
— PARTICIPANTS**Corporate Participants**

Craig A. Creaturo – CFO, Treasurer & Head-Investor Relations
Francis J. Kramer – President, Chief Executive Officer & Director

Other Participants

Avinash Kant – Analyst, D. A. Davidson & Co.
D. Mark Douglass – Analyst, Longbow Research LLC
Jim Ricchiuti – Analyst, Needham & Co. LLC
Dave Kang – Analyst, B. Riley & Co.
Jiwon Lee – Analyst, Sidoti & Co. LLC
Greg W. Halter – Analyst, Great Lakes Review

— MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen and welcome to the II-VI Incorporated Fiscal Year 2012 Second Quarter Earnings Call. At this time all participants are in a listen only mode. Later we will conduct a question-and-answer session with instructions following at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

Now, I will turn the conference over to Craig Creaturo, Chief Financial Officer and Treasurer. Please begin.

Craig A. Creaturo, CFO, Treasurer & Head-Investor Relations

Thank you, Tyrone, and good morning everyone. I am Craig Creaturo, Chief Financial Officer and Treasurer of II-VI Incorporated. Thank you for participating in the second quarter fiscal year 2012, II-VI Incorporated investor teleconference.

As a reminder, this teleconference is being recorded on Tuesday, January 24, 2012. The forward-looking statements we may make during this teleconference speak as of today and we do not undertake any obligation to update these statements to reflect events or circumstances occurring after today.

Francis J. Kramer, President, Chief Executive Officer & Director

Thank you, Craig. I am Francis Kramer, President and CEO of II-VI Incorporated. My prepared remarks today will discuss operational results of each of our businesses. As usual, the order of today's remarks will follow the same order as our segment reporting. So, let me begin with the IR Optics.

During the second quarter, our Infrared Optics segment's bookings including HIGHYAG were \$44 million, down 7% compared to the second quarter of fiscal year 2011. The decrease is driven by softness in the low-power market mainly in Asia and the holidays in Europe and the U.S. We also expected to receive a significant military order in the second quarter that was delayed until the third quarter.

In the U.S., new orders from domestic OEMs decreased 10% versus the second quarter of fiscal year 2011. The decrease is due to a decline in low-power OEM orders as a result of weak demand in the consumer electronics and medical manufacturing industries. Orders from our high power OEMs in the U.S. increased 48% versus the second quarter of fiscal year 2011 and 5% quarter-over-quarter.

The North American aftermarket, a good indicator of laser utilization, experienced a 14% increase compared to the second quarter of fiscal year 2011 and a 13% decrease versus the first quarter of FY 2012. We believe that the quarter-over-quarter decrease was related to the holidays and this segment will remain strong for the remainder of fiscal year 2012.

U.S. military orders were flat quarter-over-quarter and declined 53% versus the second quarter of fiscal year 2011. Key program awards expected in this second quarter have been delayed until the third quarter. We expect the second half of FY 2012 to be stronger than the first half, but due to continued reductions in military spending, military bookings for Infrared Optics for fiscal year 2012 are not expected to reach the level experienced in fiscal year 2011.

Zinc selenide and zinc sulfide material orders increased 20% versus the first quarter and 25% versus the second quarter of fiscal year 2011. Our inventory levels have enabled us to offer faster delivery times and capture market share at some accounts.

European bookings for the second quarter were down 25% quarter-over-quarter and down 4% compared to the second quarter of fiscal year 2011. The quarter-over-quarter reduction was primarily due to an OEM blanket order for diamond windows and a large R&D project that were booked in the first quarter.

New machine builds for high power European OEMs have leveled off although demand for spare parts remained strong. Healthy inventory levels of zinc selenide and zinc sulfide materials have enabled us to be more aggressive resulting in a doubling of bookings and material sales in the European market compared to the second quarter of fiscal year 2011.

Japan bookings in the second quarter were 10% lower quarter-over-quarter and 15% lower compared to the same quarter last year. The high-power Japanese laser OEMs are maintaining strong production levels, while low-power market and drilling segments to the semiconductor cyclicalities continue to be slow. We expect these segments to pick up by the fourth quarter of this fiscal year.

China bookings in the second quarter were down 40% quarter-over-quarter and 33% compared to the same quarter last year as the Chinese economy slowed during the second half of calendar year 2011. This impacted our low-power customers in China, and, along with the impact of the flooding in Thailand, accounted for the majority of the bookings shortfall. All indications show a rebound in China in the low-power market following the Chinese New Year.

At HIGHYAG, bookings for the second quarter were up 24% quarter-over-quarter, and up 41% compared to the second quarter of fiscal year 2011. One micron laser cutting sales are starting to show signs of growing faster than the overall market while one micron welding applications continue to grow with the market. We continue to focus on technology in this evolving market. In the cutting market we are strengthening our position with the main players and focusing on beam delivery systems and the cutting heads.

Our strategy for the more mature one micron welding market is to focus on the larger accounts with our custom-remote weld head and beam delivery systems and to service small accounts through catalog products. We are adding manpower and manufacturing capacity to meet this increased demand.

In summary, our IR Optics business segment is well-positioned to meet our customer needs as these markets and product lines recover. U.S. markets are stable, Asia is expected to grow in the next six months and Europe is in the middle of a mild recession. We remain cautious, but somewhat optimistic that we'll see increased business activity in the second half of fiscal year 2012.

Now during the second quarter, our Near-Infrared Optics segment bookings compared to the same quarter last year were down 3% to \$34.9 million and segment revenues were down 5% to \$39.5 million.

The revenues decrease compared to the last fiscal year was due to softening of the VLOC related military shipments. Compared to the first quarter of fiscal year 2012, second quarter bookings were down sequentially by 9% driven by the timing of certain optical communications market-related orders while the revenues were up 4% driven by market share gains in the same optical communications market-related products.

