

JANNEY'S BEST EQUITY IDEAS FOR 2011

Two dozen of the year's top stock picks

REPORT PREPARED AS OF JANUARY 4, 2011

The list, compiled by our firm's capital markets research team, outlines two dozen top stock picks for 2011 across sectors ranging from insurance to retail to software to utilities to name only a handful. The list includes overviews on each of the featured companies and a rationale behind each rating, accompanied by technical charts, statistical summaries and disclosures.

The 2011 Best Equity Ideas list includes companies from a broad range of sectors Janney covers. The full list includes the following equities:

- Apple, Inc. (AAPL)
» *William Fearnley, Jr.*
- American Campus Communities (ACC)
» *Andrew DiZio, CFA • Daniel P. Donlan*
- Allstate (ALL)
» *Robert Glasspiegel, CFA*
- Abercrombie & Fitch Co. (ANF)
» *Adrienne Tennant • Simeon Siegel*
- American Water Works (AWK)
» *Ryan M. Connors • Christopher J. Purtill*
- Beneficial Mutual BC (BNCL)
» *Rick Weiss • David C. Peppard*
- Brown & Brown (BRO)
» *Steven R. Labbe, CFA*
- Chipotle Mexican Grill (CMG)
» *Mark Kalinowski*
- Cognizant Technology (CTSH)
» *Joseph D. Foresi • Jeffrey Rossetti*
- Fifth Street Finance Corp. (FSC)
» *John T.G. Rogers, CFA*
- Gaylord Entertainment Company (GET)
» *Brian McGill • Brian Mullan, CFA*
- Green Mountain Coffee Roasters, Inc. (GMCR)
» *Mitchell B. Pinheiro, CFA • Brian Holland*
- GameStop (GME)
» *Tony Wible, CFA*
- GSI Commerce (GSIC)
» *Shawn Milne*
- Hersha Hospitality Trust (HT)
» *Daniel P. Donlan • Andrew DiZio, CFA*
- Kimberly Clark Corp. (KMB)
» *John San Marco*
- Nordson Corporation (NDSN)
» *Liam D. Burke*
- NetLogic Microsystems (NETL)
» *Nicholas Aberle*
- OfficeMax Incorporated (OMX)
» *David Strasser • Sarang Vora*
- Prudential Financial (PRU)
» *Larry Greenberg, CFA*
- Ralcorp Holdings (RAH)
» *Jonathan Feeney, CFA*
- SEI Investments (SEI)
» *Thomas C. McCrohan • Leonard A. DeProspero, CFA*
- Stanley Black & Decker (SWK)
» *James C. Lucas • Michael J. Wherley*
- Virginia Commerce Bancorp (VCBI)
» *Stephen M. Moss • David C. Peppard*

Research Analyst Certifications and Important Disclosures are on page 32 of this report.

JANNEY MONTGOMERY SCOTT • www.janney.com

© 2011 Janney Montgomery Scott • Member: NYSE, FINRA, SIPC

C A P I T A L M A R K E T S



Janney's Best Equity Ideas for 2011

One year ago we introduced our Janney's *Best Ideas* list. We are proud to report strong performance for 2010. For the fourth quarter ended 12/31/2010 our *Best Ideas* portfolio generated a total return of 9.6% compared to a total return of 10.8% for the S&P 500. For the full year the Janney portfolio returned 22.7%, versus 15.1% for the index.

Today, we are happy to present Janney's second annual *Best Ideas* list. We begin 2011 with broadened coverage of the Consumer, Technology, and Infrastructure sectors and anticipate further deepening of our coverage throughout 2011 as we expand our existing teams.

Each senior publishing analyst has chosen his or her best pick for 2011. Selections were made with a twelve-month time horizon and an average level of risk tolerance in mind. Of course, these picks also reflect our analysts' view of trends and their respective industry.

Janney's *Best Ideas* for 2011 is, once again, an interesting and varied list of investment recommendations that we believe will provide above market returns for our clients this year. We encourage you to talk with your Janney salesperson for details on our theses.

Happy New Year,

Gary Schatz
Director of Research

Note: All prices in this report are the year-end 2010 (after market close 12/31/10) closing prices.

Research Analyst Certifications and Important Disclosures are on page 32 of this report.

