

December 7, 2009



Analysts' Best Picks®
for 2010

Aflac, Inc.
(AFL:NYSE)

**Best Buy Company,
Incorporated**
(BBY:NYSE)

**National Oilwell
Varco Inc.**
(NOV:NYSE)

**Alpha Natural
Resources**
(ANR:NYSE)

Chevron Corp.
(CVX:NYSE)

**Nuance
Communications, Inc.**
(NUAN:NASDAQ)

**Altera
Corporation**
(ALTR:NASDAQ)

Concho Resources Inc.
(CXO:NYSE)

Sybase, Inc.
(SY:NYSE)

**Bank of America
Corporation**
(BAC:NYSE)

CVS/Caremark Corporation
(CVS:NYSE)

**TD Ameritrade
Holding Corporation**
(AMTD:NASDAQ)

FLIR Systems
(FLIR:NASDAQ)

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Please read disclosure/risk information and Analyst Certification beginning on page 211.

December 7, 2009

Dear Investors,

We are pleased to present our fifteenth annual Analysts' Best Picks® (ABP) list.

The purpose of the annual Analysts' Best Picks® list is to identify and select stocks likely to produce above-average price appreciation over the next 55 weeks. Finding stocks able to outperform following the major market move since March 2009 remains challenging given the expected relative slow recovery of the U.S. economy next year. Over the first fourteen ABP lists, twelve outperformed the S&P 500. The 2009 list is significantly ahead of the S&P 500 through December 3, 2009's close with average price appreciation of 52.0% (before dividends) from the December 4, 2008 launch prices versus the S&P 500's 30.1% appreciation for the same period.

What accounted for ABP09's outstanding performance? Eleven of the fifteen stocks (73.3%) have outperformed the S&P 500 through the close of December 3. Two stocks increased by 100% or more (CONSOL Energy and Copa Holdings) while seven others increased by 40% to 99% (Altera, AmerisourceBergen, Covance, Digital Realty Trust, Hewlett-Packard, Noble, and Plains Exploration & Production). Only one stock was down (New York Community Bancorp) and the rest were up between 10% and 33%. This was clearly an exceptional year for most of last year's selections. We have updated our fourteen-year performance table on the next page with the inclusion of the year-to-date ABP09 results through December 3.

As in all ABP selections, the analyst's judgment about a company's fundamentals, its growth prospects, and associated risks to the stock's anticipated appreciation is based largely on his knowledge of the industry and the company, as well as the accuracy of growth expectations.

Equity markets around the world have improved substantially this year with U.S. equity markets as measured by the S&P 500, increasing 21.8% year-to-date and 65.0% since the March 6 intra-day lows. The encouraging elements of the recovery are that the economy is emerging from a recession, corporate earnings have rebounded stronger than analysts expected in 3Q09, and interest rates and inflation remain muted. The negative issues remain high and rising unemployment, in addition to a consumer population that is satiated with debt and facing tight credit that for many borrowers continues to limit their ability to finance major purchases.

Given relatively weak revenue growth for many companies, managements have focused on cost-reduction programs and other profit improvement initiatives aimed at increasing profit margins, profitability, and cash flow generation. Companies are now more active in making acquisitions and in going to the capital markets to raise new equity or long-term debt to finance acquisitions, refinance high-cost debt, or increase working capital. The prospects for improvement in economic activity are limited by a slower than normal recovery rate expected in 2010 and 2011.

Once again our analysts have been challenged to find the best stocks to own in 2010 from among the more than 750 companies we actively follow. A brief discussion of the selections comprising the Analysts' Best Picks® for 2010 is presented on pages 8-20 of this publication. All of these selections currently carry a Strong Buy rating. These selections will remain on the list until December 31, 2010, unless the company is acquired and no longer trades publicly.

I extend my best wishes for a happy holiday season and for your prosperity next year.



David A. Henwood, CFA
Chief Investment Officer

Best Picks Performance Record

Year	Best Picks List ^a	S&P 500	Incremental Return ^f	Best Picks CY Basis ^c
1996 ^b	37.2%	22.6%	14.7%	33.2%
1997	53.5	37.1	16.4	44.8
1998	38.9	30.8	8.2	32.9
1999	143.9	25.4	118.6	93.0
2000	46.9	-4.8	51.7	31.8
2001	11.6	-15.0	26.6	3.9
2002	-0.6	-22.7	22.2	-5.2
2003	37.2	24.3	12.9	36.4
2004	27.7	14.9	12.9	19.7
2005	17.2	7.1	10.1	10.4
2006	5.9	14.9	-9.0	1.9
2007	30.5	6.2	24.2	30.7
2008	-35.0	-38.6	3.5	-34.3
2009 ^d	54.0	33.4	20.5	30.7
5 Yr. Avg. ^e	14.5	4.6	9.9	7.9
10 Yr. Avg. ^g	19.5	2.0	17.6	12.6

- a. On a total return basis with performances averaged as if an equal dollar allocation was made to each stock at the beginning of the period and held until 12/31 of the following year.
- b. This was the first year performance of the *Analysts' Best Picks*[®] list.
- c. Total return performance for the calendar years indicated.
- d. Picks 2009 and 2009's S&P 500 represent total return performance through the close of 12/3/09.
- e. Years 2005, 2006, 2007, 2008, and 2009 with total returns averaged.
- f. Annual average Best Picks total return performance minus the comparable S&P 500 performance. Figures may not total due to rounding.
- g. Years 2000 through 2009 with total returns averaged.

S&P total return with gross dividends reinvested is from Bloomberg LLC.

Since 1996 a total of 158 stocks have been recommended through the *Analysts' Best Picks*[®] list. Of this total, 107 advanced (67.7%) and 51 declined (32.3%) within the recommended holding period. The holding period for each year's list is approximately 55 weeks from the inception date to 12/31 of the following year.

An investor would incur commissions (and interest charges if transacted in a margin account) to transact these recommendations. The results presented should not and cannot be viewed as an indicator of future performance. Individual results will vary and transaction costs related to investing in these stocks will affect overall performance. There is no assurance that the list will achieve the results expected and investors may incur profits or losses. The performance returns in 1999 were extraordinary and it is unlikely that these unrealistically high returns will be repeated. The S&P is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. A complete list of all *Analysts' Best Picks*[®] since 1996 is available upon request.

Equity-Linked Note

For the first time in six years, Raymond James did not create an equity-linked note last December for investment in the 2009 Analysts' Best Picks® list. The decision was made due to unforeseen turmoil in the credit markets and uncertainty with regard to counterparty credit risk. Over the course of the last year, we continued to monitor the credit environment and determined that it is suitable to proceed with an equity-linked note for the 2010 Analysts' Best Picks® report published by Equity Research. The equity-linked note, issued by Societe Generale, is designed to offer our retail clients a vehicle to invest in the names on the 2010 Analysts' Best Picks® list. The note is structured to offer clients with \$10,000 - \$75,000 the ability to invest in the list in a more cost-efficient manner than purchasing the stocks individually.

We expect that all the factors affecting the previous years' note performance will also affect the 2010 note. Typically, a spread exists between the note's performance results and the performance results reported by the Equity Research department. Factors that have contributed to this spread have included commissions and different cost basis recognition of the stocks.

The first factor in the spread is the commissions paid on the note. Investors in the note will pay 2.75% in upfront commissions along with a \$4.95 ticket charge. Thus, the return shown in accounts will be reflective of a \$1,027.50 investment per note ($\$1,000 + 2.75\%$) plus \$4.95. We limit the amount of notes that can go into any one account to a notional range of \$10,000 - \$75,000. We developed this range because when we compared the fees to buy the note versus the individual stocks, assuming standard commission levels, the note costs investors less. As is consistent with most research reports across the Street, commissions are ignored when computing returns. The reason for this is that commissions can vary widely across different types of accounts. Issues such as institutional versus retail accounts, fee-based versus commission-based accounts, and full commissions versus different discount rates all make it difficult to choose an appropriate level of fees to build into a report that would apply to the various recipients of our research.

The other factor in the spread is the difference in cost basis recognized by Equity Research versus what is achieved in the note. When the report is published, research must choose a price for calculating returns and no matter what day or price they use, there will always be a difference between that return and what investors actually receive. Historically, research has used the closing price from the Thursday or Friday prior to the list's announcement on the following Monday. On Tuesday morning, due to the large increase in buying demand for the stocks on the list, each security has historically gapped up significantly. This demand has been driven primarily by individual accounts buying each stock early that morning. The equity-linked note uses the actual cost basis achieved through the initial valuation of the note from Tuesday through Friday after the ABP list is published.

