenue is estimated at 81% of our Q3 revenue as compared to 79% for the same period in the prior year. As Fermi said, we continue to experience growth in our IP security, sports and automotive camera markets, contributing to the year-on-year revenue improvement. The remainder of the revenue in each period related to our infrastructure business.

The company uses WT Microelectronics as our logistics partner for distribution for the majority of our ODM and OEM partners. During the current quarter, sales to WT represented 60% of our revenue as compared to 82% of our revenue in the same period in the prior year. The decline reflects the transfer of a large ODM customer, Chicony, from sales through WT to direct sales from Ambarella. During Q3 2013, sales to Chicony totaled 17.8% of revenue compared to zero percent in the same period in the prior year. These were the company's only 10% customers.

GAAP and non-GAAP gross margins are not materially different during the periods under discussion. Therefore, I will discuss gross margins on a non-GAAP basis only. Gross margins for Q3 2013 was 64.5% as compared to 69.2% in Q2 2013 and 65% in the third quarter of the prior year.

As expected, gross margins declined in Q3 2013 from the immediate preceding quarter due to the decline in infrastructure revenue as a percent of overall revenue in Q3 2013 and the positive impact on gross margins experienced in Q2 2013 from the release of previously deferred revenue. In addition, Q3 2013 camera market gross margins were lower than Q2 2013 due to the normal seasonal mix of camera products sold going into the holiday season. The 0.5% decline in overall gross margin from Q3 2012 reflected lower infrastructure revenue as a percent of total revenue, partially offset by improved costs of our high-volume camera chips.

Non-GAAP operating expenses for Q3 2013 were \$14 million and compares to \$12.5 million for Q2 2013 and \$12.1 million for the same period in the prior year. Comparing year-over-year, operating expenses grew 15.7% as compared to 24% increase in revenue. The planned increase in expense from Q2 to Q3 2013 was the result of an increase in head count, a one-time IPO bonus pay to our China employees of \$400,000 and an increase in new product NRE of approximately \$400,000. Total head count at the end of Q3 2013 was 443, with approximately 323 employees dedicated to engineering. Approximately 75% of our total head count is located in Asia, primarily in Taiwan and China.

Non-GAAP net income for Q3 2013 was \$8.1 million, or \$0.31 per diluted ordinary share. This compares to non-GAAP net income of \$5.9 million, or \$0.23 per diluted ordinary share for the same period in the previous year. The non-GAAP effective tax rate in Q3 2013 was 12% as compared to 11.3% in the same period in the prior year.

The GAAP net income for Q3 2013 was \$6.7 million, or \$0.25 per diluted ordinary share. This compares to GAAP net income of \$5 million or \$0.19 per diluted ordinary share for the same period in the prior year. The GAAP effective tax rate in Q3 2013 was 13% as compared to 11.6% in the same period in the prior year.

The company applies the two-class method to calculate earnings per ordinary share in both periods. The earnings per share – per ordinary share for both GAAP and non-GAAP are based on 13.4 million diluted shares for Q3 2013 and 9.5 million diluted shares for Q3 2012.

We have now generated positive cash from operations for the last three years, adding \$3 million in Q3 2013. We ended the quarter with cash and cash equivalents of \$94.8 million. In October, the company completed its initial public offering, raising \$27.4 million in net proceeds after deducting underwriter discounts and commissions.

Total accounts receivable at the end of Q3 2013 were \$18.2 million or about 47 days sales outstanding. This compares to accounts receivable of \$10.6 million or 35 days sales outstanding in the prior quarter. The increase in accounts receivable in Q3 reflects the normal seasonal increase in revenue from the camera markets. DSO increased due to the transfer of Chicony, our large ODM, from purchasing through WT Microelectronics to direct sales from Ambarella. Chicony manufactures cameras for various OEMs and has payment terms that are longer than those of WT.

Net inventory at the end of Q3 was \$9.1 million, up from \$8.4 million at the end of Q2. The increase reflects higher inventory to support the normal second half revenue ramp in the camera markets, offset by an increase in inventory reserves for potentially obsolete products.