In the Photop portion of our Near-Infrared segment, second quarter revenues were up 13% quarter-over-quarter due to increased demand for optical communications market-related products. Photop gained market share on several new products for optical network, broadband access markets despite the overall worldwide market that appears to be remaining relatively flat. In the FTTH or Fiber-To-The-Home deployment, China remains a strong growth area for passive optical network product demand which Photop's PON filter products have taken a leading market share.

Photop's commercial and consumer optics experienced a slight slowdown due to the macroeconomic conditions globally. During the second quarter, the commercial optics transfer from VLOC to Photop was completed. With well-established manufacturing bases in China and Vietnam and supporting sales and service centers worldwide, Photop is now poised to become a global leader in Near-Infrared optical components and precision optical assemblies.

In addition, Photop is now working on the business development process for pursuit of advanced optics opportunities worldwide as major OEMs in Europe, Japan and the U.S. get to know the capability and quality of Photop's full line of products. Photop is also into the early stages of manufacturing for our Aegis Lightwave and AOFR subsidiaries and to established Optical Channel Monitors or OCMs, coupler, laser combiner sales and marketing by Photop throughout China. Photop is playing a major manufacturing role as part of the efforts to recover from the impacts of the Thailand flooding that affected the Aegis Lightwave and AOFR production at Fabrinet.

In the two years since merging with II-VI, Photop continues to invest in R&D and new product development in both the optic communication markets and the commercial optics products and technology portfolios, including CDC ROADM and 40G and 100G optical network components, broadband access and in laser components for selected projects.

As we have reported previously relative to Aegis, Fabrinet, our contract manufacturer, experienced flooding of their manufacturing facilities at Chakchai at their Chakchai campus in Thailand. Subsequent information released by Fabrinet indicated that they may never again manufacture at Chakchai. Since then we've completed our assessment of the flooding damages and the impact on Aegis's second-quarter and full-year fiscal year 2012 results of operation. And Aegis has been implementing recovery plans to reestablish production capability.

Aegis has seen stabilization in order trends within its optical communications markets, though its growth rate right now is temporarily constrained as we cover manufacturing capability. Aegis has begun production shipments to certain of its customers of some of its products affected by the Fabrinet flooding, and expects to progressively resume shipments on all of its products from reestablished manufacturing lines over the next few months.

Aegis expects demand for its telecom products to gradually increase during the current quarter driven by demand for new and upgraded ROADM systems and other advanced optical communication transmission systems, which use Aegis products. Aegis continues to invest in research and development activities to expand the pipeline of new products, including high-performance optical channel monitors for ROADM market and high-power fiber combiners for use in high-power fiber laser applications.

Furthermore, we expect to be successful in gaining further design wins from its line of fiber laser combiner products that they will be potentially synergistic with a broader fiber laser optics portfolio. Based on our customer interactions, we believe that most of them have worked through their excess inventory that had accumulated in the middle of calendar year 2011.

I would like to recognize our Aegis and AOFR teams for their dedication to our customers along with the Photop team and Fabrinet who've already begun to pass major milestones on an aggressive plan to increase and restore our capacity.

Within the Near-Infrared Optics segment, there are a number of technology and market synergies between Aegis and Photop that have already been identified, and will be the subject of increased focus once we have established our manufacturing output. These synergies are a key focus of the long-range actions to grow the business of the Near-IR segment and the Aegis and Photop teams to continue their long-range planning process, while VLOC and Photop transitions should allow us to improve our overall efficiency and speed to market in both the commercial and advanced optic segments as well as in the Near-IR products and assemblies markets.

As mentioned earlier, during the second quarter, VLOC and the Photop successfully completed the transition of the VLOC commercial optics business to Photop. Effective January 1, VLOC will concentrate its resources on serving the markets dedicated to defense, security and aerospace. This redefined direction should allow VLOC to grow in this very challenging market segment by focusing on the manufacturing, products and customer relationships necessary to gain share and expand into applications with a unique and singular focus on the military market.

At VLOC, second quarter bookings increased by 85% over last year's second quarter and 35% over the first quarter of fiscal year 2012. This growth is driven by the timing of a large order for UV filter assemblies, which go into systems used to detect the threat of shoulder-fired missiles. During the quarter, VLOC received a development order for a complex optical assembly for a bore-sighting system used on an unmanned aerial vehicle or UAV.

VLOC also qualified products on two new components for next-generation target designator and range-finder systems. This is the result of adding capabilities at VLOC to manufacture more complex products needed to achieve very demanding tolerances for some next-generation military programs as well as expand further into assemblies and subassemblies. VLOC continues to support its key military customers on next generation systems by growing materials, designing and manufacturing prototype components and building subassemblies, which go into a variety of photonics-based defense applications.

In the Military & Materials business segment, our second quarter bookings were off by 10% as compared to a year-ago, driven primarily by weakness in the tellurium market. Sequentially, bookings improved by 34% as a result of strong orders in our Military business for sapphire products and a several million order for a new product offered by PRM. Revenue growth for the quarter improved from last year by 22% supported by both businesses. Sequentially, revenue was flat with improvement in the Military business offset by a decline in the Materials business.

Now at EEO, we continue to see some weakness in orders as a result of a slowdown in the defense market. Orders for the quarter were below expectations primarily due to delays in order placement by our customers. An exception is our sapphire business that continues to be strong and

actually exceeded bookings expectations. In spite of the slowdown, very few orders have been lost to competitors. Most of the delayed orders are expected over the next three to four months.

The accumulated order weakness has reduced fiscal year 2012 revenue projections by approximately 5%, but, cost-cutting efforts have been effective and profits are expected in line with previous forecast. Reduced lead times and aggressive sales efforts have been effective at generating a significant number of new customers to fill the gaps from delayed orders. This activity and interest in EEO's products is also a good sign for future growth. In addition, our efforts to improve product offerings have been effective and we expect to announce four new products and capabilities at the Photonics West show this week.