Table of Contents:

| Company | Ticker | Price | Rating | FV | Headline |
|--------------------------------------|-------------------|----------|--------|--|---|
| Apple, Inc. | AAPL | \$322.56 | BUY | \$395.00 | AAPL Top Pick: Mac, iPhone, iPad Remain Strong 4 |
| American Campus Communities | ACC | \$31.76 | BUY | \$35.00 | Moving ACC to the Head of the Class 5 |
| Allstate | ALL | \$31.88 | BUY | | Allstate (ALL): Pick for 2011 6 |
| Abercrombie & Fitch Co. | ANF | \$57.63 | BUY | \$64.00 | Best Idea: ANF 7 |
| American Water Works | AWK | \$25.29 | BUY | \$28.00 | American Water Works: Our Top Idea for 2011 in the Water Utility Space 8 |
| Beneficial Mutual BC | BNCL | \$8.83 | BUY | \$11.00 | Best Idea 2011 - Better Early Than Late 9 |
| Brown & Brown | BRO | \$23.94 | BUY | | Brown & Brown (BRO) - A Top Pick for 2011 10 |
| Chipotle Mexican Grill | CMG | \$212.66 | BUY | \$300.00 | Chipotle Mexican Grill: Higher Food Quality and Speedy Service 11 |
| Cognizant Technology | CTSH | \$73.29 | BUY | \$80.00 | 2011 Top Pick; Raising Fair Value 12 |
| Fifth Street Finance Corp. | FSC | \$12.14 | BUY | \$13.00 | Strong Growth Prospects & Improved Outlook Not Reflected in Discount Valuation 13 |
| Gaylord Entertainment Company | GET | \$35.94 | BUY | \$45.00 | BUY Gaylord Entertainment, Our Best Idea 14 |
| Green Mountain Coffee Roasters, Inc. | GMCR | \$32.86 | BUY | \$50.00 | The K-Cup Runneth Over – Expect Continued Strong Performance in 2011 15 |
| GameStop | GME | \$22.88 | BUY | \$32.00 | 2011 Best Idea - GME 16 |
| GSI Commerce | GSIC | \$23.23 | BUY | \$35.00 | Expect Strong Growth and Margin Expansion in FY11 17 |
| Hersha Hospitality Trust | HT | \$6.60 | BUY | \$8.00 | Taking a Limited Service Bite Out of the Big Apple in 2011 18 |
| Kimberly Clark Corp. | KMB | \$63.04 | BUY | \$75.00 | Best Risk/Reward In Household and Personal Care is Kimberly-Clark 19 |
| Nordson Corporation | NDSN | \$91.88 | BUY | \$115.00 | Even with the 2010 Rebound, Look for Solid Growth in 2011 20 |
| NetLogic Microsystems | NETL | \$31.41 | BUY | \$35.00 | NETL: Top Semiconductor Pick for 2011 21 |
| OfficeMax Incorporated | OMX | \$17.70 | BUY | \$33.00 | Top Pick: Operating Margin Expansion Will Continue At OMX ... 22 |
| Prudential Financial | PRU | \$58.71 | BUY | | Prudential: A Winner 23 |
| Ralcorp Holdings | RAH | \$65.01 | BUY | \$96.00 | Ralcorp Our Top 2011 Pick 24 |
| SEI Investments | SEIC | \$23.79 | BUY | \$35.00 | SEI Poised to Gain Market Share in 2011 25 |
| Stanley Black & Decker | SWK | \$66.87 | BUY | \$83.00 | SWK is Our Top Pick for 2011 26 |
| Virginia Commerce Bancorp | VCBI | \$6.18 | BUY | 7.00 | Best Idea 2011 - On The Right Track 27 |
| Sector | Subject Companies | | | Headline | |
| Best Ideas | | | | Performance of Janney's Best Equity Ideas Portfolio for 2010 ... 3 | |
| Fundamental Tables | | | | 27-30 | |
| Disclosures | | | | 31 | |