I would now like to discuss the outlook for Q4 2013. Coming off seasonally high Q3 revenue, we expect Q4 revenue to be between \$28.5 million to \$30 million. This represents an increase of between 16% and 22% over Q4 of last year. Q4 camera revenues are estimated to be between 80% and 84% of total revenue in the quarter as compared to 70% in the same period in the prior year. Infrastructure revenues in Q4 of the prior year were unusually high due to several large projects launched by infrastructure customers.

As we have discussed, the change in mix between camera and infrastructure revenues also impacts gross margin. We estimate Q4 of 2013 non-GAAP gross margins to be between 62% and 63.5%, which is in line with our target model and compares to 68.3% in the same period in the prior year. The decline reflects lower infrastructure revenue as a percent of total revenue in the current quarter as compared to the prior year. In the camera market, continued expansion of customer products into consumer market is expected to contribute to a portion of the gross margin decline.

We expect non-GAAP net income for the quarter to be between \$3 million and \$4.2 million and GAAP net income of between \$1.2 million and \$2.5 million. The non-GAAP net income reflects an annualized effective tax rate of 10.8%, while the GAAP net income reflects an effective tax rate of 11.5%.

In summary, we are pleased with the expansion of our customer base as well as our successful penetration into core markets, both of which had positively impacted our financial results.

Now I will turn the call back to Fermi for his closing remarks.

Fermi Wang, Chief Executive Officer

Thank you, George. In summary, we delivered a strong operating results in Q3 and exceeded expectations on our key operating metrics through outstanding execution. I would again like to thank our employees worldwide for their dedication to making this a world-class company.

Operator, we will now take questions.

— QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Ross Seymore of Deutsche Bank. Your line is now open.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hi, guys. Congrats on the first quarter out of the box. Just a little bit on the forward guidance, George, you gave the percentage of revenues that the camera and the infrastructure side of things would represent. But within the camera side, are there any big outliers as either positive seasonal drivers, some new products, et cetera, or anything where you should expect some inventory burn? That would be an interesting bit of granularity for us.

<A – George Laplante – Ambarella, Inc.>: Not especially outliers for the quarter. After we get through our strong Q3, our Q4 continues to reflect high consumer portion of our business. So, people in the sports camera markets and automotive aftermarket remains relatively strong through the rest of the quarter.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: And then as far as seasonality goes, you mentioned multiple times in your preamble how that's a big dynamic for you guys. To the extent normal seasonality is even a pertinent metric, what is normal seasonality for the April quarter?

<A – George Laplante – Ambarella, Inc.>: The April – well, the way I look at the seasonality to our business is Q3 is an outlier, and then Q1, Q2 – Q4, Q1 and Q2 can fluctuate based on major projects or changes in infrastructure projects, but they can move up and down in relation to each other. So, Q3 is normally the big outlier.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. And I guess as my final question, I know you gave the revenue and the gross margin and then the net income side of things, but generally speaking, how should we think about the seasonality of OpEx? And is there any color between R&D and SG&A, you could give us? And then I'll go away. Thanks.

<A – George Laplante – Ambarella, Inc.>: There is very little seasonality to our OpEx. We run right now at about – 70% of our OpEx is people cost, of which most of that, if you look at our head count split, about 73% of our head count is engineering. So you'll normally see relatively flat OpEx throughout the year other than our budgeted increase. For instance, next year we're budgeting at about 45 people added to the budget during the year, of which the majority of those will be R&D head count and they will be in Asia.

From a G&A standpoint, the only change is really, from this year to next year, is really our IPO costs, which as you know add anywhere from \$1 million to \$2 million to your OpEx line relating to being a public company.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Great. Thank you.

Operator: Thank you. Our next question comes from Kevin Cassidy of Stifel Nicolaus. Your line is now open.

<Q – Kevin Cassidy – Stifel, Nicolaus & Co., Inc.>: Thanks for taking my question. I'm just wondering, you had mentioned that GoPro is introducing a camera that has 4K video. Can you tell us about the dynamics of that and how much of a growth driver can that be in the future?

