
MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the SYNNEX First Quarter 2008 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, there will be 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, Ms. Laura Crowley, Director of Investor Relations. You may begin your conference.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Adrienne. Good afternoon, everyone, and thank you for joining SYNNEX Corporation's fiscal 2008 first quarter earnings conference call. Joining us on today's call are Bob Huang, President and CEO; Dennis Polk, Chief Operating Officer; and Thomas Alsborg, Chief Financial Officer.

Before we begin, I would like to note that the statements on today's call, which are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These forward-looking statements include, but are not limited to statements regarding our acquisition of New Age Electronics, seasonality, growth of our consumer electronics division, expectations of our revenue, gross margin, sales, net income, earnings per share, and return on invested capital, impact of the general economic – economy on our business, our growth and profitability and future benefits of our recent and planned acquisitions. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in these forward-looking statements.

Please refer to today's press release and our documents filed with the Securities and Exchange Commission, specifically our most recent Form 10-K for information on risk factors that could cause actual results to differ materially from those discussed in these forward-looking statements. Additionally, this conference call is the property of SYNNEX Corporation, and may not be recorded or rebroadcast without specific written permission from the company.

Now, I'd like to turn the call over to Thomas Alsborg for an update on our financial performance. Thomas?

Thomas Alsborg, Chief Financial Officer

Thank you, Laura. Good afternoon, everyone, and thank you for joining our call today. I'm going to begin by summarizing our results of operations for the quarter. Revenues for the quarter of – first quarter of 2008 were \$1.75 billion, a 10% increase over the first quarter of 2007 and an 11% decrease sequentially from our seasonally high fourth quarter. These revenue results are within our stated guidance and in line with analyst consensus for the quarter. The sequential decrease is reflective of the seasonality associated with our business in which case the first quarter revenue is historically lower than our prior fourth quarter.

First quarter net income was \$16.8 million or \$0.51 per diluted share, at the high end of our stated guidance and above analyst consensus. These results were driven by our continued operating margin expansion. In the first quarter of fiscal 2008, our gross margin expanded to reach 5.48% representing an increase of approximately 79 basis points compared to the same quarter prior year and an increase of 13 basis points sequentially from Q4 of fiscal 2007. This expansion is primarily driven by the impact of our strategic acquisitions in 2007.

For the gross margin, and although we have puts and takes associated with normal business changes and cycles, we've remained committed to our business services model, improving all drivers of our gross margin and realizing efficiencies across our business.

First quarter 2008 selling, general and administrative expense was \$63.1 million or 3.61% of revenues compared to 49.5 million or 3.12% in the first quarter of fiscal 2007, and 68.6 million or 3.48% in Q4 fiscal 2007. The increase in expense as a percentage of revenue was primarily attributable to the cost of supporting our growing operations for higher margin growth business and reflects the impact of seasonally lower revenue levels in Q1 compared to the last quarter.

Income from operations was 32.8 million or 1.87% of revenues for the first quarter of 2008 compared to results of 24.9 million or 1.57% of revenues in the prior year and 36.9 million or 1.87% of revenues in the fiscal fourth quarter of 2007. Our current level of operating margins, an excess of 1.8% is an achievement that we're very proud of.

Turning to our net interest expense and finance charges, the total for the first quarter of 2008 was 4.2 million, a 1.1 million increase from the prior year quarter of 3.1 million, as a result of financing the growth of our company. Other expense of 2 million is mostly made of costs associated with unrealized losses in our deferred compensation program, which will offset the SG&A, thus having no bottom line impact.

In addition, other expense also includes about 630,000 for a non-recurring charge to write down the cost associated with certain investments of the company. This \$630,000 charge was one time in nature and did flow through to the bottom line of the P&L, thus reducing our reported EPS by \$0.01. The effective tax rate for the first quarter of fiscal 2008 was 35.9%.

