

Deckers' UGG Still Popular for Retailers, Shearling Prices Drop

Companies: DECK October 24, 2012

Research Question:

How is the sell-through of Deckers' UGGs this fall, and what shearling prices will DECK see for 2013's footwear production?

Summary of Findings

- ➤ Fall sell-through of Deckers Outdoor Corp.'s <u>UGG</u> brand is meeting or exceeding retailer sources' expectations. All eight store sources said UGG's sales and popularity are equal to or greater than last fall's levels.
- ➤ Shearling suppliers said prices have been 33% to 50% lower year to year despite a recent 15% to 20% price spike related to demand from Chinese manufacturers.
- ➤ Deckers appears to be buying fewer sheepskins this year, but one supplier said the fact that the company is buying any shearling means it has worked through its excess inventory at the manufacturer level. One supplier said overall demand for shearling has declined.
- ➤ UGG inventory was sufficient for all but one retailer source, who already has sold out of women's size 8 in several UGG styles.
- ➤ A Nordstrom floor manager in Massachusetts said sales of UGG Classics have decreased and that the style has peaked in popularity. This source said Deckers is "diversifying" its product line to generate interest in styles other than the Classics.

	UGGs As Popular YY	Shearling Prices YY	Excess UGG Inventory
Retailers	1	N/A	1
Supply Chain	N/A	1	1
Manufacturers	N/A	1	1

Silo Summaries

1) RETAILERS

All eight sources said UGG's popularity has been stable or better year to year. Two sources said warm weather has affected the season's sales so far, but they expect UGG to sell well once the weather cools. Two others said the UGG men's line has experienced better sales momentum. Most sources cited the Classic as their best seller, but one Massachusetts retailer said the style has peaked in popularity and that Deckers is creating new UGG styles to continue to generate interest in the brand. Prices in stores reflect the company-led price cut on UGGs.

2) SUPPLY CHAIN

Both sources said shearling prices have decreased between 33% to 50% year to year. Deckers appears to be buying less shearling year to year, but the fact that its largest manufacturer in China is buying any sheepskin, particularly in the last two to four weeks, indicates last year's leftover stock has been moved. One source said overall shearling demand is down.

3) MANUFACTURERS

Both sources said shearling orders have increased 15% to 20% year to year. Buying activity has risen since September. Shearling prices, according to the smaller manufacturer, are down 10% year to year.

4) ONLINE SURVEY

Blueshift conducted an online survey of 249 women, 39 of whom own UGGs. Only 6.8% of women surveyed believe UGGs are more popular than a year ago. The remaining respondents were split between believing that UGG's popularity has been stable and that it has declined year to year. Also, only 6.8% believe UGGs are more popular among fashion trendsetters than a year ago.

Background

Blueshift Research's Sept. 27 report found that Deckers held excess inventory at the manufacturer level, limiting the company's ability to capitalize on lower shearling prices. Retail sources said estimating fall/winter demand for UGGs would be premature but did add that the brand's popularity was stable or greater year to year. UGG inventory was on par with demand, but three of 10 stores expected to sell out of popular UGG styles later this season. Prices in stores visited by Blueshift did not yet reflect a company-led price cut on Classic UGGs.

Sources in Blueshift's April 19 report voiced concerns about UGG demand, including two manufacturers whose UGG orders for the fall/winter season had fallen as much as 35% year to year. Also, six of 11 store sources said UGG sales had decreased as much as 50% year to year, partly because of an unseasonably warm winter in 2011-2012. Sources said cold weather would be needed this fall/winter to clear out excess inventory.

In our Oct. 6, 2011 report, manufacturer sources in China said UGG orders had fallen as much as 20% but that their own costs had risen 25% to 35% year to year. All three supplier sources said UGG faced margin pressure from rising shearling costs, but these sources were more positive on shearling supply than in our April 14, 2011 report. Retail sources reported no shortage of UGG supply, also a change from our April 2011 report, in which sources had said demand outstripped supply. Through the April report, we were the first to warn of troubles for Deckers, including a shearling shortage resulting from a perfect storm of rising commodity costs, increased demand and Australia's decade-long drought.

