

Mattersight Corp
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File Number 0-27975

Mattersight Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-4304577
(I.R.S. Employer
Identification No.)

200 S. Wacker Drive

Suite 820

Chicago, Illinois 60606

(Address of Registrant's Principal Executive Offices) (Zip Code)

(877) 235-6925

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock outstanding as of April 29, 2015 was 22,763,269.

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****MATTERSIGHT CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	March 31, 2015	December 31, 2014
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 14,785	\$ 14,238
Receivables (net of allowances of \$22 and \$17, respectively)	4,450	3,460
Prepaid expenses	5,493	4,449
Other current assets	217	236
Total current assets	24,945	22,383
Equipment and leasehold improvements, net	5,148	4,657
Goodwill	972	972
Intangibles, net	3,470	571
Other long-term assets	3,159	3,495
Total assets	\$ 37,694	\$ 32,078
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current Liabilities:		
Short-term debt	\$ 7,000	\$
Accounts payable	1,865	1,183
Accrued compensation and related costs	2,134	2,241
Unearned revenue	6,252	7,859
Capital leases	1,594	1,637
Other current liabilities	3,397	2,549
Total current liabilities	22,242	15,469
Long-term unearned revenue	2,524	2,532
Long-term intangible assets liability	1,792	
Long-term capital leases	1,307	1,176
Other long-term liabilities	363	282
Total liabilities	28,228	19,459
Series B Stock, \$0.01 par value; 5,000,000 shares authorized and designated; 1,648,185 and 1,648,185 shares issued and outstanding at March 31, 2015 and	8,406	8,406

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December 31, 2014, with a liquidation preference of \$10,024 and \$9,877 at March 31, 2015 and December 31, 2014, respectively		
Stockholders' Equity:		
Preferred Stock, \$0.01 par value; 35,000,000 shares authorized; none issued and outstanding		
Common Stock, \$0.01 par value; 50,000,000 shares authorized; 24,555,664 and 24,046,977 shares issued at March 31, 2015 and December 31, 2014, respectively; and 22,741,560 and 22,324,093 outstanding at March 31, 2015 and December 31, 2014, respectively	246	240
Additional paid-in capital	244,568	243,282
Accumulated deficit	(230,221)	(226,404)
Treasury stock, at cost, 1,814,104 and 1,722,884 shares at March 31, 2015 and December 31, 2014, respectively	(9,506)	(8,879)
Accumulated other comprehensive loss	(4,027)	(4,026)
Total stockholders' equity	1,060	4,213
Total liabilities and stockholders' equity	\$ 37,694	\$ 32,078

See accompanying notes to the Condensed Consolidated Financial Statements.

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MATTERSIGHT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Revenue:		
Subscription revenue	\$ 8,332	\$ 6,057
Other revenue	984	956
Total revenue	9,316	7,013
Operating expenses:		
Cost of Subscription revenue	1,868	1,722
Cost of Other revenue	707	511
Total cost of revenue, exclusive of depreciation and amortization shown below:	2,575	2,233
Sales, marketing and development	6,564	5,221
General and administrative	2,882	2,250
Depreciation and amortization	995	743
Total operating expenses	13,016	10,447
Operating loss	(3,700)	(3,434)
Interest and other expense, net	(114)	(150)
Change in fair value of warrant liability	5	(370)
Loss before income taxes	(3,809)	(3,954)
Income tax provision	(8)	(9)
Net loss	(3,817)	(3,963)
Dividends related to Series B Stock	(147)	(147)
Net loss available to Common Stock holders	\$ (3,964)	\$ (4,110)
Per share of Common Stock:		
Basic net loss available to Common Stock holders	\$ (0.18)	\$ (0.22)
Diluted net loss available to Common Stock holders	\$ (0.18)	\$ (0.22)
Shares used to calculate basic net loss per share	21,877	18,503

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Shares used to calculate diluted net loss per share	21,877	18,503
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Stock-based compensation, primarily restricted stock, is included in individual line items above:

Total cost of revenue	\$ 59	\$ 56
Sales, marketing and development	632	590
General and administrative	674	442

See accompanying notes to the Condensed Consolidated Financial Statements.

