

Time Warner Cable Inc. (TWC) – Buy

TWC: 2Q10 Preview

TWC will report 2Q10 results on Thursday, August 5, 2010, before the market opens and management will host a conference call beginning at 8:30 am ET to discuss results. The call-in number is (888) 677-9025; Passcode: TWC2Q10.

Revising 2Q10 and FY10 Estimates.

We are lowering our revenue and OIBDA estimates for 2Q10 to reflect lower than previously projected subscriber additions in Basic (greater losses in 2Q10) and Telephony (lower adds in 2Q10), as well as lower ARPU in both product categories. In addition, we are raising our cost estimates to reflect higher programming costs in 2Q10 and throughout the balance of FY10. As a result, we are lowering our 2Q10 revenue estimate by 0.5% to \$4.68B and our EPS estimate by 7.8% to \$0.94. For FY10, we are lowering our estimates to reflect the trends discussed for 2Q10 and as a result, we are lowering FY10 revenue by 0.4% to \$18.745B and our EPS estimate by 5.1%.

Strategic Investment Thesis

We believe that cable companies with triple play bundles like TWC are the most protected from decisions the content creators make about where to make their content available and for how much. We recommend that investors purchase triple-play-focused cable companies like Time Warner Cable (TWC, Buy) because they are largely indifferent about where viewers watch content in the home. TWC can raise the price of the modem and lower the price of the TV bundle if consumers increasingly watch premium TV content on their computer

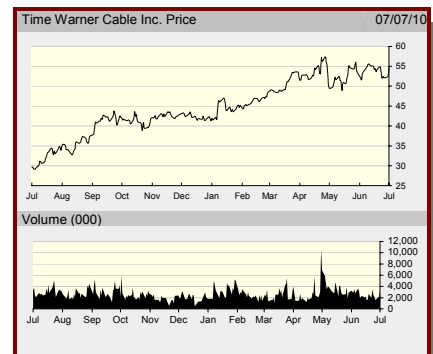
We reiterate our BUY rating and \$65 target price for TWC.

EPS Change

Market Data	
Price (07/07/10)	\$54.69
12-Month Price Target	\$65.00
52-Week range	\$57.37-29.11
Shares Out. (MM)	352.4
Market cap (MM)	\$19,274.6
Avg. daily volume (000)	2,792.5
Financial Data	
Total Debt/Cap.	70.4%
Price/LTM Rev.	1.1x
Tangible BVPS	(\$49.08)
Net Cash Per Share	(\$58.20)

	FY	FY		FY	
	12/31/09 A	12/31/10 E		12/31/11 E	
		Old	New	Old	New
Rev. (MM)	\$17,868.5	\$18,814.0	\$18,744.7	\$19,331.1	\$19,443.6
Growth	3.9%	5.3%	4.9%	2.7%	3.7%
Op. Mar.	18.6%		19.7%		20.9%
EPS: 1Q	0.81	0.60	0.60A		
EPS: 2Q	0.87	1.02	0.94		
EPS: 3Q	0.80	0.97	0.90		
EPS: 4Q	0.93	1.14	1.09		
EPS: Year	3.45	3.73	3.54	3.96	4.21
Growth	(8.9%)	8.0%	2.5%	6.3%	19.0%
P/E Ratio	11.3x	14.7x	15.5x	13.8x	13.0x

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

Figure A includes our current and prior estimates, and compares these to consensus estimates.

Figure A

FYE 12/31:	2Q10E	3Q10E	4Q10E	2010E	2011E
Rev Current (\$m)	\$4,681	\$4,710	\$4,755	\$18,745	\$19,444
Previous (\$m)	\$4,706	\$4,734	\$4,775	\$18,814	\$19,331
Consensus (\$mm)	\$4,680	\$4,700	NA	\$18,740	\$19,460
EPS Operations	\$0.94	\$0.90	\$1.09	\$3.54	\$4.21
Previous (1)	\$1.02	\$0.97	\$1.14	\$3.73	\$3.96
Consensus	\$0.93	\$0.90	NA	\$3.45	\$4.21
P/E Current				14.7	12.4

Source: Yahoo Finance, Needham & Company estimates

PROJECTED 2Q10 RESULTS

We estimate that TWC will report 2Q10 results as follows:

- **Revenue** of \$4.68B, up 5% y/y and 1% below our prior estimates owing to lower basic sub growth than previously estimated and some pricing weakness.
- **OIBDA** of \$1.727B, up 5% y/y and 5% below our prior estimates owing to higher programming costs than our previous estimates.
- **Capital Expenditures** of \$715M, down 7% y/y and no change from our prior estimates.
- **Advertising** revenue (4.2% of TWC revenue) of \$197M, up 13% y/y and no change from our prior estimates.
- **Total RGU Adds** of 123K in 2Q10 for total RGU's of 35,735K at 6/30/10, slightly lower than our previous estimates.

Key fundamental statistics that most impact the stock include:

- **Basic Video subscribers** are expected to fall by 100K in 2Q10, versus a loss of 57K in 2Q09, for a total of 12,717K subscribers at 6/30/10. We are adjusting our loss estimate by 50K from a loss of 50K to reflect aggressive competition.
- **Digital** sub adds are expected to be 50K, a 7% yr/yr decline, for a total of 9,018K subs at 6/30/10, no change versus our prior estimates.
- **High Speed Data** adds are expected to be 95K, a 1% y/y increase, for a total of 9,605K subs at 6/30/10, including Residential sub adds of 90K. We are raising our residential estimate from 85K adds to 90K to reflect better than previously estimated gains from telco DSL lines.
- **VoIP** adds will be 65K, down 37% yr/yr, for total VoIP subs of 4,395K at 6/30/10, down significantly from our previous estimate of 80K adds.