At Max Levy, which we call MLA, second quarter revenues increased 84% over the prior quarter for the majority of the billings to the defense sector. Increased demand for patterned films for advanced aircraft and patterned coatings for high-speed missile programs represented the majority of the increase. In addition, MLA made significant progress expanding production operations to support increased demand for grids on optical windows resulting in improved production yields and reduced cycle time. Additional equipment will be integrated in the second half of the fiscal year to support development and production of several new grid programs over the next year.

While MLA revenues increased substantially in the second quarter, a development contract for patterned coatings for the long range anti-ship missile was placed on hold. This program is likely to be cancelled due to the funding limitations and will reduce revenues in the second half of fiscal year 2012. In spite of this unexpected cancellation, the long-term outlook for durable patterned coatings to support high speed missile applications remains positive with several other deployment programs in progress.

At PRM, bookings were up 12% from the previous quarter, but down 32% year-over-year. Both selenium and tellurium demand was lower than expected in the quarter and the tellurium index price decreased 29% from \$310 per kilogram to \$220 per kilogram. The current price for tellurium is \$215 per kilogram. The decrease in the tellurium index price is a result of lower demand caused by the restructuring and de-stocking of metal – of minor metal inventories by customers in the photovoltaic industry and weakness in the Chinese metallurgical applications.

As mentioned in our press release on December 19, the decline in the tellurium index price resulted in after-tax write down of PRM's tellurium inventory, which negatively affected PRM's earnings for the quarter.

The index price of selenium increased 7% during the quarter from \$56 per pound to a current level of \$60 per pound. Although demand for selenium in the photovoltaic applications decreased due to the market changes, stable demand for selenium in the Chinese market combined with continued supply tightness for selenium raw materials kept the index price relatively unchanged during the second quarter.

At PRM, index pricing is broadly used as the reference point for both purchase and sales transactions. For our purchases, suppliers offer us refinery byproducts, which have varying concentrations of contained tellurium at prices that are usually at a discount to the index price. For sales, customers buy high purity tellurium usually at a premium to the index price. We do not buy raw materials nor sell high purity tellurium at fixed prices. Instead these prices are based on the index price at the time the raw material is received or the finished high purity tellurium is shipped.

We remain confident in strong long term demand for selenium and tellurium in photovoltaics, infrared optics and thermal electric devices. However, the current market softness in tellurium is expected to continue for the next four to six months. While the global photovoltaic industry restructures demand for selenium is expected to slightly improve from its seasonal low over the next three months and indexed prices for selenium should remain stable over that same time period.

Recently, PRM entered into a new business to produce a rare earth material for a non-photovoltaic green energy application. This business is covered under a two-year contract and follow-on orders are expected. Sales of this product should start in the fourth quarter.

Now in the Advanced Products Group, our Wide Bandgap unit's product bookings in the second quarter were up 270% quarter-over-quarter and 74% year-over-year. Revenues for the second quarter were down 14% compared to the previous quarter, but up 15% year-over-year. Of this year-over-year increase, DoD program revenue was up 24% and product revenue for commercial shipments of substrates for both power and RF products were up 13%.

Shipments of 100 millimeter diameter semi-insulating substrates for RF applications were up 10% quarter-over-quarter and up over 200% year-over-year as customer demand for both product deliveries and qualification of devices on our substrates for commercial and defense applications increased consistently over the past four quarters.

We are now, however, projecting a softening in the demand during the third quarter both in the wireless infrastructure market and the defense sector caused by the uncertainties in the economy, cutbacks in defense spending and inventory adjustments at some of our customers. We are forecasting a reduction in shipments of 100 millimeter semi-insulating substrates of at least 30% in the third quarter and believe this could continue through the fourth quarter of the fiscal year.

Growth in the power device market continues to be driven by high voltage diodes for power factor correction and industrial motor drives as well as inverters for solar energy and other green energy applications. Our previous forecast for a sharp increase in shipments to two major power device OEMs in the third quarter has been delayed by one or two quarters due to inventory buildup in the channel. We are still forecasting an initial recovery in shipment volumes for 100 millimeter n-type substrates beginning in the fourth quarter of fiscal year 2012 although we anticipate that this softening in both the RF and power markets may likely last at least through the fourth quarter at which time we would expect the demand for our silicon carbide products to return.

In preparation for this, we continue to add infrastructure to accommodate additional crystal growth capacity. Our recently installed crystal growth manufacturing capacity expansion is now 100% occupied with new furnaces completing a sizable increase in crystal growth capacity.

Now, after coming off a record first quarter at Marlow Industries, bookings for the second quarter of fiscal year 2012 were down sequentially 58% from the previous quarter and 42% year-over-year. The bookings decrease was driven primarily by an expected ramping down in demand for gesture recognition due to the consumer electronics cycle, a delay in a major DOE contract next phase release and unexpected demand push-out in the industrial optical communications and power generation markets.

Results for the second quarter fiscal year 2012 were down 39% from the record previous quarter and 19% year-over-year. The revenue reductions were driven primarily by reduced demand by our primary gesture recognition customer, push-outs in the optical communications markets, and a general softening in demand across most markets in the current quarter.

Our Vietnam manufacturing facility successfully shipped 5.5 million gesture recognition products with zero product defects or returns during the first half of fiscal year 2012.

We applied for the Automotive ISO 16949 standards to strengthen our automotive value proposition and support our future customers in this important growth segment, and expect to receive the final certification this month. Also during the quarter, we released our new 200-watt cooling system, which we expect will begin adoption and lead to increased industrial sales in the second half of fiscal year 2012, and we also expect to ramp our new Triton ICE medical cycling product line. We

are beginning to see increased sales activities and market interest in our recently released EverGen energy harvesting products, although we are at very early stages for adoption in this emerging market segment.

In summary, the just-completed quarter was painful due to the number of events that were unusual for us in how we run our business. We believe that we've taken quick actions to respond to these events by reducing cost while balancing the short-term and long-term objectives of our business. We continue to feel we're well-positioned to take advantage of the long-term opportunities and remain confident in our ability to deliver on our growth objectives.

Craig, that concludes my prepared comments.