Please contact Equity Linked Securities with any questions on the 2010 note.

Equity Linked Securities
Equity Capital Markets
Ext. 71857

Economic Outlook for 2010

A Long Recovery Road

The U.S. economy has emerged from the worst financial crisis since the Great Depression. The recession appeared to end in the summer of 2009, aided by accommodative monetary and fiscal policy, and the recovery is expected to remain gradual. It will take a long time before confidence is fully restored and economic growth returns to its potential. In the near term, there is strong hope that the economy can continue to build on recent improvements. However, there are a number of uncertainties in next year's outlook, especially as we approach 2011.

While the housing bubble and excessive growth in subprime mortgage lending were important factors in the economic downturn, the critical element was the financial panic in the fall of 2008. One does not just un-panic and return to normal right away. It takes a long time to work through financial difficulties and re-build confidence. History shows that recessions caused by financial crises tend to be more severe, longer lasting, and with lengthy recoveries. A common mistake is for policymakers to remove stimulus too early; that is, either the Fed hastily raises short-term interest rates or legislators raise taxes too soon. Fed Chairman Ben Bernanke and Chair of the President's Council of Economic Advisors Christina Romer are both experts on the Great Depression and are well aware of the risks in taking the punchbowl away too soon.

The labor market was critically weak in the recession. Employment typically lags in a recovery, but job losses were especially pronounced during the downturn. In the first quarter of 2009, the economy averaged a loss of nearly 700,000 payroll jobs each month. With the help of fiscal stimulus, that pace slowed to -425,000 in 2Q09 and -171,000 in 3Q09. As we close out the year, the pace of job destruction appears to have moderated even further. Announced corporate layoff intentions for October and November were the lowest since 2000.

Fearful of recession, firms responded to the financial crisis by trimming their workforces and slashing capital expenditures. This became a self-fulfilling forecast as these cuts aided in further weakening the economy. Cost containment helped lead to a rebound in corporate profits, but without top-line growth (should arrive in 2010) such gains will prove ephemeral.

Employment figures for November showed a further moderation in the pace of job losses, and details hinted at a possible pick-up in new hiring in the months ahead. Most industries continue to report job losses in November. The exception was education and healthcare, two areas that are driven by demographics and are much less sensitive to the business cycle. Employment in temporary-help services improved for the fourth consecutive month. Typically, firms will hire temp workers before they hire permanent workers. In addition, average weekly hours also advanced, which is another precursor of future hiring. In preparation for the 2010 census, the government will hire many full-time and part-time workers. This should help the job numbers in the first half of 2010, although these jobs will be shed in the second half of the year. Still, census hiring could serve as pump-priming for the economy, as those workers will earn a paycheck and spend their income.

Monetary and fiscal policy have played critical roles in the recovery process. The Fed lowered short-term interest rates to near 0% in December 2007 and has committed to keeping rates at exceptionally low levels *"for an extended period."* The Fed also created a number of liquidity and lending facilities to improve the flow of credit and support the economy. More controversially, the Fed purchased \$300 billion in long-term Treasury securities, largely to counter the threat of deflation. The Fed's program to purchase up to \$1.25 trillion in mortgage-backed securities will be scaled down leading into March 2010. It is unclear how much of an impact the end of this program will have on mortgage rates, but it is likely that an increase in private-sector demand for these securities will offset the drop in Fed purchases.

Many have worried that the expansion of the Fed's balance sheet will ultimately be inflationary. However, there is little to be worried about in the near term. There is simply too much slack in the economy to generate much inflation pressure. Still, the unemployment rate is likely to be the main determinant of when the Fed will start raising short-term interest rates (most likely in the later part of 2010 or early 2011). Other key factors in the Fed's inflation outlook are inflation expectations, which have remained well anchored, and the underlying trend in inflation. Should inflation expectations start to rise and core inflation begin to heat up, the Fed would be more likely to tighten sooner rather than later.

The bank rescue has been controversial and easy to criticize in hindsight. While the TARP funds were not used for their original intent (to purchase troubled assets), the re-capitalization of the banking system was key to restoring financial stability. Interbank lending, which was paralyzed amid counterparty risk fears in the fall of 2008, has recovered. The banks have now been able to raise funds in the private sector and are returning TARP funds to the government.

The \$787 billion fiscal stimulus was also controversial, but clearly helped support GDP growth in 2009. However, the fiscal stimulus will ramp down in the second half of 2010 and into 2011, effectively acting like a drag on GDP growth. Hopefully, the private sector will be strengthening at that time. Yet, the recovery will be fragile and sensitive to any negative shocks that may come along – and further fiscal stimulus will likely be politically unavailable, if needed.

As we start to roll into the second half of 2010, a major uncertainty will loom. The Bush tax cuts are scheduled to sunset at the end of next year and it is unclear whether some will be extended to support the recovery or allowed to expire in order to reduce the budget deficit. Uncertainty about tax policy could be a significant negative for investors and the economy late next year.

The dollar has weakened over the last several years, interrupted by a flight to safety amid the financial meltdown in late 2008. As the U.S. and global economies have stabilized and begun to improve, this flight to safety has unwound. The trade deficit, a major factor in the dollar's weakness, narrowed in the recession but has begun to increase again. Central bank policies have the biggest impact on exchange rates in the short term. The dollar should regain support when it becomes clear that the Fed will raise short-term interest rates, but that will be some time away.

In short, there is a lot of hope and some uncertainty ahead in 2010, but the economy of 2011 will likely be an even bigger question.

A handwritten signature in black ink, appearing to read 'Scott Brown', with a long horizontal flourish extending to the right.

Scott Brown, Ph.D.
Senior Economist

Analysts' Best Picks® for 2010

Statistical Overview

Company Name	Sym.	RJ&A Rank	SR	12/03/2009 Close	12 Mo. Trail. Price Range		Proj. 12-Mo. Price Target	Current Year P/E	Earnings Per Share			Div. Yld.	BV/ Shr.	FY	Mkt. Cap. (Mil)	
					High	Low			2008A	2009E	2010E					
S&P 500	#	SPX	NA	NA	1099.92	1117.28	666.79	NA	19.5x	49.51	56.45	75.14	2.1%	NA	Dec	NA
Aflac, Inc. (ng,o)		AFL	1	G	45.44	47.88	10.83	60.00	9.5x	4.00	4.81	5.35	2.5%	16.85	Dec	21,343
Alpha Natural Resources (ng,o)		ANR	1	AG	37.44	42.20	13.93	52.00	23.4x	2.69	1.60	2.65	0.0%	21.05	Dec	4,530
Altera Corporation (g,m,o)		ALTR	1	AG	21.90	22.28	12.99	29.00	28.1x	1.18	0.78	1.10	0.9%	3.22	Dec	6,471
Bank of America Corporation (hs,ng,o)		BAC	1	AG	15.76	19.10	2.53	27.00	83.0x	1.38	0.19	1.06	0.3%	22.99	Dec	136,072
Best Buy Company, Incorporated (ng,o)		BBY	1	G	43.54	44.50	20.75	52.00	15.2x	3.19	2.87A	3.05	1.3%	13.81	Feb	18,535
Chevron Corp. (ng,o,s)		CVX	1	TR	77.96	81.92	56.12	92.00	15.8x	11.67	4.92	7.92	3.5%	45.18	Dec	155,967
Concho Resources Inc. (h,ng,o)		CXO	1	G	40.92	43.98	14.71	65.00	30.3x	1.55	1.35	1.76	0.0%	15.35	Dec	3,499
CVS/Caremark Corporation (hs,ng,o)		CVS	1	G	30.80	38.27	23.74	39.00	11.7x	2.44	2.64	2.70	1.0%	24.96	Dec	44,503
FLIR Systems (g,hs,m,o)		FLIR	1	AG	29.35	32.31	18.81	35.00	20.0x	1.28	1.47	1.50	0.0%	6.84	Dec	4,705
National Oilwell Varco Inc. (ng,o,s)		NOV	1	AG	42.82	50.17	18.80	60.00	11.3x	5.10	3.78	3.25	0.9%	33.90	Dec	17,899
Nuance Communications, Inc. (h,m,ng,o)		NUAN	1	AG	14.89	15.86	7.58	18.00	14.1x	0.87	1.06A	1.13	0.0%	7.01	Sep	4,062
Sybase, Inc. (hs,ng,o)		SY	1	G	40.70	42.57	22.39	49.00	17.4x	2.18	2.34	2.58	0.0%	11.08	Dec	3,618
TD Ameritrade Holding Corporation (g,hs,m,o)		AMTD	1	G	19.11	21.30	10.09	24.00	17.4x	1.33	1.10A	1.17	0.0%	5.97	Sep	11,370

g - EPS is GAAP EPS.

h - Raymond James & Associates managed/co-managed a public/follow-on offering of these shares or has provided investment banking services within the last three years.

hs - Raymond James & Associates received non-investment banking securities-related compensation from these stocks within the past 12 months.

m - Raymond James & Associates makes a NASDAQ market in shares of these stocks.

ng - EPS is Non-GAAP EPS.

o - Security is optionable.

s - The analyst or research associate own shares of stock in this company.

