

CBS Corp. (CBS) – Buy

CBS: 2Q10 Preview

CBS will release 2Q10 results after the close of the market on Tuesday, August 3rd, and will host a management conference call to discuss results at 4:30 pm ET. The call in number is (888) 452-4007.

2Q10 Estimate Revisions

We raise our 2Q10 revenue estimate slightly and retain our EPS estimate for 2Q10. We fine tune the EPS mix between 3Q and 4Q (owing to lack of syndication revenue in 3Q10 vs 3Q09) and higher political ad revenue in 4Q10, but we leave our FY10 EPS estimate unchanged at \$1.00.

Higher revenue in 2Q10 reflects better than expected scatter pricing in the Entertainment division and stronger than expected advertising sales at the TV and radio stations. Margins are up significantly y/y as most of the incremental ad growth falls directly to the EBITDA line.

2Q10 EPS remains the same as we are using a higher per share counts than in 1Q10. We estimate that CBS will report 2Q10 total revenue of \$3.245B (up 8% y/y and 2% above our previous estimates) and EPS from Continuing Operations of \$0.22 (up versus 2Q09 EPS of \$0.02 and no change from our prior estimates).

We maintain our BUY rating and \$19 target price for CBS

Earnings Preview

Market Data	
Price (07/20/10)	\$13.87
12-Month Price Target	\$19.00
52-Week range	\$16.71-7.23
Shares Out. (MM)	677.2
Market cap (MM)	\$9,392.3
Avg. daily volume (000)	10,681.1
Financial Data	
Total Debt/Cap.	43.5%
Price/LTM Rev.	0.7x
Tangible BVPS	(\$9.36)
Net Cash Per Share	(\$9.02)

CBS Corporation owns CBS Broadcasting, the #1 broadcast network in the US. CBS also operates about 30 TV stations around the country and owns 50% of The CW Network.

	FY	FY		FY	
	12/31/09 A	12/31/10 E		12/31/11 E	
		Old	New	Old	New
Rev. (MM)	\$13,014.6	\$13,869.6	\$13,692.8	\$14,313.3	\$14,015.3
Growth	(38.0%)	6.6%	5.2%	3.2%	2.4%
Op. Mar.	7.8%		12.1%		13.9%
EPS: 1Q	(0.05)	0.05	0.05A		
EPS: 2Q	0.02	0.22	0.22		
EPS: 3Q	0.30	0.34	0.26		
EPS: 4Q	0.25	0.40	0.45		
EPS: Year	0.53	1.00	1.00	1.18	1.18
Growth	(64.0%)	90.3%	89.2%	17.4%	18.6%
P/E Ratio	16.8x	13.8x	13.9x	11.8x	11.7x

Note: Pro forma earnings estimates displayed above do not include one-time items or any stock compensation expenses.



Disclosures applicable to this security: B.
 Disclosure explanation on the inside back cover of this report.

WHAT'S NEW?

EARNINGS ESTIMATE REVISIONS

We raise our revenue estimate and retain our EPS estimate for 2Q10. We fine tune the mix between 3Q and 4Q (owing to lack of syndication revenue in 3Q10 vs 3Q09) and higher political ad revenue, but we leave our FY10 EPS estimate unchanged at \$1.00. Figure A includes our FY10 and FY11 estimates, and compares these to consensus estimates.

Figure A

Fiscal Year Dec 31:	2Q10E	3Q10E	4Q10E	2010E	2011E
Rev Cur (\$mm)	\$3,245	\$3,143	\$3,774	\$13,693	\$14,015
Previous (\$mm)	\$3,178	\$3,503	\$3,658	\$13,870	\$14,313
Consensus (\$mm)	\$3,230	\$3,400	NA	\$13,940	\$14,220
EPS - Contg Ops	\$0.22	\$0.26	\$0.45	\$1.00	\$1.18
Previous	\$0.22	\$0.34	\$0.40	\$1.00	\$1.18
Consensus	\$0.21	\$0.31	NA	\$0.98	\$1.19
P/E				14.4	
Sources: Yahoo Finance, Needham & Company est.					

2Q10 ESTIMATES

Segment results for 2Q10 are expected to be as follows:

- **Entertainment** is expected to report revenue of \$1.62B, up 7% y/y and 1% above our estimates, and OIBDA of \$199M, down 5% y/y and 18% above our estimates. Better than expected results are expected to reflect the sale of *NCIS: Los Angeles* into syndication and better than expected results for new shows including *The Good Wife*, resulting in a longer time period over which to amortize costs.
- **Cable Networks** is expected to report revenue of \$351M, up 7% y/y and no change from our prior estimates, and OIBDA of \$123M, up 27% y/y and 19% below our estimates. We are lowering our 2Q10 estimates to reflect higher than previously estimated ad costs as well as lower than expected rate increases and sub growth at Showtime and CBS College Sports. In addition, we believe 1Q10 will be a more accurate measure of margins and results for FY10 and we lower our 2Q10 estimates.
- **Publishing** is expected to report revenue of \$178M, down 2% y/y and no change from our estimates, and OIBDA of \$14M, down 33% from our prior estimates. Our lower profitability estimates reflect a continued soft retail market.
- **Local Broadcasting** is expected to report revenue of \$672M, up 16% y/y and 7% above our previous estimates, and OIBDA of \$192M, up versus \$101M in 2Q09 and 7% above our previous estimates. Results reflect an improved advertising marketplace and TV stations ad sales pacing in the mid 20% range.
- **Outdoor** is expected to report revenue of \$464M, up 7% y/y and no change from our previous estimates, and OIBDA of \$84M, up versus \$8M in 2Q09, and no change from our previous estimates.

DETAILED 2Q10 EARNINGS ANALYSIS

Table 1 shows our estimates, current and prior, for CBS's fiscal 2Q10 EPS vs 2Q09 results.