CURRENT RESEARCH

In this next study, Blueshift assessed UGG inventory at the retail and manufacturer levels and Deckers' shearling costs for its 2013 footwear production. We employed our pattern mining approach to establish five independent silos comprising 12 primary sources (including six repeat sources) and three secondary sources focused on special-edition UGG boots for the fall, a new UGG boot that one popular review site deemed as on-trend and a must-have, and a Google Trend report following the number of searches on "UGGs":

- 1) Retailers (8)
- Supply chain (2)
- 3) Manufacturers (2)
- 4) Online survey of 242 females, of whom 203 own UGGs
- 5) Secondary sources (3)

Next Steps

Blueshift will follow up with shearling suppliers, manufacturers and retailers on inventory and sell-through levels. We also will monitor shearling prices. Finally, we will assess the popularity of the UGG Classics, which one retail source said had peaked.

Silos

1) RETAILERS

All eight sources said UGG's popularity has been stable or better year to year. Two sources said warm weather has affected the season's sales so far, but they expect UGG to sell well once the weather cools. Two others said the UGG men's line has experienced better sales momentum. Most sources cited the Classic as their best seller, but one Massachusetts retailer said the style has peaked in popularity and that Deckers is creating new UGG styles to continue to generate interest in the brand. Prices in stores reflect the company-led price cut on UGGs.

Assistant store manager for **Journeys**, Pennsylvania

The popularity of UGGs has not subsided, thanks to the brand's quality and classic styling. Back-to-school sales to high school and college-age women were equal to or slightly ahead of last year, and the men's line is beginning to gain traction. Men are not interested in the traditional UGGs boot, but are buying the slip-ons and sneakers. The store is stocked and ready for the colder weather and holiday shopping. Inventory is expected to sell through and be restocked at least once before the holiday season ends.

- "UGGs continues to be a great seller for us with high school and college girls. The men's line is starting to become popular but not the traditional boot—the slip-ons and sneakers."
- "UGGs remains popular because it is a traditional style that is really well made, and now you can change out the bottom liner when it gets old. We have lots of customers coming in for new liners."

Assistant Store Manager, Journeys

Pennsylvania

UGGs remains popular because

it is a traditional style that is

really well made, and now you

can change out the bottom

liner when it gets old. We have

lots of customers coming in for

new liners.

- "Our back-to-school sales were excellent; I would say they were at least equal to last year, maybe a little bit
- "We are fully stocked for cold weather and the holidays. I will sell through this inventory and get at least one other major shipment before the holiday season ends."

Reporter Observations: On a Friday midday, UGGs were displayed on a table near the front door and on a wall rack at the back of the store. Traffic was light; only two customers were in the store, and neither was shopping for UGGs.

Nordstrom shoe associate, Chicago area; repeat source

UGGs remain this store's top-selling boot and are as popular as last year. Inventory is "solid," even with the new styles. The Classic Tall and Short boots remain the best sellers. Sales are stronger year to year because of cooler weather this fall. The men's line continues to gain in popularity. UGG dropped the price for the Classic Tall from \$210 to \$195.

- "UGGs do very well. They are as popular as they have been the last couple of years. They are the top-selling boot brand on our floor."
- "In the last few weeks, more styles of UGGs have come in. Our inventory is solid for now. We are not currently short on any styles or sizes."
- "There are a few new styles of rain boots and casual boots. All the styles sell for the most part but the Classic Tall and Classic Short remain the top sellers. We only carry them in the traditional colors."
- "Back-to-school was good, but sales have picked up more so as the weather has gotten cooler. We have had an unusually cold month, so we are selling lots and lots of boots."
- "Prices of UGGs fluctuate according to what UGG tells us to price them at. The Tall Classic was \$209.95 earlier this year, and we got an email telling us to drop them down to \$194.95."
- "The men's line continues to grow. Their slippers are extremely popular."
- "We just had our final clearance from summer, and there were some UGGs on clearance. Their shoes and more casual styles like the leather boots sometimes go on sale, but the top sellers like Short and Tall Classic never go on sale."

Reporter Observations: Since Blueshift's September visit, the store has increased its UGG selection by 15% to 20%. New styles include rain boots, casual leather shoes and boots, a few new styles and colors of slippers, and a white rhinestonebutton short boot. A table of the top 15 to 20 UGG styles was located across from the department and away from the large UGG display area. The department also had UGG accessories, such as earmuffs and hats, on display near the UGG tables and shelves. A few women ages 35 to 55 browsed the UGGs but did not make purchases. Ten to 12 associates working in the shoe department, for which traffic was average because of rainy weather.

Sales associate for The Walking Company, Massachusetts

This small store has had no trouble getting UGG inventory, but the source views the brand as a gift item and said its sales typically do not sell until around Black Friday. UGGs are the store's best-selling brand and are featured prominently.