- S&P 500 EPS estimates are bottom up operating estimates from S&P.

12-Month Target Price..... **\$60.00**
 Current Price (12/03/2009)..... **\$45.44**
 Suitability..... **Growth**

Hist. 12-month Price Range \$47.88-\$10.83
 Dividend/Yield \$1.12/2.5%
 Market Capitalization (mil.) \$21,343
 Shares Outstanding (mil.) 469.7
 Book Value (09/09) \$16.85
 ROE (TTM)..... 28%
 LT Debt (mil.) \$2,231/25%

FY (Dec)	2008A	2009E	2010E
EPS	\$4.00	\$4.81	\$5.35
P/E	11.4x	9.5x	8.5x
Revenue (mil.)	\$17,567	\$19,365	\$20,309

Non-GAAP EPS reflects GAAP EPS less realized gains & losses on investments, non-operating benefits & charges, and discontinued operations.

Columbus, Georgia-based Aflac, Inc. is the world's leading provider of supplemental insurance programs. Through its Japanese and U.S. branches, Aflac provides supplemental accident, health, and ordinary life insurance policies to more than 40 million individuals. Although Aflac's policies can be bought on a standalone basis, they are typically purchased to fill in the "gaps" in other private and government-provided insurance plans.

AFL: Continued Long-Term Demand as Employers Push Costs Down to Employees

In our view, Aflac, Inc. is a core, large cap, life insurance holding. The company has the potential for substantial growth over time from growing demand for supplemental health insurance products, particularly in the U.S. as employers continue to push costs down to employees. We are also bullish on Aflac's entrance into the group market following the acquisition of Continental American.

A considerable degree of concern and apprehension continues to surround Aflac's hybrid portfolio (though we believe the issue to be exaggerated and any possible impact to be minimal), therefore creating an attractive investment opportunity, in our view. As of September 30, (pro forma for Aflac's participation in the Lloyd Banking Group exchange offer and recapitalization) roughly \$5.7 billion of the company's \$8.1 billion in hybrids are Upper Tier 2 and cumulative. As a result, we are not overly concerned about coupon payments being waived. We calculate that if the worst should happen and Aflac was forced to write down all of its hybrids to fair value, the company would be back to its current risk-based capital position within nine months because of the amount of capital it generates.



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Japanese sales have done well due to newly introduced endowment and medical policies, a return to growth in bank distribution, and expectations that sales will continue to trend up through 2010. Long term, however, it is in the U.S. market where sales are expected to encounter the most growth.

U.S. sales have declined year-over-year as a result of the rocky economy. The number of new accounts has noticeably improved, but has not translated into as high a boost in new sales as would be expected reflecting a drop in initial penetration rates. Additionally, lowered payrolls and a slight increase in lapse rates are hurting new sales from existing accounts. Ultimately, over time we would expect new accounts to become fully penetrated, therefore adding to more normal rates of growth, and we believe the outlook is bright.

Our price target of \$60, established on October 29, assumes a normalized P/E on our 2010 EPS expectation of 11.7x less expected investment losses of \$2.35 per share. The normalized P/E target is a 20% discount to the then current S&P 500 P/E of 15.6x based on a mean 2010 EPS estimate of \$71.17 provided by Thomson One.

— Steven D. Schwartz, CFA

Alpha Natural Resources

(ANR:NYSE)

12-Month Target Price..... \$52.00
 Current Price (12/03/2009)..... \$37.44
 Suitability..... Aggressive Growth

Hist. 12-month Price Range \$42.20-\$13.93
 Dividend/Yield \$0.00/0.0%
 Market Capitalization (mil.) \$4,530
 Shares Outstanding (mil.) 121.0
 Book Value (09/09) \$21.05
 ROE (TTM)..... 15%
 LT Debt (mil.) \$757/24%

FY (Dec)	2008A	2009E	2010E
EPS	\$2.69	\$1.60	\$2.65
P/E	13.9x	23.4x	14.1x
Revenue (mil.)	\$2,558	\$3,230	\$3,649

Non-GAAP EPS is operating EPS. 2008 figures do not reflect the acquisition of Foundation Coal, but 2009 and 2010 figures are reflective of the acquisition.

Alpha Natural Resources, headquartered in Abingdon, Virginia, is the third-largest coal producer in the U.S. Following its merger with Foundation Coal, the company has more than 60 coal mines, 14 preparation plants, and reserves of more than 2.3 billion tons. The reserve breakdown is as follows: 760 million tons in the Powder River Basin (PRB), 26 million tons in the Illinois Basin, 800 tons in Northern Appalachia (NAPP), and 762 million tons in Central Appalachia (CAPP).

ANR: Compelling Valuation with Decent Leverage to Tightening Met Coal Market

Diversified asset base. In mid-2009, Alpha completed a merger with Foundation Coal to become one of the largest U.S. coal producers. This deal significantly increased Alpha's scale and scope, in addition to expanding its geographic footprint. Alpha now has reserves of more than 2.3 billion tons and an estimated 330 Bcf of recoverable gas in more than 150,000 acres of coalbed methane lands in Northern Appalachia (NAPP), including acreage in the Marcellus Shale.

2010 steam coal book nearly fully priced. Alpha anticipates shipping 47-50 million tons of steam coal from the Powder River Basin (PRB) and 23-28 million tons of Eastern steam coal. Of this, PRB is 99% committed and priced at an average of \$11.20/ton (compared to \$10.47/ton in 2009). Eastern steam coal is 70% committed and priced at an average of \$68.09/ton (compared to \$63.04/ton in 2009). Thus, expected overall steam coal sales are ~89% priced for 2010, leaving little volume to worry about what is likely to be a transition year for the domestic steam market.

Solid leverage to the strengthening met coal market. On the met coal side of the equation, Alpha's pricing book is essentially wide open with 81% of anticipated 2010 met production of 10-12 million tons unpriced. Approximately 19% of 2010 met production is currently committed and priced at an average of \$114.48/ton (compared to \$98.73/ton in 2009). This will be a primary driver of any upside to 2010 earnings. Last year, the combined companies shipped a little over 13 million tons and could likely do so again if pressed. Although comprising only ~13% of total company volume, met coal shipments may account for as much as one-third of total company revenues next year. Met coal continues to be all the rage driven by the rebound in the global steel markets, as well as China's huge surge in met coal imports. As a result of these factors, met coal spot prices have increased ~28% from the \$129/mt benchmark price to recent spot deals reported around \$165/mt. Looking to 2010's Australian benchmark price, general consensus is that the price will likely fall in the \$160-200/mt range, which compares to our current estimate of \$160/mt. *Every \$10/metric ton change in pricing assumption for the unpriced coal would move our earnings estimates by about \$0.56 per share.*

Balance sheet is in fantastic shape, paving the way for future growth potential. Alpha has \$881 million of debt and \$482 million of cash. When combined with the ~\$600 million of available borrowing capacity, the company has about \$1.1 billion of available liquidity to either make acquisitions or pursue organic growth opportunities.

Attractive valuation. Alpha's valuation is attractive on an absolute and relative basis, even after excluding the fact that Alpha has upside value from its natural gas assets. As of the close on December 3, ANR trades at 4.3x our 2010 EBITDA and 3.7x our 2011 EBITDA estimates, relative to the coal peer group average of 5.8x and 4.5x, respectively. Note that this analysis deducts approximately \$660 million (330 Bcfe x \$2/Mcfe) for the company's known natural gas reserves to arrive at these multiples. Our \$52.00 target price factors in our target multiples on the various metrics including 15x P/E ratio, 7.5x P/CF, and 7x EBITDA, which fit within the historical trading ranges of ANR, along with a long-term DCF analysis. Note that this does not include any value for the ~330 Bcf of natural gas reserves, which we believe is easily worth another \$5.00 per share, with upside over time through its Marcellus acreage.