Table 1					
CBS: June Quarter, 2Q09R vs. New 2Q10E vs Prior 2Q10E					
\$ and shares in millions, except per share data					
	2Q09R	New 2Q10E	Yr/Yr Chg	Prior 2Q10E	New/Old
Revenue					
Entertainment	\$1,516	\$1,620	7%	\$1,609	1%
Cable Networks	\$328	\$351	7%	\$351	0%
Publishing	\$181	\$178	-2%	\$178	0%
Local Broadcasting	\$580	\$672	16%	\$626	7%
Outdoor	\$434	\$464	7%	\$464	0%
Eliminations	(\$33)	(\$40)	23%	(\$50)	-20%
Total Revenue	\$3,006	\$3,245	8%	\$3,178	2%
OIBDA					
Entertainment	\$210	\$199	-5%	\$169	18%
Cable Networks	\$97	\$123	27%	\$151	-19%
Publishing	\$8	\$14	72%	\$21	-33%
Local Broadcasting	\$101	\$192	90%	\$178	7%
Outdoor	\$8	\$84	932%	\$84	0%
Segment OIBDA	\$423	\$611	44%	\$603	1%
Corp. & Intersegment Elims	(\$35)	(\$45)	30%	(\$35)	-29%
Residual Costs of Disc. Ops.	(\$35)	(\$26)	-26%	(\$33)	20%
Impairment Charges	\$0	\$0	NM	\$0	NM
Total OIBDA	\$353	\$540	53%	\$535	1%
Operating Income					
Entertainment	\$166	\$158	-5%	\$127	25%
Cable Networks	\$91	\$117	-29%	\$144	19%
Publishing	\$6	\$11	79%	\$18	-39%
Local Broadcasting	\$79	\$167	111%	\$153	9%
Outdoor	(\$25)	\$21	-183%	\$19	11%
Segment Op Income	\$317	\$473	49%	\$461	3%
Corp, Interseg. Elim.	(\$40)	(\$45)	14%	(\$35)	-29%
Residual Costs of Disc. Ops.	(\$35)	(\$26)	-174%	(\$33)	20%
Impairment Charges	\$0	\$0	NM	\$0	NM
Op Income	\$242	\$402	66%	\$393	2%
Net Interest Expense	(\$133)	(\$133)	0%	(\$138)	4%
Loss on Debt Extinguishment	(\$31)	\$0	NM	\$0	
Other Income (Expenses)	(\$4)	(\$2)	NM	(\$2)	0%
Income Before Tax	\$75	\$267	255%	\$253	6%
Provision for Taxes	(\$57)	(\$104)	NM	(\$99)	-6%
Equity in Inc of Affiliates	(\$3)	(\$10)	-223%	(\$10)	0%
Minority Interest	\$0	\$0	NM	\$0	
Net Income-Reported	\$15	\$153	894%	\$145	6%
NIAT from Disc Ops/Divest.	\$0	\$0	NM	\$0	NM
Net Income-Operations	\$15	\$153	894%	\$145	6%
EPS-Reported	\$0.02	\$0.22	873%	\$0.22	2%
EPS - Contg Ops	\$0.02	\$0.22	NM	\$0.22	0%
Avg. Diluted Shares Out.	680	695	2%	670	4%
Sources: Company Reports, Needham & Company estimates.					

Other FY10 Estimate Revisions

We are lowering our revenue estimates for FY10 by 1.3% to reflect the exclusion of approximately \$350mm of EIBTDA from last year's syndicate sales that will not recur in 3Q10. This lower revenue expectation in 3Q10 is partially offset by higher political ad spending in late 3Q and early 4Q10 resulting from the recent Supreme Court decisions lifting several political advertising restrictions. We retain our FY 10 EPS estimate of \$1.00.

FY11 Estimate Revisions

We lower our FY 2011 revenue estimates to reflect the exclusion of the Super Bowl from 2011. However, we maintain our EPS estimate of \$1.18 as the cost and expenses of producing the Super Bowl approximately equal its revenue.

TARGET PRICE

Our target price of \$19 is based on a DCF valuation. We use a WACC of 10.6% for CBS and a long-term nominal GDP growth rate of 2%. The standard DCF is widely used on Wall Street because it is a rigorous bottom-up valuation of the enterprise based on discounting its long-term cash flows and removing the impact of non-cash accounting conventions. Positives and negatives of this valuation methodology are highlighted beside the calculation in Table 5.

Our \$19 target price embeds a 10-year OIBDA growth rate of about 5.5% annually beginning in 2011 and represents an 8.3x multiple of forward year (2011E) OIBDA.

VALUATION

Our BUY rating is based on several forms of valuation, summarized in Table 2:

Table 2: CBS Valuation Summary & Conclusions		
2011E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales	1.2
2	EV/OIBDA	7.3
3	P/E	12.1
4	FCF/Share	\$1.53
5	EV/FCF	16.1
6	FCF Yield	11%
7	Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 3.0%	

Source: Needham & Company estimates.

1. The “**Breakeven DCF**” valuation methodology uses the current share price to calculate the market's growth expectations for the enterprise, including capital efficiency trends. This valuation methodology concludes that CBS must achieve a 10-year OIBDA compound annual growth rate of approximately 3% to justify its current share price. (Please see Table 6.)
2. In Table 7, we summarize several **valuation multiples** for Sales, OIBDA and P/E. CBS's EV/OIBDA trading multiple is approximately 7.3 x 2011E.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that CBS is currently valued at about 16.1x 2011E Free Cash flow and has an 11% free cash flow yield, making it one of the least expensive companies we cover.

4. In Table 9, we present our Comparative Industry valuation metrics which shows that CBS is one of the least expensive content companies we cover on several metrics.