Best Ideas

Gary Schatz, Director of Research

gschatz@janney.com

215-665-6234

Performance of Janney's Best Equity Ideas Portfolio for 2010

| Company | Ticker | Market Cap | 1Q10-2Q10 Total Return | 1Q10-3Q10 Total Return | 4Q10 Total Return | CY10 Total Return |
|--|-------------|--------------------|---------------------------|---------------------------|----------------------|----------------------|
| Apple Inc. | AAPL | \$295,886.5 | | 12.8% | 13.7% | 28.2% |
| ACE Limited | ACE | 21,127.0 | 2.7% | 17.7% | 6.9% | 25.7% |
| AFLAC Inc. | AFL | 26,593.3 | (6.6%) | 13.8% | 9.7% | 24.9% |
| Abercrombie & Fitch Co. | ANF | 5,097.7 | | | 18.2% | 18.2% |
| Burger King Holdings Inc. | BKC | 3,258.8 | (9.9%) | (9.9%) | | (9.9%) |
| Clean Energy Fuels Corp. | CLNE | 956.7 | (3.0%) | (7.8%) | | (7.8%) |
| Compass Diversified Holdings | CODI | 816.8 | 10.4% | 36.2% | 11.6% | 52.1% |
| Cogdell Spencer Inc. | CSA | 295.0 | 22.7% | 16.5% | (6.7%) | 8.7% |
| Cognizant Technology Solutions | CTSH | 22,242.2 | 10.4% | 42.2% | 13.7% | 61.7% |
| Powershares DB Agriculture Fund | DBA | 2,419.8 | (9.3%) | 3.9% | 17.7% | 22.4% |
| Entertainment Properties Trust | EPR | 2,152.3 | 11.4% | 28.3% | 8.6% | 39.4% |
| First Horizon National Corp. | FHN | 3,073.0 | (12.2%) | (11.0%) | 5.1% | (6.5%) |
| Green Mountain Coffee Roasters Inc. | GMCR | 4,367.5 | (5.4%) | 14.9% | 5.4% | 21.0% |
| GSI Commerce Inc. | GSIC | 1,544.6 | 13.4% | (2.7%) | (6.0%) | (8.5%) |
| Herbalife Ltd. | HLF | 4,050.2 | | 31.6% | | 31.6% |
| Intuit Inc. | INTU | 15,313.1 | 13.1% | 42.6% | | 42.6% |
| Investors Bancorp Inc. | ISBC | 1,488.0 | 19.9% | 8.2% | | 8.2% |
| Kenexa Corp. | KNXA | 517.1 | | | 24.4% | 24.4% |
| Loews Corporation | L | 16,194.9 | (8.0%) | 4.8% | | 4.8% |
| Las Vegas Sands Corp. | LVS | 31,463.3 | | 57.4% | 31.9% | 107.5% |
| Microsemi Corp. | MSCC | 1,937.2 | | | 33.7% | 33.7% |
| Nordson Corporation | NDSN | 3,122.0 | (7.8%) | 21.5% | 25.0% | 51.9% |
| New York Community Bancorp Inc. | NYB | 8,263.6 | | | 17.7% | 17.7% |
| Prestige Brands Holdings Inc. | PBH | 592.5 | | | 20.8% | 20.8% |
| Ralcorp Holdings Inc. | RAH | 3,570.9 | (8.2%) | (2.1%) | 11.2% | 8.9% |
| RadioShack Corp. | RSH | 2,104.6 | 0.1% | 0.1% | (12.2%) | (12.1%) |
| South Jersey Industries, Inc. | SJI | 1,577.9 | 14.3% | 32.6% | 7.5% | 42.5% |
| Stanley Black & Decker, Inc. | SWK | 11,095.2 | (0.8%) | 21.1% | 9.7% | 32.9% |
| Target Corp. | TGT | 42,577.0 | | 9.2% | | 9.2% |
| TiVo Inc. | TIVO | 1,010.2 | (27.5%) | (11.0%) | (4.7%) | (15.2%) |
| The Talbots Inc. | TLB | 599.7 | | | (13.6%) | (13.6%) |
| Tetra Tech Inc. | TTEK | 1,547.7 | (27.8%) | (27.8%) | | (27.8%) |
| Net 1 Ueps Technologies Inc. | UEPS | 556.5 | (30.9%) | (40.4%) | | (40.4%) |
| Visa, Inc. | V | 50,535.8 | | | (5.0%) | (5.0%) |
| Volterra Semiconductor Corporation | VLTR | 622.4 | | (6.7%) | | (6.7%) |
| WMS Industries Inc. | WMS | 2,613.6 | (1.9%) | (1.9%) | | (1.9%) |
| Watts Water Technologies, Inc. | WTS | 1,355.0 | | 19.2% | 7.8% | 28.5% |
| Yum! Brands, Inc. | YUM | 22,984.0 | | 18.6% | 7.1% | 26.9% |
| Total | | | (1.7%) | 11.9% | 9.6% | 22.7% |
| S&P 500 | ^SPX | 1,513,726.2 | (6.7%) | 3.9% | 10.8% | 15.1% |
| Delta | | | 5.0% | 8.1% | (1.2%) | 7.6% |
| * Gray = Replaced/Dropped prior to 4th Quarter | | | | | | |
| * Bold = New for the 4th Quarter | | | | | | |

Apple, Inc.