Now, I'd like to review our balance sheet information and metrics. Accounts receivable totaled 678.6 million at February 29, 2008. DSO including the accounts receivable from our off-balance sheet program and vendor program AR was 46 days. Inventory totaled 625.1 million at the end of the quarter, translating to 35 days of inventory supply. Days payable outstanding was 35 days. So our net cash conversion cycle was 46 days. Our DSO and days of inventory supply for the first quarter are naturally pressured upwards as a result of seasonally excuse me – seasonally as a result of revenue that – that seasonally contracts in the first quarter. Excuse me.

Other first quarter data and metrics of note are as follows. Depreciation expense was 2.6 million, amortization expense was 1.8 million. Capital expenditures were \$3.9 million. Cash flow from operations was approximately 73 million for the quarter. From a distribution product line standpoint, peripherals accounted for 31 to 35% of our sales, systems components accounted for 15 to 19%, IT systems accounted for 29 to 33%, software accounted for 11 to 15%, and networking accounted for 4 to 8% of total distribution revenues.

HP at approximately 27% of sales was the only vendor accounting for more than 10% of sales during the first quarter of 2008. Our total company associates are 6,344 at February 29, 2008, compared to 6,016 at November 30, 2007. This consists of 5,872 permanent employees and 472 temporary personnel. The reduction in head count was due to our constant alignment of costs with our revenue. As we have shared with you during previous calls, we are always focused on finding areas to improve our productivity and at the same time reduce our cost and expenses.

Moving to our second quarter 2008 expectations, for Q2 2008, we expect revenues will be in the range of 1.715 billion to \$1.785 billion, in line with our seasonality trends and reflective of our conservative approach with respect to the current state of the economy. Net income is expected to be in the range of 16.6 million to 17.2 million, and diluted earnings per share is anticipated to be in a range of 0.50 to \$0.52 per share.

Our forecast diluted earnings per share figures are based on an estimated weighted average diluted share count of approximately 33.2 million shares. Essentially we anticipate a flat to moderating revenue growth in the short term. However, net income and EPS are expected to grow. Once again, this reflects our commitment to focus on value creation and growth within earnings and ROIC even in a soft revenue environment.

We remain committed to our stated goal of 15% EPS growth and 10% ROIC in Q4 2008. As a reminder, all of these statements are forward-looking and actual results may differ materially. Also please note, while we are in the midst of closing the New Age acquisition, it is premature to include any acquired business in our guidance until after the proposed acquisition takes place. We will provide additional guidance once the acquisition of New Age Electronics has closed. The acquisition is anticipated to close within the next several weeks.

Now, I will turn the call over to our CEO, Bob Huang, for his perspective on the business and our quarterly results. Bob?

Robert Huang, President and Chief Executive Officer

Okay. Thank you, Thomas. Good afternoon to everyone and thank you for joining our call today. Our very solid performance for the fiscal first quarter of 2008 is consistent with our commitment to deliver on our profitability goals even in the midst of some economic uncertainty. Again, I would like to thank our dedicated employees for their relentless hard work and commitment. I also want to thank all our customers and suppliers for their continued allegiance and support. For the completion of our first quarter 2008, SYNNEX now achieved our 83rd consecutive quarter of profitability.

As Thomas noted, the change in our strategies over the last – two years ago to target a more profitable business, and our 2007 acquisitions were the key contributors to our profit margin and profit expansion. I'm pleased to note that our annualized ROICs for the last quarter was a 7.8% compared to 6.8% in the first quarter of 2007. Though growth is moderating in some sectors, we believe the impact of the economic times on our overall IT demand and our premium result was another significant as what have been eluded to in the marketplace, particularly in comparison to the tech bust in 2000.

We've noticed some slowdown in the second half of last quarter with SMBs through shipments to the smaller resellers. However, we also experienced a healthy momentum through our solution providers and system innovators who served enterprise healthcare and public sector.

On the strategic acquisitions we made last year, let me emphasize again, I'm pleased with our results on expanding our business process services that can truly serve our vendors and customers through the entire life cycle of their product from demand generation to supply chain management to assembly and distribution and aftermarket technical support. And I'm excited about our acquisition of HiChina who – services to 100,000 small businesses customers throughout China provide a predictable service revenue stream in the high growth market.