INVESTMENT POSITIVES

CBS is our top pick in the media space. Our BUY rating and \$19 Target Price is based on the following building analytical factors. Secular positives that drive CBS's multiple expansion potential include:

1. **TV Wins Using a Purchase Funnel Framework.** Using a framework of the Purchase Funnel (see March 16, 2010 Needham & Company research report- "CBS: Raising Target Price Based on Purchase Funnel Analysis"), broadcasters appear least vulnerable to being disrupted by online advertising choices. Television viewing continues to rise, hitting new highs in 2009. The fact that broadcast TV has continued to grow in the face of the onslaught of online media alternatives and fracturing audiences implies there is something substantively different (and defensible) about broadcast TV. We think the Purchase Funnel framework suggests that "awareness" is the key channel strength (competitive advantage) of TV. Awareness goals require telling a huge number of people that your product exists. We also believe that, as the Internet increasingly fragments audiences, that the value of reach grows from the point of view of advertisers.
2. **Political Drives Faster Growth.** There are 3 long-term secular earnings growth drivers coming from political advertising over the next decade:
 - In January 2010, The Supreme Court overturned a 20-year-old ruling prohibiting corporations from using money from their general treasuries to pay for campaign ads. *We believe that this will drive higher corporate political spending*
 - In addition, in January 2010, the Court also overturned the portion of the McCain-Feingold campaign finance bill that barred labor unions and corporations from buying advertising in the final days of an election. Given that most political advertising is on local television stations where total (national and local) advertising minutes is limited to only 12-16 minutes (fewer minutes for local) per hour, this change implies higher prices in the days immediately before an election.
 - We believe that Scott Brown's Senate seat win in Massachusetts accelerates fund-raising on both sides of the aisle and redoubles the Republican party's resolve to try to take back the Senate this year,

Quantification- Direct Benefits. In total, before the Supreme Court decision and Scott Brown's win in Massachusetts, TNS was predicting total political spending of \$2.8B in the US in 2010. We think this confluence of events implies that political advertising spending will surprise to the upside in 2010.

- Because most political advertising is spent on local television stations, these events help TV station groups most.
- The largest owner of television stations in the US is CBS, with stations covering >40% of US households.
- We estimate that CBS generated \$160mm of political revenue 4 years ago in the last mid-term election—we estimate these events could add another \$50mm (at an 80% incremental margin) to CBS's 2010 EPS, representing

\$0.03/share. CBS has stated that it expects to generate political revenue of >\$200mm in 2010E.

Quantification- Indirect Benefits. In addition, when political advertising crowds out company advertising, it creates pent-up demand for advertising of products that raises pricing power and ad volumes after the election is over, especially in the important Christmas selling season.

3. **Retransmission Consent Fee Upside.** Recent deals between broadcasters and cable companies have been for cash at a much higher rate than predecessor deals, and well above consensus estimates. For example, we believe that the Jan 2010 Fox (NWS, Buy) retransmission consent deal with Time Warner Cable (TWC, Buy) elevated cash payments to FOX from TWC from \$0.10/month/subscriber in the last contract to \$0.40 going up to \$0.80 over 8 years in the new contract. CBS has stated publically that the contracts they currently have in place should add \$225mm to revenue, distributed as follows: \$100mm added to revenue in 2010, plus another \$75mm in 2011 plus another \$50mm in 2012. We believe that CBS typically has 3 year contracts which would imply that the increases would go higher upon re-negotiations. We expect retransmission consent cash payments paid to CBS to hit more than \$1.00/month/subscriber over the next 5 years.
4. **Toyota.** Toyota currently has \$20B of cash on its balance sheet and it has consumer brand image challenges stemming from accelerator, brake and steering issues in several of its automobile models. We believe Toyota will spend millions of advertising dollars over the next five years in an attempt to gain back consumers' trust in its brand in order to reclaim its position as the dominant auto maker in the US market.

Cyclical reasons driving EPS upside for CBS in 2010:

1. **Cost Cutting.** CBS cut about 15% out of its cost structure in FY09. This should result in upward EPS revisions during FY10 as advertising revenue rebounds.
2. **EPS Momentum.** 2009 was the worst ad recession in 30 years. The ad cycle appears to have bottomed and since CBS garners >70% of its revenue from advertising and advertising has >80% profit margins, there is enormous operating leverage in ad-driven businesses. A reversion to mean analysis suggests a strong EPS bounce for CBS in 2010. For example, CBS reported \$1.46 in 2008A. This fell to \$0.52 in 2009A. Consensus estimates for 2010E are \$0.93. We think this could be too low by \$0.15, depending on the strength of the economy as 2010 goes along. We are raising our 2010E EPS estimate to \$0.96 (from \$0.93).
3. **Financial Leverage.** CBS is an investment grade rated company (debt rating is BBB-) and has more than \$8B of debt (including the unfunded retirement liabilities it inherited from Westinghouse). As the credit markets ease, the risk of financial distress falls and CBS's cost of capital declines, benefiting shareholders and its share price.

Near-Term Catalysts Driving Share Price Strength:

Upfront Market Strength. With current scatter pricing up 25% over last years' (May 2009) upfront market plus political ad demand projected to be strong in 4Q10:

1. **Fear.** We expect advertisers to be fearful of either getting frozen out completely or facing much higher scatter prices in 4Q10 as they compete with political dollars for ad space. This should drive high demand for ad time in the upfront market for 4Q10, to lock in price and availability of ad time by advertisers in 4Q10.
2. **Christmas Selling Season.** Secondly, the 2010 midterm elections will be held on Tuesday, November 2, 2010: At least 36 of the 100 seats in the Senate will be contested and all U.S. House seats will be up for election. An advertiser won't be able to buy time at a reasonable price in the 3 weeks before November 2nd so if they don't buy time in the upfront market in May 2010, they are faced with only 5-7 weeks during the crucial Christmas selling season after election day.

#1 Network. Last year, CBS's upfront CPMs were strongest among all TV channels, down 1-3%, and we expect CBS to be at the high end again, probably up mid-to-high single digits in this year's (May 2010) upfront.

