October 12, 2012

TECHNOLOGY/EMERGING TECHNOLOGIES AND SERVICES

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$25.00
CEVA - NASDAQ	$13.63

3-5 Yr. EPS Gr. Rate	15%
52-Wk Range	$34.50-$12.96
Shares Outstanding	23.2M
Float	22.7M
Market Capitalization	$307.9M
Avg. Daily Trading Volume	211,295
Dividend/Div Yield	NA/NM
Book Value	$7.39
Fiscal Year Ends	Dec
2012E ROE	8.2 %
LT Debt	NA
Preferred	NA
Common Equity	$177M
Convertible Available	No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2011A	0.23	0.22	0.26	0.26	0.97	14.1x
2012E	0.24A	0.19	0.16	0.22	0.81	16.8x
Prior (E)	--	--	--	*0.19*	*0.78*	*NM*
2013E	--	--	--	--	0.91	15.0x
Prior (E)	--	--	--	--	*0.84*	*NM*

CEVA Inc.

3Q12 Preview: Worst Has Passed

SUMMARY

We view 3Q12 as a trough in earnings and more importantly, see momentum building in CEVA's key market and customer, leading us to raise our 4Q and 2013 estimates. Our new EPS estimates for 2012 and 2013 are $0.81 and $0.91, respectively, compared with consensus of $0.80 and $0.90. We want to make two important points: first, our checks indicate the Chinese handset market is bucking the macro trends and exceeding expectations; second, the recent sell-off in the stock (down 15% the past month) is overdone when compared to other smartphone tablet suppliers (down 4%) and the general semiconductor industry (down 6.5%). Put together, we are buyers ahead of the print.

KEY POINTS

- **Checks:** Our checks lead us to believe the Chinese smartphone market has accelerated heading into year end. It's being driven by a confluence of declining prices, more models, higher quality domestic brands, and improved channel distribution in China Mobile. We expect this to continue into the new year.
- **Putting Numbers to Our Checks:** For CEVA, we believe its customers are seeing a shift to low-end smartphones from feature phones which should increase ASPs after troughing in 3Q12. And its customers are gaining share which should help offset 2G volume declines. We increase our EPS estimates by 3 and 7 cents in 2012/2013.
- **Low Expectations:** The sell-off we've seen over the past month (CEVA is down 15% vs. SOXX down 7%) is an indication to us that investors are lowering expectations. This has caused correlation with SPRD, a large CEVA customer, to break down. We believe correlation will resume once CEVA results improve.
- **Reiterate Outperform:** We acknowledge the challenging year for CEVA but believe 3Q12 earnings will give the company a chance to say the worst is behind it and growth is returning. We reiterate our Outperform and use a DCF to derive our $25 price target.
- **Risks:** We see the potential for medium-term risk from increased chip competition in China that could drive down key customer market share or pressure ASPs. CEVA will report results on November 1st before the market open.

Stock Price Performance

Company Description

CEVA Inc. designs and licenses silicon intellectual property for handsets, portable media, and consumer electronics. It focuses on digital signal processor cores.

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Are Expectations Too Low?

We believe CEVA's tough year will end on a positive note as we expect 3Q12 earnings to be the trough. Moreover, 4Q12 expectations may be too low. Our checks in China indicate momentum is building for smartphone adoption—even at the low end. This we believe is not accounted for in expectations or the stock price. We reiterate our Outperform rating.

General Checks: The general market seems to have been feeling pressure from macro weakness, and in more technology specific terms, from declining PC/notebook expectations to infrastructure spend. And even the one bright spot, smartphones/tablets, have more recently seen similar negative sentiment.

Exhibit 1: Stock Performance Since Beginning of September 2012 (9/4/12 - 10/11/12)

Primary Handset/Tablet Exposure		Primary PC/Notebook Exposure		Industry Average	
SPRD	0.3%	DELL	-11.5%	SP50	2.0%
QCOM	-2.6%	HPQ	-16.1%	SOXX	-6.5%
INVN	-3.8%	ISIL	-21.5%		
AAPL	-6.9%	SYNA	-22.5%		
BRCM	-7.0%				
OVTI	-14.2%				
CEVA	**-15.9%**	Makes little sense to us			

Source: FactSet. Performance results cannot and should not be viewed as an indicator of future performance.

This may be setting CEVA up to beat low expectations. Moreover, our checks indicate that the Chinese handset market has entered the early stages of not only 3G customer switching, but accelerating smartphone adoption. See our earlier Sensor report for more details on the broader market. More recently, we met with SPRD CFO, Shannon Gao, as well as several other domestic supply chain players which have hardened our view.

What if We're Wrong: We have to admit we've been wrong before, but the stock to us looks as if it's priced in the worst. The stock is currently trading at $13.63 which is 17.0x the mid-point of 2012 guidance and 14.8x consensus 2013. This is very near lows—only last seen during the 2008 recession lows and prior to a downward revision in estimates.

If we assume the market is pricing in reductions to consensus, for the stock to trade at a more normalized level (using a five-year average forward P/E) of 18x, this would assume earnings were flat for next year which at this point doesn't seem likely as CEVA's primary customers are forecasting strong growth into next year. Finally, if we consider the $6.60 in cash per share that CEVA has, the valuation becomes more compelling.

Risks: Of course, valuation can often be thrown out with the dishwater when investors have no enthusaism for a name. With that said, negative headlines from a customer loss, customer market share declines, or eroding ASPs could all negatively impact our thesis.