DETAILED QUARTERLY EARNINGS ANALYSIS

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

Table 1 Time Warner Cable: 9 Metrics Matter Most June Qtr Analysis: 2Q09R vs New 2Q10E vs Prior 2Q10E subscribers in thousands						
	2Q09R	New 2Q10E	Yr/Yr Chg	Prior 2Q10E	New/Old	
Financial Metrics						
1 Total Revenue (\$m)	\$ 4,474	\$ 4,681	5%	\$ 4,706	-1%	
2 Total EBITDA (\$m)	\$ 1,652	\$ 1,709	3%	\$ 1,817	-6%	
3 EBITDA Margin	36.9%	36.5%		38.6%		
4 Capital Expenditures	\$769	\$715	-7%	\$715	0%	
Subscriber Metrics						
1 High Speed Data Sub Adds-Residential	88	90	2%	85	6%	
End of Period Data Subscribers	8,713	9,296	7%	9,291	0%	
ARPU	\$41.55	\$42.60	3%	\$42.60	0%	
% Penetration	66.8%	73.1%		72.8%		
2 High Speed Data Sub Adds-Commercial	6	5	NA	5	0%	
End of Period Data Subscribers	289	309	7%	309	0%	
ARPU	\$42.70	\$42.60	0%	\$42.60	0%	
% Penetration	2.2%	2.4%		2.4%		
3 Basic Video Subscriber Additions	(57)	(100)	NM	(50)	-100%	
End of Period Basic Video Subscribers	13,048	12,717	-3%	12,767	0%	
ARPU	\$50.20	\$51.25	2%	\$51.70	-1%	
4 Digital Video Subscriber Additions	54	50	-7%	50	0%	
EOP Digital Video Subscribers	8,802	9,018	2%	9,018	0%	
ARPU	\$28.00	\$29.40	5%	\$29.40	0%	
% Penetration	67.5%	70.9%		70.6%		
5 Telephony Additions	103	65	-37%	80	-19%	
End of Period Telephony	4,016	4,395	9%	4,410	0%	
ARPU	\$39.15	\$38.75	-1%	\$39.00	-1%	
% Penetration	30.8%	34.6%		34.5%		
Sources: Company Reports, Needham & Company estimates.						

TARGET PRICE

Our \$65 target price, 25% above current trading levels, is based on a 10-year DCF model. 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 it removes the impact of non-cash accounting conventions. Positives and negatives of this valuation methodology are highlighted beside the calculation in Table 6.

Our \$65 target price embeds a 10-year OIBDA growth rate of only 2% annually beginning in 2011 and represents a 5.7x multiple of forward year (2012E) OIBDA

VALUATION

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

Table 2: TWC: Valuation Summary & Conclusions		
2011E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales 1.9	9 Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 0.3%
2	EV/OIBDA 5.2	
3	P/E 12.4	
4	FCF/Share \$5.27	
5	EV/FCF 19.8	
6	FCF Yield 10%	
7	EV/Sub \$2,955	
8	EV/RGU \$1,030	

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 TWC must achieve a 10-year OIBDA compound annual growth rate of approximately 0.3% to justify its current share price. (Please see Table 5.)
2. In Table 7 we summarize several **valuation multiples** for Sales, OIBDA and P/E. TWC’s EV/OIBDA trading multiple is approximately 5.2x 2011E OIBDA.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that TWC is currently valued at about 19.8x 2011E Free Cash flow and has a 10% free cash flow yield, making it one of the more attractive companies we cover.
4. In Table 9, we present **Value Per Sub, RGU** and **Homes Passed** information. This data indicates that TWC has upside potential vs competitors.
5. In Table 10, we present our **Comparative Industry** valuation metrics which shows that TWC is an attractive valuation of the companies we cover based on several metrics.

Investment Positives

Our BUY rating and \$65 target price is based on the following analytical building blocks:

1. **Hedged.** We believe that cable companies with triple play bundles like TWC are the most protected from decisions the content creators make about where to make their content available and for how much. If the content appears on the web for free, we would expect cable operators like TWC to stop paying for it, lowering programming expenses which today are more than 40% of costs. Cable companies can raise the price of the modem and lower the price of the TV bundle if the content companies

increasingly make their content available to consumers via the Internet platform at lower price points.

2. **FCF Growth.** Capex at TWC has fallen from 23% of sales in FY06 to 18% in FY09, We expect further declines in Capex as a proportion of sales over time, which should drive strong FCF growth.
3. **Commercial is a Revenue Driver.** TWC's commercial revenue was approximately \$915m (5% of total revs) in 2009, representing 10% penetration of the market opportunity, by our estimate. We believe that TWC can achieve 20% top line growth in commercial in 2010 and 2011. We expect rapid growth in the provision of back haul services over its (fast) fiber backbone to wireless cell sites. Commercial services have higher margins than residential both because pricing is higher on the same products and because businesses typically need phone and broadband, which carry richer gross margins than video.
4. **Earnings Potential.** Single-digit top-line growth coupled with operating leverage should result in 15-20% annual EPS growth over the next few years and the potential to deliver an upside earnings surprise in FY11 vs consensus. A recovery in high-margin advertising revenue and scale benefits in phone and broadband should offset video margin pressure, in our view.
5. **Competition Stable.** Telco's fiber rollouts are slowing and increasingly, customers are finishing up their first year of promotional Telco pricing thereby giving TWC a chance to regain them as customers. TWC has highlighted more win-backs in recent quarters, and we expect this trend to continue into 2011 as competition stabilizes. A stabilizing competitive environment suggests rising pricing power through 2011.
6. **Return of Capital.** We believe that most of TWC's high (10%) FCF yield will be repatriated to shareholders. TWC pays a quarterly dividend of \$0.40, representing a 3.1% yield. The cash dividend payout of \$570m represents a FCF payout ratio of about 40%. We expect TWC to maintain leverage at around 3.25x (current level). EBITDA growth and excess cash after dividend payments should be nearly \$2B, enough to repurchase about 10% of the market cap every year!
7. **Size Matters.** Cable is a business where scale matters. At nearly 13mm subscribers, TWC is the second largest cable operator in the US, which facilitates strategic partnerships for new product development and gives it technology and cost advantages (ex: lower programming costs).
8. **Marginal ROICs Drive Growth.** TWC's new revenue streams have higher marginal returns on capital than its core video business, implying rising ROICs over time. We estimate that incremental returns on capital for the new services (high speed data, digital voice, HD-DVR's, PPV, etc) range from 20-50%.
9. **Industry Structure Drives Profit Growth.** The cable business was founded by visionary entrepreneurs, many of whom are still in the business. This focuses cable management teams on equity appreciation and drives