Business fundamentals underlying our BUY recommendation include:

1. **Strong Market Positions.** CBS's businesses represent a collection of preeminent classic media assets, with number one or number two market positions in each of its major business segments.
 - **CBS Network.** The CBS network is the #1 (in ratings & revenue) broadcast network in the US. Its turn-around from worst to first over the past decade has been orchestrated by the same people who have the biggest equity stakes in CBS. CBS's largest asset, the CBS network, should report revenue growth in 2010 owing to limited advertising inventory (only 16 min/hour of ads), few competitors (only 3 other broadcast networks), and ratings strength. In addition, current scatter advertising rates are up 25% above the upfront prices set in May 2009. Finally, we estimate that 2010 will add an extra \$160mm of political revenue (similar to 2006A levels) implying 1.5% revenue growth for CBS in FY10 from this source alone. CBS's prime time line up is very strong as it includes 3 different *CSI* Series, *Two and a Half Men*, *The Mentalist*, *The Good Wife* and *Survivor*. The broadcast network cycle is measured in decades (ie, the network on top stays there a long time, and takes years to displace). Many of CBS's most popular shows are not old (>10 years on-air). The original *CSI* series is in its 10th year, *CSI-Miami* is in its 8th year, and *CSI-NY* is in its 5th year. *NCIS* is in its 7th year and is having its best ratings year ever, and the new *NCIS-LA* has strong ratings in its second year. Several of CBS's strongest shows are less than 3 years old, implying another decade of relevance.
 - **Syndication.** CBS is the largest producer of primetime and syndicated broadcast TV content in the world, producing or selling more than half of the top 10 syndicated shows on TV (*Wheel of Fortune*, *Jeopardy*, *Oprah Winfrey*, *Dr Phil*, *Entertainment Tonight*, *Judge Judy*, etc.)

- **Station Group.** The CBS O&Os reach about 40% of total US TV households, making it the largest TV group in the US. It also owns a second TV station in 9 markets giving it “duopoly” reach in 20% of US households.
- **CBS Radio** is the second-largest radio operator in terms of revenue in the US. We estimate that CBS Radio represents more than 15% of total radio industry revenue.
- 2. **Economic Sensitivity.** With about 65% of its revenue ad-driven, CBS has a very concentrated exposure to advertising and particularly local advertising (with radio, TV stations and outdoor). If the economy improves, we believe earnings estimate can over-deliver estimates in 2010. Owing to strong operating leverage, CBS’s EBITDA typically rises much faster than its revenue.
- 3. **Return of Capital.** CBS currently pays a dividend of \$0.05/quarter (\$0.20 year), representing a 1.4% dividend yield, somewhat below the average S&P 500 dividend yield of 1.75%. We expect CBS to maintain leverage at its current level and to use its strong free cash flow (about \$1.1B in 2010E) to increase the dividend, repurchase shares, lower the unfunded pension obligations (essentially tax-advantaged debt repayment), and potentially make small acquisitions that would add incremental EBITDA growth.
- 4. **Returns-on-Capital (ROIC).** CBS has the highest marginal returns on capital of any company that we cover. That is, at about 3x, CBS has the highest multiple of free cash flow to incremental capital spending. CBS’s 10% free cash flow yield is the highest of any company we cover.
- 5. **New Revenue Streams.** CBS’s fastest growing revenue streams are from retransmission consent fees (from cable, satellite and Telcos) and on-demand revenue sharing fees. Although small today, revenue streams from new devices have almost no incremental cost (80% profit margin) and therefore drive profit growth faster than revenue.
- 6. **Library Values.** The CBS television library has hidden value and high barriers to entry. For example, the *I Love Lucy* show was last aired in 1957, but generated about \$25mm in profit in 2009, by our estimates. Content libraries are long-lived assets that generate FCF over many years and have historically increased in value over time because they drive new distribution technology adoption rates.
- **Management Quality.** CBS’s CEO, Les Moonves, is an excellent motivator and manager of talent in a business where teams of talent are THE key value driver. As a television programmer, he and his programming team are at the top of the pyramid. As a public company, stock options more closely align executives’ incentives with public shareholders, which should result in improved operating performance and strategic focus.

RISKS TO OUR TARGET PRICE

1. **Contingent Liabilities.** CBS had contingent liabilities of underfunded pension and post retirement benefits of about \$1.7 billion at 3/31/10. This is the amount by which plan benefits payable exceeded their assets. Unlike debt, it is unclear what the ultimate value of these liabilities will be as these are defined benefit plans. It could be much less if the entitled retirees die earlier than actuarial assumptions or it could be greater if they live longer, health care costs rise faster, or the return on the investment portfolio falls.

2. **Intellectual Property Rights.** Digital technology, with its ease of use and low cost of duplication, represents the dark side of technology and a significant challenge to content owners in the form of Intellectual Property Rights (IPR) management. The mass adoption of broadband takes the IPR challenge from music into the television environment.
 3. **TV Industry Risks.** Approximately 70% of CBS's 2010E Revenue is from the Television group. TV is experiencing audience erosion from new cable networks, the Internet, video games, and DVDs. In addition, the growing penetration of DVRs and resultant commercial skipping threatens the long term value of TV broadcasting to advertisers.
 4. **Network Cycle.** When CBS's leading position in the network business ends, the earnings declines could be severe. For example, in 2000 the NBC broadcast network was first in adults 18-49 and reported \$640mm of operating income. As NBC's ratings fell, their losses mounted to \$250mm in 2009 by our estimate. This swing in popularity from first to worst is the fate that may await CBS.
 5. **Radio.** At about 9% of revenue, the radio segment is the second largest contributor to CBS's OIBDA. Issues include the loss of listeners to satellite radio and higher capital spending tied to the upgrade to digital radio.
 6. **Ownership.** Sumner Redstone is CBS's controlling shareholder through an A/B voting structure. If other parts of his business empire become overleveraged or troubled, he may be required to sell CBS shares.
- **Regulatory Limits.** Because Sumner Redstone controls both CBS Corp and Viacom (VIAb, Buy), the FCC and DOJ treat them as if they are the same company from the point of view of granting broadcast licenses and cross media ownership restrictions. These limits could preclude execution of strategic imperatives.

COMPANY DESCRIPTION

CBS Corporation owns CBS Broadcasting, the #1 broadcast network in the US. CBS also operates about 30 TV stations around the country and owns 50% of The CW Network. On cable, CBS owns the movie channel Showtime and the sports channel CBS College Sports Network. It creates and distributes programming through CBS Television Distribution Group and CBS Paramount Network Television. In addition to TV, the company owns CBS Radio, CBS Outdoor, and book publisher Simon & Schuster. Chairman Sumner Redstone controls CBS Corp. through his National Amusements movie theater chain.