<A – Fermi Wang – Ambarella, Inc.>: Yes. Kevin, this is Fermi. And I think 4K video, I think has just become popular and I think our customer is just taking advantage of the capability of our chip, and being a first one to introduce this capability. And we believe 4K will become more and more important and become a dominant format in a few years. But I think right now, I think 4K – 1080p60

is the mainstream video format and 4K just will become popular. In terms of the revenue driver, I do believe that the GoPro will continue to be the important customer for us and this product we do have high hope for it.

<Q – Kevin Cassidy – Stifel, Nicolaus & Co., Inc.>: Thanks okay, great. And how about for the IP security, is that a driver too to have the 4K video or Ultra video?

<A – Fermi Wang – Ambarella, Inc.>: Absolutely, Kevin. I think that for the – especially for professional IP security market, 4K is a big driver because more and more people realize that the resolution matters because that's how we can identify people and objects easily, with the high resolution. And after we introduce S2, we get a very positive feedback from customers and we believe that S2 will start contributing to our revenue second half next year and because of the 4K capability.

<Q – Kevin Cassidy – Stifel, Nicolaus & Co., Inc.>: Okay. And maybe one more question around 4K, the infrastructure, is there going to be much of a change there, any build-out for infrastructure?

<A – Fermi Wang – Ambarella, Inc.>: For 4K in infrastructure, it will take a longer time because the set-top box and also other decoder infrastructure need to be there before infrastructure taking over there. But I do believe the high-end infrastructure provider will start looking at 4K and start deploying, but I think it will take at least a year or so to start seeing that movement.

<Q – Kevin Cassidy – Stifel, Nicolaus & Co., Inc.>: I see. Okay. Yeah, congratulations on a good first quarter.

<A – George Laplante – Ambarella, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Joseph Moore of Morgan Stanley. Your line is now open.

<Q – Vidya Adala – Morgan Stanley & Co. LLC>: Good afternoon, gentlemen. This is Vidya Adala on behalf of Joe. My first question is on the auto camera market. Can you talk about your visibility in that market right now? And also, do you see any new countries particularly developed market countries moving towards adopting similar regulations or insurance companies moving to this? Do you see any moves there?

<A – George Laplante – Ambarella, Inc.>: This is George. As far as visibility, I think obviously, we have numerous large customers in China plus a lot of small ones. So we have near-term visibility as to the revenue ramps that they have. But as you go out, the visibility goes down a little bit because of the nature of the customer. Currently, we still concentrate on the Asia countries of China, Russia, Taiwan, and Korea where most of the volumes. And we haven't seen any major move to new territories yet, but we fully expect in the future that to happen.

<Q – Vidya Adala – Morgan Stanley & Co. LLC>: Great, thank you. And a slightly broader question on product roadmap, can you talk about what your product roadmap looks like for 2013 to the extent that you can?

<A – Fermi Wang – Ambarella, Inc.>: Well, I think, if you look at our history, we have been driving two treadmills very aggressively. The first treadmill is the video resolution, and we are just – that we just introduced our first 4K product two months ago, and I think we – you can expect us that we'll continue to drive better resolution to different markets and try to drive into different applications as well as lower power consumption. And I think that has been our trademark for the last eight years delivery. That's one treadmill we continue to climb.

The second treadmill is that we definitely believe that we want to continue to be the leader of the video compression. There's a new video compression format coming out called HEVC and as we presented in our roadshow, we definitely plan to continue to deliver products, the best video quality products of HEVC in the future.

<Q – Vidya Adala – Morgan Stanley & Co. LLC>: Great, thank you. Congratulations again on a great quarter.

<A – George Laplante – Ambarella, Inc.>: Thank you.

<Q – Vidya Adala – Morgan Stanley & Co. LLC>: Thanks, Vidya.

Operator: Thank you. And our next question is from Quinn Bolton of Needham & Company. Your line is now open.