Our GPE, gross profit to expense ratio was 1.52% in the first quarter, a two basis point improvement year-over-year and about our benchmark of 1.5%, also reflective of our profitable growth with the priority focus on growing operating income and returns rather than just top line.

Now let me comment on our Q2 guidance and 2008 goals. At the mid point of our Q2 guidance, we are projecting a 4% increase in sales and a 13% increase in our earnings per share. This projected growth rate in revenue remains moderate and we're cautious in our approach in light of the current economic environment.

It is important to remember that the market for North America IT spending is a very large and contains significant opportunities for growth and expansion for SYNNEX, not only organically but through adjacent market. We had a good success in growing our TSD business since it launched two years ago. We have been very happy with our new entrants to adjacent market in consumer electronics or end-of-life products, and even the newly entered BPO market.

Given our small size, relative to the large size of the market, our efficient infrastructures and our agility, we are optimistic about our overall performance and are confident we can continue to - growing – grow faster than the market. In late February, we announced our intention to acquire substantially all the assets of New Age Electronics, a leading U.S. distributor of IT and consumer electronics products. We believe the acquisition of New Age is another very important, strategic important investment, excuse me.

The New Age acquisition will significantly expand our U.S. supplies and consumer electronics offering. It will extend our reach to the retail challenge. Once the acquisition of New Age is complete, both our consumer electronics business and our supplies business will reach over \$1 billion in revenues.

Most importantly, the transaction will provide profitable potential that is anticipated to raise our previous EPS target from a 15% growth to the range of 20% to 30% per year. This will accelerate our goal of achieving \$100 million in net profit and a double digit ROIC by 2010.

In closing, it was a great quarter even in the softer market. With our strategy and our ability to execute, I'm very optimistic about 2008. Thank you again for your time today and your continued interest and investment in SYNNEX.

Laura, let's now turn to the call back to the operator for questions.

Laura Crowley, Director of Investor Relations and Public Relations

Thank you, Bob. Adrienne, let's go ahead and open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. The first question is from Ananda Baruah from Banc of America.

<Q – Ananda Baruah>: Hi, guys. Thanks for taking the question. I guess, the first one is around revenue growth and sort of, if you could talk what the softness that you alluded to or spoke about on the call in second half of the quarter, really what it was around and how incremental was it to what you are seeing before I guess, your guidance implies like, Bob said 4% year-over-year growth. But, I guess by our calc, you'll probably be a little bit lower than that on an organic basis which kind of put in between of what you're – that your two major competitors in the U.S. has spoken about recently. So, could you just talk about some of the dynamics you saw during the quarter and where do you think the market really is in terms of growth in the U.S. right now?

<A – Robert Huang>: All right, Ananda. This is Bob. I mentioned earlier, it's softer in the second half of the quarter. And we haven't seen it picking up yet, and that's reflected in our forecast, in our guidelines. There isn't really anything specific in a particular sector. I think to some degree, I mentioned earlier – more on the SMBs and also there are some seasonalities, as well. I think, we just need to be cautious in this particular quarter.

<Q – Ananda Baruah>: And you reaffirmed your 15% EPS growth target for 2008. Can you give us a sense of – does that imply – does that embed normal seasonality for the second half of the year? And I guess that – so the question is, do you need to see growth better in the second half of the year than you are guiding to for the second quarter to be able to hit that EPS target?

<A – Robert Huang>: Well, that's correct. If you look at what we did last quarter and we're guiding for this quarter, the 15% is – it's not an easy task, I must say, in this environment. But given the seasonality particularly with the business we have in retail side, which is very strong in the fourth quarter, I think these numbers – the 15% is very doable for us.