Table 3										
CBS: Quarterly Income Statement Projections, 2010E										
\$ and shares in millions, except per share data										
	3/31/10A	6/30/10E	9/30/10E	12/31/10E	2010E	Year/Year Change				
						Q1	Q2	Q3	Q4	2010E
REVENUE										
Entertainment	\$2,082	\$1,620	\$1,554	\$1,979	\$7,234	15%	7%	-15%	9%	4%
Cable Networks	\$368	\$351	\$354	\$371	\$1,445	8%	7%	7%	7%	7%
Publishing	\$152	\$178	\$226	\$216	\$771	-6%	-2%	-2%	-2%	-3%
Local Broadcasting	\$606	\$672	\$617	\$755	\$2,649	19%	16%	5%	11%	12%
Outdoor	\$392	\$464	\$442	\$503	\$1,802	3%	7%	4%	4%	5%
Eliminations	(\$68)	(\$40)	(\$50)	(\$50)	(\$208)	35%	23%	-8%	5%	12%
Total Revenue	\$3,531	\$3,245	\$3,143	\$3,774	\$13,693	12%	8%	-6%	8%	5%
OIBDA, incl. SBC										
Entertainment	\$145	\$199	\$199	\$257	\$800	-4%	-5%	-39%	35%	-9%
Cable Networks	\$101	\$123	\$161	\$163	\$548	21%	27%	26%	7%	993%
Publishing	\$4	\$14	\$25	\$30	\$73	NM	-86%	-81%	-87%	-86%
Local Broadcasting	\$134	\$192	\$219	\$306	\$850	148%	90%	68%	NM	404%
Outdoor	\$32	\$84	\$57	\$101	\$274	24%	NM	NM	47%	63%
Segment OIBDA	\$416	\$611	\$662	\$858	\$2,546	32%	44%	3%	31%	23%
Corp. & Intersegment Elims	(\$39)	(\$45)	(\$47)	(\$40)	(\$171)	36%	30%	35%	-19%	
Residual Costs of Disc. Ops.	(\$26)	(\$26)	(\$26)	(\$26)	(\$104)	-26%	-26%	229%	26%	-12%
Impairment Charges	\$1	\$0	\$0	\$0	\$1					
Total OIBDA	\$351	\$540	\$589	\$792	\$2,272	41%	53%	3%	103%	43%
Less Restructuring Charge	(\$57)									
Operating Income										
Entertainment	\$104	\$158	\$158	\$216	\$636	-3%	-5%	-44%	47%	-9%
Cable Networks	\$95	\$117	\$154	\$157	\$524			26%	7%	20%
Publishing	\$2	\$11	\$22	\$27	\$62	NM	NM	-17%	NM	47%
Local Broadcasting	\$110	\$167	\$194	\$281	\$751	244%	111%	NM	38%	78%
Outdoor	(\$31)	\$21	(\$8)	\$36	\$18	-20%	NM	NM	NM	-119%
Segment Op Income	\$280	\$473	\$521	\$718	\$1,991	59%	49%	11%	40%	32%
Corp, Interseg. Elim.	(\$44)	(\$45)	(\$47)	(\$40)	(\$176)	32%	14%	19%	-26%	6%
Residual Costs of Disc. Ops.	(\$26)	(\$26)	(\$26)	(\$26)	(\$104)	-28%	-26%	117%	-26%	-12%
Impairment Charges	(\$57)	\$0	\$0	\$0	(\$57)					
Op Income	\$153	\$402	\$448	\$652	\$1,655	43%	66%	16%	168%	64%
Net Interest Expense	(\$137)	(\$133)	(\$128)	(\$128)	(\$526)	5%	0%	-4%	-7%	-2%
Early Debt Extinguishment	\$2	\$0	\$0	\$0	\$2					
Other Income (Expenses)	(\$13)	(\$2)	(\$2)	(\$2)	(\$19)	10%	-43%	-113%	-9%	635%
Income Before Tax	\$6	\$267	\$318	\$522	\$1,113	-116%	255%	19%	404%	151%
Provision for Taxes	(\$21)	(\$104)	(\$124)	(\$196)	(\$445)	139%	83%	55%	423%	143%
Equity in Inc of Affiliates	(\$11)	(\$10)	(\$10)	(\$10)	(\$41)	-2%	223%	-17%	37%	22%
Minority Interest	\$0	\$0	\$0	\$0	\$0					
Net Income-Reported	(\$26)	\$153	\$184	\$316	\$627					177%
Non Recurring, net	\$61	\$0	\$0	\$0	\$61					
Net Income-Operations	\$34	\$153	\$184	\$316	\$687	-195%	894%	-11%	85%	92%
EPS - Reported	(\$0.04)	\$0.22	\$0.26	\$0.45	\$0.91	NM	873%	3%	434%	173%
EPS - Contg Ops	\$0.05	\$0.22	\$0.26	\$0.45	\$1.00	NM	873%	-13%	83%	89%
Avg. Dil Shs Out.	676	695	695	695	690					

Sources: Company Reports, Needham & Company estimates.