Craig A. Creaturo, CFO, Treasurer & Head-Investor Relations

Thank you, Fran. Here are the items I would like to highlight before we open up the question-and-answer portion of the call.

As described in today's press release, consolidated bookings for the quarter ended December 31, 2011, were \$116.9 million, while consolidated revenues for the quarter were \$126.8 million.

Total company backlog at December 31, 2011 was \$161 million, which was down about 6% from the September 30, 2011 backlog level. The components of the December 31, 2011 backlog were: Infrared Optics at \$41.5 million, Near-Infrared Optics at \$36.5 million, Military & Materials at \$61.5 million, and Advanced Products Group at \$21.5 million.

We previewed the need to make a lower of cost or market inventory adjustment for our PRM business, part of our Military & Materials segment in our December 19 press release due to declining market prices for the minor metal tellurium.

At that time, we estimated the write-off to range between \$1.8 million and \$2.2 million or \$0.03 earnings per share based on the market price of tellurium of \$225 per kilogram. Tellurium pricing ended the quarter slightly lower at \$220 per kilogram meaning that the December quarter saw a market price decrease in tellurium of 29% similar to the declines experienced in other minor metals.

The actual write-off during the quarter was \$2.2 million or \$0.03 earnings per share and was the component of cost of goods sold. This write-off directly impacted gross margin and had the effect of reducing overall II-VI gross margins for the quarter by 170 basis points and the segment margin of Military & Material by 960 basis points. If Tellurium prices recede from the current level, further inventory adjustments may be required.

The flooding that occurred at the facilities of Aegis' contract manufacturer Fabrinet in Thailand damaged inventory and equipment owned by Aegis. The equipment damaged at Fabrinet's facility in Thailand remained under water for an extended period of time from October 22 until early December.

During the quarter, the company incurred a write-off of \$0.7 million, or \$0.01 earnings per share, for the book value of damaged inventory and equipment and for flood-related recovery expenses. This charge was a component of cost of goods sold. This write-off directly impacted gross margin and had the effect of reducing overall II-VI gross margins for the quarter by 80 basis points, and the segment margin of Near-Infrared Optics by 260 basis points.

The loss in production capacity because of the flooding was significant with Aegis's revenue in the December quarter decreasing by about 40% compared to the September quarter. Fran described

the recovery plans for the Aegis business, and we are confident that the business will begin to see a rebound in the current quarter from the December low point.

The write-offs incurred today do not include any insurance or contractual recoveries which may be available to the company. Because of the long duration of and expensive damage caused by the flooding and the numerous companies that are impacted in Thailand by similar events, we do not have an expectation for rapid insurance claim process. But we are working diligently to fully utilize insurance coverages of Fabrinet, Aegis and AOFR, which is Aegis's Australian subsidiary, which are applicable for this disaster.

During the quarter, there were a few items that impacted other expense income net in a positive manner. These items included: foreign currency gains of \$0.8 million, deferred compensation gains from increases in the investments in that plan excluding II-VI stock of \$0.3 million, equity earnings from minority investments in two Chinese companies of \$0.2 million, and interest income of \$0.2 million.

The effective tax rate for the quarter was 13.7% which reduced the year-to-date rate to 20%. The effective tax rate for the quarter was influenced by two specific items. First, the completion of the IRS audit of fiscal year 2009 during the quarter allowed for the reversal of \$0.7 million of tax reserves related to that period. Second, Photop completed a process to renew their status as a high-tech company in China for income tax purposes. This allows Photop to lower its income tax rate from the normal 25% rate to the preferred rate of 15%. This lower tax rate will be applicable to Photop's calendars years 2011, 2012 and 2013.

During the just-completed quarter, Photop adjusted the income tax rate of 15% for calendar year 2011, which lowered income tax expense by \$2.9 million. Both of these favorable tax items were considered in our guidance for the December 31 quarter.

During the next two quarters, we expect the income tax rate to range between 20% and 24%, which will pull the full-year effective tax rate up to approximately 22%. This full-year tax rate projection is slightly higher than our prior range of 19.1%, due to a higher mix of U.S. sourced earnings, which carries a higher tax rate than our foreign locations.

During the quarter, our cash position increased by over \$30 million. This increase in cash was after debt payments of \$5 million and capital spending of \$10.4 million. The borrowings under our line of credit facility totaled \$17 million as of December 31, 2011 at an interest rate of 0.92%. Our current plan is to continue paying down the line of credit facility during the remainder of fiscal 2012, with targeted pay-downs of approximately \$7.5 million in both the third and fourth quarters.

And this concludes my prepared remarks. Before we begin the question-and-answer session, I would like to mention that these comments and answers to certain questions contain forward-looking statements, which are based on current expectations. Actual results could differ materially. For information about factors that could cause the actual results to differ materially, please refer to the Risk Factors section of our Form 10-K for the fiscal year ended June 30, 2011.

Tyrone, we are now ready to begin the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question is from Avinash Kant of D. A. Davidson & Company. Your line is open.

<Q – Avinash Kant – D. A. Davidson & Co.>: Good morning, Fran and Craig.

<A – Craig Creaturo – II VI, Inc.>: Good morning.

<A – Francis Kramer – II VI, Inc.>: Good morning.

<Q – Avinash Kant – D. A. Davidson & Co.>: A few questions. First, a little bit on the defense side. Could you give us some idea about what was defense as a percentage of total revenues in the quarter and what are the trends you are seeing on this side of the business going forward for the rest of this fiscal year?

<A – Craig Creaturo – II VI, Inc.>: I will answer the first part of it and I'll let Fran talk about the go-forward look, Avinash. The defense content of II-VI is right around that 20% level. Last fiscal year FY 2011 we were just slightly ahead of that around 22%, 23%. And this quarter and really year-to-date it has averaged just a little bit less than that right about 20%. That's mostly driven by our Military Infrared Optics business in California; but, as you know, many of our other businesses also serve the military markets, but when you add them all up, it is roughly around 20%. Fran?