<Q – Ananda Baruah>: Okay. And then just one last one, if I could. I just wanted to, Bob, confirm the comments that you made about New Age a moment ago. I don't know if that was an intention to give guidance or not, but it sounded like you were saying once you get New Age kind of integrated the way that you think you can, it would actually be quite accretive to your 2008 EPS. And I just wanted to get clarification around those comments.

<A – Robert Huang>: Yeah. We don't buy a business without looking at their potentials and that's from my perspective, I feel there is a huge potential that's out there. We could not give you because – the official guidance, yet, because of we have not got the business yet and we know we are doing a lot of things for the integration. But as soon as, like Thomas said, we complete the transaction, then we'll give you an update on that.

<Q – Ananda Baruah>: Okay. And then just if I could go back to the EPS growth goal, so is the take-away that if the environment does not improve from this point forward and sort of see muted seasonality in low single digit year-over-year revenue growth kind of for the balance of the year. Then your 15% – your EPS growth goal would then be in jeopardy. Is that sort of the correct take-away?

<A – Robert Huang>: I wouldn't go that far. Remember, there's many ways you could bring to bottom line, like – top line is one, gross margin improvement is another, and then you also have the expenses, it's more under your control. You could do a lot of things to improve your productivities and reduce your expenses. So there are many things you could do, and that's what I mentioned earlier, because our infrastructure, because our organization and our very agile culture, is I think we could cope with the environment lot a faster than probably most companies. And you could see in our histories, I mean that's within coming to this 83 consecutive profit, we don't have these type of corporate cultures embedded.

<Q – Ananda Baruah>: Okay.

<A – Thomas Alsborg>: This is Thomas, and if I could add to Bob's comments, but for the reasons that he just described the way I would characterize it for you is to say that first of all every time we meet with you we revise and review our forecast, and so based on everything we see today including a relatively flat Q2, given modest – and I would say modest that is to say some reduced seasonality at the end of this year compared to normal given everything we've seen – we still feel confident about growing our EPS in 2008 to be over 115% of 2007 EPS.

<Q – Ananda Baruah>: Okay. Thomas, could you remind us what your operating margin expansion goals are?

<A – Thomas Alsborg>: Sure. We – first of all, again I want to highlight the fact that we're quite proud of the fact that we have achieved operating margin this quarter of 1.87, which is the same margin we had last quarter. So, to be above a 1.8 operating margin sustainably is something we feel good about. And one of the comments I shared with you in our January 10th earnings release call was that as we looked out into 2008, we saw operating margin expansion growing and that for the year as a whole we saw operating margins in this range. I compared the operating margins of Q4 to that of what we would see for the whole year of 2008, and we still feel comfortable in that range.

<Q – Ananda Baruah>: Okay. Thank you very much.

<A – Robert Huang>: Good.

Operator: The next question is from Matt Sheerin from Thomas Weisel.

<Q>: Hi, guys. How's it going? This is actually Aaron Berman filling in for Matt.

<A – Laura Crowley>: Hi, Aaron.

<Q>: I just had a quick question, just following up on what you were talking about, what you guys mentioned as far as just relative to softness out there. Have you seen any sort of incremental competitiveness across the industry, maybe on pricing or anything else?

<A – Robert Huang>: Aaron, in 27 years in this business I've never seen any single day it is not competitive. But I can tell you, as the business is getting tougher, there are certainly some particular larger deals tends to be more pricey than the small transactions, and that's the decision we have to make. Right? We have to make in either [inaudible] top line revenues or we should walk away with that. And that's an outage decision.

<Q>: Okay. But if you look at just over the past, over the past quarter, I mean have you seen any sort of, have you seen the pricing environment deteriorate more so than it has been, especially given the weaker environment?

<A – Robert Huang>: No, I wouldn't say there was any noticeably different from previous quarters, Aaron, in that regard.

<Q>: Okay. And just one quick question, I know you mentioned end markets as far as SMB, and what you're seeing in that market, but if you could maybe give me some color on if you're seeing any sort of softness with regards to any of your product segments, peripherals, systems, networking, anything like that or is it – it's just pretty much across the board?