- "Sales don't really take off for UGGs till Black Friday. Then all of this will be gone."
- "They're a big gift item."
- "[UGG is] one of our more popular brands. See? They're the ones we put in the window."



- "We get all the inventory we want, and we roll it over pretty quickly."
- "If you go over to the college, you'll see them on [all] the girls."

Reporter Observations: On a Monday evening, this store had a large poster in both of its windows picturing a young woman in dark plum Classic boots and stating "New Styles! New Arrivals! New Colors!" Women's styles were on a standalone display, and included the Classic Short Sparkle boots and Cardy styles. Men's UGGs were few in number and were mixed in among other brands; styles included the Ascot slipper styles and Classic Short Bomber.

Assistant Bloomingdale's shoe manager, Chicago; repeat source

UGGs are selling quickly, and the store already is running low on size 8 in several styles. Younger shoppers consider the brand to be a status symbol. The price of the Classic Tall boot recently was decreased by \$15.

- "We are selling through our run of UGGs pretty quickly. We hope to get more in before the holidays as they are going fast."
- "We are already short on size 8s in several styles, especially the Grey Classic short."
- "UGGs are still very popular especially with the kids. They consider it a status symbol to wear them."
- "We just got back in the rain boot style a few weeks ago. That has not really sold, and I don't remember it really selling last year either. Customers go with the Classic styles the most, by far."
- "The Tall Classic was a little higher in price last month. It is now \$195, and it was \$210."

Reporter Observations: Since Blueshift's September visit, the store has added tall UGG rain boots and a Classic Short boot in dark pink. UGGs still were located in the back of the somewhat small department. The store and the shoe department had slow traffic. We witnessed no purchases of any brand, but one associate was selling a pair of Stuart Weitzman (The Jones Group Inc./JNY) boots over the phone. Two of the four associates were assisting customers. The other two associates were preparing clearance items, and some of the shelves were stripped of all product.

Nordstrom floor manager, Massachusetts

Classic boots for women have peaked in popularity, and this source expects newer styles to take off. An unseasonably warm fall may have dented sales, but UGG demand should pick up as the weather cools. The store has had no difficulty in getting UGG inventory. Men's UGGs are composed mostly of slippers and are more spotty in sales than women's UGGs.

- "We're selling a little more than we did last year—the newer styles. But it hasn't been very cold yet. They pick up when it gets colder and definitely around Thanksgiving."
- "There's a drop-off in the Classic women's styles."
- "Those styles have hit a peak, and I don't think they can top it."
- "It's not that those aren't selling-they are-but UGG is definitely diversifying and there's interest in other styles, like the women's short sparkle [boots] and the riding-style boots."
- "We have no trouble getting [inventory]."
- "We sell the men's just here and there. The women's styles sell more regularly."

Reporter Observations: On a Monday evening we noted three UGG displays, one each in the children's, women's and men's departments. The children's display was fairly large and included other brands. The women's display also was fairly

There's a drop-off in the Classic women's styles. ... Those styles have hit a peak, and I don't think they can top it. ... UGG is definitely diversifying there's interest in other styles.

We are already short on size 8s

in several styles, especially the

Assistant Manager, Bloomingdale's

Chicago, IL

Grey Classic short.

Floor Manager, Nordstrom Massachusetts

large and held many UGG styles. The men's section was limited to the Tasman, the Ascot and a hiking-style boot.

Lord & Taylor sales associate, Upstate New York

UGGs sales and popularity remain equal to last year. Sales have started to pick up with the arrival of cooler weather.

- "UGGs are still really popular."
- "It just started getting cooler here a few weeks ago, and we are starting to see increased sales of UGGs. We are seeing at least as strong of sales as last year."
- "The Classic style is still the most popular."



Sales associate at an independent shoe store, Northern California

UGGs are as popular as they were last year. This store's UGG sales are seasonal and have increased year to year thanks to greater inventory. Classic UGGs are the best sellers while the new styles are disappointing. UGG customers primarily are younger girls.

- "UGGs are just as popular as they were last October."
- "We only carry them for three months of the year because they are so seasonal: October, November, December."
- "Things are better this year compared to last because we got our orders in earlier this year and carry more sizes and styles. We have more shoes to sell now. Last year we ordered too late, and they couldn't supply us with enough of the sizes so we ran out quickly."
- "Inventory is fine."
- "We get mostly younger people dragging their parents in here to buy them UGGs. No one over 35."
- "The Classic UGGs sell best. The new styles with the button or the fur sticking out the top are not good sellers. People just want the classics."