<A – Francis Kramer – II VI, Inc.>: So, I think in my comments I tried to point out that in some cases we're experiencing delays in order intake due to all this uncertainty and maybe that pushes the orders not off the board, but out two three months and that's been happening for the last six months to 12 months. So, this delayed order and accumulation problem, the orders when they do arrive we're not going to be making the shipments that we'd hope to, but it's not down in a big way, but it does bring our numbers down and that's why I think we've taken our number of 5% down at EEO, for example, compared to where we're guiding before. And I think that's the effect at each one of our units that has a component of military and that's IR, VLOC military and our Marlow military work. So, a slowing effect, however, we're still seeing increased numbers second half over first half in the military.

<Q – Avinash Kant – D. A. Davidson & Co.>: Okay. And any color on the order pattern? Up until now during the quarter, your orders have been down little bit lately. What gives you the confidence that the second half is going to be better than the first half?

<A – Francis Kramer – II VI, Inc.>: Some of those comments I made earlier. There were push out of orders from the second quarter into the third quarter and they were bigger ones, ones expected here in the IR and we have a similar situation in most of our other units. And you can see what's going to be coming in the third quarter, and we have that same belief that the third quarter expected orders are going to push to the fourth and there is enough uphill of orders that are really needed for projects that were – that were approved one, two and three years ago and that are still going to happen we believe here this year.

Once the new budget is announced and how that plays on defense spending, whenever that all becomes obvious we're – we have concerns in certain areas and our big concern is right now we are keeping our eyes on certainly the JSF and what happens there but we're well – orders are well in place for the next two three years for us on JSF, but it's the year, say, three, four and five of how we look out in a five-year plan where we want to see how this all plays out. So, upside, sure we'll have to be very modest, but our guidance I think has been always discounted to not promise something we couldn't deliver.

<Q – Avinash Kant – D. A. Davidson & Co.>: All right. But in the overall bookings terms, I would think that given the guidance that you have, you would be expecting a sequential uptick in March quarter bookings compared to December, am I right in my understanding?

<A – Francis Kramer – II VI, Inc.>: Overall, if you are making an overall comment, yes, but on the military that's not such a big climb second half over first half, not bigger at all. But other units, where we are expecting in the IR, we are expecting better second half versus first and certainly in our Near-Infrared and M&M, not through the Military part but more due to the Materials part.

<Q – Avinash Kant – D. A. Davidson & Co.>: And final question, how should we think of the CapEx and the depreciation in fiscal year 2012?

<A – Craig Creaturo – II VI, Inc.>: I think it's – Avinash, the quarter we just completed, we did a just a little bit more than \$10 million in capital spending. In that same quarter, the depreciation and amortization was a little bit less than that, about \$8.5 million. I think for the rest of the year, I think you should be thinking about similar levels of spending \$10 million in each for Q3 and Q4 and right around \$9 million or so maybe \$8.5 million to \$9 million of depreciation and amortization for Q3 and Q4. And so spending is going to outpace the D&A here a little bit, but not by a large margin.

<Q – Avinash Kant – D. A. Davidson & Co.>: Perfect. Thank you.

Operator: Thank you. Our next question is from Mark Douglass of Longbow Research. Your line is open.

<Q – D. Douglass – Longbow Research LLC>: Hi, good morning, gentlemen.

<A – Craig Creaturo – II VI, Inc.>: Good morning, Mark.

<A – Francis Kramer – II VI, Inc.>: Hi, Mark.

<Q – D. Douglass – Longbow Research LLC>: When looking at the guidance for 3Q then for the fiscal year it's implying a big step up, a relatively large step up from third quarter, fourth quarter in sales as well as EPS. Can you go through on what your expectations are for the different businesses and is a lot of that may be driven by Aegis getting to substantially more sales with the ramp up or just give a more insight, on what you are thinking?

<A – Francis Kramer – II VI, Inc.>: I just gave a little bit of a comment on that, Mark, but let me try to repeat it that really on the second half of the year versus the first half, our Infrared segment will be up 6%, 7% one half over the other. We expect, and if it comes a little more towards the fourth quarter versus the third that that could be expected. And the same is true as in our Near-Infrared segment, our Photop telecommunications, optical communications market products are starting to move more and we think that will be strong and it too might be stronger in the fourth quarter versus the third.

So, those will be the two units that will be carrying a lot of the weight to bring this uphill. And at the same time we do expect our Military & Material unit, more due to the Materials unit – we had a lot of price adjustment due to this index price on the tellurium effects on our revenue side here in the second quarter. And we're not expecting that price on tellurium to fall further, but we will continue to ship approximately the same quantity out the door of tellurium and not having pricing decline, just going to make that – that is going to be a little higher on the revenue side for us.

So, our Military & Material unit will be up quite a bit more than 6% and I think our Advanced Products Group, which is the other unit, it's going to be down probably slightly driven mainly by the comments I made on Marlow Industries and on our Wide Bandgap group. They are off a few percent and that's going to be second half over first, it will be off a little there. So, the big two units

IR and Near-IR pulling up, Military & Materials pulling up mainly due to not losing more price on tellurium in the second half versus the first.

<Q – D. Douglass – Longbow Research LLC>: Okay, thank you. And then I guess on the Advanced Products the very sure drop of being the seasonality from the gesture recognition, of course, you see that – I mean, how pervasive is the inventory stacking up in 100 millimeters, a lot of order push-outs. Are you sure that it's not going to get pushed out some more over the next quarters...?

<A – Francis Kramer – II VI, Inc.>: Okay, let me make a few comments on that. In the APG group, our Marlow Industries has been through this and this cycle for gesture recognition has changed a little bit. Last year, it might have been, first quarter and second quarter were strong, third and fourth off. This coming year, we see first quarter and maybe a month in the second quarter good, but it's going to back up to as opposed to July's start it's probably going to be in May. So, we're expecting the fourth quarter of this fiscal year after some let up here in the second and third quarter to have a strong fourth quarter again on gesture recognition.