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MATTERSIGHT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited and in thousands)

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Net loss	\$(3,817)	\$ (3,963)
Other comprehensive loss:		
Effect of currency translation	(1)	5
Comprehensive net loss	\$(3,818)	\$ (3,958)

See accompanying notes to the Condensed Consolidated Financial Statements.

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MATTERSIGHT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	For the Three Months Ended	
	March 31,	March 31,
	2015	2014
Cash Flows from Operating Activities:		
Net loss	\$ (3,817)	\$ (3,963)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	995	743
Stock-based compensation	1,365	1,088
Change in fair value of warrant liability	(5)	370
Changes in assets and liabilities:		
Receivables	(990)	(51)
Prepaid expenses	(1,069)	(664)
Other assets	19	66
Accounts payable	536	55
Accrued compensation and related costs	(107)	(420)
Unearned revenue	(1,615)	(1,481)
Other liabilities	111	62
Total Adjustments	(760)	(232)
Net cash used in operating activities	(4,577)	(4,195)
Cash Flows from Investing Activities:		
Capital expenditures and other	(659)	(23)
Intangible assets	(255)	(136)
Net cash used in investing activities	(914)	(159)
Cash Flows from Financing Activities:		
Proceeds from line of credit	7,000	
Principal payments under capital lease obligations	(437)	(422)
Acquisition of treasury stock	(627)	(549)
Fees from issuance of Common Stock		(2)
Proceeds from stock compensation and employee stock purchase plans, net	110	36
Net cash provided by (used in) financing activities	6,046	(937)
Effect of exchange rate changes on cash and cash equivalents	(8)	

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Increase (decrease) in cash and cash equivalents	547	(5,291)
Cash and cash equivalents, beginning of period	14,238	13,392
Cash and cash equivalents, end of period	\$ 14,785	\$ 8,101
Non-Cash Investing and Financing Transactions:		
Capital lease obligations incurred	\$ 581	\$ 420
Capital equipment purchased on credit	581	420
Fair value of warrants classified as liability	376	1,155
Fair value of intangible asset liability	2,446	
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 80	\$ 76

See accompanying notes to the Condensed Consolidated Financial Statements.

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MATTERSIGHT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note One General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Mattersight Corporation (we, Mattersight, or the Company) include all normal and recurring adjustments necessary for a fair presentation of our condensed consolidated financial position as of March 31, 2015 and December 31, 2014, the condensed consolidated results of our operations for the three months ended March 31, 2015 and March 31, 2014, the condensed consolidated statements of our comprehensive loss for the three months ended March 31, 2015 and March 31, 2014, and our condensed consolidated cash flows for the three months ended March 31, 2015 and March 31, 2014, and are in accordance with United States generally accepted accounting principles (GAAP) and in conformity with Securities and Exchange Commission (SEC) Article 8-03 of Regulation S-X; provided, that certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in Mattersight s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 filed with the SEC on March 12, 2015. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Note Two Summary of Significant Accounting Policies

For a description of the Company s Summary of Significant Accounting Policies, see Note Two Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Change in Presentation

Beginning in the first quarter of 2015, Mattersight will report Subscription revenue, which consists of Behavioral Analytics Subscription revenue and Marketing Managed Services revenue, and Other revenue, which consists of Deployment revenue, Professional Services revenue, CRM Services revenue, and Reimbursed Expenses revenue. We feel the revised presentation provides a clearer understanding of our business and revenue streams.

Previously in 2014, Mattersight reported Behavioral Analytics revenue, which consisted of Subscription revenue, Deployment revenue, and Professional Services revenue, and Other revenue, which consisted of CRM Services revenue and Marketing Managed Services revenue. Reimbursed Expenses revenue was reported separately.