Customer Focus: SPRD/China

We've spent some time digging into one of CEVA's primary customers, Spreadtrum. CEVA is the sole supplier of DSP technology for SPRD basebands. Moreover, we've also checked in on several other handset supply chain providers in China. Our takeaway is that 2H will be much stronger than the first half, and should provide good momentum into 2013.

General Market Trends: 4Q12 should be the strongest quarter yet for 3G unit sales in China Mobile (largest market in the world) and should grow 60% in 2013. This is being driven by a broader product portfolio as well as a change in distribution at China Mobile. In 2012, over 90% of 3G units were sold direct through China Mobile. Recently, the company switched to an open distribution model. Of the 100M 3G units expected to be sold in 2013, China Mobile is targeting 50% to be sold through the open channels. And 80% to be smartphones.

2G/Edge sales: Our checks are showing surprising strength in the 2G/Edge being driven by lower prices. At Spreadtrum specifically, new customer design wins in this area should drive growth in 2013 based on the 2H12 momentum we are currently seeing. We estimate that 2G/Edge sales could grow 15% in 2013.

3G Sales (TD-S): Here we believe the market could nearly double in 2013 to 100 million devices for China Mobile according to the company. And it's not inconceivable it ramps more quickly and gets to 200 million units a year. As China Mobile has about 700 million users, assuming a 25% replacement rate, we derive 175 million units.

Smart Phones: Price declines and increases domestic handset production quality has accelerated, in our view, smart phone adoption. With the SPRD 8810 chip, smartphone prices are below $100—a level we view as critical for mass adoption. Looking at the OEMs, Lenovo, Huewai, and ZTE are seeing strength in China and taking share from global brands such as Samsung, Nokia, and Apple. We believe this will continue as these brands have strong distribution channels in China.

Open Channel Sales: China Mobile has lagged behind its competitors in terms of 3G adoption. However, because customers can't take their phone numbers with them to competing carriers, China Mobile has seen little customer switching. We expect 3G adoption to accelerate as the company moves toward an open channel distribution model.

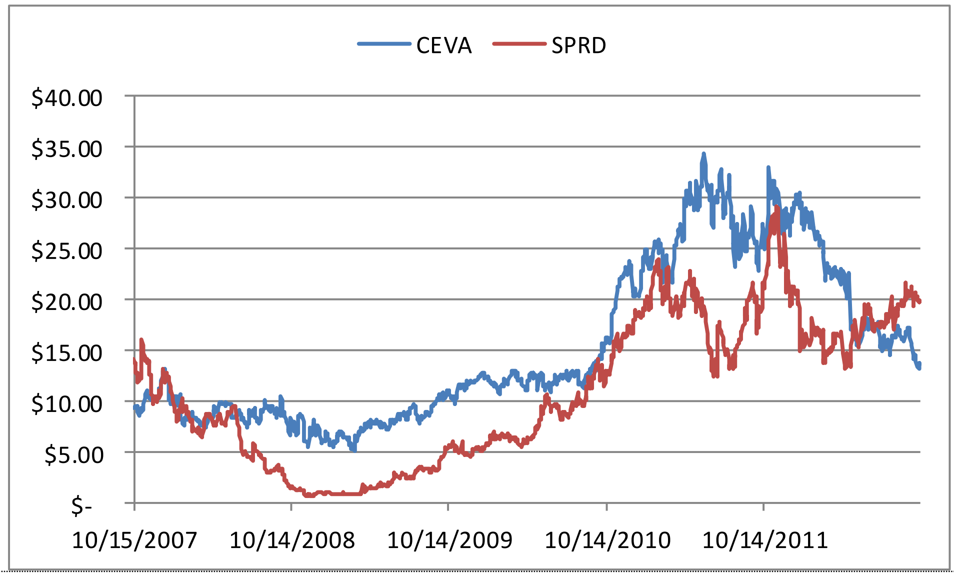
Qualcomm Competition: Two weeks ago, Qualcomm introduced its first chip into the TD-SCDMA market. Our checks indicate it's not an immediate threat to SPRD as the prices of chips varies greatly. QCOM's chip is expected to be priced at $20 vs. SPRD's price of $6. However, we expect competition to increase as SPRD moves up-market and QCOM moves down.

LTE Opportunity: We believe LTE is several years away and government LTE licenses will be awarded in 2014. However, the chip companies will be ahead of schedule in terms of capabilities.

Why Spreadtrum Matters to CEVA

In 2011, CEVA shipped 1 billion units of which 927 million were handset/tablet baseband related. And we believe Spreadtrum accounts for more than 20% of unit shipments. We believe this percentage has increased this year as SPRD strengthens and other customers weaken. More importantly, CEVA's strengths are similar to SPRD's. Both are leading low cost fabless companies and share the same end markets and pressures. Put together, they are intricately linked. And historically, have traded so.