<A – Robert Huang>: It's pretty much across the board Aaron, in terms of products, except that we certainly get benefit substantially when our vendors do very well. And you could see that HP has done very well, so we did very well on that. But other than that it's pretty much across the board.

<Q>: Okay. And just one quick question on New Age. They have approximately 900 million in revenue, so would you expect to see significant attrition there given you guys already have a decent presence in consumer electronics?

<A – Robert Huang>: Dennis, you want to make comment on this because you have seen more -

<A – Dennis Polk>: Sure, yes. The question was on New Age and our go-forward expectations on the revenue. Once again, we haven't closed the transaction, so it's just an overall comment not guidance necessarily. But New Age, their revenue base is very complementary to our revenue base. So, we do expect to keep a substantial portion of the revenue as many of their customers, their larger customers, are not customers we're doing business with today. And some of their product sets are product sets that we do not sell today. So, we do expect to keep a good portion of the business. That being said, just like we've talked about the past few years, we're going to keep the profitable business of the organization, and any unprofitable business we will walk away from.

<Q>: Okay. Thank you.

Operator: The next question is from Brian Alexander from Raymond James.

<Q – Brian Alexander>: Thanks. Good afternoon. Just wanted to go back to the comments Bob made on New Age, just to make sure I understand. You've been talking about EPS growth of 15% consistently for the last two quarters, and Bob mentioned with the inclusion of New Age, you should be on track to grow 20 to 30% per year. So I just wanted to confirm a) he was referring to this year. But, then also if this acquisition isn't closing in for the middle of the year, how could it have such a dramatic impact on growth for this year?

<A – Robert Huang>: That's a good point, Brian. I thought you had already taken off for vacation. It's a good point. Brian, when I say, 20 to 30%, the range I'm referring to the first 12 months.

<Q – Brian Alexander>: First 12 months post-close.

<A – Dennis Polk>: After completion, that's correct, after the close.

<Q – Brian Alexander>: Okay. So, that implies then we're looking for it, earnings accretion of somewhere around 0.10 to \$0.30 in the first 12 months, which is consistent with what we've been thinking. But, why such a wide range? What would cause you to be at the lower end or the higher end of that range?

<A – Robert Huang>: Because, of the – one, Brian, we have not closed yet. Two, the market is a bit more uncertain than what normally we have seen. So, we just want to make sure of that. But in either case, 20%, 25%, 30%, it's all accretive first of all, and actually a pretty sizeable accretive for what we paid for it. So, I think it's – that's what gets me very excited about this deal. And that's what I think – we want to get into this and when I see what we could do.

<Q – Brian Alexander>: Okay. And then, Thomas on the BPO initiatives, is there any way to quantify, how much of an impact those two acquisitions are having, I think the ones you did last year HiChina, Link2Support, support, what impact are they having on gross and operating margins? And how much of the 15% earnings growth is coming from those businesses specifically?

<A – Thomas Alsborg>: Brian, when these acquisitions are large enough as the BPO plays to break them out, we certainly will. Right now what I would tell you is that, certainly as we've talked

about in the past, the margin profiles of this BPO business are substantially higher. We have gross margins in the 20 to 50% range, and SG&A that's also equally high. So, our operating margins, we tend to focus, tends to be in a low double-digits. Having said that, we also know that these are relatively small in size, and so whether is an upward impact to our operating margins into our EPS, it is rather nominal at this time.

What I'd point you to is that, why I had referred to my prepared remarks about our acquisitions having a positive impact on margins, and in particular our gross margin, I was not only talking about BPO acquisitions, but also our distribution acquisition, such as RGC for example. And these acquisitions are also having a very good impact. PCW had a positive impact on our margins. And then on top of that, the underlying business, as I've shared in the past, continues to execute very well. And so, the expansion that we're seeing in our margins is both on the distribution side of the business and aided by the BPO. And then within the distribution side, whether it's acquisition or it's a core business, they're both having good positive growth.

