

— PARTICIPANTS

Corporate Participants

Ron Slaymaker – Vice President-Investor Relations

Other Participants

John W. Pitzer – Research Analyst, Credit Suisse (United States)
Tore E. Svanberg – Managing Director, Stifel, Nicolaus & Co., Inc.
Chris B. Danely – Senior Analyst, JPMorgan Securities LLC
Mark J. Lipacis – Analyst, Jefferies & Co., Inc.
James V. Covello – Research Analyst, Goldman Sachs & Co.
Ross C. Seymore – Research Analyst, Deutsche Bank Securities, Inc.
Romit J. Shah – Research Analyst, Nomura Securities International, Inc.
Vivek Arya – Research Analyst, Bank of America Merrill Lynch
C. J. Muse – Research Analyst, Barclays Capital, Inc.
Srini Pajjuri – Research Analyst, Credit Agricole Securities (USA), Inc.
Uche Orji – Analyst, UBS Securities LLC

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Texas Instruments Third Quarter 2011 Mid-Quarter Update Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Ron Slaymaker. Please go ahead, sir.

Ron Slaymaker, Vice President-Investor Relations

Good afternoon. Thank you for joining TI's mid-quarter financial update for the third quarter of 2011. In a moment I will provide a short summary of TI's current expectations for the quarter, updating the revenue and EPS estimate ranges for the company. In general I will not provide detailed information on revenue trends by segment or end markets and I will not address details of profit margins. In our earnings release at the end of the quarter we will provide this information.

As usual with our mid-quarter update, we will not be taking follow-up calls this evening. Considering the limited information available at this point in the quarter and in consideration of everyone's time, we will limit this call to 30 minutes. For any of you who missed the release you can find it on our website at ti.com/ir. This call is broadcast live over the web and can be accessed through TI's website. A replay will be available through the web.

This call will include forward-looking statements that involve risks and uncertainties that could cause TI's results to differ materially from management's current expectations. We encourage you to review the Safe Harbor statement contained in the news release published today as well as TI's most recent SEC filings for a more complete description.

We have narrowed and lowered our expected ranges for TI's revenue and earnings from our previous ranges. We now expect TI revenue between \$3.23 billion and \$3.37 billion. We expect earnings per share between \$0.56 and \$0.60. The reductions are due to broadly lower demand across a wide range of products, markets and customers.

Operator, you can now open the lines for questions. In order to provide as many of you as possible the opportunity to ask a question, please limit yourself to a single question. I will provide you the opportunity to ask a follow-up question. Operator?

— QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll take our first question from John Pitzer with Credit Suisse.

<Q – John Pitzer – Credit Suisse (United States)>: Good afternoon, guys. Ron, thanks for letting me ask the question. I know you mentioned in the preamble you weren't going to talk about operating margins or profitability, but I'm just kind of curious, the EPS line is holding up much better than the revenue line on the new guidance and I'm kind of curious if you could walk me kind of through the puts and takes of what's driving that? How quickly are you guys able to react on OpEx relative to the current environment versus what might be going on in the mix of revenue?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay, John. There's really two reasons behind why you didn't see a more, call it, proportionate drop between EPS and revenue. The first is that we are reducing variable expenses really on multiple fronts just in light of the weaker environment that we're currently in. So for example, our compensation includes a variable component such as bonus and profit sharing that we've now revised downward.

The second consideration is that with our lower profit outlook, we've revised our annual effective tax rate estimate down to about 25% from our prior estimate of 27%. And as you're aware since we have been accruing both of those items at higher rates during the first half of the year, we would also then have a catch up in the accounting, a catch up benefit in the third quarter.

So that really explains the difference between what you might have expected for EPS to go to versus what we're projecting here. Do you have a follow-on, John?

<Q – John Pitzer – Credit Suisse (United States)>: Yeah, Ron, you talked a little bit about the variable costs that you can go after. Just on the fixed cost side, anything happening to CapEx and/or head count?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: No. In terms of CapEx, no change to our guidance on that and in terms of head count, I'll actually change that somewhat to hiring. We're actually still hiring for strategic programs. Hiring has become much more selective, you might say, in this environment and we're certainly keeping our resources focused on what we believe are the best opportunities that we're addressing, but the hiring has become more selective, but outside of that, no real head count swings other than what might come about from attrition.