Table 4					
CBS: Reclassified Annual Income Statement Projections, 2008-2011E					
\$ and shares in millions, except per share data					
FYE 12/31	2008A	2009A	2010E	2011E	'08-'11 CAGR
Revenue					
Entertainment	\$6,879	\$6,977	\$7,234	\$7,342	2.2%
Cable Networks	\$1,265	\$1,347	\$1,445	\$1,517	6.3%
Publishing	\$858	\$794	\$771	\$763	-3.8%
Local Broadcasting	\$2,950	\$2,360	\$2,649	\$2,782	-1.9%
Outdoor	\$2,171	\$1,723	\$1,802	\$1,811	-5.9%
Eliminations	(\$172)	(\$185)	(\$208)	(\$200)	5.2%
Total Revenue	\$13,950	\$13,015	\$13,693	\$14,015	0.2%
OIBDA					
Entertainment	\$1,023	\$876	\$800	\$822	-7.0%
Cable Networks	\$390	\$461	\$548	\$622	16.9%
Publishing	\$88	\$50	\$73	\$76	-4.7%
Local Broadcasting	\$820	\$513	\$850	\$779	-1.7%
Outdoor	\$467	\$169	\$274	\$344	-9.7%
Segment OIBDA	\$2,788	\$2,069	\$2,546	\$2,644	-1.8%
Corp. & Intersegment Elims	(\$157)	(\$147)	(\$171)	(\$190)	6.5%
Residual Costs of Disc. Ops.	(\$77)	(\$118)	(\$104)	(\$105)	11.1%
Impairment Charge	(\$14,181)	(\$211)	\$1	\$0	
OIBDA, Bef Impairment	\$2,554	\$1,805	\$2,272	\$2,349	NM
OIBDA, After Impairment	(\$11,627)	\$1,594	\$2,272	\$2,349	
Operating Income					
Entertainment	\$883	\$700	\$636	\$658	-9.3%
Cable Networks	\$364	\$437	\$524	\$598	18.0%
Publishing	\$79	\$43	\$62	\$66	-5.5%
Local Broadcasting	\$720	\$422	\$751	\$679	-2.0%
Outdoor	\$224	(\$97)	\$18	\$244	3.0%
Segment Op Income	\$2,270	\$1,505	\$1,991	\$2,246	-0.4%
Corp, Interseg. Elim.	(\$170)	(\$166)	(\$176)	(\$190)	3.7%
Residual Costs of Disc. Ops.	(\$77)	(\$118)	(\$104)	(\$105)	11.1%
Impairment Charge	(\$14,117)	\$0	\$0	\$0	
Op Income, Before Impairment	\$2,023	\$1,221	\$1,655	\$1,951	-1.2%
Op Income, After Impairment	(\$12,159)	\$1,011	\$1,655	\$1,951	NM
Net Interest Expense	(\$504)	(\$536)	(\$526)	(\$505)	
Other Income (Expenses)	\$88	(\$3)	\$2	(\$20)	
Income Before Tax	(\$12,575)	\$443	\$1,113	\$1,426	
Provision for Taxes	\$919	(\$183)	(\$445)	(\$570)	
Equity in Inc of Affiliates	(\$18)	(\$34)	(\$41)	(\$35)	
Minority Interest	(\$1)	\$0	\$0	\$0	
Net Income-Contg Ops	(\$11,674)	\$227	\$627	\$820	
Acct. Change, Disc. Ops	\$12,767	\$132	\$0	\$0	
Net Income-Reported	\$984	\$359	\$687	\$820	-5.9%
EPS - Reported	(\$17.43)	\$0.33	\$0.91	\$1.18	
EPS - Contg Ops	\$1.46	\$0.53	\$1.00	\$1.18	-6.9%
Avg. Diluted Shares Out.	673	682	690	695	1.1%

Sources: Company Reports, Needham & Company estimates.

Table 5

CBS: Target Price DCF Calculation

\$ and shares in millions, except per share data

Valuation Conclusions		% of Total
Sum of PV of Free Cash Flow ¹	\$11,291	53%
PV of Terminal Value Discounted at WACC ¹	\$10,038	47%
Value of Operations (WACC Method)	\$21,329	99%
Plus: Excess Cash at 12/31/11E	\$1,500	
Plus: Non-Consolidated Assets (From PMV)	\$76	
Less: Minority Interest	(\$5)	
Less: Unfunded Retirement Liabilities	(\$1,400)	
Enterprise Value	\$21,500	100%
Less: Debt at 12/31/11E	(\$6,500)	
Less: Lease Obligations	(\$850)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$900)	
Common Equity Value	\$13,250	62%
Fully Diluted Shares Out, 2011E	695	
DCF Value/Share	\$19.06	
Current Share Price @ 7/14/10	\$14.32	
Upside Potential (DCF-Current Price/Current Price)	33%	

Standard Discounted Cash Flow (DCF) Valuation

Why We Calculate: DCF is a rigorous bottoms-up valuation of the enterprise focusing on cash flows (not accounting)

Strengths

- 1 Focuses on operations. Removes financing
- 2 Focuses on FCF. Removes non-cash accounting
- 3 Explicitly forecasts capital needs (WC & CapX)
- 3 Uses a levered beta (widely available)
- 4 Ent value focus captures entire business model

Weaknesses

- 1 Many assumptions. Valuation can be manipulated
- 2 Terminal value big & based on low visibility projections
- 3 Model assumes constant debt/equity ratio
- 4 Complex to calculate
- 5 Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR '12-21E
OIBDA (after sk comp exp & corp):	\$2,348	\$2,449	\$2,555	\$2,665	\$2,779	\$2,899	\$3,023	\$3,153	\$3,289	\$3,430	\$3,578	4.3%
- Depreciation	(\$578)	(\$493)	(\$478)	(\$492)	(\$507)	(\$478)	(\$470)	(\$484)	(\$498)	(\$513)	(\$528)	
+ Option Exercise Proceec	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	
+ Int & Inv Income only	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	
EBIT	\$1,800	\$1,986	\$2,107	\$2,203	\$2,303	\$2,451	\$2,584	\$2,700	\$2,821	\$2,948	\$3,080	
Cash Taxes (at 31%)	(\$270)	(\$596)	(\$632)	(\$661)	(\$691)	(\$735)	(\$775)	(\$810)	(\$846)	(\$884)	(\$924)	
Plus: Depreciation	\$578	\$493	\$478	\$492	\$507	\$478	\$470	\$484	\$498	\$513	\$528	
Plus: Sk Based Comp Exp	\$130	\$130	\$130	\$120	\$120	\$120	\$120	\$120	\$120	\$120	\$120	
Working Capital Change	(\$125)	(\$116)	(\$119)	(\$123)	(\$127)	(\$120)	(\$117)	(\$121)	(\$124)	(\$128)	(\$132)	
Less: Capital Spending	(\$282)	(\$290)	(\$299)	(\$308)	(\$317)	(\$299)	(\$294)	(\$302)	(\$311)	(\$320)	(\$330)	
FCF from Operations	\$1,832	\$1,607	\$1,665	\$1,723	\$1,795	\$1,895	\$1,987	\$2,070	\$2,157	\$2,248	\$2,342	4.3%
PV Discounted at WACC ²		\$1,454	\$1,362	\$1,275	\$1,202	\$1,148	\$1,088	\$1,026	\$967	\$911	\$859	
Sum of PV of Free Cash Flow											\$11,291	
Terminal Value of 2021E FCF ³											\$27,379	
PV of Terminal Value at WACC ²											\$10,038	
Discount Period		1	2	3	4	5	6	7	8	9	10	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.15
Target Equity/(Debt + Equity)	90%
Debt Rating	BBB-
Debt Spread	6.4%
Marginal Tax Rate ("T")	40.0%
WACC	10.6%
$(RFR + (Equity Risk Premium \times Beta)) \times Equity/Total Capital + ((RFR + Debt Spread) \times (1-T) \times Debt/Total Capital)$	