<Q – Quinn Bolton – Needham & Co. LLC>: Hi, guys. Let me offer my congratulations as well with the strong first quarter post IPO and nice guidance. George or Fermi, just wanted to ask on the infrastructure business, I think that's a business you've typically characterized as having less seasonality. However, if I've got my numbers right, it looks like the infrastructure business might decline slightly as a percent of sales in the January quarter. So it looks like it may actually decline more than the consumer business. Wondering, if there is any specific trends we should be aware of in infrastructure as we look to the January quarter?

<A – George Laplante – Ambarella, Inc.>: This is George. Quinn, I think it's actually more related to the very strong quarter we had last year. If you look at Q4 of 2012, we had two customers launch two really big projects. So we had actually unusually high revenue in the prior year. I think we are basically on a normal seasonality for infrastructure this year, which is relatively flat.

<Q – Quinn Bolton – Needham & Co. LLC>: Sorry, I didn't – infrastructure was 19% of sales in the October quarter, correct?

<A – George Laplante – Ambarella, Inc.>: Yes.

<Q – Quinn Bolton – Needham & Co. LLC>: And it's guided to be 16% to 20% in January?

<A – George Laplante – Ambarella, Inc.>: That's correct. Yeah.

<Q – Quinn Bolton – Needham & Co. LLC>: Okay.

<A – George Laplante – Ambarella, Inc.>: And last year it was close to 30%.

<Q – Quinn Bolton – Needham & Co. LLC>: Okay.

<A – George Laplante – Ambarella, Inc.>: If you look at the comparison. So if you look at last year, it was unusually high because of those special – simultaneous projects that were kicked off.

<Q – Quinn Bolton – Needham & Co. LLC>: Understood. Okay, great. Second question, just wondering if you could give us any updates on the competitive landscape, particularly in the auto and the sports camera market?

<A – George Laplante – Ambarella, Inc.>: Competitive landscape in the auto and sports camera.

<A – Fermi Wang – Ambarella, Inc.>: Right. So, on the sports camera, if you look at all the major design wins out there, I think the only major design win that we know of which is not ours is Sony using their own chip to implement on their Sony sports camera. Outside of that, all the other major

design wins I believe is based on Ambarella solution. So we are quite comfortable that we're a leader in there. In the automotive side, basically we are competing with Asian companies like Novatek, Sunplus or CoreLogic which is famous for their low-cost but low-quality 1080p30 solution solution.

So our advantage over them is really that our video quality not only on daylight but also more importantly at the low light condition and also at our power consumption, which is a critical requirement when you're putting into such small form factor. But more importantly in the future, we plan to continue to introduce new products which will augment our current product line that – to compete with our low-end competitors. So in the automotive side, I think for the – for HD market, we are the leader in there.

<Q – Quinn Bolton – Needham & Co. LLC>: Okay, great. And then just sort of you mentioned that you're starting out to ship production quantity I think of the A7L in the quarter. I know one of the applications is digital still cameras. Can you give us any updates on how you see the – your penetration of the digital still camera market progressing?

<A – Fermi Wang – Ambarella, Inc.>: All right. So first of all, I think A7L is – definitely DSL [digital still] is one of the potential applications for A7L, but it's not only that. We also use A7L for wearable camera, for sports camera, for automotive camera, and in the future maybe even IP camera. So for the digital still camera point of view, we are engaging design win for next year and we have design wins that we are working on that will probably show up – a couple of customers will show up their products probably in 12 months. So there's nothing we can talk about because customer haven't announced their product. Hopefully that we're going to continue to deliver the penetration to the digital still camera market.

<Q – Quinn Bolton – Needham & Co. LLC>: Okay, great. Thanks, Fermi.

<A – Fermi Wang – Ambarella, Inc.>: Thank you.

Operator: Thank you. And at this time, I'm not showing any further questions. I'd like to turn the call back to management for any further remarks.

Fermi Wang, Chief Executive Officer

Again, thank you to everybody to joining us for this first conference call as a public company. And we are very excited about our financial performance. And again, I want to take the opportunity to thank our employees for this outstanding performance. Again, thank you for joining us. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.

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