Neiman Marcus shoe department associate, Southern California; repeat source

This source was not aware in September of Deckers' pending price cuts for Classic UGGs and, more recently, had not noticed the store's recent pricing change. The source again stated that UGGs do not begin to sell until the weather cools.

- "We get UGGs every year. They sell; they always do."
- "You have to wait until it's colder. A few bad days and it'll change. Same with rain boots."
- "The popular brands right now are Christian Louboutin [Ltd.] and Chanel [S.A.]. Manolo Blahnik [USA Ltd. has] slowed."

Reporter Observations: At 12:30 p.m. on a Friday, traffic in the women's shoe department initially was slow but then picked up during our 20-minute visit. As in September, UGG boots were in a quiet corner and attracted no customers. Instead, women were looking at more eccentric shoes. UGG Classic prices had been decreased since our last visit. Most customers still were wearing sandals, flip-flops and peep-toe shoes. One woman and her daughter looked at a table of Frye (Li & Fung Ltd./HKG:0494) boots but did not make any shoe purchases.

2) SUPPLY CHAIN

Both sources said shearling prices have decreased between 33% to 50% year to year. Deckers appears to be buying less shearling year to year, but the fact that its largest manufacturer in China is buying any sheepskin, particularly in the last two to four weeks, indicates last year's leftover stock has been moved. One source said overall shearling demand is down.

Lead executive for an Australian shearling supplier; repeat source

Deckers appears to be buying fewer sheepskins than last year. Deckers [manufacturer Henan Prosper has been actively buying Australian skins, but its purchasing levels were not unusual for the seasonal peak. Prices for footwear-quality raw material have been \$20 (U.S.) a skin, compared with \$35 to \$40 last year. Still, the source doubts the savings will compensate for other company losses or add much to Deckers' bottom line next

year. The source also doubts Deckers has locked in shearling prices for 2013, partly because long-term negotiated prices are not the norm.

"Skins are currently going for \$20. Last year at this time they were in the mid-\$30s, and during that period they peaked at \$40. You can make 1.25 boots per skin, but boot designs are getting smaller so maybe you could get 1.5 pairs of boots per skin. If you can get 1.5 boots per skin, we are talking about a \$10 a pair differential, which has limited impact. Even if you take the difference between \$20 and \$40 and divide it by 1.5 skins, you may get a little higher margin. But Deckers' drop in margin is greater than the change in the price of the raw material."

The fact that the tanneries are buying means they have worked off the stocks of these other products. In 2013, I think we will see a big shift for Deckers back to their core products.

> Lead Executive, Shearling Supplier Australia



- "My demand is much higher than last year. We are up 50% a unit on a turnover basis. On a unit basis, we have more customers and bigger orders from the same customers. It is all because of the lower price. We are coming out of a season when skins were selling for \$40, and now they are \$20 per skin. Last year, we had 600,000 skins [per year] for the market. This year, we have 1.1 million skins for market [this year]. In the 1990s we did two million skins a year so we are still way down, but we have seen improvements from the lows of last year."
- "There has been some footwear activity. Deckers is definitely placing orders, but that began some months ago. Last year, they were buying skins all year long. The skins we have now are more suited for the traditional suede UGG boot. Last year, they bought anything they could and then covered it with knit or fabric. That's the merchandise that was still in stock. The fact that the tanneries are buying means they have worked off the stocks of these other products. In 2013, I think we will see a big shift for Deckers back to their core products."
- "It appears Deckers has agreed to buy 1 million square feet of skins. If you do the math, that's roughly 120,000 boots that would sell for \$200 a pair. That's not a lot of peanuts for a company like Deckers."
- "Deckers is certainly getting no benefit in their 2012 sales. What they are buying now at the close of 2012 will benefit 2013 sales. And that will come from the current price of \$20 per skin. ... Per boot, that's a benefit of about \$10 a pair."
- "What people are buying now is for [2013], and that's why I can't see how Decker will hit its [financial] mark for next year. We already know they had 400 million units of stocks on the books; those are stocks of finished product [boots]. I can't say they will have enough sales to hit their numbers for 2013 based on current prices."
- "Deckers would not lock in prices for next year, but they may have negotiated some contracts. I know Deckers attended the All China Leather Exhibition in Shanghai in September, and both Stella International [Holdings Ltd./HKG:1836] and Deckers were there negotiating with suppliers. Stella is responsible for the price of the skins, and Deckers is responsible for the price of the boots. I'm sure they locked in some [individual] contract prices, but locking in for the entire year is not the way it works."
- "It would not appear that Decker is buying as much this year as last year. We can tell that by looking at who is buying raw material. We know who is buying, and we know the different suppliers here. They have different factories and tanners that they use, and we can tell if the product ends up with a particular tanner. There also is very little

That Prosper is buying more now reads more to the fact [Deckers has] cleared out old stocks, resolved whatever [legal] differences they had with Prosper and I believe are committing for next year. They are buying for 2013, and they would not buy if they had leftover stocks sitting Prosper.