cooperation among the largest multiple system operators (MSOs), which creates competitive advantage vis-à-vis competitors. There is a culture of sharing product information, best practices, consumer demand data and of collaboratively splitting costs of R&D (ie, cable labs), litigation and lobbying.

10. **Tax Shield.** TWC shelters \$330m of cash taxes every year for the next 11 years (ending in 2021), owing to the step-up in tax basis associated with the Adelphia acquisition. This shifts value from taxes to shareholders. Structurally, the capital intensity and financial leverage of TWC's business implies minimal cash taxes and nearly tax-free equity appreciation long-term.
11. **Churn Falling.** Bundled products help retain subscribers against competitive incursions. Churn falls and TWC is winning back basic cable subscribers when it can offer HSD and VoIP in a 3-product ("triple play") bundle as many subscribers prefer to have one provider for all products.
12. **Competitive Advantage.** Cable was built community by community, so pricing and bundling decisions are designed to maximize profits on a market-by-market basis. Telco and DBS can't match this local targeting.
13. **Single Class of Stock.** TWC only has one class of shares, so its public shareholders do not have fewer votes than other shareholder classes.
14. **Management.** Glenn Britt, CEO, has been in the cable business for decades and is well regarded by both his cable peers and Wall St.
15. Other Investment Positives:
 - New home construction (cable's installed base) should begin to grow in 2011 and drive revenue growth through 2015.
 - Attractive yield (>3% yield vs. 2.2% S&P 500 avg)
 - High quality, liquid stock
 - Pure play cable company (ie, no content assets).
 - A cyclically depressed trough valuation of only 5.2x 2010E EBITDA

Risks to our Target Price

1. **Consumer Fragmentation.** The new digital platforms are reorienting consumers' perception of the value of content. The Internet is re-training consumers that everything over the Internet (including content) should be free. Growing competition for audience time exacerbates this economic downdraft, as the Internet offers more leisure choices (video games, social networks, etc).
2. **Telcos.** The competitive landscape is becoming more challenging. Telcos and satellite represent deep-pocketed, aggressive competitors for subscribers. Verizon (VZ, NR) operates in areas with about 9mm of TWC's homes passed, and AT&T (T, NR) operates in areas with about 18mm of TWC's homes passed. To date, TWC has found that RBOC video penetration slows after an initial rush at launch. Generally, U-verse (AT&T) garners a quick 5% share, thereafter moving slowly toward 10% share of video subs. VZ's FiOS garners a quick 10% share, thereafter moving slowly toward 20% share of video subs. VZ plus AT&T offered advanced video services in about 30% of TWC footprint in 4Q09.

3. **Slowing Growth.** Multichannel video is saturated. Of the approximate 114 million television households in the US, about 87% are currently multichannel video subscribers. Future growth must come from generating more revenue from the same customers, or taking customers away from competitors (implying high subscriber acquisition costs).
4. **Regulation.** Regulators have repeatedly invaded the cable perimeter in an effort to slow cable price increases and facilitate competition. Net neutrality creates risk in the upside potential of investing in Internet infrastructure if the government decides that high speed internet access is a right of all citizens and therefore requires price regulation.
5. **Programming Costs** at TWC are about 40% of total expenses and are rising at 7-9% annually, compared with pricing increases of 3-5% annually, implying margin pressure on the video product over time. Unless TWC can generate incremental margins from HSD and VoIP, corporate margins may fall.
6. **Wireless Strategy.** Although TWC is a Clearwire JV partner, there is no clear wireless strategy and no strategic imperative for wireless as part of the bundle.

COMPANY DESCRIPTION

Time Warner Cable (TWC), the United States' second-largest cable company, passes about 27 million homes in the United States. TWC offers multi-channel video (both analog and digital); high speed data, and telephone services to residential and business clients. Nearly 85% of TWC's 13mm customers are concentrated in five principal geographic areas — New York State, the Carolinas (i.e., North Carolina and South Carolina), Ohio, southern California, and Texas. TWC is the largest cable system operator in New York City and Los Angeles. TWC is based in New York City.

