

Report Prepared On: 01/10/13

Structured Product Details

Name	Phoenix Autocallable Optimization Securities with Contingent Protection linked to Ford Motor Co.
Issue Size	\$8.03 million
Issue Price	\$10
Term	12 Months
Annualized Coupon	14.30%
Pricing Date	December 15, 2010
Issue Date	December 21, 2010
Valuation Date	December 16, 2011
Maturity Date	December 22, 2011
Issuer	UBS
CDS Rate	43.56 bps
Swap Rate	0.78%
Reference Asset	Ford Motor Co.'s stock
Initial Level	\$16.55
Dividend Rate	0.00%
Implied Volatility	38.30%
Fair Price at Issue	\$9.69
Realized Return	0.00%
CUSIP	90267F352
SEC Link	www.sec.gov/Archives/edgar/data/1114446/000139340110000641/c205716_690572-424b2.htm

Related Research

Research Papers:

www.slccg.com/research.php

- “Are Structured Products Suitable for Retail Investors?” December 2006.
- “Structured Products in the Aftermath of Lehman Brothers,” November 2009.
- “What TiVo and JP Morgan Teach Us about Reverse Convertibles,” June 2010.

Phoenix Autocallable Optimization Securities with Contingent Protection linked to Ford Motor Co.

Description

UBS issued \$8.03 million of Phoenix Autocallable Optimization Securities with Contingent Protection linked to Ford Motor Co. on December 21, 2010 at \$10 per note.

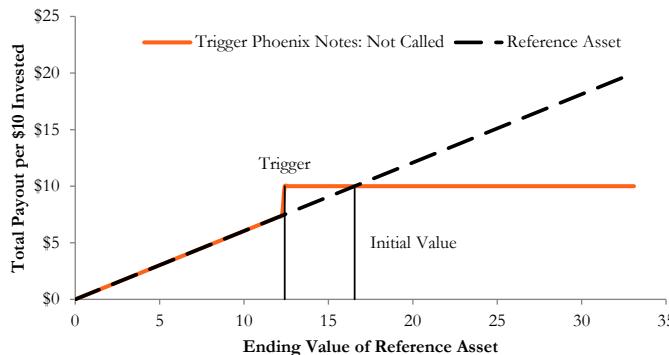
These 12-month notes are UBS-branded reverse convertible notes. On the quarterly coupon observation date, if the notes are not called back, they pay either quarterly coupon at an annualized rate of 14.30% if Ford Motor Co.’s stock price closes above the coupon barrier \$12.41, or no coupon if the stock price closes below the barrier. The first coupon observation date is March 15, 2011. This autocallable notes will be called back if the reference stock price on any quarterly call observation date after March 15, 2011 exceeds the initial stock price \$16.55. In this case, investors receive the principal plus any unpaid coupons. At maturity, the notes convert into shares of the reference security—0.60 share of Ford Motor Co.’s stock in this case—if the market value of the reference stock at the note’s maturity is below the trigger price \$12.41 (75% of the reference asset on December 15, 2010). Otherwise, investors will receive the \$10 face value.

Valuation

This note can be viewed as a combination of a zero-coupon note from UBS, a series of contingent coupon payments, and a short put option on the reference asset. For reasonable valuation inputs this note was worth \$9.69 per \$10 face value when it was issued on December 21, 2010, including \$9.93 for the present value of the zero-coupon note, (\$0.84) for the short put options, and \$0.60 for the present value of all future contingent coupon payments.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product’s estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity



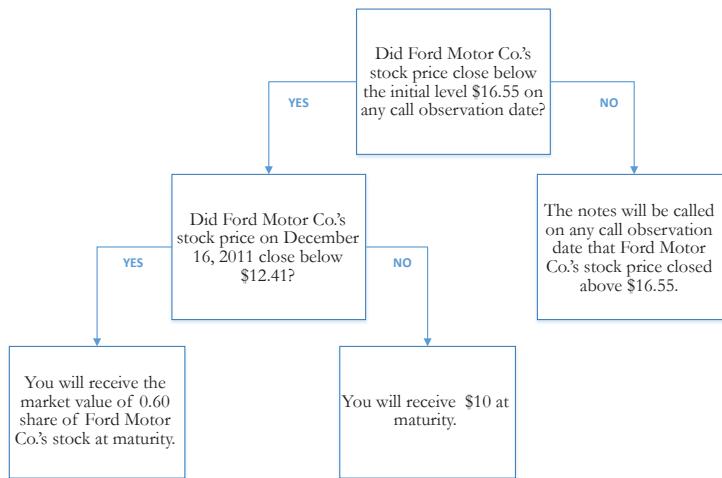
The payoff diagram shows the final payoff of this note given Ford Motor Co.’s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Ford Motor Co.’s stock directly.