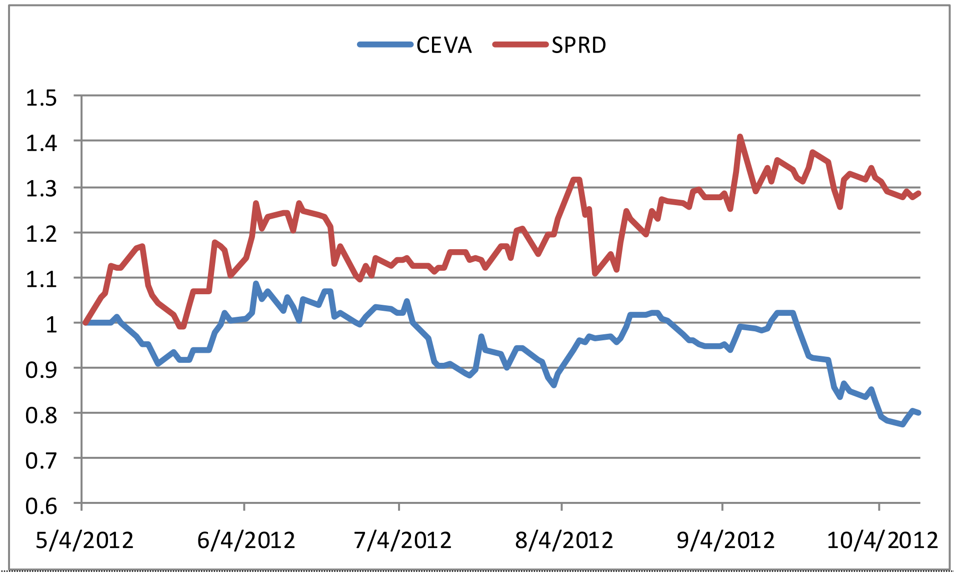
Exhibit 2: CEVA vs. SPRD, 5-Year Stock Performance



Source: FactSet. Performance results cannot and should not be viewed as an indicator of future performance.

Using the 5 year chart, the correlation coefficient between the two names is 0.84. And this makes sense as we outlined before: similar value proposition and end market drivers. What we find interesting is the breakdown we've seen since the beginning of summer.

Exhibit 3: Relative Performance since May 4, 2012



Source: FactSet. Performance results cannot and should not be viewed as an indicator of future performance.

As seen in Exhibit 3, the fortunes of the two companies' stock performance couldn't be more different. And here the correlation coefficient breaks down and is now -0.13. The lack of correlation, we can make sense of. SPRD is becoming a bigger part of CEVA revenue based on our analysis, negative catalysts such as a loss of Apple or Nokia deteroiration, were CEVA related headwinds much before this period have worked through the bottom line. In fact, we are seeing an improving picture, albeit off of low expectations, for Nokia feature phones.

This leads us to believe there is a lack of confidence in CEVA or a misunderstanding of the business model—the value of which could be better explained. Thus we believe that as investors regain confidence—either from more clarity in the 3G/2G inflection point, a better understanding of ASP dynamics, or from earnings beat/raises—we expect correlation to return to SPRD.

Bottom Line: We view CEVA earnings at trough and more importantly, the stock price as well. Near term, we believe the company will beat expectations for 4Q12 guidance and ultimately outperform over the next 12-18 months. We will closely monitor the medium-term threat that is QCOM's attempt to grow its China share.

Adjusting Our Numbers

We take our numbers up slightly as we adjust for better ASPs in 4Q as we expect China smartphone/3G to account for a larger share of baseband shipments while 2G price declines moderate. This accounts for 3 cents in 2012. We now expect EPS of $0.81 for the year, vs. the Street's $0.80. For 2013, we increase our forecast to $0.91 on better volumes related to our China checks and improved ASP. We make no changes to the expense side.

Valuation

P/E Analysis: Looking back to 2008, the stock has traded at a forward P/E ranging from 14.2x to 36.1x. The stock has averaged 15.4x since May. There hasn't been another period as long as this in the past five years during which the stock has traded at such low multiples. There was a two week period in the fall of 2008 when it dipped below 15x shortly after the Lehman bankruptcy and the bank bailout discussions. In other words, at the height of the financial crisis.

This period also marked a period of sequential quarters of flat to declining revenue as units shipped decline. In other words, a period similar to what we are experiencing now. The difference is that the stock then traded at low multiples at the beginning of the period and not the end as we are seeing now. This is why we believe early 2009 is now a more appropriate comp period.

If we use 1H09 as our average comp period—18.9x, we derive a price of $17, or 28% above the CEVA's current trading today. If we apply the 2009 average— 21.2x which we think is more appropriate due or our belief that the bottom will be reached in the next quarter, we derive a price of $20, which implies 50% upside potential.

Because we expect continued multiple expansion as CEVA gains 3G market share and sees ASP stabilization, we ultimately use a DCF to derive our price target of $25. This would be a 30x forward multiple, and while we note this is high, it's not historically out of the norm.

DCF: Our DCF uses a weighted average cost of capital of 10%, 6% revenue growth in 2013, and 15% in 2014 when 4G starts to materially add units as well as better ASPs. Penetration in China should continue and be driven by low cost smartphones—an area where CEVA excels.

Other companies mentioned in this report (prices a/o 10/11/12):

Spreadtrum (SPRD – NASDAQ, $19.90, Not Rated)

ZTE (763-HK, $13.10, Not Rated)

Lenovo Group (992-HK, $6.19, Not Rated)

Dell Corp (DELL - NASDAQ, $9.35, Not Rated)

Hewlett-Packard (HPQ – NYSE, 14.25, Not Rated)

China Mobile (941-HK, $84.75, Not Rated)

Samsung (5930-KR, W1,303, Not Rated)

CEVA Inc
Consolidated Income Statement

(In millions of dollars, except EPS and shares amount)
For the Periods Ended December 31,