— James M. Rollyson



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Altera Corporation

(ALTR:NASDAQ)

12-Month Target Price..... \$29.00
Current Price (12/03/2009)..... \$21.90
Suitability..... Aggressive Growth

Hist. 12-month Price Range\$22.28-\$12.99
Dividend/Yield\$0.20/0.9%
Market Capitalization (mil.) \$6,471
Shares Outstanding (mil.) 295.5
Book Value (09/09) \$3.22
ROE (TTM)..... 24%
LT Debt (mil.)\$500/37%

FY (Dec)	2008A	2009E	2010E
EPS	\$1.18	\$0.78	\$1.10
P/E	18.6x	28.1x	19.9x
Revenue (mil.)	\$1,367	\$1,163	\$1,355

EPS is GAAP.

Headquartered in San Jose, California, Altera Corporation designs, manufactures, and markets high-performance, high-density programmable logic devices (PLDs), intellectual property cores, and associated development tools. The company serves the telecommunications, data communications, electronic data processing, computer peripheral, and industrial markets.

ALTR: PLD Pure Play

We believe Altera is best positioned to capitalize on the prospects for programmable logic devices (PLDs) in 2010, a potential which, in our view, has not yet been fully realized by the Street.

In our opinion, looking into 2010, the PLD vs. ASIC (application-specific integrated circuit) battle is reaching a tipping point with the start of a significant share shift from ASICs, or custom chips, to PLDs. We believe the five-year usage of 130nm ASIC has reached a virtual dead-end given the prohibitive up-front cost of 90nm and/or 65nm ASIC development. Furthermore, at 40nm, Altera's PLD solutions rival the die size of 130nm ASICs, which are older and unable to support modern functions and/or features such as PCIe Gen2, SATA, SAS, etc. A 40nm PLD is now a viable high-volume alternative to ASICs, which we view as a ~\$15 billion market in secular decline.

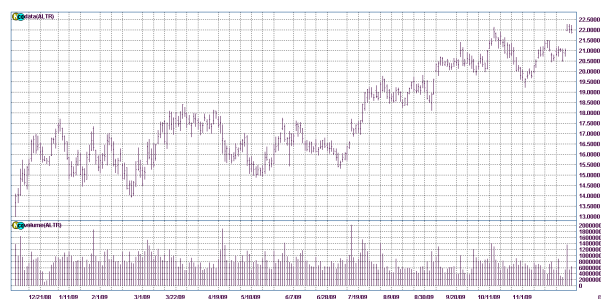
Since 2005, Altera has gained ~50% of new product design wins in 65nm and 90nm due to fundamental design decisions allowing the company to have an edge in power and performance. We believe Altera is poised to gain market share, even if the company does not introduce any new products, due to an impressive 60-70% design win rate at the new 40nm node in the Stratix IV family. Communications and I/O performance are crucial for Altera's continued success. Altera's transceiver performance is as good as or perhaps better than today's best-in-class ASIC and ASSP solutions because the company acquired a key analog engineering team earlier in the decade. With respect to the competitive dynamic, we believe the duopolistic PLD market comprised of Altera and Xilinx (XLNX/\$23.21/Strong Buy) will continue to grow at the expense of ASIC and ASSP solutions, with these two companies likely to wreak havoc on this roughly \$28 billion total available market. Disregarding the fact that Altera is, in fact, ahead of Xilinx at the 40nm/45nm node (software tool support or silicon), we believe Altera will see slightly faster growth as a result of the company's refocus on military markets over the past few years.

We believe Altera should outgrow the semi industry by 2x over the next several years. We are also bullish on Altera's gross margins, which in good times and bad are incredibly stable due to the company's fabless model and sole source status once its PLD solutions are "designed-in." Recently, this has been an advantage for Altera, which has not suffered from decreased 40nm wafer yields at Taiwan Semiconductor Manufacturing Company (TSMC) like Advanced Micro Devices (AMD/\$8.03/Market Perform) and Nvidia (NVDA/\$13.83/Strong Buy). Since Altera uses its own process node design rules and not TSMC's, the company has not experienced any issues with yields or availability.

Altera has a clean balance sheet with \$1.4 billion in cash/short-term investments (\$4.58 per share) and \$500 million in long-term debt. Over the past 12 months, the company has generated an ROE of ~26% and the stock is up 50%.

ALTR shares remain one of our favorite ideas with a 12-month price target of \$29, based on a 23x target P/E multiple to our 2011 EPS estimate of \$1.25. This multiple is a slight premium to the shares' 21x historic P/E average over the last three years, which we believe is conservative given Altera's solid business model and leadership in the industry.

— Hans Mosesmann



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Bank of America Corporation

(BAC:NYSE)

12-Month Target Price..... \$27.00
Current Price (12/03/2009)..... \$15.76
Suitability..... Aggressive Growth

Hist. 12-month Price Range \$19.10-\$2.53
Dividend/Yield \$0.04/0.3%
Market Capitalization (mil.) \$136,072
Shares Outstanding (mil.) 8,634.0
Book Value (09/09) \$22.99
ROE (TTM)..... 1%
LT Debt (mil.) NM/NM

FY (Dec)	2008A	2009E	2010E
EPS	\$1.38	\$0.19	\$1.06
P/E	11.4x	83.0x	14.9x
Revenue (mil.)	\$76,234	\$110,986	\$112,916

Non-GAAP EPS are operating earnings.

Headquartered in Charlotte, North Carolina, Bank of America is one of the nation's largest banks with \$2.3 trillion total assets, \$914 billion loans, and \$975 billion deposits. It serves individual consumers, small- and middle-market businesses, and large corporations with a full range of banking, investing, asset management, and other financial and risk management products and services. It has more than 6,000 retail banking offices and 18,000 ATMs. Bank of America is among the world's leading wealth management companies and is a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions, and individuals around the world. In 3Q09, the company reported total revenue of \$26 billion from seven business segments: Global Banking, Global Card Services, Global Markets, Global Wealth & Investment Management, Home Loans & Insurance, Deposits, and All Other.

BAC: Superior Upside Potential

An oligopoly has formed at the top of the U.S. banking system with three of the largest banks dominating the mortgage market and controlling about one-third of the nation's deposits. Bank of America ranks among the best in risk-based pricing and is well-positioned to benefit from a slow-growth recovery marked by wider spreads, low competition, less leverage, and the absence of irrational players. As recession-related risk factors subside, we believe investors will focus more attention on normalized earnings power and valuation.

While regulatory and economic uncertainty will likely persist, we believe the overall outlook has improved substantially. Its nearly \$10 billion in pre-tax pre-provision net revenue (PPNR) in 3Q09 alone bodes well for future earnings once credit costs subside. We estimate that the company can get to \$4.00 in EPS power within four years with only single-digit growth in loans and revenue, assuming the provision-to-loans ratio declines to about 0.60% (from over 5.00% in 3Q09). For the last several quarters, credit quality trends have improved and have supported our belief that the provision for loan losses will decline substantially as nonperforming asset (NPA) growth decelerates and net charge-offs (NCOs) peak. In 3Q09, the provision for loan losses decreased to \$11.7 billion from \$13.4 billion in 2Q09 and 1Q09. Given continued signs of stabilization of early-stage consumer delinquencies, we believe this trend will continue.

Trading at only 69% of book value and 131% of tangible book value compared to the recent industry averages of 114% and 164%, respectively, shares of BAC offer attractive risk/reward pricing and compare favorably to large-cap peers. Bank of America has already received approval to pay back its \$45 billion in TARP funds and we believe a CEO announcement is imminent, both of which should receive a favorable response from the Street. Finally, we believe 4Q09 results will set the stage for a lower provision level in 2010 as credit quality continues to stabilize. Our \$27 target price assumes BAC trades at 6.8x our projected EPS power of \$4.00, a steep discount to its three-year average P/E of 11.0x.

— Anthony Polini



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Best Buy Company, Incorporated

(BBY:NYSE)

12-Month Target Price..... \$52.00
Current Price (12/03/2009)..... \$43.54
Suitability..... Growth

Hist. 12-month Price Range \$44.50-\$20.75
Dividend/Yield \$0.56/1.3%
Market Capitalization (mil.) \$18,535
Shares Outstanding (mil.) 425.7
Book Value (08/09) \$13.81
ROE (TTM)..... 46%
LT Debt (mil.) \$1,111/16%

FY (Feb)	2008A	2009A	2010E
EPS	\$3.19	\$2.87A	\$3.05
P/E	13.6x	15.2x	14.3x
Revenue (mil.)	\$40,023	\$45,015	\$49,236

Non-GAAP EPS is operating EPS.