³ Calculation of Terminal Multiple (WACC Method)

WACC	10.6%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.6%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.7
EBITDA Terminal Mutiple	7.7

Sources: Company Reports, Needham & Company estimates.

Table 6

CBS: Breakeven Discounted Cash Flow Valuation Calculation, 2012E - 2021E

\$ and shares in millions, except per share data

Valuation Conclusions	% of Total	
Sum of PV of Free Cash Flow ¹	\$9,295	51%
PV of Terminal Value Discounted at WACC ¹	\$8,727	48%
Value of Operations (WACC Method)	\$18,022	99%
Plus: Excess Cash at 12/31/11E	\$1,500	
Plus: Non-Consolidated Assets (From PMV)	\$76	
Less: Minority Interest	(\$5)	
Less: Unfunded Retirement Liabilities + Residual Costs	(\$1,400)	
Enterprise Value	\$18,193	100%
Less: Debt at 12/31/11E	(\$6,500)	
Less: Lease Obligations	(\$850)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$900)	
Common Equity Value	\$9,943	55%
Fully Diluted Shares Out, 2011E	695	
Breakeven DCF Value/Share	\$14.31	
Current Share Price @ 7/14/10	\$14.32	
Discount to DCF Value (DCF-Current Price/DCF)	0%	

Breakeven Discounted Cash Flow Valuation

Why We Calculate: BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.

Strengths

- 1 Makes no assumption about growth for first 10 years
- 2 Prevents over-optimism by working backwards
- 3 Data widely available and model well understood
- 4 Explicitly forecasts capital needs (WC & CapX)
- 5 Uses a levered beta (widely available)

Weaknesses

- 1 Terminal value big & based on low visibility projections
- 2 Model assumes constant debt/equity ratio
- 3 Complex to calculate
- 4 Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Required LT Growth Rate
OIBDA (after sk comp exp & corp):	\$2,348	\$2,418	\$2,489	\$2,563	\$2,638	\$2,716	\$2,796	\$2,879	\$2,963	\$3,051	\$3,141	3.0%
- Depreciation	(\$578)	(\$493)	(\$478)	(\$492)	(\$507)	(\$478)	(\$470)	(\$484)	(\$498)	(\$513)	(\$528)	
+ Option Exercise Proceed	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	
+ Int & Inv Income only	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	
EBIT	\$1,800	\$1,955	\$2,041	\$2,101	\$2,162	\$2,268	\$2,356	\$2,425	\$2,496	\$2,568	\$2,643	
Cash Taxes (at 31%)	(\$558)	(\$586)	(\$612)	(\$630)	(\$648)	(\$680)	(\$707)	(\$727)	(\$749)	(\$770)	(\$793)	
Plus: Depreciation	\$578	\$493	\$478	\$492	\$507	\$478	\$470	\$484	\$498	\$513	\$528	
Plus: Sk Based Comp Exp	\$130	\$130	\$130	\$120	\$120	\$120	\$120	\$120	\$120	\$120	\$120	
Working Capital Change	(\$125)	(\$116)	(\$119)	(\$123)	(\$127)	(\$120)	(\$117)	(\$121)	(\$124)	(\$128)	(\$132)	
Less: Capital Spending	(\$282)	(\$290)	(\$299)	(\$308)	(\$317)	(\$299)	(\$294)	(\$302)	(\$311)	(\$320)	(\$330)	
FCF from Operations	\$1,544	\$1,585	\$1,619	\$1,652	\$1,696	\$1,767	\$1,828	\$1,878	\$1,929	\$1,982	\$2,036	
PV Discounted at WACC ² -12%	\$1,408	\$1,278	\$1,128	\$1,020	\$936	\$853	\$771	\$698	\$631	\$571		
Sum of PV of Free Cash Flow											\$9,295	
Terminal Value of 2021E FCF [~]											\$23,802	
PV of Terminal Value at WACC ²											\$8,727	
Discount Period		1	2	3	4	5	6	7	8	9	10	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.15
Target Equity/(Debt + Equity)	90%
Debt Rating	BBB-
Debt Spread	6.4%
Marginal Tax Rate ("T")	40.0%
WACC	10.6%
(RFR+(Equity Risk Premium x Beta)) x Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x Debt/Total Capital).	

³ Calculation of Terminal Multiple (WACC Method)

WACC	10.6%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.6%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.7
EBITDA Terminal Multiple	7.6

Sources: Company Reports, Needham & Company estimates.