The changes in presentation did not have an impact on total revenue or total cost of revenue. There was no change to our significant accounting policies. The 2014 revenue has been revised to conform to our current presentation.

Note Three Revenue Recognition

Revenue Recognition

Subscription Revenue

Subscription revenue consists of Behavioral Analytics Subscription revenue and Marketing Managed Services revenue derived from the performance of services on a continual basis.

Subscription revenue is based on a number of factors, including the number of users to whom the Company provides one of its Behavioral Analytics-related service offerings, including Predictive Behavioral Routing, Performance Management, and Predictive Analytics, the type and number of Behavioral Analytics offerings deployed to the client, and in some cases, the number of hours of calls analyzed during the relevant month of the subscription period. Subscription periods generally range from three to five years after the go-live date or, in cases where the Company contracts with a client for a short-term pilot of a Behavioral Analytics offering prior to committing to a longer subscription period, if any, the subscription or pilot periods generally range from three to twelve months after the go-live date. This revenue is recognized over the applicable subscription period, as the service is performed for the client.

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Marketing Managed Services revenue is derived from marketing application hosting. This revenue is generally in the form of fixed monthly fees received from the Company's clients and is recognized as the services are performed for the client. Any related setup fee would be recognized over the term of the hosting contract.

Other Revenue

Other revenue consists of Deployment revenue, Professional Services revenue, and Reimbursed Expenses revenue.

Deployment revenue consists of planning, deployment, and training fees derived from Behavioral Analytics contracts. These fees, which are considered to be installation fees related to Behavioral Analytics subscription contracts, are deferred until the installation is complete and are then recognized over the applicable subscription period. In cases where the Company contracts with a client for a short-term pilot of a Behavioral Analytics offering prior to committing to a longer subscription period, if any, the period in which pilot deployment revenue is recognized, generally ranges from three to twelve months after the go-live date. Installation costs incurred are deferred up to an amount not to exceed the amount of deferred installation revenue and additional amounts that are recoverable based on the contractual arrangement. These costs are included in Prepaid expenses and Other long-term assets. Such costs are amortized over the subscription period. Costs in excess of the foregoing revenue amount are expensed in the period incurred.

Professional Services revenue primarily consists of fees charged to the Company's clients to provide post-deployment follow-on consulting services, which include custom data analysis, the implementation of enhancements, and training, as well as fees generated from the Company's operational consulting services. Professional Services are performed for the Company's clients on a fixed-fee or time-and-materials basis. Revenue is recognized as the services are performed, with performance generally assessed on the ratio of actual hours incurred to-date compared to the total estimated hours over the entire term of the contract.

Reimbursed Expenses revenue includes billable costs related to travel and other out-of-pocket expenses incurred while performing services for the Company's clients. The cost of third-party product and support may be included within this category if the transaction does not satisfy the requirements for gross reporting. An equivalent amount of reimbursable expenses is included in Cost of revenue.

Note Four Stock-Based Compensation

The Company has two stock-based compensation plans, the Mattersight Corporation 1999 Stock Incentive Plan (the 1999 Plan) and the Mattersight Corporation Employee Stock Purchase Plan (the ESPP), each as described more fully in Note Thirteen in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

	For the Three Months Ended	
	March 31,	March 31,
	2015	2014
Stock-based compensation expense (in millions)	\$ 1.4	\$ 1.1

The Company recognizes stock-based compensation expense on a straight-line basis over the vesting period. The Company has established its forfeiture rate based on historical experience.

As of March 31, 2015, there were a total of 2,072,905 shares of the Company's common stock, par value \$0.01 per share (Common Stock), available for future grants under the 1999 Plan and from treasury stock. The Common Stock

is traded on the NASDAQ Global Market under the symbol MATR .