Headquartered near Minneapolis, Minnesota, Best Buy is the nation's largest volume specialty retailer of name-brand consumer electronics and a significant competitor in home office equipment, entertainment software, and appliances. It sells merchandise through ~3,800 stores in multiple retail formats: Best Buy and Pacific Sales in the U.S., Future Shop and Best Buy Canada in Canada, Best Buy Europe in Europe, and Jiangsu Five Star Appliance and Best Buy in China. The company also sells online at www.bestbuy.com. In early 2008, Best Buy entered into a 50/50 JV with Carphone Warehouse, allowing entry into Western Europe.

BBY: Leveraging Market Share Growth into Higher Returns

In our opinion, Best Buy is the most attractively-valued growth idea in hardline retail. Customer centricity appears to be paying off as Best Buy continues to grab market share from weaker competitors and improve its operating margins.

A key reason behind our view on Best Buy is the company's ability to leverage growing market share into higher returns. A second reason for our bullish stance is that the company's relative sales and EPS momentum could significantly outpace the performance of the S&P 500 once the economy begins to recover. The consumer-driven recession is already leading to pent-up demand for large ticket durable products, such as appliances and consumer electronics.



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Best Buy has the chance to augment its core businesses with additional new opportunities such as acquisitions, further international expansion, and partnerships with other quality companies including Apple and Carphone Warehouse. Pricing in the consumer electronics industry is stabilizing, which we anticipate will lead to strengthening margins for Best Buy. The company is also capturing market share, due to Circuit City's exit from the business, at a faster rate than competitors such as Radio Shack (RSH/\$18.83/Market Perform).

The international segment is providing above-average performance for Best Buy, including same-store sales growth of ~10% and operating margins that are rising ~60 basis points annually. Best Buy is also aggressive in repurchasing its stock. We estimate BBY's share count will decline approximately 15% between FY07 and FY09.

In our opinion, investors are not giving sufficient attention to the improving top line in the domestic and international segments, as well as their growing market share. We cannot identify any other leading hardline retailer that is growing market share as quickly as Best Buy and leveraging this into higher returns.

Management, in our view, is the most effective in the consumer electronics sector. Further, Best Buy is arguably in the strongest competitive position to leverage the growing demand for home theater products and notebook PCs.

Our \$52 price target was reached by placing a ~15x multiple on our FY11 EPS estimate of \$3.45, which represents a 16.7% discount to its historical three-year average of 18x.

— Dan Wewer, CFA

Chevron Corp.

(CVX:NYSE)

12-Month Target Price..... \$92.00
 Current Price (12/03/2009)..... \$77.96
 Suitability..... Total Return

Hist. 12-month Price Range \$81.92-\$56.12
 Dividend/Yield \$2.72/3.5%
 Market Capitalization (mil.) \$155,967
 Shares Outstanding (mil.) 2,000.6
 Book Value (09/09) \$45.18
 ROE (TTM)..... 14%
 LT Debt (mil.) \$11,718/12%

FY (Dec)	2008A	2009E	2010E
EPS	\$11.67	\$4.92	\$7.92
P/E	6.7x	15.8x	9.8x
Revenue (mil.)	\$273,005	\$161,844	\$196,876

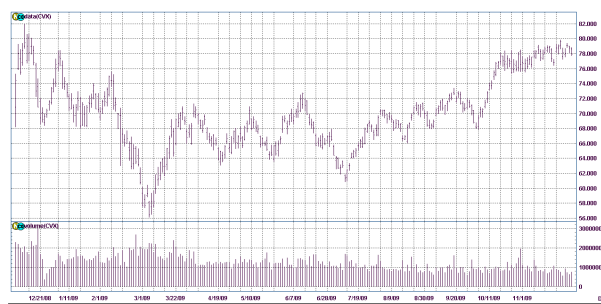
Non-GAAP EPS excludes property impairments and other extraordinary items.

Chevron Corp., based in San Ramon, California, is one of the world's largest private-sector integrated oil and gas companies. The upstream segment has its primary operations in the U.S. and Asia-Pacific, with other core assets in Africa, Europe, the Middle East, and South America. The downstream segment has primarily U.S. and Asia-Pacific refineries, with others in Europe, Africa, and Canada. The chemicals segment consists of a 50% interest in Chevron Phillips Chemical Co. At year-end 2008, proved reserves totaled 11,196 MMBoe.

CVX: The Best-Positioned of the Integrated Majors

Within the context of the integrated majors, Chevron continues to stand out in three ways – all of them positive. The first is an above-average oil focus, which should be seen within the context of our bifurcated current commodity outlook – bullish on oil (globally), bearish on natural gas (in North America). At year-end 2008, only 5% of Chevron's proved reserves were comprised of natural gas in the U.S. and Canada. By contrast, oil was 66%.

The second factor is Chevron's impressive drill-bit track record, with the highest (non-GAAP) organic resource replacement rate among peers. Over the 2002-2008 timeframe, Chevron achieved organic replacement of approximately 86%, more than 1.5x higher than the 56% average of the other supermajors. Chevron's upstream core competencies include sour (high-sulfur) oil and gas, heavy oil, and deepwater operations, the latter being key in the Gulf of Mexico's Lower Tertiary Trend, as well as Brazil. The company's ongoing exploration program in areas such as Angola, Australia, and Brazil is complemented by reserve bookings from long-term development projects. To give just one example: Following the final investment decision (FID) for the Gorgon LNG mega-project offshore of Australia, Chevron is set to begin booking proved reserves. We estimate that booking only 10% of Gorgon's estimated resources (on a net basis) would replace one-third of Chevron's companywide production for an entire year.



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Finally, Chevron has a small refining segment relative to the size of the company. Chevron's ratio of proved reserves to refining capacity (a measure of how upstream-oriented its asset base is) stood at 5.2x at year-end 2008, the second-highest level in the peer group. Given our view that the global refining industry is facing overcapacity through at least 2012, Chevron's limited exposure to refining helps enhance profitability. In addition, within its refining segment, the company is "overweight" Asia-Pacific, providing direct leverage to what we believe will be the fastest-growing refined products market in 2010.

Combining these three factors with what we consider to be a compelling valuation – currently only ~9.8x 2010E EPS of \$7.92, well below the stock's historical (2000-2009) mean of 12.2x – makes Chevron our top pick among the majors. Quite simply, we believe Chevron should be a core long-term holding for energy investors. Our \$92.00 target price is based on ~11.6x our 2010 EPS estimate of \$7.92, a slight discount to the mean 2000-2009 P/E. Inclusive of the current 3.5% dividend yield, our target price implies total return potential of 18%.

— Pavel Molchanov

Concho Resources Inc.

(CXO:NYSE)

12-Month Target Price..... \$65.00
Current Price (12/03/2009)..... \$40.92
Suitability..... Growth

Hist. 12-month Price Range\$43.98-\$14.71
Dividend/Yield\$0.00/0.0%
Market Capitalization (mil.) \$3,499
Shares Outstanding (mil.) 85.5
Book Value (09/09) \$15.35
ROE (TTM)..... 1%
LT Debt (mil.)\$646/33%

FY (Dec)	2008A	2009E	2010E
EPS	\$1.55	\$1.35	\$1.76
P/E	26.4x	30.3x	23.3x
Revenue (mil.)	\$527	\$619	\$769

Non-GAAP EPS excludes unrealized hedging losses, property impairments, and other extraordinary items.

Headquartered in Midland, Texas, Concho Resources is an independent oil and natural gas company engaged in the exploration, development, and acquisition of oil and natural gas properties. The company operates domestically, with its primary focus in the Permian Basin of Southeast New Mexico and West Texas. At year-end 2008, the company had 137 MMboe of proved reserves (98% Permian) of which 63% was oil and 56% was developed.

CXO: High Returns in the Permian Basin

Concho Resources is a growth-oriented Permian Basin oil producer with 80% of its revenues tied to oil prices. The company has pro forma proved reserves of ~153 MMBoe and is set to show strong reserve growth in 2009 with the rebound in oil prices, as well as through organic drilling.

Concho has achieved solid growth in the past, and with its large drilling inventory (10+ years) is well-positioned to increase production through low-risk, low-cost drilling. The company is set to grow production 50+% in 2009 and is also poised for robust growth in 2010. The midpoint of Concho's guidance is for 20% growth, which we believe the company will likely exceed.

Over the past four years, Concho has averaged a ~400% reserve replacement ratio with an attractive finding and development cost of ~\$12/Boe, far greater than \$18/Boe for the peer group. In addition, the company's long-lived and predictable production base is supported by the well-established infrastructure in the Permian Basin, which provides for excellent pricing and low per unit operating costs. As such, Concho generates some of the highest cash margins in our E&P group. One of the company's core plays, the Yeso, generates an 80% internal rate of return at \$70/Bbl oil. Concho is also one of the best in the entire E&P universe on production growth per debt-adjusted share (~35% vs. 3% for the peer group).