Lead Executive, Shearling Supplier

- material for footwear. There is a correlation with what Decker buys now and Prosper's activity. But that Prosper is buying more now reads more to the fact [Deckers has] cleared out old stocks, resolved whatever [legal] differences they had with Prosper and I believe are committing for next year. They are buying for 2013, and they would not buy if they had leftover stocks sitting at Prosper."
- "Prosper's buying pattern is unchanged since the middle of September, which is six weeks."
- "Prosper is definitely buying more, but it would be an exaggeration to say that they are out there buying like crazy. That would push up the price. While they are talking actively with buyers, they are trying to buy on an even keel. They don't want the price to rise."
- "Fashion doesn't last long. Deckers UGGs may not be finished as a product, but it may be that the days are over when investors see 20% to 30% growth annually. It's just not there. There has been the suggestion that China is a growth market for Deckers, but China is not looking good this year. Deckers will have to focus on its core, and its core is the U.S. How it goes in the U.S. depends on the weather."

Executive with a major Australian sheepskin/lambskin shearling supplier; repeat source

Henan Prosper, Deckers' primary manufacturer and appointed skin buyer, has escalated its buying activity of Australian skins in the past month. Prosper's sudden activity has pushed up the price of skins by 15% to 20% in the past two to four weeks. Still, high-end skin prices are off 33% year to year. The current price is \$20 for top-quality skins, versus \$30 the same week last year. Australian sheep ranchers are having a good year with regard to quantity and quality, but this source's orders are idle and buyers have gone quiet. Overall shearling demand is down, and ranchers have been told that Prosper and other buyers still have existing inventory.

- "The price [of skins] we saw one month ago has gone up by a good 15% in the past month. But prices are off year over year. During the equivalent week last year, the raw material was selling for \$30 a skin. The same material today is selling for [U.S.] \$20 a skin. So skin prices are off a good 33% year over year. ... At this point, we know the first-class raw material price has been creeping up in the last two to four weeks."
- "We have seen an increase in activity from Henan Prosper [buying in Australia] in the past two to four weeks. It's hard to know what this means for the 2013 price outlook. It depends on what price Deckers locked in. We know that Prosper does almost all of the [skin buying] for Deckers, along with manufacturing, and when their activity increases, as a rule it continues to push the market up."
- "[Prosper] has increased its purchasing levels significantly in the last two to four weeks, and that has pushed up the price in just the last month. Raw material prices have increased by 15% to 20% as a result. There are often fluctuations in the industry, and they can be significant and differ month to month. The point is, if I want to buy skins this week, I will pay more. When things jump like this, I have other buyers who say they will wait for the market to come down."
- "If Deckers is buying substantial quantities, then they should be able to negotiate significantly lower prices than last year. We cannot be sure of finished skin inventory levels held by Deckers [buyers] although the general buzz is that the two major suppliers to Deckers ... hold significant stock."

The price [of skins] we saw one month ago has gone up by a good 15% in the past month. But prices are off... a good 33% year over year.

> Executive, Sheepskin/Lambskin Shearling Supplier Australia

- "Most of our other buyers have gone quiet because they don't like the sudden price rise we're seeing. I know the last time we talked I said there was good price stability in the raw material prices. But with Henan Prosper's recent buys, it has kicked up the price again. ... Prosper's purchasing activity has made the price jump so quickly and so much that other buyers haven't really reacted to it yet."
- "We have had zero orders for raw skins graded for footwear since the start of our spring lamb season, which began in August. Raw skins graded for footwear have had little or no [overall] demand since our previous spring lamb season."

3) UGG MANUFACTURERS

Both sources said shearling orders have increased 15% to 20% year to year. Buying activity has risen since September. Shearling prices, according to the smaller manufacturer, are down 10% year to year.

General manager of a shoe factory that produces UGGs; repeat source

Sheepskin prices are 10% lower than last year, but logistical and storage costs have risen. Pre-September shearling purchases were 15% more than last year, but October orders were lower.