Okay, John, thank you. We'll move to the next caller please.

Operator: And we'll go next to Tore Svanberg with Stifel Nicolaus.

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yes, thank you. Ron, could you talk a little bit about the distribution channel, what you're seeing there, especially as far as inventory levels and lead times, just trying to understand how they are sort of reacting to this lower demand environment?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. I guess what I would say is that we expect resales from our distribution channel to decline at about the same rate as our overall revenue, so therefore kind of mid-single-digit declines on sales out of the channel. We expect really little change in distribution inventory levels on an absolute basis, although with the declining resales they could be up somewhat on a days basis. Do you have a follow-on, Tore?

<Q – Tore Svanberg – Stifel, Nicolaus & Co., Inc.>: Yeah, should we assume that by product line things are tracking the same, too? I'm just trying to understand if maybe your Wireless business is tracking seasonally better than let's say Analog and Embedded Processing?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Not really, Tore. I guess just in general, we're seeing broadly lower demand across our product lines and then as I said previously, customers as well as markets. So if you kind of walk through the segments, we would expect both Analog and Embedded Processing, which are both very diverse businesses, to decline sequentially; Wireless will likely be about even with the second quarter, but I'll also note that the third quarter is traditionally our Wireless segment's seasonally strongest quarter, so flat is really pretty weak for that, for a third quarter.

Within Wireless, I would note that our OMAP applications processor revenue we expect will be up strongly compared with the second quarter, while connectivity revenue will be down due to customer mix; baseband revenue will likely also be up.

Finally our Other segment really we would expect it to be up mostly due to DLP revenue that will benefit from increased output from our factory in Miho, Japan, and you might recall, that product line and certainly that factory was impacted by the earthquake and the subsequent shutdown there.

Okay, Tore, thanks for your questions. And let's move to the next caller.

Operator: We'll go next to Chris Danely with JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Okay, thanks, Ron. Could you just maybe comment on TI's internal inventory and what the plans are for utilization rates?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. So from an inventory standpoint I think as you might assume, inventory and inventory days will both move up this quarter as we had planned operationally for a stronger demand environment than what is evident to us today. So that being said, we had already reduced production starts even coming out of second quarter although there'll be some lag time before that action would impact the inventory level. And I said even coming out of second quarter, you'll recall that in second quarter, we said during the month of June is really when it started to become evident to us that we were seeing below seasonal forecasts out of our computing and various consumer customers, and that led to our guidance for third quarter to be below seasonal. So again, during the month of June we had already started to take action to lower utilization rates, production starts. But again, there's – until that works through the system there won't be an immediate impact on inventory.

I'll also note, the inventory that we have in place for the most part are long-lived catalog products where really there's practically no risk of obsolescence.

Do you have a follow-on, Chris?

<Q – Chris Danely – JPMorgan Securities LLC>: Yeah, just to follow up on your June commentary, can you just talk about the linearity or trend of orders and bookings for this quarter and what it would mean for Q4?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Yeah, I don't know that I want to talk linearity, but I will say that orders are weak and we expect that in total, third quarter orders will be down from the second-quarter level.

Okay, Chris. Thank you; and we'll move to the next caller.

Operator: And we'll go next to Mark Lipacis with Jefferies.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Hello, Mark Lipacis.

<Q – Mark Lipacis – Jefferies & Co., Inc.>: Thanks for taking the question, Ron. In 2008 one of the things that we saw happen was the channel taking inventories below normal levels because of the panic associated with the financial crisis. And my question is, to what extent do you think what you're seeing now from your customers, the lower demand, is that driven by serious concerns about the market and people wanting to de-stock inventories and take them below normal? Or is this do you think a reflection of your customers' just reacting right to the weaker demand environment?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: I believe the latter so we do not believe that what we're encountering would be a typical semiconductor inventory cycle. Macroeconomic weakness is resulting in broadly lower demand from both consumers and enterprises and as our customers then are faced with lower demand for their products, of course, they rationalize their inventory levels, but the real root issue is in demand, not too much inventory.

I think you'll recall, we described in some detail back in July that we believed inventories were in pretty good shape both in our distribution channel as well as the high percentage of customers, OEM customers where we have consignment programs.

So again, we had reasonable visibility into inventory levels and they seemed fine, but of course, as people's forecast – as customers' forecast of their demand goes down, then of course, they would rationalize inventory levels as well.