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— John Freeman, CFA

CVS/Caremark Corporation

(CVS:NYSE)

12-Month Target Price..... \$39.00
 Current Price (12/03/2009)..... \$30.80
 Suitability..... Growth

Hist. 12-month Price Range \$38.27-\$23.74
 Dividend/Yield \$0.31/1.0%
 Market Capitalization (mil.) \$44,503
 Shares Outstanding (mil.) 1,444.9
 Book Value (09/09) \$24.96
 ROE (TTM)..... 10%
 LT Debt (mil.) \$11,960/25%

FY (Dec)	2008A	2009E	2010E
EPS	\$2.44	\$2.64	\$2.70
P/E	12.6x	11.7x	11.4x
Revenue (mil.)	\$87,471	\$99,653	\$100,705

Non-GAAP EPS exclude discontinued operations, amortization expense, and non-recurring items.

CVS Caremark, headquartered in Woonsocket, Rhode Island, is one of the largest integrated pharmacy services providers. The company owns and operates more than 7,000 retail and specialty pharmacy stores in 44 states and the District of Columbia. CVS Caremark also operates one of the largest specialty pharmacy and pharmacy benefit managers (PBMs) through its merger with Caremark in March 2007.

CVS: Model Not Broken, Valuation Remains Compelling

While shares have languished following the disappointing view on 2010, we believe that CVS, the largest integrated pharmacy services provider, offers an attractive investment opportunity in 2010. We base this on our belief that the worst is now behind the company and any signs of improved performance at the PBM could lead to a meaningful boost in shares, especially considering the discounted valuation and continued excellence in the retail business.

PBM issues pertain to message, not structure of combined model.

While the 2010 selling season was clearly a disappointment, we continue to believe that the issues that resulted in the 10-12% decline in PBM profits are more a result of poor messaging and Part

D pricing issues and not structural challenges. With management addressing the marketing mishaps and adding fresh faces to key roles within the PBM, we believe the 2011 season, which CVS only has \$7.0 billion of business up for renewal, could show material improvement off the ~\$5.0 billion in lost business in 2010, especially if the changes in “messaging” gain appropriate traction among industry consultants (and the Part D pricing issues are rectified).

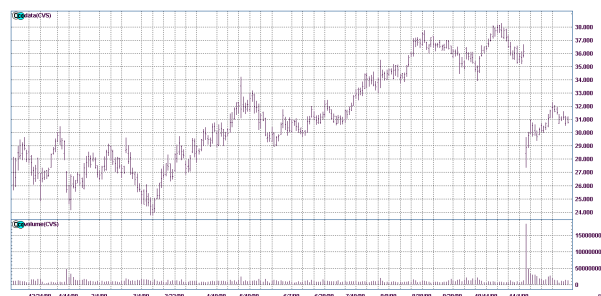
Retail strength set to continue, aided by improvement in the Longs acquisition. While investors have focused much of their attention on the lack of “revenue synergies” from the Caremark acquisition, we note that the core retail business continues to execute well in this difficult economic environment, with same-store sales of 5+% in 2009, as CVS continues to take market share from larger and smaller peers. We note that 2010 is shaping up to be another strong year with management forecasting 13-16% profit growth in this segment, facilitated by the turnaround at the Longs stores (\$0.04-0.05 per share dilutive in 2009 and \$0.04-0.05 per share accretive in 2010), a continued uptick in private label penetration and generic utilization (up over 200 bp y/y), the benefits from the PBMs’ Maintenance Choice Offering (adding +200 bp to Rx comps), and purchasing and SG&A leverage.

Increased utilization of generics will drive profitability. The upcoming wave of patent expirations for larger branded drugs (2011-2012) is expected to be a significant earnings driver for the firm. This trajectory in utilization is expected to continue over the next few years as a number of blockbuster-branded drugs stand to lose patent protection.

Compelling relative valuation; is the PBM basically for free? Shares of CVS are tracking near the low end of their historic range. The company currently trades at 11.4x CY10E EPS of \$2.70, a 22% discount to its three-year forward multiple (14.7x) and a ~30% discount to its five-year forward multiple (16.3x). We find the risk/reward to be compelling at these levels, especially in light of the depressed expectations going forward. We note that assuming a similar Walgreen (WAG/\$37.80/Outperform) multiple (15x forward earnings) for the company’s retail business (a reasonable comp), we estimate that the PBM is currently being valued at 6.0x forward earnings, a substantial discount relative to its PBM peers (+18x 2010 EPS). While a discount is warranted given the recent Caremark execution, we believe the market is currently pricing in material erosion to Caremark profitability, which we believe is unlikely given the upcoming generic wave and the potential benefits from the company’s new marketing strategy.

With expectations reset, the potential for an improved 2011 selling season, and continued share gains in retail, we believe shares are poised to expand off of these trough valuation levels, especially if management continues to deploy significant levels of FCF to share repurchases. Our \$39 price target represents 13x 2011 EPS of \$2.95, toward the low end of historic ranges.

— John W. Ransom



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12-Month Target Price..... \$35.00
 Current Price (12/03/2009)..... \$29.35
 Suitability..... Aggressive Growth

Hist. 12-month Price Range\$32.31-\$18.81
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.) \$4,705
 Shares Outstanding (mil.) 160.3
 Book Value (09/09) \$6.84
 ROE (TTM)..... 22%
 LT Debt (mil.)\$60/5%

FY (Dec)	2008A	2009E	2010E
EPS	\$1.28	\$1.47	\$1.50
P/E	22.9x	20.0x	19.6x
Revenue (mil.)	\$1,077	\$1,142	\$1,233

EPS is GAAP.

Headquartered in Portland, Oregon, FLIR Systems develops and manufactures infrared technology. FLIR provides thermal imaging systems for reconnaissance, surveillance, and commercial applications.

FLIR: Rising Order Activity and Attractive Valuation Collide

We have selected FLIR Systems for the *Best Picks* list given our view that strengthening order flow in the Commercial and Government divisions will generate future backlog increases and ultimately accelerate revenue growth over the next few years. These top-line enhancements accompany a lean operating structure that is highly profitable (30+% operating margins) and generates significant free cash flow (\$200+ million per year). Bolstering our positive thesis is a P/E multiple that is under its peer group, well below its historical average, and poised to expand as order activity picks up and positive estimate revisions ensue.



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FLIR is a pure play and the market leader in thermal imaging and infrared technology, an emerging market with open-ended growth. The company's highly proprietary products are developed and manufactured in-house, allowing the firm to enjoy software-like profitability for hardware products at near 60% gross margins and 30+% operating margins. Moreover, FLIR possesses a unique revenue blend that includes the stability of a non-cyclical Government division (~55% of sales) and significant commercial components (~45% of sales) that allow the firm to benefit greatly from an economic recovery.

The commercial divisions are poised to show significant enhancements in revenue growth next year as incremental revenue sources, easier year-over-year comparisons, and upside from an improving economic backdrop hit the sales model. Thermography should benefit from the expansion of its distribution network through Asia and increased traction in its relationship with the Grainger catalog. A significant product cycle is forming in Commercial Vision and is poised to accelerate demand through several new product introductions in the security, maritime, and automotive markets. As volumes increase in these divisions, FLIR is poised to see significant margin benefits from operating leverage and manufacturing efficiencies.

Order activity in the Government division is set to reaccelerate in 2010 after a rapid purchasing pace by customers in 2008 and a cooldown in backlog this year. 3Q09 Government backlog showed its first sequential uptick in three quarters and we believe this signals stabilization in order flow, which, with this metric, can move higher over time. International orders have been a rising source of strength and we see this trend continuing next year. FLIR is also chasing a handful of near-term award opportunities domestically on ground-based and air-based platforms. Moreover, we believe the increased troop deployment into Afghanistan should create an uptick in demand for FLIR; this fact has been undermodeled by the Street and provides upside to consensus estimates, in our view. We believe the directional change in backlog next year, more so than the sales growth in the division, will be the primary factor investors watch to measure FLIR's fundamental performance.

Valuation provides a compelling risk/reward backdrop for a company poised to show an acceleration in fundamentals. FLIR trades at 20x our 2009 EPS estimate of \$1.47 compared to its historical average of 23x and the emerging technology peer average of 24x. As time progresses through next year and investors value FLIR on 2011 earnings, we believe the stock can reach the \$40.00 range as its multiple expands toward the historical average. Our \$35.00 target price is a 23x multiple on our 2010 EPS estimate of \$1.50, in-line with the firm's historical average multiple and in-line with peers.