Table 3A

Time Warner Cable: Quarterly Financial Projections, 2010E

\$ and shares in millions, except per share data

	3/31/10A	10/09	6/30/10E	10/09	9/30/10E	10/09	12/31/10E	10/09	Year	10/09
Revenue:										
Video	\$2,740	3%	\$2,756	2%	\$2,749	2%	\$2,747	2%	\$10,992	2%
High Speed Data	\$1,193	8%	\$1,222	9%	\$1,236	9%	\$1,251	8%	\$4,902	8%
Voice	\$493	9%	\$507	8%	\$520	8%	\$530	9%	\$2,005	8%
Advertising	\$173	19%	\$197	13%	\$206	13%	\$227	13%	\$802	14%
Total Revenues	\$4,599	5%	\$4,681	5%	\$4,710	5%	\$4,755	5%	\$18,745	5%
Costs and Expenses										
Costs of Revenues	\$2,195	3%	\$2,209	4%	\$2,261	5%	\$2,187	3%	\$8,852	4%
S,G & A	\$735	1%	\$744	6%	\$754	5%	\$761	10%	\$2,994	5%
Merger-Related/Restructuring	\$0		\$0		\$0		\$0		\$0	
Operating Expenses	\$2,930	1%	\$2,954	4%	\$3,014	4%	\$2,948	4%	\$11,846	3%
Depreciation	\$743	8%	\$735	5%	\$730	2%	\$730	0%	\$2,938	4%
Amortization	\$65	14%	\$65	5%	\$65	2%	\$65	-2%	\$260	4%
Impairment of long-lived Assets	\$11		\$0		\$0		\$0		\$11	
Total Costs and Expenses	\$3,749	3%	\$3,754	5%	\$3,809	4%	\$3,743	3%	\$15,055	3%
Operating Income	\$850	19%	\$927	5%	\$900	9%	\$1,012	14%	\$3,690	11%
Interest expense, net	(\$347)	20%	(\$350)	4%	(\$350)	1%	(\$350)	1%	(\$1,397)	6%
Income (loss) from Equity Investment	\$0		\$0		\$0		\$0		\$0	
Minority Interest expense, net	\$0		\$0		\$0		\$0		\$0	
Other	(\$15)		(\$10)		(\$10)		(\$10)		(\$45)	
Income Before Taxes and Extraordinary	\$488	30%	\$567	7%	\$540	17%	\$652	20%	\$2,248	18%
Income Taxes	(\$273)	43%	(\$230)	6%	(\$216)	12%	(\$261)	19%	(\$980)	19%
Net Income-Operations	\$215	17%	\$338	7%	\$324	21%	\$391	21%	\$1,268	16%
Less: NI due to Non-Controlled Interests	(\$1)		\$0		\$0		\$0		(\$1)	
Net Income-Reported	\$214	-22%	\$338	9%	\$324	15%	\$391	19%	\$1,267	5%
EPS-Operations	\$0.60	11%	\$0.94	6%	\$0.90	19%	\$1.09	20%	\$3.54	14%
EPS-Reported	\$0.60	-26%	\$0.94	8%	\$0.90	14%	\$1.09	18%	\$3.54	2%
Weighted Avg. Diluted Shares	357		358		359		359		358	
Calculation of OIBDA										
Operating Income	\$850	19%	\$927	5%	\$900	9%	\$1,012	14%	\$3,690	11%
Plus:										
Depreciation	\$743	8%	\$735	5%	\$730	2%	\$730	0%	\$2,938	4%
Amortization	\$65	14%	\$65	5%	\$65	2%	\$65	-2%	\$260	4%
OIBDA	\$1,658	13%	\$1,727	5%	\$1,695	6%	\$1,807	7%	\$6,888	8%
Non-Cash Pre Tax Imp Loss + NC Int	\$13		\$0		\$0		\$0		\$13	
OIBDA	\$1,671	11%	\$1,727	5%	\$1,695	4%	\$1,807	6%	\$6,901	6%

Sources: Company reports, Needham & Company estimates.

Table 3B

Time Warner Cable: Footnotes to Consolidated Revenue Detail

\$ in millions, except per subscriber data

	2010E									
	3/31/10A	10/09	6/30/10E	10/09	9/30/10E	10/09	12/31/10E	10/09	Year	10/09
(a) Basic Cable Revenue:										
Beginning Subs (000)	12,859	-2%	12,817	-2%	12,717	-3%	12,647	-2%	12,859	-2%
Internal Growth %	-0.3%		-0.8%		-0.6%		-0.5%		-2.1%	
Internal Growth in Subs.	(42)	-217%	(100)	75%	(70)	-17%	(60)	-43%	(272)	-30%
Ending Subs. (000)	12,817	-2%	12,717	-3%	12,647	-2%	12,587	-2%	12,587	-2%
Avg. Subs.	12,838	-2%	12,767	-2%	12,682	-2%	12,617	-2%	12,723	-2%
Monthly Revs/Sub	\$51.06	4%	\$51.25	2%	\$51.30	3%	\$51.40	3%	\$51.25	3%
Total Basic Rev(\$mm)	\$1,967	2%	\$1,963	0%	\$1,952	0%	\$1,946	0%	\$7,827	1%
(b) Digital Video Revenue										
Beginning Subs (000)	8,866	3%	8,968	3%	9,018	2%	9,058	3%	8,866	3%
Internal Growth %	1.2%		0.6%		0.4%		0.6%		2.8%	
Internal Growth in Subs.	102	-16%	50	-7%	40	400%	55	-2%	247	3%
Ending Subs. (000)	8,968	3%	9,018	2%	9,058	3%	9,113	3%	9,113	3%
Avg. Subs.	8,917	3%	8,993	2%	9,038	3%	9,086	3%	8,990	3%
Monthly Incremental Revs/Sub	\$28.90	2%	\$29.40	5%	\$29.40	4%	\$29.40	4%	\$29.28	4%
Total Digital Rev(\$mm)	\$773	5%	\$793	8%	\$797	7%	\$801	6%	\$3,165	6%
(c) Data Revenue-Residential										
Beginning Subs (000)	8,994	7%	9,206	6%	9,296	6%	9,411	6%	8,994	7%
Internal Growth %	2.4%		1.0%		1.2%		1.2%		5.9%	
Internal Growth in Subs.	212	-6%	90	2%	115	-2%	115	-4%	532	-3%
Ending Subs. (000)	9,206	6%	9,296	6%	9,411	6%	9,526	6%	9,526	6%
Avg. Subs.	9,100	6%	9,251	6%	9,354	6%	9,469	6%	9,260	6%
Monthly Revs/Sub	\$42.30	2%	\$42.60	3%	\$42.60	2%	\$42.60	2%	\$42.53	2%
Total Data Rev(\$mm)	\$1,155	8%	\$1,182	9%	\$1,195	9%	\$1,210	8%	\$4,743	8%
(e) Telephony Residential										
Beginning Subs (000)	4,153	11%	4,239	8%	4,304	7%	4,374	7%	4,153	11%
Internal Growth %	2.1%		1.5%		1.6%		1.7%		7.1%	
Internal Growth in Subs.	86	-48%	65	-37%	70	13%	75	0%	296	-27%
Ending Subs. (000)	4,239	8%	4,304	7%	4,374	7%	4,449	7%	4,449	7%
Avg. Subs.	4,196	10%	4,272	8%	4,339	7%	4,412	7%	4,301	9%
Monthly Incremental Revs/Sub	\$38.50	-1%	\$38.75	-1%	\$39.00	0%	\$39.00	1%	\$38.81	0%
Total Telephony Rev(\$mm)	\$485	8%	\$497	7%	\$508	7%	\$516	8%	\$2,005	8%
(g) Total RGUs										
Beginning RGUs (000)	35,234	3%	35,612	2%	35,735	2%	35,911	2%	35,234	
Internal Growth %	1.1%		0.3%		0.5%		0.6%		2.5%	
Internal Growth in Subs.	378	-32%	123	-40%	176	50%	206	31%	883	
Acquired Subs. (000)	0		0		0		0		0	
Ending RGUs (000)	35,612	2%	35,735	2%	35,911	2%	36,117	3%	36,117	
Sources: Company reports, Needham & Company estimates.										