Mike Yan, Ph.D.,
 Senior Financial Economist, SLCG
 (+1) 703.539.6780
 MikeYan@slccg.com

Principal Payback Table

Ford Motor Co.'s Stock	Note Payoff
\$0.00	\$0.00
\$1.66	\$1.00
\$3.31	\$2.00
\$4.97	\$3.00
\$6.62	\$4.00
\$8.28	\$5.00
\$9.93	\$6.00
\$11.59	\$7.00
\$13.24	\$10.00
\$14.90	\$10.00
\$16.55	\$10.00
\$18.21	\$10.00
\$19.86	\$10.00
\$21.52	\$10.00
\$23.17	\$10.00
\$24.83	\$10.00

Maturity Payoff Diagram



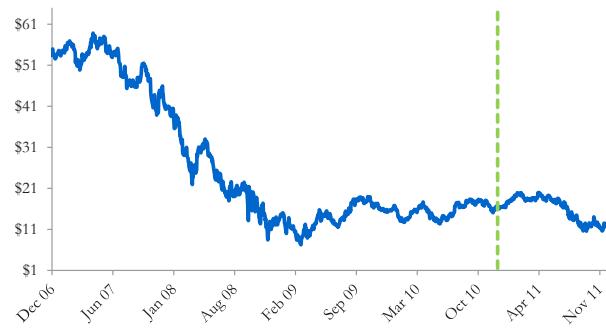
The contingent payoffs of this Phoenix Autocallable Optimization Security with Contingent Protection.

Analysis

The 14.30% coupon rate on this Phoenix Autocallable Optimization Security with Contingent Protection is higher than those paid by UBS on its straight debts but, in addition to UBS's credit risk, investors bear the risk that, 1) the note may be called; 2) the note may pay zero coupon because of the coupon contingency; 3) and the note will be converted into shares of Ford Motor Co.'s stock when Ford Motor Co.'s stock is worth substantially less than the face value of the note.

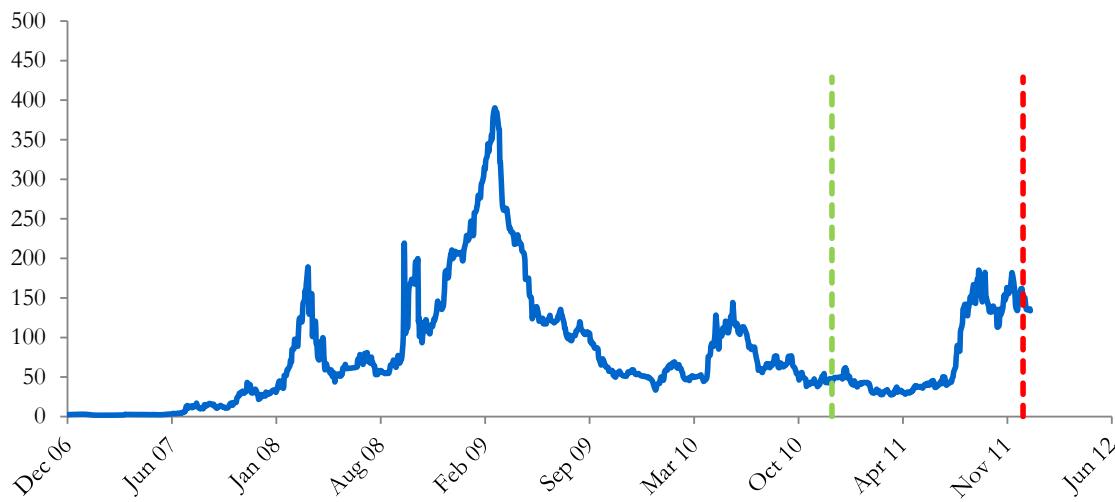
Investors purchasing these autocallable phoenix notes effectively sell contingent put options to UBS and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. UBS pays investors a contingent coupon that is part payment for the put options and part interest on the investors' posted collateral. This Phoenix Autocallable Optimization Security with Contingent Protection is fairly priced if and only if the difference between the contingent coupon and interest paid on UBS's straight debt equals the value of the contingent put options investors are giving to UBS. Whether this Phoenix Autocallable Optimization Security with Contingent Protection is suitable or not is identically equivalent to whether selling put options on the reference stock at the option premium being paid by UBS was suitable for the investor.