— Brian Gesuale

National Oilwell Varco Inc.

(NOV:NYSE)

12-Month Target Price..... \$60.00
 Current Price (12/03/2009)..... \$42.82
 Suitability..... Aggressive Growth

Hist. 12-month Price Range \$50.17-\$18.80
 Dividend/Yield \$0.40/0.9%
 Market Capitalization (mil.) \$17,899
 Shares Outstanding (mil.) 418.0
 Book Value (09/09) \$33.90
 ROE (TTM)..... 11%
 LT Debt (mil.) \$875/6%

FY (Dec)	2008A	2009E	2010E
EPS	\$5.10	\$3.78	\$3.25
P/E	8.4x	11.3x	13.2x
Revenue (mil.)	\$13,431	\$12,507	\$11,688

Non-GAAP EPS exclude extraordinary items.

National Oilwell Varco Inc. (NOV), headquartered in Houston, Texas, designs, manufactures, and sells systems, components, and products used in oil and gas drilling and production. The company's products include complete land drilling and workover rigs and drilling-related systems for offshore rigs. In addition to full rig packages, the company provides oilfield products such as drilling motors, coiled tubing tools, specialized downhole tools, and spare parts and services to the large installed base of its equipment. The company also provides oilfield inspection services and supply chain integration and distribution services to the upstream oil and gas industry.

NOV: Attractive Valuation + Strong Free Cash Flow + Inorganic Growth Opportunities = Oilservice's 2010 Favorite Name

Poised to outperform in 2010. National Oilwell Varco (NOV) is our favorite oilservice pick for 2010 because of the company's strong free cash flows, excellent acquisition-related growth prospects, attractive valuation, potential backlog growth catalyst, and top-tier, shareholder-focused management.

Pristine balance sheet and huge free cash flow present opportunities to deploy cash. Here are the facts: NOV has ~\$3.2 billion in cash (as of 9/30/2009), \$1.4 billion of funds available under a revolving credit facility, over \$2 billion in annual free cash flow (or over 10% free cash flow yield), minimal debt, and plenty of room to take on more debt.

Given the company's historical track record of successful, accretive acquisitions, we are most excited about acquisition-related growth opportunities over the next year. While we wait for these M&A opportunities to gestate, we were happy to see management recognize that many shareholders also appreciate a yield. In that vein, the company recently announced a special one-time cash dividend of \$1.00 per share and introduced a regular common dividend of \$0.40. Based on ~418 million shares outstanding as of November 13, 2009, the total dividend payout will be ~\$460 million, or less than 25% of the company's annual free cash flow. The dividend payout does not change the acquisition story as NOV still has plenty of dry powder in its war chest to be active in M&A. For reference, we estimate that if NOV spends less than the other 75% of its annual free cash flow (or ~\$1.5 billion) on acquisitions, it would translate to \$300-400 million in additional EBITDA (or a 15+% EPS growth of \$0.50-0.65).

Significant Brazilian inbound orders on deck. While we are focused on NOV's free cash flows, the market seems more concerned about the half of NOV's business that is backlog-driven. Over the past year, NOV's backlog has fallen from nearly \$12 billion to about \$7 billion and that downward trend is likely to reverse over the next year. Petrobras (PBR/\$52.12/Market Perform) has at least 28 newbuild units that will need to order equipment and we think it is likely NOV will capture well over half of those orders. Since each order would amount to roughly \$200-300 million per newbuild, Brazil represents a multi-billion dollar backlog opportunity for NOV. Management now expects Brazilian-related drilling equipment orders to come to fruition in mid to late 2010, but we think it will happen sooner. The implication is that backlog will likely bottom in 2010. It is important to remember that NOV is more than just a backlog story as its Petroleum Services & Supplies and Distribution segments (the other half of NOV's business) have already bottomed and should improve through 2010 with increasing global drilling activity.

Compelling valuation metrics. NOV currently trades at ~13x 2010 EPS of \$3.25, a 33% discount to its peer group average of ~20x. On an EV/EBITDA basis, NOV trades at 6.3x 2010 EBITDA, an almost 21% discount to its peers. These discounts persist despite the fact that NOV's earnings growth is likely equal to or better than many of its peers. Considering the possible accretion from future M&A, the valuation becomes even more attractive. Our target price of \$60.00 is based on ~18.5x our 2010 EPS. This valuation is in-line with its oilfield manufacturing peers and represents a more reasonable valuation for the company given its tremendous cash position, decent yield, and excellent growth prospects.



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— J. Marshall Adkins

Nuance Communications, Inc.

(NUAN:NASDAQ)

12-Month Target Price..... **\$18.00**
 Current Price (12/03/2009)..... **\$14.89**
 Suitability..... **Aggressive Growth**

Hist. 12-month Price Range \$15.86-\$7.58
 Dividend/Yield \$0.00/0.0%
 Market Capitalization (mil.) \$4,062
 Shares Outstanding (mil.) 272.8
 Book Value (09/09) \$7.01
 ROE (TTM)..... 19%
 LT Debt (mil.) \$889/25%

FY (Sep)	2008A	2009A	2010E
EPS	\$0.87	\$1.06A	\$1.13
P/E	17.1x	14.1x	13.2x
Revenue (mil.)	\$919	\$1,010	\$1,148

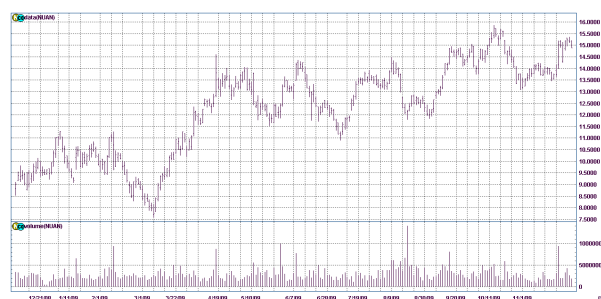
Non-GAAP EPS excludes one-time items.

Nuance, headquartered in Burlington, Massachusetts, is the leading supplier of speech recognition, dictation, and digital imaging software used to automate a wide range of manual processes.

Speech Recognition is a Top Technology Trend, Nuance is the Way to Play

Over the past several years, Nuance has built a dominant and defensible position as the leader in the speech recognition market, which is now entering the mainstream. We view speech recognition as one of the top technology trends in the coming years and Nuance boasts greater than 50% market share (and in many instances more than 75% share) in its core speech markets.

Just as computers have automated numerous processes across diverse industries, Nuance's speech recognition software is a disruptive technology that can dramatically change the way people interact with computers and gather information, dramatically improving productivity and lowering costs. When contact centers automate voice interactions to minimize \$200+ billion in annual labor costs, more than 75% of the time they will use Nuance's technology. When U.S. hospitals automate manual transcription to minimize \$10 billion in transcription services costs, more than half the time they will use Nuance's technology. When people use speech to interact with mobile devices, PNDs, or automobiles, more than 75% of the time they will use Nuance's technology. Penetration of speech recognition applications is low (below 25% in most instances), providing a long-term growth opportunity for the high-value applications and for the main vendor of such applications, Nuance.



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Nuance has substantial diversity to its revenue streams and a large base of Software-as-a-Service (SaaS) revenue, both of which we believe provide the company with high levels of visibility. Uptake of on-demand solutions, direct sales to large enterprises, a gradual recovery in high-margin on-premise sales, and the release of newer speech applications in areas such as call center analytics, voicemail-to-text, and biometrics provide a strong foundation for growth in the enterprise speech segment. In healthcare dictation, momentum in the on-demand eScription service and potential benefits from the federal stimulus for Dragon Medical provide strong growth drivers. Within mobile, the demand for better user interfaces, potential laws requiring hands-free communication, growth in multimedia mobile handsets, telematics, mobile messaging and search, and mobile care provide substantial long-term growth opportunities.

Nuance is trading at only 13.2x and 11.5x our 2010 and 2011 non-GAAP EPS estimates of \$1.13 and \$1.30, respectively, despite its leading and defensible position, 15% EPS growth rate, and FCF generation of \$300+ million. Catalysts for the stock could include: gradual improvement in on-premise enterprise sales and resurgence in enterprise speech growth rates to 10+%, continued large on-demand wins within healthcare, potential benefits from the healthcare stimulus for Dragon Medical, continued new handset and auto wins for mobile, large hosted mobile care wins, and strong cash flow generation. The main risks include execution (given acquisitive nature), exposure to handset original equipment manufacturers and financial services, lack of recovery in on-premise sales, and the macro climate. Our \$18.00 price target is based on 16x our FY10 non-GAAP EPS estimate of \$1.13, supported by the forward multiple over the past couple of years, and is in-line with EPS growth.