Table 7		
CBS: Valuation Multiples (Sales, OIBDA, P/E)		
\$ and shares in millions, except per share data		
Valuation Conclusions		2011E
Market-Based Enterprise Value ¹		\$17,126
2011E Sales (From Annual Projections)		\$13,936
EV/Sales		1.2
Market-Based Enterprise Value ¹		\$17,126
2011E OIBDA (From Annual Projections)		\$2,348
EV/OIBDA		7.3
Target Price		\$19.00
Target Price EV/2012 OIBDA		8.3
Current Price	7/14/10	\$14.32
2011E EPS (From Annual Projections)		\$1.18
P/E Ratio		12.1
¹ Calculation of Market-Based Enterprise Value		
Year End 12/31:		<u>2011E</u>
Current Share Price	07/14/10	\$14.32
Fully Diluted Shares Out		<u>695</u>
Market Capitalization		\$9,952
Less: Excess Cash		(\$1,500)
Less: Non-Consolidated Assets		(\$76)
Plus: Unfunded Retirement Liabilities		\$1,400
Plus: Debt at 12/31/11E		\$6,500
Plus: Lease Obligations		\$850
Plus: Preferred Stock Outstanding		\$0
Plus: Options & Restricted Sk Outstanding		<u>\$900</u>
Market-Based Enterprise Value		\$17,126
Sources: Company Reports, Needham & Company estimates.		

Table 8		
CBS: Free Cash Flow Valuation Metrics		
\$ and shares in millions, except per share data		
Valuation Conclusions		2011E
FCF/Share ²		\$1.53
Current Price	7/14/10	\$14.32
FCF Yield		11%
FCF ²		\$1,061
2011E OIBDA (From Annual Projections)		\$2,348
FCF Conversion Rate (FCF/OIBDA)		45%
Market Based Enterprise Value ¹		\$17,126
FCF ²		\$1,061
EV/FCF		16.1
Net Debt/OIBDA		2.7
Net Debt		\$6,400
Net Debt/Market Cap		64%
² Calculation of Free Cash Flow		
Year End 12/31:		<u>2011E</u>
OIBDA		\$2,348
Plus: Option Exercise Proceeds		\$20
Less: Cash Interest Expense		(\$505)
Minority Interest		\$0
Less: Dividends		(\$138)
Less: Operating Cash Taxes		(\$258)
Less: Change in Working Capital		(\$116)
Less: Capital Spending		<u>(\$290)</u>
Free Cash Flow		\$1,061
Shares Outstanding		695
FCF/Share		\$1.53
Sources: Company Reports, Needham & Company estimates.		

Table 9													
Summary Comparative Financial & Valuation Information													
\$ and shares in millions, except per share data													
Laura Martin's Coverage				2011E Multiples					7/14/10			Conflicts Disclosure	
Sorted by Industry	Ticker	Market Cap (\$B)	Rating	EV/ EBITDA	P/E	EV/ FCF	FCF Yield	Break-even DCF	Target Price	Current Price	Target/ Current		
Content Companies													
1	CBS	\$10	BUY	7.3	12.1	16.1	10.7%	3.0%	\$19.00	\$14.32	33%	B	
2	Disney	\$64	HOLD	7.9	14.7	47.5	2.4%	8.6%	NA	\$34.24		B	
3	NewsCorp	\$38	BUY	6.9	13.8	17.6	6.1%	1.6%	\$20.00	\$14.83	35%	B, G	
4	Time Warner Inc	\$35	HOLD	7.4	12.5	18.2	7.7%	1.2%	NA	\$30.44		B	
5	Viacom	\$21	BUY	6.1	11.1	20.0	6.0%	3.3%	\$43.00	\$33.67	28%	B	
6	Warner Music	\$0.7	BUY	6.1	(5.8)	13.5	23.7%	-6.3%	\$8.50	\$4.60	85%	B	
Industry Total/Average		\$168		6.9	9.7	22.1	9.4%	1.9%	NA	\$22.02	NA		
Cable Companies													
7	Mediacom	MCCC	\$0.5	HOLD	7.4	NMF	NMF	NMF	2.6%	NA	\$7.00		B, G
8	Time Warner Cable	TWC	\$20	BUY	5.4	13.4	20.8	9.3%	0.9%	\$65.00	\$56.19	16%	B
Industry Total/Average		\$21		6.4	13.4	20.8	9.3%	1.7%	\$65.00	\$31.60	15.7%		
Total/Average from Above		\$189		6.7	11.6	21.5	9.4%	1.8%			NM		
Sorted by Industry	Ticker	Revenue 2011E	OIBDA 2011E	EPS 2011E	EV	Net Debt	Debt/ OIBDA	Debt Rating	FCF	FCF/ Share	Dividend/ Share	Div. Yield	
\$ in millions, except per share data													
Content Companies													
1	CBS	\$13,936	\$2,348	\$1.18	\$17,126	\$6,400	2.7	BBB-	\$1,061	\$1.53	\$0.20	1.4%	
2	Disney	\$40,252	\$9,407	\$2.33	\$74,600	\$10,250	1.1	A	\$1,572	\$0.84	\$0.35	1.0%	
3	NewsCorp	\$32,627	\$5,977	\$1.07	\$41,088	\$2,800	0.5	BBB+	\$2,341	\$0.91	\$0.15	1.0%	
4	Time Warner Inc	\$27,237	\$6,551	\$2.43	\$48,349	\$10,500	1.6	BBB	\$2,654	\$2.34	\$0.85	2.8%	
5	Viacom	\$14,601	\$4,040	\$3.05	\$24,765	\$4,000	1.0	BBB	\$1,238	\$2.03	\$0.60	1.8%	
6	Warner Music	\$2,852	\$365	(\$0.80)	\$2,215	\$1,420	3.9	BB-	\$165	\$1.09	\$0.00	NA	
Cable Companies													
7	Mediacom	MCCC	\$1,515	\$570	\$0.63	\$4,202	\$3,580	6.3	B+	\$120	\$1.69	\$0.00	NA
8	Time Warner Cable	TWC	\$19,444	\$7,243	\$4.21	\$38,957	\$19,500	2.7	BBB	\$1,869	\$5.20	\$1.60	2.8%

Sources: Needham & Co, LLC estimates, Company documents, FirstCall, Yahoo Finance.

Analyst: Laura Martin, CFA, (917) 373-3066. LMartin@Needhamco.com

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I, Laura Martin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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