- "The price of 2013 sheepskin may decrease a little or keep stable."
- "Prices of materials for the fall/winter production 2013 are 5% lower than last year. The main material prices, shearling, decreased by nearly 10%, but some other material prices increase for 5% to 10%."
- "Shearling prices for Deckers in 2013 ... are lower [by] nearly 10%. However, it doesn't mean that the cost of shearling will be lower than 2012 because the logistics and storage costs have been rising."
- "The foreign buyers ordered before September, and it increased from last year by 15%. In October the orders are lower than last year, but they have ordered enough for this year's sales."

Assistant at a large UGG manufacturer

Shearling orders have risen 20% year to year. This source was unable to comment on shearling prices.

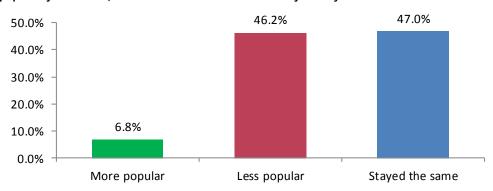
- "Order volume has increased 20% from last year."
- "The raw material purchase department staff has been busy on business travel since September. They are busy ordering sheepskins and other raw materials."



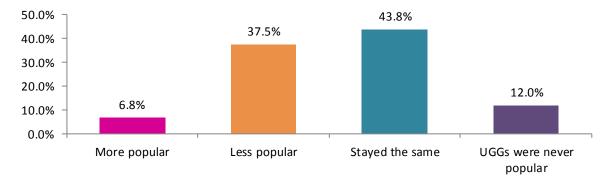
4) ONLINE SURVEY

Blueshift conducted an online survey of 249 women, 39 of whom own UGGs. Only 6.8% of women surveyed believe UGGs are more popular than a year ago. The remaining respondents were split between believing that UGG's popularity has been stable and that it has declined year to year. Also, only 6.8% believe UGGs are more popular among fashion trendsetters than a year ago.

Has UGGs' popularity increased, decreased or remained the same year to year?



Has UGGs' popularity among fashion trendsetters increased, decreased or remained the same year to year?



Secondary Sources

These three secondary sources provided details into a special-edition line of UGG boots for the fall as well as a new UGG boot that a popular fashion review site deemed as on-trend and a must-have item for the season. Also, a Google Trends chart indicated that the number of searches for "UGG" is in line with last fall.

Oct. 5 PopSugar blog post

This popular fashion review site described the new Classic Short Sparkler boots as on-trend and a must-have item for the fall.

- "Consider the always on-trend UGG® Boots, which are as popular on the red carpet and the runway as they are on the street. Look for a pair that is equal parts timeless and exquisite, like the new Classic Short Sparkles."
- "And while metallic just so happens to be of-the-moment this season, the fashionable truth remains that a little sparkle is always spectacular-making this a stylish staple for years to come."

While metallic just so happens of-the-moment this season, the fashionable truth remains that a little sparkle is spectacular-making this a stylish staple for years to come.

PopSugar Blog Post



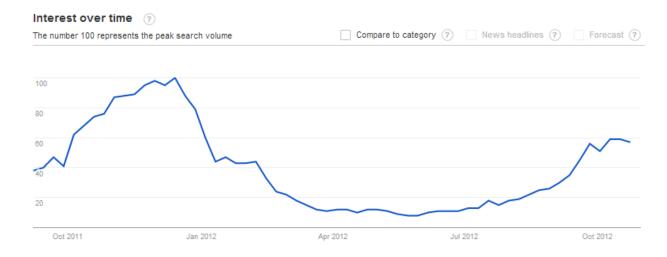
Sep. 26 Fanlala blog post

UGGs recently teamed with popular boy-band One Direction to produce a new line of boots, which has resulted in more than 17,000 Facebook "likes" and expectations of greater winter sales for the brand.

"UGGs, the big name shoe company, has teamed up with our favorite guys to bring you a brand new line of footwear. 1D fans will be excited to see UGGs boots on store shelves soon, and it's just in time for the cold winter months coming up."

Oct. 21 Google Trends "UGG" interest

The number of searches for "UGG" is similar to levels found last fall.



Additional research by Carolyn Marshall, Silvia Yu, Tina Strasser, Cindy Elsberry, Dann Maurno, Reverdy Johnson, Ryan Duck, David Franklin and Mason Rudy

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in any of the aforementioned companies.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

© 2012 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift's written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.