Do you have a follow-on?

<Q – Mark Lipacis – Jefferies & Co., Inc.>: Yes. Some Analog companies are seeing higher commodity prices impact their gross margins. Is this impacting you guys?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: I would say to some degree. I mean items like gold certainly are a factor in our costs and they've – commodities in general have gone up but I don't know that we will now or certainly in October either, be able to quantify that specifically.

Okay. Thank you, Mark. We'll move to the next caller please.

Operator: And we'll go next to Jim Covello with Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Ron, what do you get from the sense of your lead times versus your competitor lead times? The reason I ask is I'm trying to get a sense of how much of the incremental revenue weakness you're talking about today is a function of the fact that if your lead times are a little longer than some others, maybe this is just kind of catch-up from what others are seeing or if this is just an incremental leg down for everybody? Thank you.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Jim, I don't know that we can answer that. I think our lead times we would characterize are at normal levels. And I would say that also includes Miho-sourced products where you might recall we described in July that lead times had been extended for those products that were manufactured there given the supply constraints. But we've pretty much resolved those and have lead times back to normal levels. So I don't know, are we leading or lagging in terms of time versus what you've seen from others, but we'll let you make that assessment.

Do you have a follow on, Jim?

<Q – James Covello – Goldman Sachs & Co.>: Nope. That's good. Thank you so much.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. Thank you. And next caller, please.

Operator: And we'll go next to Ross Seymore with Deutsche Bank.

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: Hey, Ron. Just wanted to think about the utilization you said you were bringing down to try to control inventory. How does that flow through to the gross margin line? Do you period expense that or does it have to work its way through so the gross margin impact is actually delayed by a quarter or so?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: No. The gross margin impact is felt immediately, so we expense essentially any cost impact associated with underutilization we expense in the current period and all of our inventory is valued at standard costs.

Do you have a follow on, Ross?

<Q – Ross Seymore – Deutsche Bank Securities, Inc.>: I do. A quick one, just a clarification. When you talked about the Wireless business before being roughly flat, did I hear right that both OMAP and baseband would be up? And if so, does connectivity really have to go down a ton to offset those two rising?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: You heard right that OMAP is up strongly. Baseband we expect to be up and connectivity will offset growth in both of those areas. That's correct.

Okay, Ross, thank you. And we'll move to the next caller.

Operator: We'll go next to Romit Shah with Nomura.

<Q – Romit Shah – Nomura Securities International, Inc.>: Hey, Ron. Would you expect gross margins to be up given the reduction in variable expenses?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Romit, we don't specifically break out guidance on – even with our end of the quarter guidance, we don't get it down to the gross margin level, so I won't specifically address that. I'll talk a little bit about maybe some of the puts and takes.

We talked about even last quarter that sequentially we would have less impact from the costs associated with the shutdown and the various operational disruptions we had in Japan. That would be a positive factor relative to last quarter. Certainly, utilization weighs on gross margin. Although, I would say to a lesser degree today than if you go back a number of years ago just because Analog and Embedded Processing tend to be less capital-intensive and relative to revenue, those fixed costs would tend to be lower as a percentage. And then some of the positive offsets, of course, tax won't have any impact on cost of goods, although, some of the variable compensation pieces would flow through cost of goods as well.

Do you have a follow-on, Romit?

<Q – Romit Shah – Nomura Securities International, Inc.>: Yeah, Ron. I understand that the deal hasn't closed yet, but previously you talked about \$100 million in synergies from the National acquisition. Is there any change there just given the overall environment?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: No, not at all. Maybe I can provide a brief update in terms of where we are with National and the closing. And it really is unchanged from what we had talked about previously though. I think we had previously said we had cleared all the anti-trust reviews. There were something like 12 to 15 various reviews that we went through around the world. All of those are clear with the exception of China, which remains underway.

We have – National has their shareholder approval, of course. That occurred on I believe it was June 21st and we have all of our funding in place. So again, the only thing we're waiting on is the clearance through China. We've encountered no specific obstacles; it's just taking longer there as we had initially expected. As soon as we get the China approval, you'll see us issue a public statement and then we would expect to close the transaction within a few days of that notice.

With respect to synergies, this remains about accelerating revenue growth at National. You know as well as we do, they have not grown consistent with the analog market overall. We believe we know how to turn that around and get their growth in analog very consistent with what you've seen from TI, which is a very significant out-performance relative to the market.