But just how it over the last two different years, it won't get as much gesture recognition into this fiscal year as we had last year. But first quarter, good this year very good. Not so good second. Not so good third. But we expect it to be back in the fourth when we'll start up for the next Christmas season at that time. So, that's the Marlow spin on it but it means when you look year-over-year at Marlow, probably not much changed from FY 2011 to FY 2012 just the way that split happened.

And to go to our Wide Bandgap group, we'll still – we'll see a nice 7%, 8% year-over-year growth FY 2012 over 2011. We were moving pretty fast and it would have been not just a nice 5% or 7%, we would have been up around 15% to 20% probably if we hadn't to make this – did not have to make this forecast pullback on the third and fourth quarter of this year. And I made the comments, RF and power both affected us.

<Q – D. Douglass – Longbow Research LLC>: Okay. And then final question, the mix in Photop is more lower-margin products, do you expect this to – this mix to persist here for the next couple of quarters?

<A – Francis Kramer – II VI, Inc.>: Could you say that first word? I got garbled. I didn't hear the words you said.

<Q – D. Douglass – Longbow Research LLC>: Certainly. On Photop, you had your mix down to lower-margin products. Are you expecting this to persist over the next couple of quarters? I mean, you gained some share, but with low-margin products...

<A – Francis Kramer – II VI, Inc.>: I think for this fiscal year it might stay at that mix, but we are believing that we're coming on and introducing new slightly higher-margin products that will hit might be late fourth quarter into next year. So, the rest of this year I would guide you to be about in that mix arrangement and the margin arrangement that we've been seeing. We've got...

<Q – D. Douglass – Longbow Research LLC>: Okay. Thank you.

<A – Francis Kramer – II VI, Inc.>: Yes.

Operator: Thank you. Our next question is from Jim Ricchiuti of Needham & Co. Your line is open.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Hi, thank you. Good morning.

<A – Francis Kramer – II VI, Inc.>: Good morning.

<Q – Jim Ricchiuti – Needham & Co. LLC>: It sounds like on the margin, Fran, that you seem a little bit more positive on what you're seeing in the telecom market, is that fair to say or am I perhaps reading more into that thing, say where you were back in late October?

<A – Francis Kramer – II VI, Inc.>: Yes, I think we are. I think we are more positive and just a better second quarter versus the first in our – in all the network optics markets, the telecom markets, the optical communications, whatever title you put on it, we are seeing slightly stronger business there.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And with respect to the Infrared Optics, you gave some commentary, some color around the order activity in China and I think you cited that as one of the main factors in the bookings decline and I am assuming you are referring to specifically that segment. But maybe you could talk a little bit about the way the orders trended during the quarter in that business only because it appears that at least in the industry that things ticked up in December and to what extent do you see that momentum coming out of the Chinese New Year, perhaps continuing?

<A – Craig Creaturo – II VI, Inc.>: Yes, I think our order intake for China looks probably not where we've been all quarter along. We started to feel it a little bit in the last month of September, October, November, December. There might have been a kick up for a few weeks in there at some place, but the month – the quarter in general I would characterize as down and I think I've said 30% or something like that. And then right now though we are expecting just what you've said, if others saw a pickup in the laser industry in December, we expect we'll see that in late January, February, March. So, we're guiding – we're seeing some more interest in like the low power group, a little bit stronger and high power, maybe more than a little stronger and when that dropped off in September, October, it was noticeable and we are starting to think it's going to be coming back here in these next couple of quarters.

<Q – Jim Ricchiuti – Needham & Co. LLC>: And then just looking at Europe for a second and clearly things at least at the macro level have deteriorated. Is there enough strength in – you think in North America perhaps to offset some of that? To what extent does Europe make the outlook a little bit more challenging for you?

<A – Craig Creaturo – II VI, Inc.>: It does, you are right, a little bit and I think I said that they are now in a mild recession and that's about how we've characterized them and the other three parts of the globe are in our minds are going to be the ones pulling uphill, North America, Asia and the rest of the world. Let's call it that because Asia, you can put in Japan and China into that if you want and then the rest of the world and keep Europe on the downside. So, out of four, three out of four are reasonably good condition and I think Europe is going to just sit by the sideline. We have a couple of the accounts I mentioned where we have projects going with. They are good business for us driven by the new project work where they are trying to line up a new product and – but that's not economically driven. It's driven by – it's when they are putting their money in right now, the ones that are seeing a slowdown in business if there is a slight, it would be these major three, four, five OEMs in Europe and we are not counting on them pulling it up. I have to say we are not counting on pulling them down a lot just right down because we see them back in [ph] our pool (47:36) a little bit on orders in the OEM side of things, in the aftermarket side of things, it's amazing there has not been a back off.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And then final question and you have touched on this, so this maybe somewhat repetitive, but if I think about your all-in military business across your units, I think in the past at least in late October you had thought that perhaps that business could be flat for the year, is it now based on what you're seeing with orders slipping a bit, is that – do you see the all-in business for military being down for the year as a whole?

<A – Craig Creaturo – II VI, Inc.>: No, I think Jim, it will be – I think we're just going to see that very slight growth, I think we're still at low single-digit if you look across all of those pieces, I think you are going to see it, I think reference back to some of Fran's comments about kind of the second half and where the bookings have slipped out and where we think they will shape up for the third and fourth quarter we'll see some very light growth there, but again challenging environment. But I think we've got some programs that are faring very well, that are ramping up, others that we're paying attention to, but, overall, I think the general expectation is for just that kind of really slight growth I think will be the best term to use.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay, thank you.

Operator: Thank you. Your next question is from Dave King of B. Riley. Your line is open.

<Q – Dave Kang – B. Riley & Co.>: Good morning. First of all, regarding Photop, did you give out the revenue, Craig?