— *Shyam Patil*

12-Month Target Price..... **\$49.00**
 Current Price (12/03/2009)..... **\$40.70**
 Suitability..... **Growth**

Hist. 12-month Price Range \$42.57-\$22.39
 Dividend/Yield \$0.00/0.0%
 Market Capitalization (mil.) \$3,618
 Shares Outstanding (mil.) 88.9
 Book Value (09/09) \$11.08
 ROE (TTM)..... 24%
 LT Debt (mil.) \$326/19%

FY (Dec)	2008A	2009E	2010E
EPS	\$2.18	\$2.34	\$2.58
P/E	18.7x	17.4x	15.8x
Revenue (mil.)	\$1,132	\$1,148	\$1,199

Non-GAAP EPS excludes stock-based compensation and amortization expense and other non-recurring charges.

Sybase, Inc., headquartered in Dublin, California, combines infrastructure software, mobile infrastructure, and messaging technologies into its "Unwired Enterprise" strategy, which is focused on managing and mobilizing information from the data center to mobile devices.

SY: Quality Stock in Any Kind of Environment

In our opinion, Sybase embodies a company that continues to experience a renaissance – witnessing a structural improvement in growth and achieving growth and profit expansion in the face of a significant technology spending recession. We believe the ingredients that have enabled strong outperformance to the broader market over a multi-year period remain in place in 2010.

Steady, recession-resilient businesses. The company's core Adaptive Server Enterprise (ASE) database/IQ analytics business has continued to confound skeptics with reported growth of ~30% through 2009 year-to-date, after a difficult comp of ~30% growth in 2008.

While some of the low-hanging fruit around the core ASE database business may have fallen off the tree, we still anticipate a fair amount of upgrade activity into 2010 spurring incremental license opportunities and database option uptake. We estimate the core ASE database business represents ~35-40% of license revenue, is often a "keep the lights on" essential investment, and is correlated to customers' data growth. In addition, we believe the company's rapidly growing IQ analytics business, which we estimate to account for 15-20% of license revenue, will continue to expand at 20+% due to technological differentiation, vertical expansion, and share gains. In total, we believe ~60% of Sybase's license revenue is either predictable business in the form of core database or highly topical given the interest in leveraging analytics for a competitive advantage.

Calling card on secular growth themes. The company has exposure to secular growth dynamics associated with smartphone adoption and enterprise applications being ported to mobile devices. The company has a strong calling card in mobile middleware/infrastructure with its Sybase Unwired Platform solution. In 2009 alone, the company has inked more strategic partnerships with SAP, Verizon (VZ/\$32.69/Market Perform), Samsung, and other large technology companies than at any time in its history. We suggest the roughly 25% of the company's license business associated with mobility could see accelerating growth beyond 5-10% in the event that the bets it has made with key mobile partners are borne out and enterprise mobility is more fully validated. Also, the company's third major business, Sybase 365, which accounts for 17% of total revenue, provides additional exposure to emerging secular growth opportunities associated with mobile banking, commerce, and payments, etc.

Attractive financial model. In 2010, we believe some are too focused on tougher database growth comparisons and are losing sight of the fact that total license revenue comparisons should ease, forex will provide a tailwind, and certain legacy product sets in decline will likely have less impact on reported license growth in 2010. In comparison to Street expectations of mid-single-digit license growth in 2010, we believe high single-digits to 10% license growth is possible in an upside-case scenario.

Two ingredients for stock gains: earnings revisions and multiple expansion. The stock trades at 15.8x our 2010 non-GAAP EPS estimate of \$2.58. This compares to a historical forward P/E range of 11-19x. We believe earnings revisions will remain key to the story. Increasingly, growth investors will appreciate the growth opportunities, and the "call option" aspects of the mobility and messaging businesses could be unlocked through accelerated growth. A scenario combining \$2.70 in potential non-GAAP EPS power in 2010 and a forward P/E multiple slightly ahead of the high end of its historical trading range (11-19x) could translate into a stock in the mid-\$50s within an intermediate time frame, in our opinion. Our \$49 price target is based on a forward P/E multiple of 19x our 2010 EPS estimate of \$2.58. We believe this is justified due to continued license growth, an improving operating margin, and the belief that we will continue to increase our EPS estimates.



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— Terry Tillman

TD Ameritrade Holding Corporation

(AMTD:NASDAQ)

12-Month Target Price..... **\$24.00**
 Current Price (12/03/2009)..... **\$19.11**
 Suitability..... **Growth**

Hist. 12-month Price Range \$21.30-\$10.09
 Dividend/Yield \$0.00/0.0%
 Market Capitalization (mil.) \$11,370
 Shares Outstanding (mil.) 595.0
 Book Value (09/09) \$5.97
 ROE (TTM) 21%
 LT Debt (mil.) \$1,415/29%

FY (Sep)	2008A	2009A	2010E
EPS	\$1.33	\$1.10A	\$1.17
P/E	14.4x	17.4x	16.3x
Revenue (mil.)	\$2,537	\$2,408	\$2,699

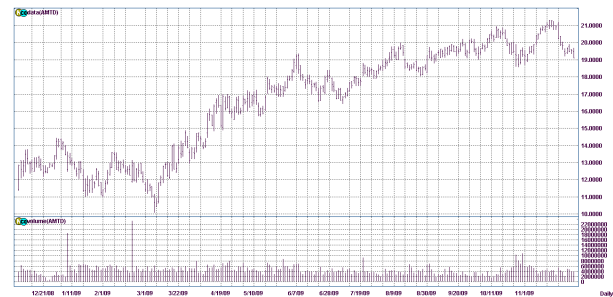
EPS is GAAP.

TD Ameritrade Holding Corporation, headquartered in Omaha, Nebraska, is a leader in the online brokerage industry. The company provides brokerage and financial advisory services to self-directed individual investors. It also provides back-office support services to independent registered investment advisors. The company recently acquired thinkorswim, expanding its options and investor education capabilities.

TD Ameritrade: Hidden Earnings Power + Catalysts + Clean Balance Sheet = Solid 2010 Pick

In our view, TD Ameritrade is the top-quality pick within the brokerage and exchange space.

We expect to see trading activity increase during 2010. While many of the firms in our coverage universe will face weaker volumes next year due to lower levels of volatility, we believe that the thinkorswim acquisition and relative strength of options trading will translate into positive year-over-year growth in trading activity for TD Ameritrade.



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Hidden earnings power. Although record-low interest rates have put a damper on TD Ameritrade's net interest income, the Federal Reserve will eventually raise rates at which point TD Ameritrade will be poised for above-average earnings growth. TD Ameritrade has \$0.28 in EPS upside from a 100-basis point increase in the fed funds rate and approximately \$0.16 per share for each 100 basis points thereafter. Although TD Ameritrade has not been immune to the falling interest rate environment, we believe the firm has been proactive in minimizing the impact in the near term and positioning itself for maximum upside once rates begin to rise.

Strong balance sheet and cash flow will likely boost shareholder returns. We believe that a decision to pay a dividend and/or institute a share buyback is likely forthcoming in the next few months, both of which should be positive catalysts for the firm's shares.

Attractive valuation. Our \$24 target price is based on an 18.5x multiple of our CY10 EPS estimate of \$1.30, but is only 12.9x our CY11 EPS estimate of \$1.86. TD Ameritrade has typically received a forward multiple between 11-16x over the past two years; therefore, based on our 2010 EPS estimate, our target price looks a bit rich. However, once investors begin to look more closely at the firm's 2011 and 2012 earnings potential, we believe there is further substantial upside for TD Ameritrade's shares. In addition, TD Ameritrade remains at a discount to peer Charles Schwab (SCHW/\$17.88/Outperform), which is currently trading at 21x our 2010 EPS estimate of \$0.84 and 14x our 2011 EPS estimate of \$1.29.

— Patrick O'Shaughnessy, CFA

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Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.

Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.

Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Strong Buy (1) Expected to appreciate and produce a total return of at least 25.0% over the next twelve months.

Buy (2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Hold (3) Expected to perform in line with the underlying country index.

Underperform (4) Expected to underperform the underlying country index.

Raymond James European Equities rating definitions

Strong Buy (1) Absolute return expected to be at least 10% over the next 12 months and perceived best performer in the sector universe.

Buy (2) Absolute return expected to be at least 10% over the next 12 months.

Fair Value (3) Stock currently trades around its fair price and should perform in the range of -10% to +10% over the next 12 months.

Sell (4) Expected absolute drop in the share price of more than 10% in next 12 months.

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