So revenue synergy is the basis for the acquisition and for the returns that we believe we can drive on that acquisition. From a cost standpoint, we continue to expect that we will be able to achieve about \$100 million of cost synergy and have that annual run rate achieved about 12 months after the close of the acquisition.

Okay. Hopefully that helps. And, Romit, thanks for your questions. We'll move to the next caller.

Operator: We'll go next to Vivek Arya with Bank of America Merrill Lynch.

<Q – Vivek Arya – Bank of America Merrill Lynch>: Thanks for taking my question. Ron, what is your sense of the industry broadly? Is this downturn looking like a one-quarter issue? Or do you think it could persist in the fourth quarter also? I understand visibility is sort of limited right now.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: That's correct. So I guess what I would say is since this downturn is macro driven, we really have no special insight into how long it will take. By contrast, in an inventory-driven correction, we can make some assumptions about how much excess inventory exists and the burn rate of that inventory to then estimate what might be the duration of the correction.

In this case, all I can really say is we're confident we'll return to growth whenever consumer and enterprise spending starts to increase again, and we'll let you make the estimates on when that might be.

Do you have a follow-on?

<Q – Vivek Arya – Bank of America Merrill Lynch>: Yeah, just one other one. I'm curious why connectivity would be down, but OMAP and baseband up in Q3. Do they generally track each other? Or is there some other competitive issue at play here?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Not a competitive issue, it's simply a question of customer mix. We sell – there's some overlap in our OMAP and our connectivity customer bases, but not complete and I would just describe that some of our biggest connectivity customers have not been performing as well in their markets recently and you're seeing that in our connectivity revenue. But again I would describe it as much more a customer mix consideration than any kind of a competitive consideration.

Okay. Thanks for your question. Let's move to the next caller.

Operator: We'll go next to C.J. Muse with Barclays Capital.

<Q – C. J. Muse – Barclays Capital, Inc.>: Good afternoon. Thank you for taking my question, Ron. I guess first question in terms of end market, I was hoping you could provide a little granularity there of the puts and takes that you're seeing I guess in context of consumer and computing as being highlighted, the areas were bleakest in July. I'm curious what you're seeing as of today.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. So you're right, in July we really identified consumer and computing as areas where we expected below-seasonal results in the current quarter. What's different today is basically that today we see broad-based weakness. It's across more customers and markets. For example, in July we described that the industrial market was still stable for us. Today, it's weakening. So in general, I would describe end market trends as all broadly weaker really without any major exceptions.

Do you have a follow-on, C.J.?

<Q – C. J. Muse – Barclays Capital, Inc.>: I do. Thank you, yes. Given the poor visibility you have today, the uncertainty to the timing of a recovery, given how you stated it's macro-driven, curious what your plans are today? You've got inventory growing Q-on-Q and I would love to hear your thoughts on your plans for utilization and how we should think about the impact there to gross margins in the next quarter or two.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. C.J., I'm probably not going to give you a completely satisfying answer other than saying what I said before, which is we have pulled back on production starts. We began that process in June. Utilization we would expect to be lower this quarter than second quarter as a result of that. Utilization is one of many factors on gross margin. As I said previously, we also have some puts as well as takes such as lower Japan-related costs. But I'll probably just leave it there.

All right, C.J. Thank you. And we'll move to the next caller.

Operator: We'll go next to Srinji Pajjuri with CLSA Securities.

<Q – Srinji Pajjuri – Credit Agricole Securities (USA), Inc.>: Thank you. Ron, on your balance sheet inventories I guess they were 93 days coming into the quarter and historically they were as low as 63 days. I'm just wondering what's the right way to think about that number going forward?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. Well, short term, as I said, 93 days will go higher. I think over the longer term, there has been, as you've noted, a trend where our inventory level has tended to move up. That's partly the nature of our product mix and as our revenue gets centered up more and more on analog and embedded processing and especially the catalog or standard product pieces of those product lines, as they become a bigger part of our revenue, those tend to be more off-the-shelf type of models certainly versus custom products where we tend not to build until we have a customer commitment in hand.

The good news is those catalog products, as I described before, in many cases will have 10 plus year product lives. So the risk of obsolescence, the risk of that inventory tends to be very low. There is some cost associated with that, but again, the opportunity and the relative profit associated with those catalog products certainly justifies the cost of carrying it.