<A – Craig Creaturo – II VI, Inc.>: Dave, we did not, we got away from reporting that separately. Fran did make the comment that the revenue for Photop was up 13% in the December quarter as compared back to the September quarter, and that did stop really two quarters of down quarters for Photop. Their revenues peaked out back in March of 2011, but June and September quarters were down. Each of those quarters were down roughly about 10% over each – the prior quarter. And then, as Fran mentioned here, we recovered back up about 13% this past quarter.

<Q – Dave Kang – B. Riley & Co.>: Sure. And was there strength across the board or whether – specifically regarding to Fabrinet, I know Photop sells into Fabrinet, were there any kind of pull-in by Fabrinet because of the parts were damaged?

<A – Craig Creaturo – II VI, Inc.>: No, not – part of the pull-up was nothing to help out with the Fabrinet situation. It was more sales of new products that we're introducing out of Photop and they are into what we would call the optical communications market, telecom market, and these products are we think market share gains for us and we continue to think that we have a few more that we'll be able to place out there and are really quite up-beat about – even if the telecom market is flat, we think we can grow.

<Q – Dave Kang – B. Riley & Co.>: And then you made a comment about the inventory level of – can you talk about, I mean, any incremental data points that suggest the inventories are down? I mean, where are we in terms of inventories?

<A – Craig Creaturo – II VI, Inc.>: I can't give you a specifically except – but where it comes from is the handful of people that we're selling to who had gone away from the order placement table over the last six or so months seem to be back. Not – maybe not if the full diet that they had back in June of 2011 or April of 2011, but they are back in and we're seeing some of that going to – we think it will gradually build – when I say it's not back at the full diet they had, but they're coming.

<Q – Dave Kang – B. Riley & Co.>: Okay. And then regarding Aegis, I mean I may have missed it, but when do you expect that to be pre-flood level as far as production is concerned?

<A – Craig Creaturo – II VI, Inc.>: I think it will be late fourth quarter, I think in this quarter right now, we are shipping from Photop couplers and then we will move on to OCMs in the third quarter late maybe and combiners out in the fourth quarter and our production recovery is centered quite a bit on Photop and also we are now producing down at AOFR in Australia and up in New England, Aegis. So, our newly deployed manufacturing will take a while to ramp up gradually, but it's slowly getting back into the pre-flood maybe late fourth quarter.

<Q – Dave Kang – B. Riley & Co.>: Got it, got it. And who is the – can you remind us who the main competitor is, any kind of market share change because of this disruption that you're going through?

<A – Craig Creaturo – II VI, Inc.>: No, I would say we do not have one that would make a major statement on each one of our products whether it's optical channel monitors or whether it's a couplers, combiners, we are quite well targeted. There are others who can sell the products, but most of the leading edge people would come to us, to Aegis.

<Q – Dave Kang – B. Riley & Co.>: I mean in terms of optical channel – monitoring channel monitors, who is the main competitor there?

<A – Craig Creaturo – II VI, Inc.>: There is one name that I have heard as we've talked about it but they are very slight compared to ourselves and I'm sorry I can't recall that.

<Q – Dave Kang – B. Riley & Co.>: Okay.

<A – Craig Creaturo – II VI, Inc.>: But if you call me another time I'll get it to you, it's not significant compared to ourselves.

<Q – Dave Kang – B. Riley & Co.>: Got it. All right, thank you very much.

<A – Craig Creaturo – II VI, Inc.>: You're welcome.

Operator: Thank you. Our next question is from Jiwon Lee of Sidoti & Co. Your line is open.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Thank you, and good morning.

<A – Francis Kramer – II VI, Inc.>: Good morning.

<A – Craig Creaturo – II VI, Inc.>: Good morning, Jiwon.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Couple of just quick questions. Going back to the order level, Fran, and if I understood you correctly, your January order flow has improved sequentially from the December and you are expecting the pipeline for February to be better than the January and that is kind of the logic why you're expecting I guess sequential improvement in the second half especially with the IR and Photop?

<A – Francis Kramer – II VI, Inc.>: Yes, I think you've covered it pretty well. That's exactly how we see it.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. And then is that mainly because your key customers are indicating those shipping preference as such or are there some other logic built into the forecast?

<A – Craig Creaturo – II VI, Inc.>: I think you have got about both of them, some of them prefer- and I said at the holidays this European down in the December affects our order intake and they want us to hold shipments to them until January, February. So, that's part of the pattern. On the other hand, I think most are collecting good orders on the machines right now and when we talk with each one and this is high power CO2, how is your order rate and they report better order incoming rate. So, from that they talk about running their assembly lines at a higher rate. So, it's more just – it's probably both, the power from the holidays and then their order intake rate has been improved.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Okay. If I also heard you correctly, you are anticipating the high power optics business to be overall better than the pickup in the low power business, right?

<A – Craig Creaturo – II VI, Inc.>: I don't know if I said that because the one that's really been down away and if it returns to normal late fourth quarter, the low power will have a bigger improvement, let's say, because high power has not fallen off that much. It had a little weakness here in December, late November and that's what gave us our dip down in the IR segment here in the second quarter. But I think we're going to be back at their running rate for high power in January, right now because January month to date is good, very good. So, I think it's going to be more the low power coming back later and that low power is a little bit more tied to semiconductor cyclical, electronics stuff and I think we've modeled that into our fourth quarter better.

<Q – Jiwon Lee – Sidoti & Co. LLC>: That's very helpful. And my last question, you highlighted some emerging opportunities, if you could talk a little more about these opportunities, which product with the market they address?

<A – Craig Creaturo – II VI, Inc.>: I think the one that Fran was talking about, and I'll let him add on to it is the new opportunity that we have at PRM, and the new product line that's this rare earth material, a new customer for us, a new material that we had not previously worked on, result of quite a bit of R&D that we've expended on our own dollars over the last 12 to 18 months. And we do believe that that has the potential to continue to grow. We've got a nice starting point for that market and I think that's one that's going to continue to grow. Fran, do you want to add?