For the Periods Ended December 31	2010	2011	1Q12	2Q12	3Q12E	4Q12E	2012E	2013E
Revenues								
Licensing	18,395	20,239	5,116	5,364	4,750	4,750	19,980	19,000
Royalty	22,866	36,403	9,106	7,595	6,815	8,800	32,316	37,455
Licensing and Royalties	41,261	56,642	14,222	12,959	11,565	13,550	52,296	56,455
Other Revenue	3,650	3,597	890	633	700	700	2,923	3,200
Total Revenue	44,911	60,239	15,112	13,592	12,265	14,250	55,219	59,655
Cost of Revenues	(3,635)	(3,320)	(819)	(958)	(981)	(1,140)	(3,898)	(3,579)
Equity Based Compensation	(77)	(239)	(51)	(53)	(50)	(56)	(210)	(300)
Gross Profit	41,199	56,680	14,242	12,581	11,234	13,054	51,111	55,776
Gross Margin	*92%*	*94%*	*94%*	*93%*	*92%*	*92%*	*94%*	*93%*
Operating Expenses								
Research and Development	(17,257)	(19,609)	(5,021)	(5,031)	(4,741)	(4,858)	(19,651)	(20,044)
Selling and Marketing	(6,928)	(7,843)	(2,050)	(1,904)	(1,790)	(1,824)	(7,568)	(7,795)
General and Administrative	(5,085)	(5,758)	(1,379)	(1,419)	(1,444)	(1,426)	(5,668)	(5,838)
Intangible Amortization	-							
Reorganization, Restructuring, and Severance	-							
Equity Based Compensation	(2,055)	(4,919)	(1,194)	(1,024)	(1,050)	(1,050)	(4,318)	(4,700)
Total Operating Expenses	(31,325)	(38,129)	(9,644)	(9,378)	(9,025)	(9,157)	(37,204)	(38,376)
Operating Income	**9,874**	**18,551**	**4,598**	**3,203**	**2,209**	**3,897**	**13,907**	**17,399**
Other Income (Expense)	2,095	2,919	948	974	850	800	3,572	3,572
Income Before Taxes	11,969	21,470	5,546	4,177	3,059	4,697	17,479	20,971
GAAP Income Tax	(591)	(2,908)	(689)	(698)	(489)	(751)	(2,628)	(3,146)
Tax Rate	*5%*	*13%*	*12%*	*17%*	*16%*	*16%*	*15%*	*15%*
Net Income	**11,378**	**18,562**	**4,857**	**3,479**	**2,570**	**3,945**	**14,851**	**17,826**
GAAP Earnings Per Share	**0.54**	**0.80**	**0.21**	**0.15**	**0.11**	**0.17**	**0.64**	**0.73**
GAAP Diluted Earnings Per Share	**0.51**	**0.77**	**0.20**	**0.15**	**0.11**	**0.17**	**0.63**	**0.73**
Pre-tax Expense Adjustments Total	**2,132**	**5,158**	**1,245**	**1,077**	**1,100**	**1,106**	**4,528**	**5,000**
Other Operating Income Adjustments	**-**							
Tax Adjustment	**(842)**	**(204)**	**(226)**	**(118)**	**(50)**	**(70)**	**(464)**	**(650)**
Adjusted Net Income	**12,668**	**23,516**	**5,876**	**4,438**	**3,620**	**4,981**	**18,915**	**22,176**
Adjusted Basic Earnings Per Share	**0.60**	**1.01**	**0.25**	**0.19**	**0.16**	**0.22**	**0.81**	**0.91**
Adjusted Diluted Earnings Per Share	**0.56**	**0.97**	**0.24**	**0.19**	**0.16**	**0.22**	**0.81**	**0.91**
Basic Shares	21,251	23,170	23,507	23,449	23,200	22,800	23,239	24,300
Diluted Shares	22,430	24,163	24,239	23,454	23,200	22,800	23,423	24,300

Source: Company reports, Oppenheimer & Co. estimates

CEVA Inc.
Consolidated Statement of Cash Flows
(In millions of dollars, except EPS and share amount)
For the Periods Ended December 31,

For the Periods Ended December 31	2010	2011	2012E	2013E
Cash Flows From Operations				
Net Income (Loss)	**11,378**	**18,562**	**14,851**	**17,826**
Adjustments:				
Depreciation	528	506	600	600
Impairment of Tangibles	-			
Amortization of Intangibles	-			
Redundant Asset Write Down	-			
Impairment of Intangible Assets	-			
Impairment of Investment	-			
Stock-based Compensation	2,132	5,158	4,528	5,000
Loss (Gain) on Disposal of Fixed Assets		(10)		
Unrealized Gain on Investment	1,568	2,014		
Unrealized Foreign Exchange Loss (Gain)	26	(46)		
Accrued Interest on Short Term Bank Deposits	(589)	(1,070)		
Gain on Realization of Investments	-			
In-process Research and Development	-			
Marketable Securities	-			
Change in Operations	-	-	(9,243)	(8,706)
Trade Receivables	89	790		
Other Accounts Receivables and Prepaid Expenses	2,567	3,338		
Deferred Income Taxes	(688)	(1,443)		
Inventories	-			
Trade Payables	46	7		
Deferred Revenues	184	458		
Accrued Expenses	695	23		
Taxes Payables	-			
Excess Benefit from Equity Based Compensation	(1,692)	(1,290)		
Accrued Severance	21	85		
Net Cash Used In Operating Activities	**16,265**	**27,082**	**10,736**	**14,720**
Cash Flow from Investing				
Purchase of Property and Equipment	(728)	(393)	(1,000)	(1,000)
Proceeds from Sale of Property and Equipment	-	10		
Investments in Short Term Bank Deposits	(39,177)	(64,709)		
Proceeds from Short Term Bank Deposits	40,420	25,040		
Proceeds from Long-term Lease Deposits	-			
Investments in Marketable Securities	(59,593)	(42,291)		
Proceeds from Marketable Securities	32,479	29,173		
Transaction Cost Related to GPS Divestments	-			
Proceeds from Realization of Investment	-	14,813		
Purchase of Technology	-			
Investment in Other Companies	-	(900)		
Net Cash Provided by (Used in) Investing Activities	**(26,599)**	**(39,257)**	**(1,000)**	**(1,000)**
Cash Flows from Financing Activities				
Purchase of Treasury Stock	(1,567)			
Capital Return to Related Company	-			
Capital Contribution from Related Company upon Seperation	-			
Excess Tax Benefit from Equity Based Compensation	1,692	1,290		
Proceeds from Issuance of Stock upon Exercise of Employee Options	14,584	7,424	13,000	10,000
Proceeds from Issuance of Stock Under ESPP	1,087	1,236		
Net Cash Provided by (Used in) Financing Activities	**15,796**	**9,950**	**13,000**	**10,000**
Effect of Exchange Rate Movements on Cash	**(468)**	**81**	**-**	**-**
Increase (Decrease) in Cash and Cash Equivalents	**4,994**	**(2,144)**	**22,736**	**23,720**
Cash and Cash Equivalents at Beginning of Year	12,104	17,098	14,954	37,690
Cash and Cash Equivalents at End of Year	**17,098**	**14,954**	**37,690**	**61,410**