The other thing that I would mention and you've heard us talk about this for some time, is that inventory has tended to move upstream from distributors and from our OEMs to TI as we've

implemented more customer-specific programs such as consignment. And frankly, yes, there is some cost to TI in terms of carrying that inventory, but there's a huge benefit from the standpoint of that inventory is positioned where it's most flexible and it's also positioned where we have the greatest visibility.

So the risk that you've seen in the past of various players hoarding inventory during times when the markets are hot and then having to deplete that inventory and what that amplifies in terms of the cycles on our business will be improved anyway by us carrying that inventory versus having it downstream from TI. So I'll just leave it with that.

Srini, do you have a follow-on?

<Q – Srini Pajjuri – Credit Agricole Securities (USA), Inc.>: Yes, Ron, on the end market discussion, you said most of the end markets are weak but PC and consumer, they've been weak for a while. I'm just wondering, I mean are they continuing to weaken? Or at this point have they stabilized at a certain level?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: I would say they're weaker than where we were expecting in July, and in July what we were seeing was really not that we had seen those markets weaken or turn down versus we just weren't seeing customers forecast seasonal growth in those markets. So I would say, again it wasn't a turn down, it was just lack of growth. I would say at this point we would describe both of those have weakened.

You might also be just interested in, from a geographical perspective, one thing that's happening there, as we expected from a positive standpoint, is we are seeing some lift out of Japan. So as those various customers get their factories online, we're seeing that post-earthquake recovery happen consistent with our expectations.

Okay, Srini. Thank you. We'll move to the next caller, please. Operator, this will need to be our last set of questions.

Operator: Thank you. We'll go next to Uche Orji with UBS.

<Q – Uche Orji – UBS Securities LLC>: Thank you very much. Ron, real quickly, I just wanted to probe on the OMAP comments you made about it being up strongly. How much of that is seasonality and how much is new design wins and just for us to gauge how sustainable that strength is beyond just this season?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Okay. It is clearly new design wins, so it's not seasonality, it ties very specifically to programs that we've won, we've worked for some time and we have customers now ramping or preparing – ramping programs into production, preparing for their product launch is, I guess, the best way of saying it.

So in general, we're very confident in the strength of our design pipeline for OMAP products and that goes across a broad range of customers in both the tablet and smartphone market. There's still a lot of work for us to do to turn those programs into revenue and we'll let our results there speak for themselves. I'm not going to try to give you a 2012 forecast for OMAP, but I will say that we have a solid ramp of programs. Part of what we're experiencing today and we've got a lot more of that – a lot more of those yet to come.

Did you have a follow on, Uche?

<Q – Uche Orji – UBS Securities LLC>: Yes, I do. The Baseband business, I mean please correct me, did I hear you say it's going to be up?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Baseband we do expect to be up.

<Q – Uche Orji – UBS Securities LLC>: Right.

<A – Ron Slaymaker – Texas Instruments Incorporated.>: Was that a question or...?

<Q – Uche Orji – UBS Securities LLC>: No, no. I just wanted to clarify that before I asked my question. So are we still, is it the plan still to ramp this down to zero or technically wind it down by the end of 2013, which is what you've said in the past? And the reason I asked is that business has been resilient for much longer than one would have expected and should we still be modeling this to technically be gone by the end of 2013?

<A – Ron Slaymaker – Texas Instruments Incorporated.>: That's a great question, Uche, and you're exactly right. We expect that by the end of 2012, that business will be ramped down, that revenue will ramp down such that we really have no revenue to speak of there in 2013.

I think what you've seen is you'll recall the last two quarters we saw very sharp declines in our baseband revenue, our customer there obviously was adjusting both based on just their new run rates, but also probably taking care of some inventory of their products and so you see a little bit of maybe seasonality come back, maybe also a little bit of, just call it a small snap back from that inventory correction that we saw in the second quarter. But it'll probably be a bit lumpy, but the baseband revenue we do expect to decline through the end of next year.

Ron Slaymaker, Vice President-Investor Relations

Okay. Thank you, Uche, for your question. And before we end the call, let me remind you that the replay is available on our website. Thank you, and good evening.

Operator: Thank you, everyone. That does conclude today's conference. We thank you for your participation.

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