Table 4							
TWC: Annual Income Statement Summary Projections, 2008A-2011E							
\$ in millions, except per share data							
	2008A	2009A	09/08	2010E	10/09	2011E	11/10
Revenue:							
Video	\$10,525	\$10,761	2.2%	\$10,992	2.1%	\$11,132	1.3%
High Speed Data	\$4,159	\$4,519	8.6%	\$4,902	8.5%	\$5,211	6.3%
Voice	\$1,611	\$1,863	15.6%	\$2,005	7.6%	\$2,176	8.5%
Advertising	\$898	\$702	-21.8%	\$802	14.3%	\$857	6.8%
Total Revenues	\$17,201	\$17,868	3.9%	\$18,745	4.9%	\$19,444	3.7%
Costs and Expenses							
Costs of Revenues	\$8,145	\$8,547	4.9%	\$8,852	3.6%	\$9,163	3.5%
S,G & A	\$2,854	\$2,838	-0.6%	\$2,994	5.5%	\$3,038	1.5%
Merger-Related/Restructuring	<u>\$15</u>	<u>\$83</u>	NM	<u>\$0</u>		<u>\$0</u>	
Operating Expenses	\$11,014	\$11,468	4.1%	\$11,846	3.3%	\$12,200	3.0%
Depreciation	\$2,826	\$2,836	0.4%	\$2,938	3.6%	\$2,920	-0.6%
Amortization	\$262	\$249	-5.0%	\$260	4.4%	\$260	0.0%
Impairment of long-lived Assets	<u>\$58</u>	<u>(\$2)</u>	NM	<u>\$11</u>		<u>\$0</u>	
Total Costs and Expenses	\$28,982	\$14,551	-49.8%	\$15,055	3.5%	\$15,380	2.2%
Operating Income	(\$11,781)	\$3,317	NM	\$3,690	11.2%	\$4,063	10.1%
Interest expense, net	(\$923)	(\$1,319)	NM	(\$1,397)		(\$1,460)	4.5%
Income (loss) from Equity Invests	\$717	(\$1)	NM	\$0		\$0	
Minority Interest expense, net	(\$144)	\$0	NM	\$0		\$0	
Other, incl. effect of TWX Separation	<u>(\$367)</u>	<u>(\$86)</u>	NM	<u>(\$45)</u>		<u>\$0</u>	
Income Before Taxes and Extras	(\$12,367)	\$1,910	NM	\$2,248	17.6%	\$2,603	15.8%
Income Taxes	\$5,109	(\$820)	NM	(\$980)		(\$1,093)	11.6%
Net Income Reported	(\$7,344)	\$1,090	NM	\$1,267	16.2%	\$1,510	19.2%
Net Income Operations	\$1,233	\$1,210	-1.8%	\$1,268	4.8%	\$1,511	19.2%
EPS Reported	(\$22.55)	\$3.45	NM	\$3.54	2.5%	\$4.21	19.0%
EPS Operations	\$3.78	\$3.11	-17.9%	\$3.54	13.8%	\$4.21	18.9%
Weighted Avg. Diluted Shares	326	351	7.7%	358	2.1%	359	0.2%
Calculation of OIBDA:							
Operating Income	(\$11,781)	\$3,316	NM	\$3,690	11.3%	\$4,063	10.1%
Plus:							
Depreciation	\$2,826	\$2,836	0.4%	\$2,938	3.6%	\$2,920	-0.6%
Amortization	\$262	\$249	-5.0%	\$260	4.4%	\$260	0.0%
OIBDA	(\$8,693)	\$6,401	NM	\$6,888	7.6%	\$7,243	5.2%
OIBDA, Pre-Impairment	\$6,191	\$6,492	4.9%	\$6,901	6.3%	\$7,243	5.0%
Sources: Company reports, Needham & Company estimates.							