UBS's Stock Price



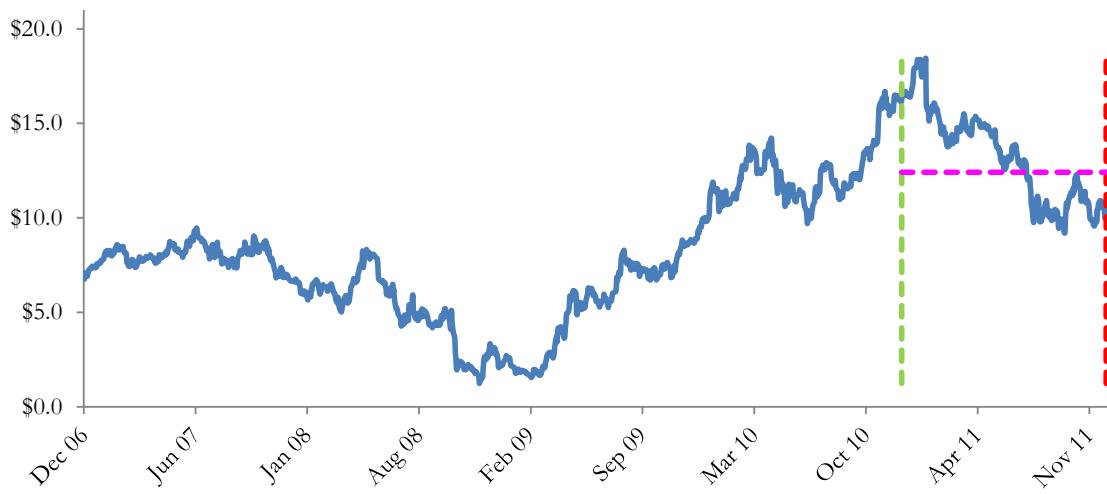
The graph above shows the adjusted closing price of the issuer UBS for the past several years. The stock price of the issuer is an indication of the financial strength of UBS. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

UBS's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as UBS. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of UBS's debt, including outstanding Phoenix Autocallable Optimization Security with Contingent Protection. Fluctuations in UBS's CDS rate impact the market value of the notes in the secondary market.

Ford Motor Co.'s Stock Price

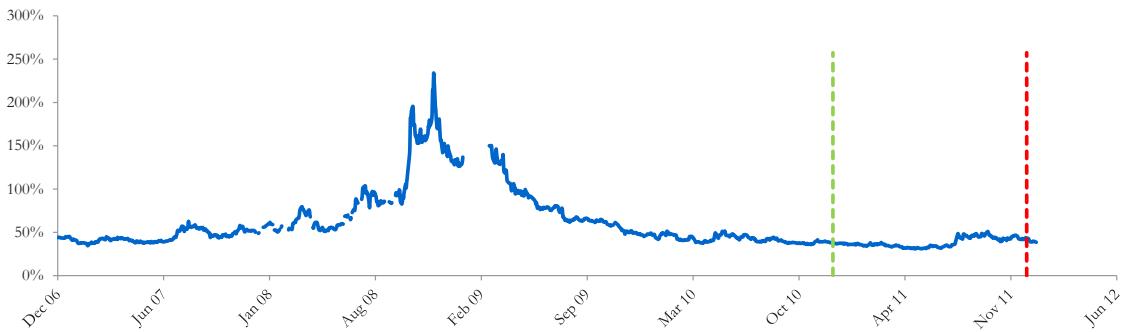


The graph above shows the historical levels of Ford Motor Co.'s stock for the past several years. The final payoff of this note is determined by Ford Motor Co.'s stock price at maturity. Higher fluctuations in Ford Motor Co.'s stock price correspond to a greater uncertainty in the final payout of this Phoenix Autocallable Optimization Security with Contingent Protection.