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Restricted stock award activity was as follows for the three months ended March 31, 2015:

	Shares	Weighted Average Price
Unvested balance at December 31, 2014	556,194	\$ 5.76
Granted	518,051	\$ 6.99
Vested	(291,558)	\$ 6.22
Forfeited	(32,281)	\$ 6.67
Unvested balance at March 31, 2015	750,406	\$ 6.39

(In millions)	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Total fair value of restricted and installment stock awards vested	\$ 2.0	\$ 1.6
Compensation expense related to restricted stock awards	0.6	0.5

As of March 31, 2015, there remained \$4.0 million of unrecognized compensation expense related to restricted stock awards. These costs are expected to be recognized over a weighted average period of 2.1 years.

Stock Options

During the three months ended March 31, 2015, the Company granted options to purchase a total of 122,625 shares of Common Stock to certain employees. The exercise price per share is \$6.90, the closing price for shares of Common Stock on February 11, 2015, the grant date. Certain of the options will vest 6.25% on February 28, 2015, with the balance vesting ratably over the following 15 quarters, whereas others will vest 25% on February 28, 2016, with the balance vesting ratably over the following 12 quarters. The options expire on February 11, 2025.

Option activity was as follows for the three months ended March 31, 2015:

	Options	Weighted Average Exercise Price
Outstanding as of December 31, 2014	2,636,596	\$ 7.42
Granted	122,625	\$ 6.90
Exercised	(13,020)	\$ 4.75

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Forfeited	(75,510)	\$	6.57
Outstanding as of March 31, 2015	2,670,691	\$	7.44
Exercisable as of March 31, 2015	1,689,013	\$	8.51
Outstanding intrinsic value at March 31, 2015 (in millions)	\$	1.9	
Exercisable intrinsic value at March 31, 2015 (in millions)	\$	1.2	

	For the Three Months Ended	
	March 31, 2015	March 31, 2014
Compensation expense related to option awards (in millions)	\$ 0.4	\$ 0.3

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(In millions)	For the Three Months Ended		
		March 31, 2015	March 31, 2014
Total fair value of stock options vested	\$	0.4	\$ 0.3
[]	A s a v i n g s a s s o c i a t i o n s a s d e f i n e d i n S e c t i o n 3 (b) o f t h e F e d e r a l D e p o s i t I n s u r a n c e A c t (1 2 U . S . C . 1 8 1 3) ;		
(i)	[]	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);	
(j)	[]	A non-U.S. institution in accordance with §240.13d-1(b)(1)(ii)(J);	
(k)	[]	Group, in accordance with §240.13d-1(b)(1)(ii)(K).	

Item 4. Ownership***

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

As of December 31, 2011, the Master Fund owned 2,050,000 shares of Common Stock. The percentages herein are calculated based upon the 36,003,563 shares of Common Stock issued and outstanding as of December 23, 2011, as reported on the Issuer's Form 10-Q filed with the SEC on January 5, 2012.

(a) Amount Beneficially Owned***

Southpoint Master Fund, LP - 2,050,000 shares
 Southpoint Capital Advisors LP - 2,050,000 shares
 Southpoint Capital Advisors LLC - 2,050,000 shares
 Southpoint GP, LP - 2,050,000 shares
 Southpoint GP, LLC - 2,050,000 shares
 John S. Clark II - 2,050,000 shares

CUSIP NO.
171046105

(b) Percent of Class

Southpoint Master Fund, LP - 5.69%
Southpoint Capital Advisors LP - 5.69%
Southpoint Capital Advisors LLC - 5.69%
Southpoint GP, LP - 5.69%
Southpoint GP, LLC - 5.69%
John S. Clark II - 5.69%

(c) Number of shares as to which such person has:

- (i) sole power to vote or to direct the vote
Southpoint Master Fund, LP - 0 shares
Southpoint Capital Advisors LP - 0 shares
Southpoint Capital Advisors LLC - 0 shares
Southpoint GP, LP - 0 shares
Southpoint GP, LLC - 0 shares
John S. Clark II - 0 shares
- (ii) shared power to vote or to direct the vote