<Q – Brian Alexander>: Okay. And then just a final question on the working capital. On receivables and inventory, I'm not sure I understand the explanation of the increase in those metrics. I think you referenced seasonality in your prepared remarks. But if I just look at Q1, DSOs and inventory days, it looks like this is the highest level they have been in quite some time. So, I was just hoping if you could expand on that? Thanks.

<A – Dennis Polk>: Sure Brian, this is Dennis. I'll jump in and Thomas can fill in on any blanks as well. First of all, we always remind folks, it's in the point in time metric. The real important aspect of these two metrics are the quality, and are we getting paid for the days that we're holding, be it accounts receivable or inventory. And the answers to both those questions are, A, the quality is still very high, we're very pleased by the quality of our portfolio and accounts receivable and inventory.

And, B, we are getting paid for the days that we are carrying and as evident in our higher operating margin that we produced and showed today. That being said, I'd also like to mention that, the DSOs specifically is higher because there has been a bit of a mix change in our portfolio. So, it's a better more business that is longer collection cycle days, but again that's been paid for through how we finance the business and how we gone the business – to market with our customers. And also we've moved away from some of our flowing businesses that we talked about in the past and that shift the days out as well.

<A – Thomas Alsborg>: The only thing I would add to that, Brian, is again, Dennis mentioned the quality, a lot of this is really just the timing of when this falls in the quarter and as it turns out, we have some large receivables and some large inventory purchases towards the end of the quarter. Having said that, I would just want to emphasize to you that our ageing is fine and you would also notice in the timing that our payables and our inventory are somewhat offsetting, because of the acquisitions took place in the very remaining weeks of the quarter.

<Q – Brian Alexander>: Okay. I guess that was the source of my confusion, because it sounds like the quarter got a little bit softer toward the end which would naturally lead one to believe that the inventory balances would be shrinking, not growing, and the receivables may not be as high as they are, but we can discuss offline. Thank you.

Operator: [Operator Instructions]. The next question is from Rich Kugele from Needham & Company.

<Q – Richard Kugele>: Thank you. Just two quick questions. First, I just understand New Age is a little bit better, especially given the consumer presence. Can you just talk about how their results have been lately, even if it's just qualitatively? And then I have a follow-up.

<A – Thomas Alsborg>: This is Thomas, Rich. As you probably know, first of all, New Age is not publicly traded company, and so their information is not publicly available. You could go on to their website to see some information, but certainly because this transaction hasn't closed, it would be, I think inappropriate for us to speak on their behalf.

<Q – Richard Kugele>: Okay. And then secondly, we often get questions about credit, and so if there is any comments you can make about your own ability to finance – do your off-balance sheet financing, and the ability of your customers of ours to get credit, as well. Obviously, the results were fine, but I mean, any comment you have on what you see on the market?

<A – Thomas Alsborg>: I would just tell you in short that the quality of our credit, our sales is still good. No issues there. We have good relationships, long-term relationships with our banks. And we have working capital facilities that are contractually agreed to and in place. So, we are very comfortable with our own liquidity. And with regards to our customers and our vendors for that matter, I would say the same thing is true.

<Q – Richard Kugele>: Okay. Thank you very much.

<A – Robert Huang>: Well, I would add that for – Rich, the expenses should – interest expenses should come down with the way it goes right now. So I think it's – actually it's a good thing for us from that point of view.

<Q – Richard Kugele>: Okay. All right. Thank you very much.

Operator: [Operator Instructions]. There are no further questions.

<A – Laura Crowley>: Okay. Great, thank you.

<A – Robert Huang>: Thank you very much.

Laura Crowley, Director of Investor Relations and Public Relations

This concludes our first quarter earnings conference call. Thank you for joining us today. We will have a replay of this call available for the next two weeks beginning today at approximately 5:00 p.m. Pacific Time through April 3rd, 2008. As always, should you have any follow-up questions, both Thomas and I are available to take your calls. Thank you, and have a good day.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.

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