Table 5
Time Warner Cable: Standard DCF Calculation, 2012E-2021E

\$ and shares in millions, except per share data

Valuation Conclusions	% of Total	
Sum of PV of Free Cash Flow ¹	\$22,996	50%
PV of Terminal Value Discounted at WACC ¹	\$19,204	42%
Value of Operations (WACC Method)	\$42,200	92%
Plus: Excess Cash at 12/31/11E	\$2,000	
Plus: NPV of Tax Step Up	\$1,500	
Plus: Minority Interest-Clearwire	\$65	
Less: Unfunded Retirement Liabilities	\$0	
Enterprise Value	\$45,765	100%
Less: Debt at 12/31/11E	(\$21,500)	
Less: Lease Obligations	(\$250)	
Less: Preferred Stock Outstanding	(\$300)	
Less: Value of Options & Restricted Sk, After-tax	(\$300)	
Common Equity Value	\$23,415	51%
Fully Diluted Shares Out, 2011E	359	
DCF Value/Share	\$65.22	
Current Share Price @ 7/2/10	\$52.13	
Upside Potential (DCF-Current Price/Current Price)	25%	

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):	\$7,243	\$7,316	\$7,404	\$7,492	\$7,590	\$7,688	\$7,788	\$7,890	\$7,992	\$8,096	\$8,201	1.3%
- Depreciation	(\$3,180)	(\$2,849)	(\$3,215)	(\$3,226)	(\$3,237)	(\$3,247)	(\$3,258)	(\$3,269)	(\$3,280)	(\$3,290)	(\$3,081)	
+ Option Exercise Procee	\$10	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	
+ Int & Inv Income only	\$15	\$15	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
EBIT	\$4,088	\$4,502	\$4,258	\$4,336	\$4,423	\$4,511	\$4,600	\$4,691	\$4,783	\$4,876	\$5,190	
Cash Taxes (at 20%)	(\$613)	(\$945)	(\$894)	(\$911)	(\$929)	(\$947)	(\$966)	(\$985)	(\$1,004)	(\$1,024)	(\$1,090)	
Plus: Depreciation	\$3,180	\$2,849	\$3,215	\$3,226	\$3,237	\$3,247	\$3,258	\$3,269	\$3,280	\$3,290	\$3,081	
Plus: Sk Based Comp Exp	\$25	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
Working Capital Change	(\$90)	(\$116)	(\$131)	(\$132)	(\$132)	(\$133)	(\$133)	(\$133)	(\$134)	(\$134)	(\$126)	
Less: Capital Spending	(\$2,800)	(\$2,907)	(\$3,281)	(\$3,292)	(\$3,303)	(\$3,314)	(\$3,325)	(\$3,336)	(\$3,347)	(\$3,358)	(\$3,144)	
FCF from Operations	\$3,790	\$3,432	\$3,217	\$3,278	\$3,346	\$3,415	\$3,485	\$3,556	\$3,627	\$3,700	\$3,962	1.6%
PV Discounted at WACC ²		\$3,432	\$2,913	\$2,688	\$2,484	\$2,296	\$2,121	\$1,960	\$1,810	\$1,672	\$1,621	
Sum of PV of Free Cash Flow											\$22,996	
Terminal Value of 2021E FCF ³											\$46,938	
PV of Terminal Value at WACC ²											\$19,204	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.20
Target Equity/(Debt + Equity)	80%
Debt Rating	BBB
Debt Spread	8.0%
Marginal Tax Rate ("T")	40.0%
WACC	10.4%
(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	10.4%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.4%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.8
EBITDA Terminal Multiple	5.7

Sources: Company Reports, Needham & Company estimates.

Table 6

Time Warner Cable: Breakeven Discounted Cash Flow (DCF) Valuation Calculation, 2012E - 2021E

\$ and shares in millions, except per share data

Valuation Conclusions	2011E
Sum of PV of Free Cash Flow ¹	\$21,183
PV of Terminal Value Discounted at WACC ¹	\$16,311
Value of Operations (WACC Method)	\$37,494
Plus: Excess Cash at 12/31/11E	\$2,000
Plus: NPV of Tax Step Up	\$1,500
Plus: Minority Interest-Clearwire	\$65
Enterprise Value	\$41,059
Less: Debt at 12/31/11E	(\$21,500)
Less: Lease Obligations	(\$250)
Less: Preferred Stock Outstanding	(\$300)
Less: Value of Options & Restricted Sk, After-tax	(\$300)
Common Equity Value	\$18,709
Fully Diluted Shares Out, 2011E	359
Breakeven DCF Value/Share	\$52.11
Current Share Price @ 7/2/10	\$52.13
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):	\$7,243	\$7,267	\$7,291	\$7,315	\$7,339	\$7,364	\$7,388	\$7,412	\$7,437	\$7,461	\$7,486	0.3%
- Depreciation	(\$3,180)	(\$2,849)	(\$3,215)	(\$3,226)	(\$3,237)	(\$3,247)	(\$3,258)	(\$3,269)	(\$3,280)	(\$3,290)	(\$3,081)	
+ Option Exercise Procee	\$10	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	
+ Int & Inv Income only	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	
EBIT	\$4,088	\$4,448	\$4,106	\$4,119	\$4,133	\$4,146	\$4,160	\$4,173	\$4,187	\$4,201	\$4,435	
Cash Taxes (at 20%)	(\$100)	(\$934)	(\$862)	(\$865)	(\$868)	(\$871)	(\$874)	(\$876)	(\$879)	(\$882)	(\$931)	
Plus: Depreciation	\$3,180	\$2,849	\$3,215	\$3,226	\$3,237	\$3,247	\$3,258	\$3,269	\$3,280	\$3,290	\$3,081	
Plus: Sk Based Comp Exp	\$25	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
Working Capital Change	(\$90)	(\$116)	(\$131)	(\$132)	(\$132)	(\$133)	(\$133)	(\$133)	(\$134)	(\$134)	(\$126)	
Less: Capital Spending	(\$2,800)	(\$2,907)	(\$3,281)	(\$3,292)	(\$3,303)	(\$3,314)	(\$3,325)	(\$3,336)	(\$3,347)	(\$3,358)	(\$3,144)	
FCF from Operations	\$4,303	\$3,390	\$3,097	\$3,107	\$3,117	\$3,127	\$3,137	\$3,147	\$3,157	\$3,167	\$3,365	
PV Discounted at WACC ²		\$3,390	\$2,804	\$2,547	\$2,314	\$2,102	\$1,909	\$1,734	\$1,575	\$1,431	\$1,377	
Sum of PV of Free Cash Flow											\$21,183	
Terminal Value of 2021E FCF ³											\$39,867	
PV of Terminal Value at WACC ²											\$16,311	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.20
Target Equity/(Debt + Equity)	80%
Debt Rating	BBB
Debt Spread	8.0%
Marginal Tax Rate ("T")	40.0%
WACC	10.4%
((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	10.4%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.4%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.8
EBITDA Terminal Multiple	5.3

Sources: Company Reports, Needham & Company estimates.