Southpoint Master Fund, LP - 2,050,000 shares
Southpoint Capital Advisors LP - 2,050,000 shares
Southpoint Capital Advisors LLC - 2,050,000 shares
Southpoint GP, LP - 2,050,000 shares
Southpoint GP, LLC - 2,050,000 shares
John S. Clark II - 2,050,000 shares
- (iii) sole power to dispose or to direct the disposition of
Southpoint Master Fund, LP - 0 shares
Southpoint Capital Advisors LP - 0 shares
Southpoint Capital Advisors LLC - 0 shares
Southpoint GP, LP - 0 shares
Southpoint GP, LLC - 0 shares
John S. Clark II - 0 shares
- (iv) shared power to dispose or to direct the disposition of

Southpoint Master Fund, LP - 2,050,000 shares
Southpoint Capital Advisors LP - 2,050,000 shares
Southpoint Capital Advisors LLC - 2,050,000 shares
Southpoint GP, LP - 2,050,000 shares
Southpoint GP, LLC - 2,050,000 shares
John S. Clark II - 2,050,000 shares

CUSIP NO.
171046105

*** Shares reported herein are held by Southpoint Master Fund, LP for which Southpoint Capital Advisors LP serves as the investment manager and Southpoint GP, LP serves as the general partner. Southpoint Capital Advisors LLC serves as the general partner of Southpoint Capital Advisors LP and Southpoint GP, LLC serves as the general partner of Southpoint GP, LP. John S. Clark II serves as managing member of both Southpoint Capital Advisors LLC and Southpoint GP, LLC. Each of the Reporting Persons disclaims beneficial ownership of the shares reported herein except to the extent of its or his pecuniary interest therein.

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [].

Item 6. Ownership of More than Five Percent on Behalf of Another Person

Not applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not applicable.

Item 8. Identification and Classification of Members of the Group

Not applicable.

Item 9. Notice of Dissolution of Group

Not applicable.

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

CUSIP NO.
171046105

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Statement is true, complete and correct.

February 14, 2012

SOUTHPOINT MASTER FUND, LP

By: Southpoint GP, LP, its General Partner

By: Southpoint GP, LLC, its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT CAPITAL ADVISORS LP

By: Southpoint Capital Advisors LLC,

its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT CAPITAL ADVISORS LLC

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT GP, LP

By: Southpoint GP, LLC,

its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT GP, LLC

By: /s/ John S. Clark II

John S. Clark II, Managing Member

/s/ John S. Clark II

John S. Clark II

JOINT FILING AGREEMENT

This Joint Filing Agreement, dated as of February 14, 2012, is by and among Southpoint Master Fund, LP, Southpoint Capital Advisors LP, Southpoint Capital Advisors LLC, Southpoint GP, LP, Southpoint GP, LLC and John S. Clark II (collectively, the "Filers").

Each of the Filers may be required to file with the United States Securities and Exchange Commission a statement on Schedule 13D and/or 13G with respect to shares of Common Stock, par value \$0.01 per share of Christopher & Banks Corporation beneficially owned by them from time to time.

Pursuant to and in accordance with Rule 13(d)(1)(k) promulgated under the Securities Exchange Act of 1934, as amended, the Filers hereby agree to file a single statement on Schedule 13D and/or 13G (and any amendments thereto) on behalf of each of the Filers, and hereby further agree to file this Joint Filing Agreement as an exhibit to such statement, as required by such rule.

This Joint Filing Agreement may be terminated by any of the Filers upon written notice or such lesser period of notice as the Filers may mutually agree.

Executed and delivered as of the date first above written.

SOUTHPOINT MASTER FUND, LP

By: Southpoint GP, LP, its General Partner

By: Southpoint GP, LLC, its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT CAPITAL ADVISORS LP

By: Southpoint Capital Advisors LLC,

its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT CAPITAL ADVISORS LLC

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT GP, LP

By: Southpoint GP, LLC, its General Partner

By: /s/ John S. Clark II

John S. Clark II, Managing Member

SOUTHPOINT GP, LLC

By: /s/ John S. Clark II
John S. Clark II, Managing Member

/s/ John S. Clark II
John S. Clark II