<A – Francis Kramer – II VI, Inc.>: Just what Craig said that it's really – that would be down at PRM and we expect to be shipping on that product in the fourth quarter. Margin is very, very, good; and that we have a non-disclosure agreement on it, so we really can't talk about who they are. It's in the kind of the green space. It's just right down our alley, and if this goes well and it's a rare earth, maybe we can go on and do another one a few years out another rare earth, and it's a spot where we're happy to be having this opportunity.

<Q – Jiwon Lee – Sidoti & Co. LLC>: Great. That's all from me. Thank you very much.

Operator: Thank you. [Operator Instructions] The next question is from Greg Halter of Great Lakes Review. Your line is open.

<Q – Greg Halter – Great Lakes Review>: Yes. Good morning.

<A – Craig Creaturo – II VI, Inc.>: Good morning.

<A – Francis Kramer – II VI, Inc.>: Hi, Greg.

<Q – Greg Halter – Great Lakes Review>: I wondered if you could comment on the opportunity you may be seeing in the acquisition area, given the strength of your balance sheet.

<A – Craig Creaturo – II VI, Inc.>: We are quite active. Each one of the four segments we report about has some candidates that they are serious about, but not one that I could say is imminent. We've been contacted by the same investment bankers that everybody else in our group has contacted. You know there are a few companies out there that are on the sales block right now, and we've looked at them and we've thought about it. We're not interested to buy something that won't grow. So, sometimes we limit our shopping because we – as soon as we get involved in some, we see that the growth is not going to be there for three, four years and we take ourselves out of that process. But we're looking in all four segments, probably more into the private companies that we could acquire that would add to what we offer and then we're looking for is there another business segment that we could be – could buy that would add to our materials focus or our component focus in a complementary way. And right now, nothing is concrete to report there either,

but we see it as an opportunity right now but I wouldn't want to go out and say – we're not interested to buy business that's not going to grow. That right now just on how these companies that are being marketed are showing up there. They are just at a difficult time where they are being may be marketed because the owner also knows they are not about to grow.

<Q – Greg Halter – Great Lakes Review>: Okay. Back on the rare earth, you mentioned I think it was a two-year contract, is that something that can be extended or renewed beyond that assuming that you perform as expected?

<A – Craig Creaturo – II VI, Inc.>: It is, Greg, that two-year contract is the initial entry into that market with that particular customer and in fact you are correct, that is something that we have the expectations if that application continues to gain traction as it has and if we continue to – if we do a good job in this initial phase we definitely think that's something that continue to past that two-year contract.

<Q – Greg Halter – Great Lakes Review>: Okay. And I know you said the green area but did I hear green energy or just green?

<A – Craig Creaturo – II VI, Inc.>: I think you heard green energy application is the word that we used. We really – it's non-photovoltaic. I think it's also the words we use but it's green energy, broadly.

<Q – Greg Halter – Great Lakes Review>: Okay. And also I was intrigued on the fiber laser optics commentary relative to Aegis and just wondered if you could expand on that a little more, given the fact that some of the CO2 guys have seen some potential competition I guess from fiber laser makers, and just wondered if you have any comments on that.

<A – Francis Kramer – II VI, Inc.>: Okay. So I made some comments about Aegis' AOFR. We have two products. One is a coupler, one is a combiner. One really heads into the telecommunications space, and other combiners, where we combined a number of fiber optics into one, which is a product that's really used within the industrial fiber laser area. So, we have customers, I think I can say, that buy the combiners from us, and then they build them into their fiber laser.

So, it's an existing product that's starting to grow nicely. And when we bought Aegis' AOFR, that foothold in the market came with it, part of the reason to buy. And so we think that has nice upside.

And the second comment I made on fiber laser is our subsidiary HIGHYAG when I told you the data on how well they have been performing here. They are building and selling fiber laser systems for high-power welding and high-power cutting into the marketplace. And they are the beam delivery side, not the laser itself, but delivering the energy to the work pieces is what they specialize, and they're growing very well.

<Q – Greg Halter – Great Lakes Review>: Okay. And one last one for you again back to the balance sheet, which is in good shape, obviously. I wondered if there were any shares repurchased in the quarter and what your thoughts are on that topic as well as other methods of returning cash to the shareholder?

<A – Craig Creaturo – II VI, Inc.>: There were no share repurchases done in the past quarter, Greg. We did not have an open authorization program to do such. That is something that's considered at each of our Board of Directors meetings. And if we decide to put plan in place, historically we've put out a release to let the whole market know that that's something that we are embarking on, but at this stage of the juncture we do not have any open plans that have been authorized by our Board.

<Q – Greg Halter – Great Lakes Review>: Okay. And anything else relative to maybe a dividend or anything in that regard relative to your balance sheet, are you specifically looking at the acquisition opportunities there?

<A – Craig Creaturo – II VI, Inc.>: I think we are more prioritizing that cash for acquisitions. Again, the working capital needs of business are – we have that well covered. The capital spending that we're doing is not at such a high level that would tax our cash generation. I think we have – we are interested in continuing to invest in, as Fran mentioned in some of his comments, for instance, in Photop's R&D activities and helping to reposition our [indiscernible] (01:04:34) business, more military, I think those are some things that we're going to be pointing dollars at for our own businesses, anything prioritizing those over some other means of returning capital back to the investors and, for instance, to your example, Greg, in the form of a dividend. I think we've got some other ways that we think would be better longer term uses of that capital to be deployed.

<Q – Greg Halter – Great Lakes Review>: Okay. Thank you very much.

Operator: Thank you. There are no further questions at this time. I like to turn the call over to management for any closing remarks.

Craig A. Creaturo, CFO, Treasurer & Head-Investor Relations

Thank you, Tyrone. If there are no more questions, I would like to thank everyone for participating today. Our next earnings release for the quarter ending March 31, 2012, is currently scheduled for Tuesday, April 24, 2012 before the market opens with a conference call to follow that same day at 9:00 A.M. Eastern Time. Thank you for participating in today's conference call.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a wonderful day.

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