Table 7		
TWC: Valuation Multiples (Sales, OIBDA, P/E)		
\$ and shares in millions, except per share data		
Valuation Conclusions		2011E
Market-Based Enterprise Value ¹		\$37,500
2011E Sales (From Annual Projections)		\$19,444
EV/Sales		1.9
Market-Based Enterprise Value ¹		\$37,500
2011E OIBDA (From Annual Projections)		\$7,243
EV/EBITDA		5.2
Target Price		\$65.00
Target Price EV/2012 OIBDA		5.7
Current Price	7/2/10	\$52.13
2011E EPS (From Annual Projections)		\$4.21
P/E Ratio		12.4
¹ Calculation of Market-Based Enterprise Value		
Year End 12/31:		<u>2011E</u>
Current Share Price	07/02/10	\$52.13
Fully Diluted Shares Out		<u>359</u>
Market Capitalization		\$18,715
Less: Excess Cash		(\$2,000)
Plus: Tax Step Up - Minority Interest (See PMV)		(\$1,565)
Plus: Unfunded Retirement Liabilities		\$0
Plus: Debt at 12/31/11		\$21,500
Plus: Lease Obligations		\$250
Plus: Preferred Stock Outstanding		\$300
Plus: Options & Restricted Sk Outstanding		<u>\$300</u>
Market-Based Enterprise Value		\$37,500
Sources: Company Reports, Needham & Company estimates.		

Table 8		
TWC: Free Cash Flow Valuation Metrics		
\$ and shares in millions, except per share data		
Valuation Conclusions		2011E
FCF/Share ²		\$5.27
Current Price	7/2/10	\$52.13
FCF Yield		10%
FCF ²		\$1,891
2011E OIBDA (From Annual Projections)		\$7,243
FCF Conversion Rate (FCF/OIBDA)		26%
Market-Based Enterprise Value ¹		\$37,500
FCF ²		\$1,891
EV/FCF		19.8
Net Debt/OIBDA		2.7
Net Debt		\$19,500
Net Debt/Market Cap		104.2%
² Calculation of Free Cash Flow		
Year End 12/31:		<u>2011E</u>
OIBDA		\$7,243
Plus: Option Exercise Proceeds		\$15
Less: Cash Interest Expense		(\$1,410)
Cash Portion of Minority Interest		\$0
Less: Preferred Dividends		\$0
Less: Operating Cash Taxes		(\$934)
Less: Change in Working Capital		(\$116)
Less: Capital Spending		<u>(\$2,907)</u>
Free Cash Flow		\$1,891
Shares Outstanding		359
FCF/Share		\$5.27
Sources: Company Reports, Needham & Company estimates.		

Table 9		
TWC: Value per Sub, RGU and Homes Passed		
in millions, except per share data		
Valuation Conclusions		
		<u>2010E</u>
Market-Based Enterprise Value ¹		\$37,200
Basic subs at 12/31/10E (From Sub Proj)		12.6
EV/Sub		\$2,955
Market-Based Enterprise Value ¹		\$37,200
RGUs at 12/31/09E (From Sub Proj)		36.1
EV/RGU		\$1,030
Market-Based Enterprise Value ¹		\$37,200
Homes Passed at 12/31/10E (From PMV)		27.0
EV/Home Passed		\$1,378
¹ Calculation of Market-Based Enterprise Value		
Year End 12/31:		<u>2010E</u>
Current Share Price	07/02/10	\$52.13
Fully Diluted Shares Out		<u>359</u>
Market Capitalization		\$18,715
Less: Excess Cash		(\$2,000)
Plus: Tax Step Up - Minority Interest (See PMV)		(\$1,565)
Plus: Unfunded Retirement Liabilities		\$0
Plus: Debt at 12/31/11		\$21,500
Plus: Lease Obligations		\$250
Plus: Preferred Stock Outstanding		\$300
Plus: Options & Restricted Sk Outstanding		<u>\$300</u>
Market-Based Enterprise Value		\$37,200
Sources: Company Reports, Needham & Company estimates.		