Source: Company reports, Oppenheimer & Co. estimates

CEVA Inc.
Consolidated Balance Sheet
(In millions of dollars, except EPS and share amount)
For the Periods Ended December 31,

For the Periods Ended December 31	2010	2011	2012E	2013E
Current Assets				
Cash and Cash Equvalents	17,098	14,954	37,690	61,410
Marketable Securities	98,681	124,458	130,784	130,513
Receivables	5,906	5,116	6,051	6,538
Deferred Tax Assets	1,288	2,248	1,000	1,000
Prepaid Expenses	4,609	2,320	5,500	5,800
Other Receivables				
Total Current Assets	127,582	149,096	181,025	205,260
Long Term Bank Deposits	15,173	25,106	15,259	15,259
Severance Pay Fund	5,433	5,473	10,000	12,000
Deferred Tax Assets	574	832	3,073	3,046
Property and Equipment, net	1,348	1,235	1,635	2,963
Investment in Other Company	-	900		
Goodwill	36,498	36,498	36,498	36,498
Other Intangible assets, net	-			
Total Assets	**186,608**	**219,140**	**247,490**	**275,026**
Current Liabilities				
Trade Payables	616	580	725	800
Accrued Expenses	10,521	10,669	11,000	11,500
Taxes Payable				
Deferred Tax Liabilities	901	290	83	-
Deferred Revenue	616	1,074	511	730
Total Current Liabilities	12,654	12,613	12,319	13,030
Accrued Severance Pay	5,486	5,607	5,000	4,000
Accrued Liabilities				
Total Liabilities	18,140	18,220	17,319	17,030
Stockholders' Equity				
Common Stock	23	24	23	23
Additional Paid-in Capital	176,838	191,945	204,945	214,945
Treasury Stock	-			
Accumulated Other Comprehensive Income	317	(901)	500	500
Retained Earnings	(8,710)	9,852	24,703	42,529
Total Stockholders' Equity	168,468	200,920	230,171	257,997
Total Liabilities and Stockholders' Equity	**186,608**	**219,140**	**247,490**	**275,027**

Source: Company reports, Oppenheimer & Co. estimates

Investment Thesis

CEVA, arguably the leading baseband DSP solution provider, is well positioned to continue growing its market share as more handsets come to market using its technology both in the 2G/3G feature phone market (developing countries) and the smartphone markets (developed countries). Moreover, recent license agreements indicate the trend should continue as handset makers move to 4G/LTE networks and CEVA licenses are moved to new markets such as the smart grid.

Price Target Calculation

Because we believe there would be continued multiple expansion as CEVA gains 3G market share and see ASP stabilization, we ultimately use a DCF to derive our price target of $25. This would be a 30x forward multiple, and while we note this is high, it's not historically out of the norm, (14x to 34x). Our DCF uses a weighted average cost of capital of 10%, 6% revenue growth in 2013, and 15% in 2014 when 4G starts to materially add units as well as higher ASPs. Penetration in China should continue and be driven by low cost smart phones—an area where CEVA excels.

Key Risks to Price Target

Risks include continued ASP erosion, lost design wins, slower 3G adoption of its DSP technology, slower licensing pipeline.