Realized Payoff

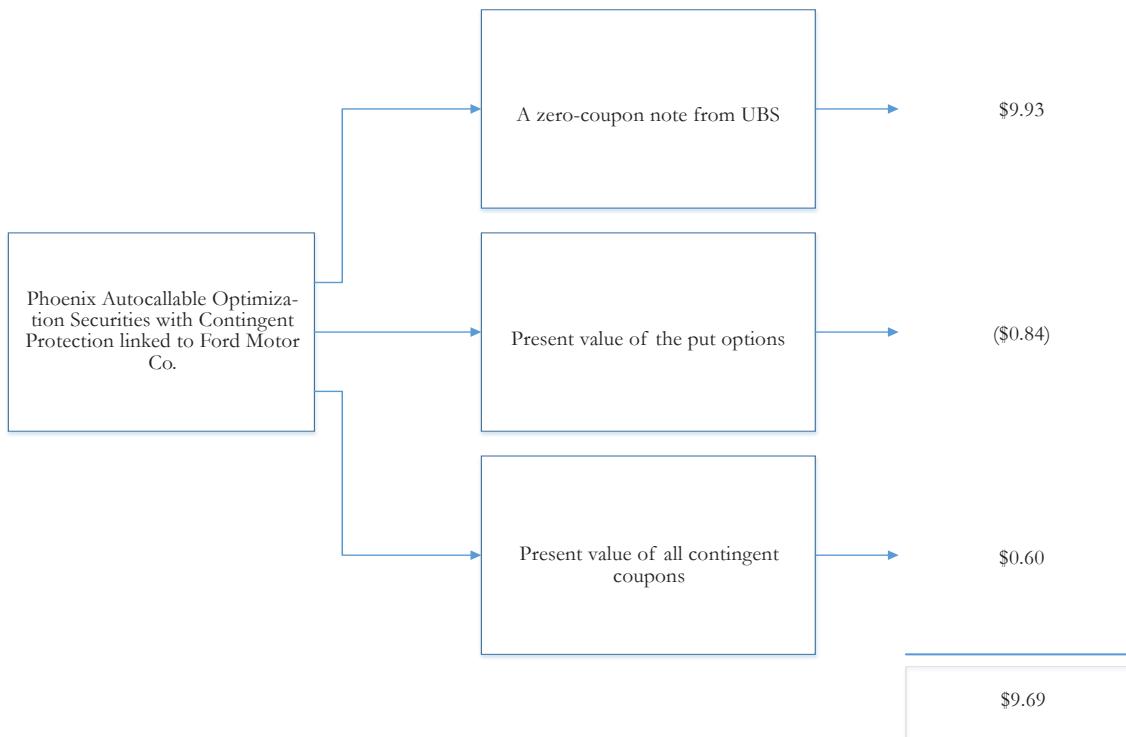
This note matured on December 22, 2011 and investors received \$6.08 (or equal to the value of 0.60 share of Ford Motor Co. stock's closing price on December 16, 2011).

Reference Asset Ford Motor Co.'s Stock's Implied Volatility



The annualized implied volatility of Ford Motor Co.'s stock on December 15, 2010 was 38.30%, meaning that options contracts on Ford Motor Co.'s stock were trading at prices that reflect an expected annual volatility of 38.30%. The higher the implied volatility, the larger the expected fluctuations of Ford Motor Co.'s stock price and of the Note's market value during the life of the Notes.

Decomposition of this Phoenix Autocallable Optimization Security with Contingent Protection



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Phoenix Autocallable Optimization Security with Contingent Protection.

1. Delta measures the sensitivity of the price of the note to the Ford Motor Co.'s stock price on December 15, 2010.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the Ford Motor Co.'s stock on December 15, 2010.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.