Table 10													
Summary Comparative Financial & Valuation Information													
\$ and shares in millions, except per share data													
Laura Martin's Coverage				2011E Multiples					7/2/10			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	CBS	\$9	BUY	6.6	10.9	15.1	12.1%	1.6%	\$19.00	\$12.82	48%	B
2	Disney	DIS	\$59	HOLD	7.4	13.4	40.7	2.9%	7.7%	NA	\$31.38		B
3	NewsCorp	NWS	\$35	BUY	6.6	12.3	18.5	6.1%	1.2%	\$20.00	\$13.48	48%	B, G
4	Time Warner Inc	TWX	\$32	HOLD	7.0	11.6	17.3	8.3%	0.3%	NA	\$28.20		B
5	Viacom	VIAB	\$19	BUY	5.7	10.1	18.0	6.8%	2.3%	\$43.00	\$30.77	40%	B
6	Warner Music	WMG	\$0.7	BUY	5.3	(9.6)	10.1	31.3%	-8.5%	\$8.50	\$4.67	82%	B
Industry Total/Average			\$154		6.4	8.1	19.9	11.2%	0.8%	NA	\$20.22	NA	
Cable Companies													
7	Mediacom	MCCC	\$0.5	HOLD	7.3	NMF	NMF	NMF	2.5%	NA	\$6.75		B, G
8	Time Warner Cable	TWC	\$19	BUY	5.2	12.4	19.8	10.1%	0.3%	\$65.00	\$52.13	25%	B
Industry Total/Average			\$19		6.3	12.4	19.8	10.1%	1.4%	\$65.00	\$29.44	24.7%	
Total/Average from Above			\$173		6.3	10.3	19.9	10.7%	1.1%			NM	
Sorted by Industry	Ticker	Revenue 2011E	OIBDA 2011E	EPS 2011E	Debt Rating	Net Debt	Debt/ EBITDA	FCF	FCF/ Share	Dividend/ Share	Div. Yield		
\$ in millions, except per share data													
Content Companies													
1	CBS	CBS	\$14,313	\$2,414	\$1.18	BBB-	\$6,400	2.7	\$1,059	\$1.55	\$0.20	1.6%	
2	Disney	DIS	\$40,252	\$9,407	\$2.33	A	\$10,250	1.1	\$1,701	\$0.91	\$0.35	1.1%	
3	NewsCorp	NWS	\$32,909	\$5,861	\$1.09	BBB+	\$2,800	0.5	\$2,102	\$0.82	\$0.15	1.1%	
4	Time Warner Inc	TWX	\$27,237	\$6,551	\$2.43	BBB	\$10,500	1.6	\$2,654	\$2.34	\$0.85	3.0%	
5	Viacom	VIAB	\$14,601	\$4,040	\$3.05	BBB	\$4,000	1.0	\$1,279	\$2.10	\$0.60	1.9%	
6	Warner Music	WMG	\$3,077	\$422	(\$0.49)	BB-	\$1,420	3.4	\$221	\$1.46	\$0.00	NA	
Cable Companies													
7	Mediacom	MCCC	\$1,515	\$570	\$0.63	B+	\$3,580	6.3	\$120	\$1.69	\$0.00	NA	
8	Time Warner Cable	TWC	\$19,444	\$7,243	\$4.21	BBB	\$19,500	2.7	\$1,891	\$5.27	\$1.60	3.1%	

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

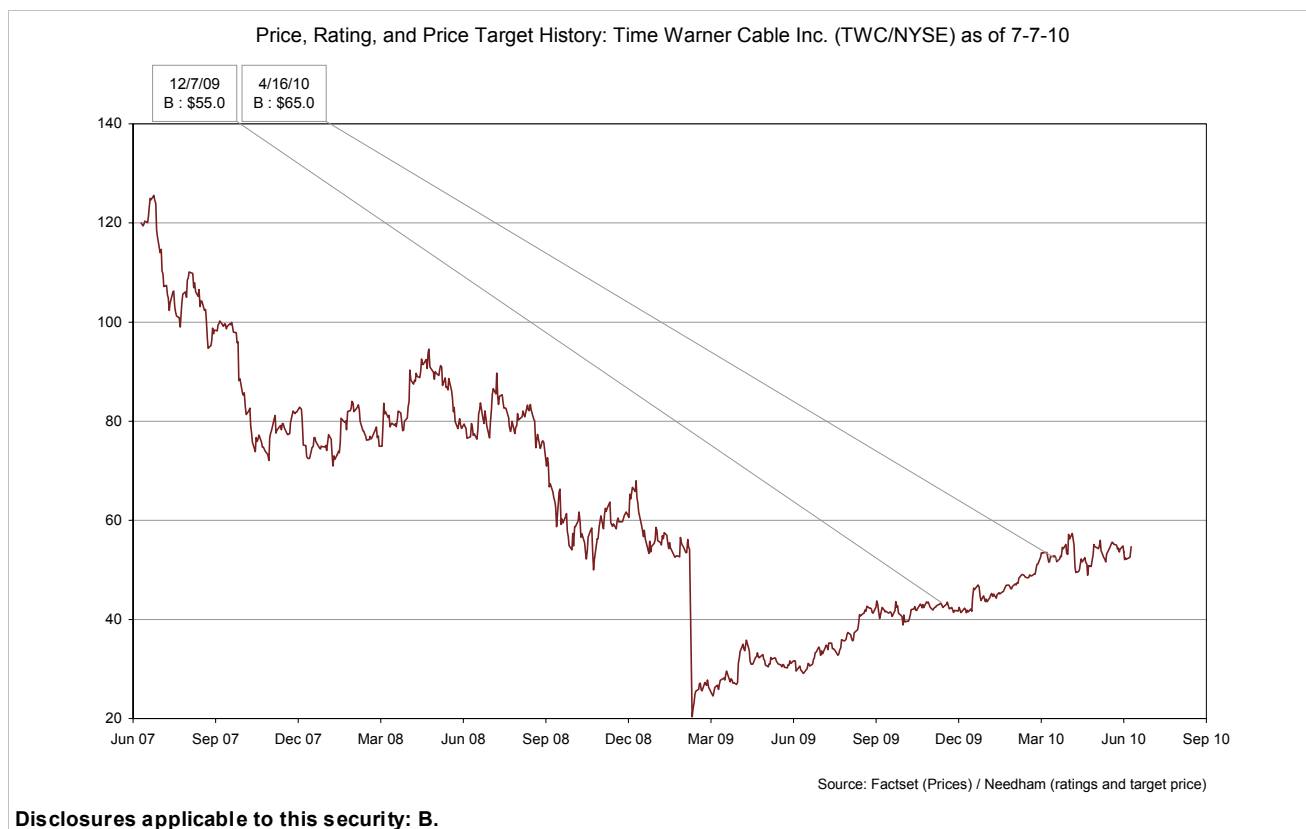
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Under Perform	<1	0
Rating Suspended	3	17
Restricted	<1	100
Under Review	<1	0

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