Important Disclosures and Certifications

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

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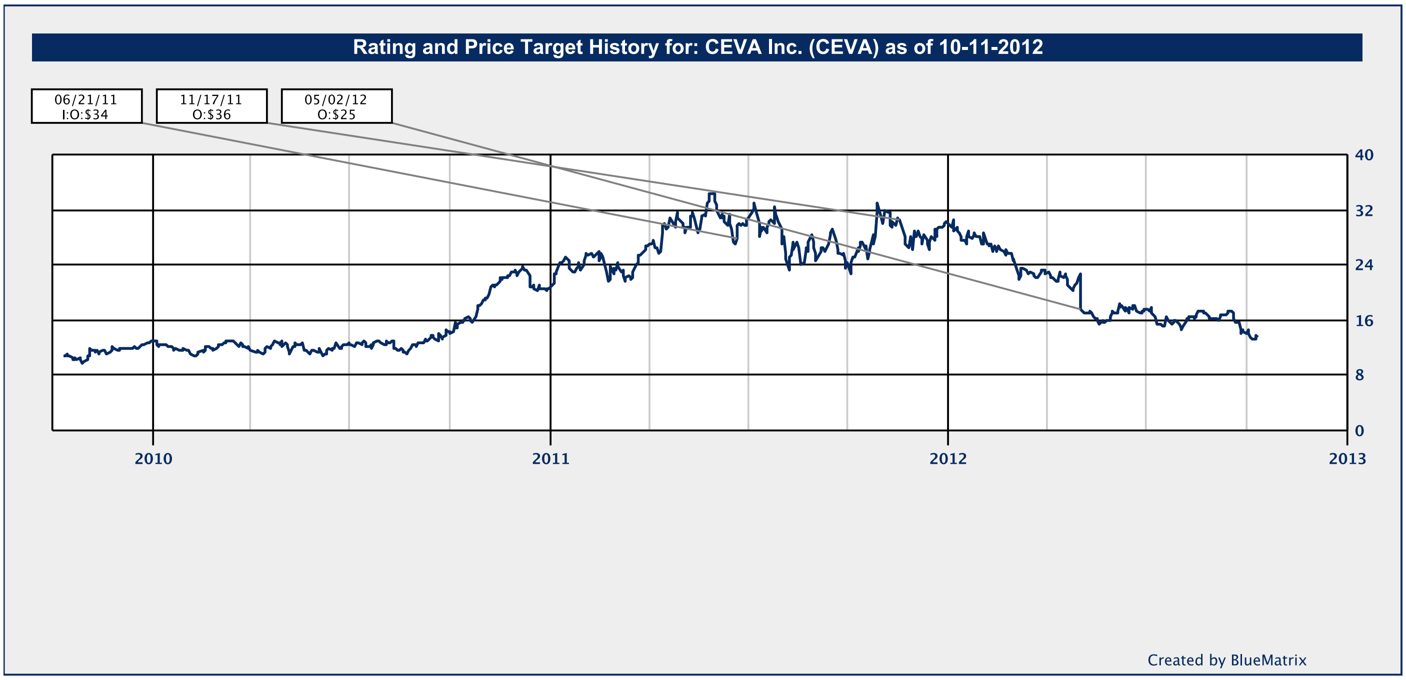
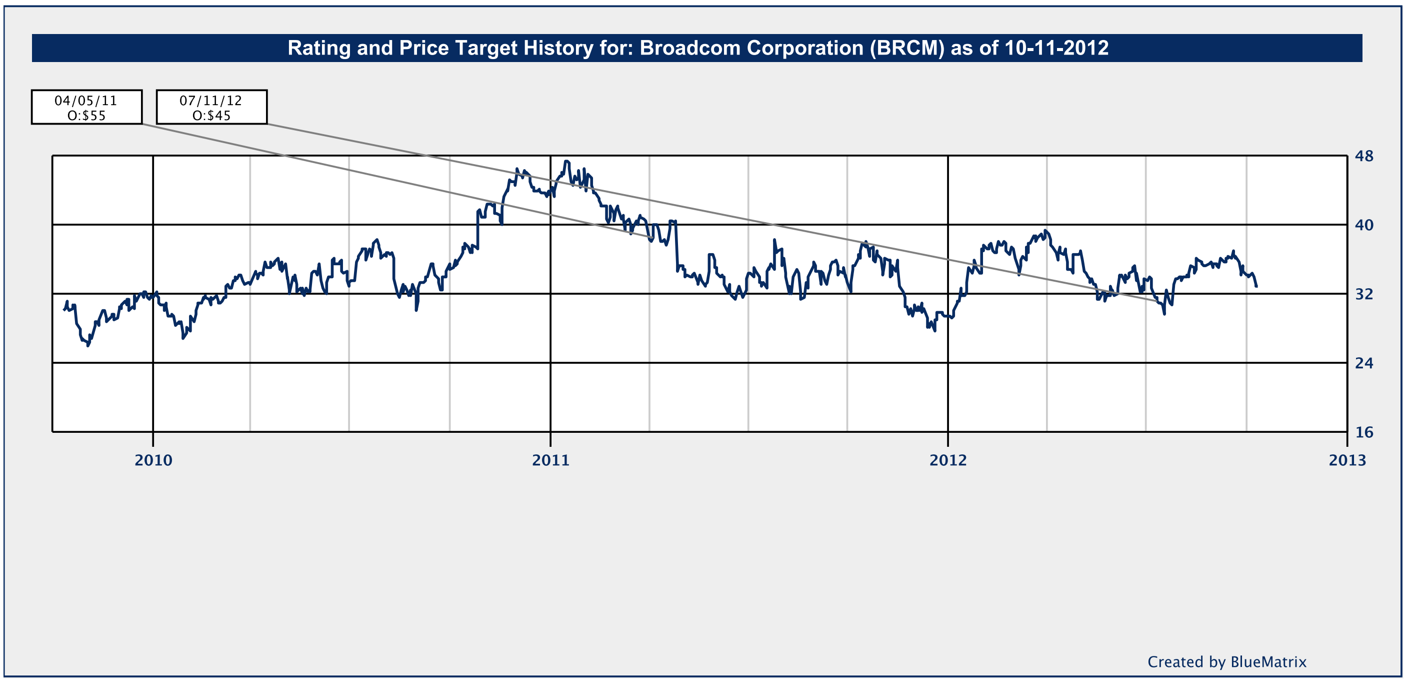
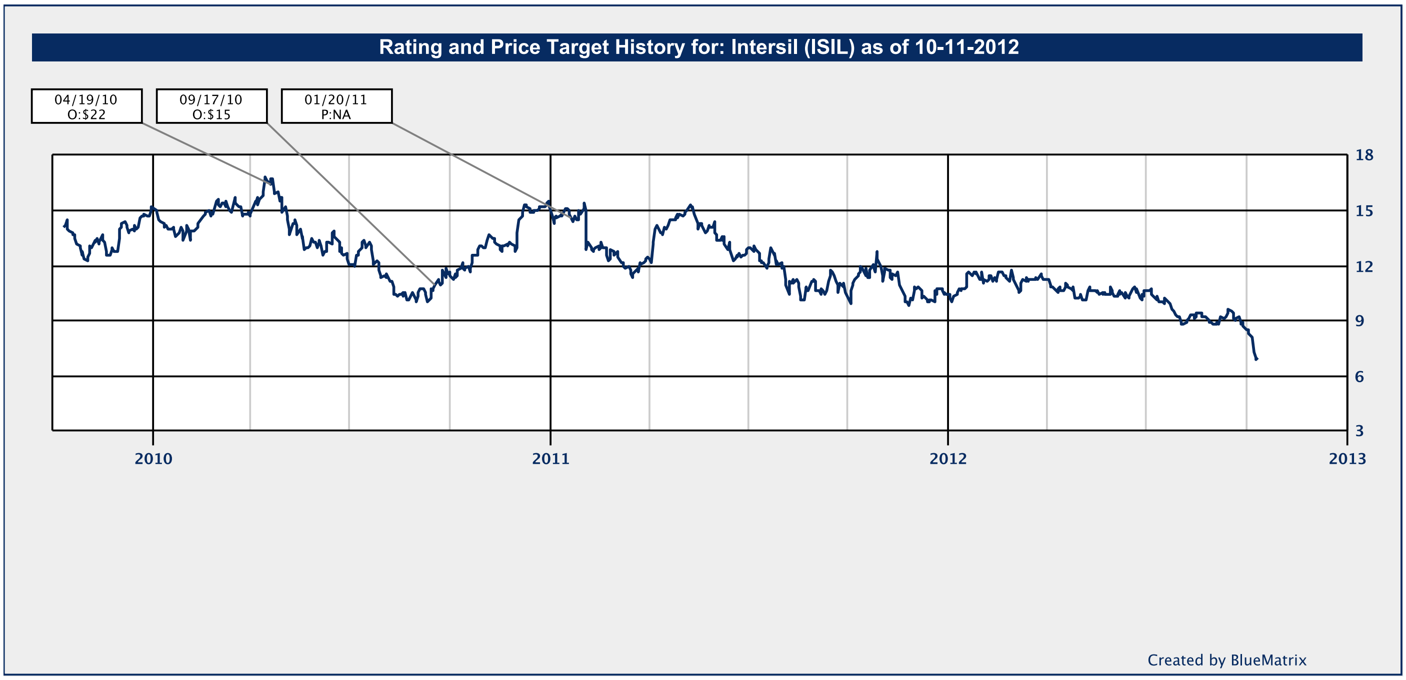
Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by Oppenheimer & Co. Inc:

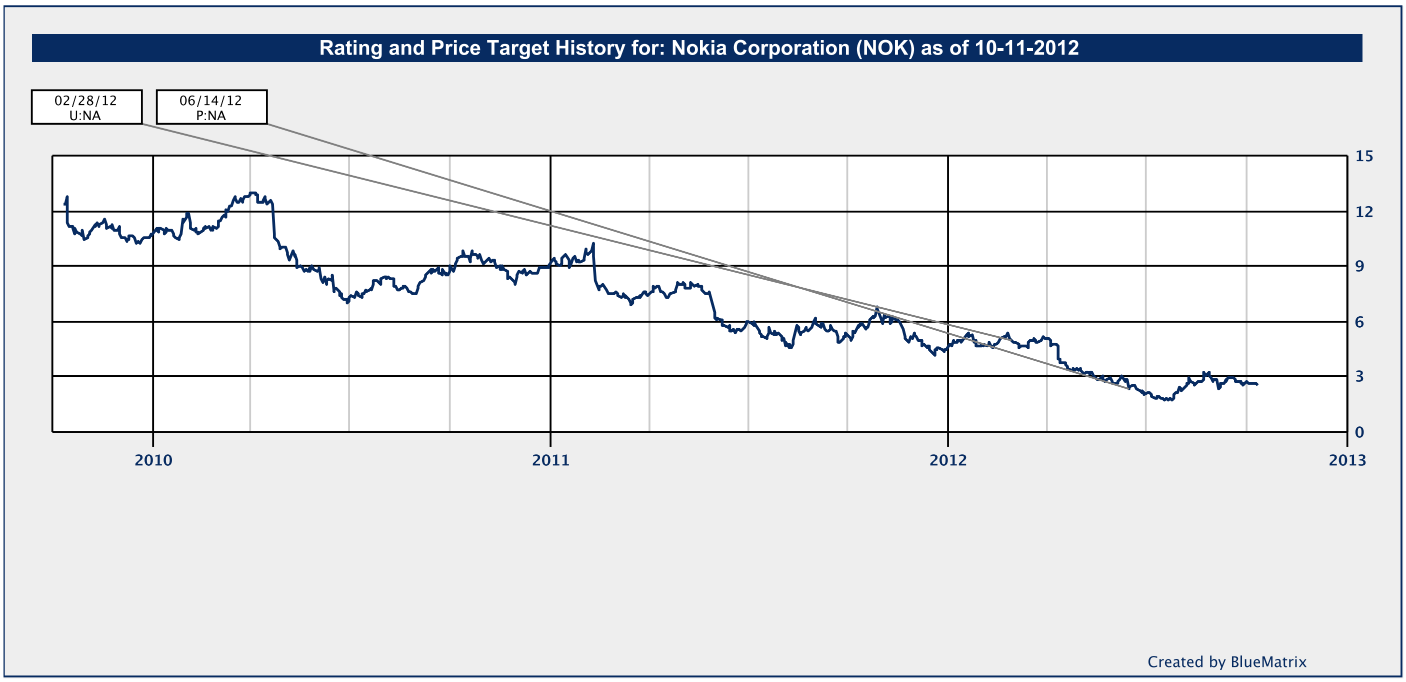
Stock Prices as of October 12, 2012

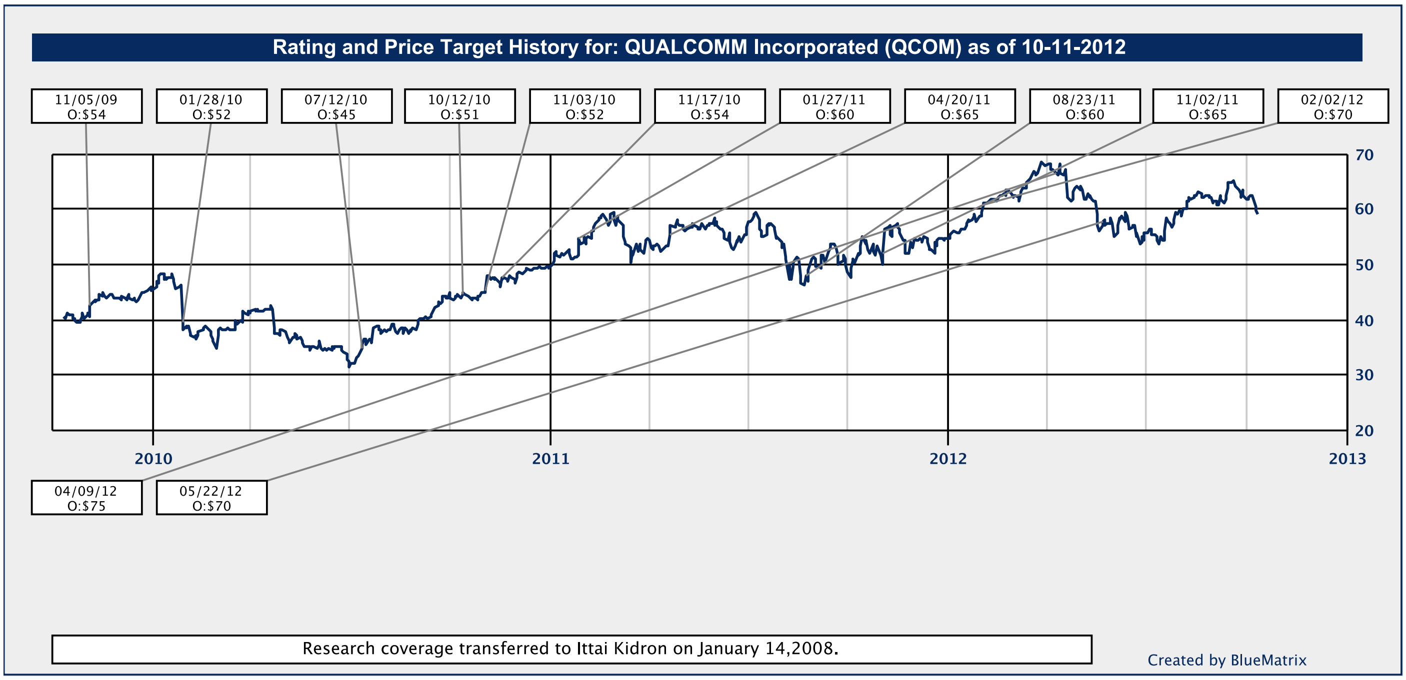
Broadcom Corporation (BRCM - NASDAQ, 32.87, OUTPERFORM)
Intersil (ISIL - NASDAQ, 6.97, PERFORM)
Nokia Corporation (NOK - NYSE, 2.55, PERFORM)
QUALCOMM Incorporated (QCOM - NASDAQ, 59.21, OUTPERFORM)


Rating and Price Target History for: CEVA Inc. (CEVA) as of 10-11-2012
06/21/11
I:O:$34
11/17/11
O:$36
05/02/12
O:$25
40
32
24
16
8
0
2010
2011
2012
2013
Created by BlueMatrix


Rating and Price Target History for: Broadcom Corporation (BRCM) as of 10-11-2012
04/05/11
O:$55
07/11/12
O:$45
48
40
32
24
16
2010
2011
2012
2013
Created by BlueMatrix


Rating and Price Target History for: Intersil (ISIL) as of 10-11-2012
04/19/10
O:$22
09/17/10
O:$15
01/20/11
P:NA
18
15
12
9
6
3
2010
2011
2012
2013
Created by BlueMatrix


Rating and Price Target History for: Nokia Corporation (NOK) as of 10-11-2012
02/28/12
U:NA
06/14/12
P:NA
15
12
9
6
3
0
2010
2011
2012
2013
Created by BlueMatrix



All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

Underperform (U) - Stock expected to underperform the S&P 500 within the next 12-18 months.

Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

Buy - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
OUTPERFORM [O]	314	54.80	137	43.63
PERFORM [P]	255	44.50	86	33.73
UNDERPERFORM [U]	4	0.70	1	25.00

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

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