(AAPL) BUY

William Fearnley, Jr.
 wfearnley@janney.com
 617-367-3268

Key Metrics

Price: \$322.56
 Fair Value Estimate: \$395.00
 52-Week Range: \$326.66-\$190.25
 Market Cap (MM): \$295,887

EPS

| | 2010A | 2011E | 2012E |
|------------|----------|----------|----------|
| FYE: Sept | \$15.15A | \$19.17E | \$21.95E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 21.3x | 16.8x | 14.7x |

Quarterly:

| | 2010A | 2011E | 2012E |
|----|---------|---------|---------|
| Q1 | \$3.67A | \$5.39E | \$6.03E |
| Q2 | \$3.33A | \$4.21E | \$5.04E |
| Q3 | \$3.51A | \$4.44E | \$5.02E |
| Q4 | \$4.64A | \$5.13E | \$5.86E |

Revenue (B)

| | 2010A | 2011E | 2012E |
|-----------|----------|----------|----------|
| FYE: Sept | \$65.23A | \$87.32E | \$98.93E |

Quarterly:

| | 2010A | 2011E | 2012E |
|----|----------|----------|----------|
| Q1 | \$15.68A | \$24.19E | \$26.85E |
| Q2 | \$13.50A | \$19.30E | \$22.95E |
| Q3 | \$15.70A | \$20.64E | \$23.14E |
| Q4 | \$20.34A | \$23.18E | \$26.00E |

AAPL Top Pick: Mac, iPhone, iPad Remain Strong

Apple remains our top pick heading into 2011. There are multiple product and technology themes that continue to drive revenues, margins and earnings. Our research suggests demand will remain strong for the Mac and iPhone and we believe the iPad will continue to dominate the tablet segment. We also believe Apple's product launches have shown their prowess in innovative hardware and software design and we expect their R&D labs to churn out hit products. We are reiterating our BUY rating on the shares and our fair value estimate of \$395 (18x our FY12 EPS estimate of \$21.95).

- **iPhone:** Our research suggests iPhone growth will remain strong because (1) the smartphones category continue to grow, (2) Apple is gaining share, (3) the iPhone carrier is likely to expand domestically and overseas, and (4) current users are upgrading.
- **iPad:** iPad is becoming a major contributor and our reseller surveys suggest interest and demand remain strong. Our research suggests delays by competitors presents an opportunity to release Version 2 of the iPad just as many Android competitors release their first models. We estimate that Apple will have a significant lead and more than 75% share for the near term.
- **Mac:** Our proprietary reseller surveys suggest the strength of the Mac, especially MacBook, is likely to continue. Our recent surveys suggest the MacBook Air is off to a strong start too. We estimate Mac notebook growth will be in the mid-teens in FY11. Apple remains well positioned in PCs.
- **Gross margins:** We continue to believe that Apple's mix, pricing premium and product designs will help gross margins stay in the 38% range. Gross margins and the operating leverage of their model will drive EPS growth.

OUR ESTIMATES: Our FY11 EPS estimate is \$19.17 (mean of \$19.15) and our FY11 revenue estimate is \$87.3 billion (mean of \$88.0 billion).

Our FY12 EPS estimate is \$21.95 (mean of \$22.43) and our FY12 revenue estimate is \$98.9 billion (mean of \$102.2 billion).

We are reiterating our *BUY* rating on the shares and our fair value estimate of \$395 (18x our FY12 EPS estimate of \$21.95). Alternatively, we estimate Apple will have ~\$100/share in cash at the end of FY12 so ex-cash our \$395 fair value estimate is ~13x our FY12 EPS estimate of \$21.95. Our fair value estimate implies ~20% upside in the shares.

American Campus Communities

(ACC) BUY

Andrew DiZio, CFA
adizio@janney.com
215-665-6439

Daniel P. Donlan
ddonlan@janney.com
215-665-6476

Key Metrics

Price: \$31.76
Fair Value Estimate: \$35.00
52-Week Range: \$33.63-\$23.62
Equity Market Cap (M): 2,066.3

FFO

| | 2010E | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Dec | \$1.57E | \$1.65E | \$1.82E |
| P/FFO: | 20.2x | 19.2x | 17.5x |
| Quarterly: | | | |
| Q1 | \$0.41A | \$0.49E | -- |
| Q2 | \$0.38A | \$0.38E | -- |
| Q3 | \$0.34A | \$0.27E | -- |
| Q4 | \$0.44E | \$0.50E | -- |

Moving ACC to the Head of the Class

Our thesis for American Campus is built around two themes: operational ability and an information advantage. As the largest public owner of student housing, ACC has developed relationships throughout the United States with universities, communities, and its peers. The REIT's on-the-ground knowledge provides it with an informational advantage in a property sector where data-tracking services are not prevalent, which we believe will allow ACC to accretively build its portfolio during a period of consolidation in a fragmented sector. Further, American Campus has demonstrated its ability as a best-in-class operator and very capable developer, which should lead to additional growth from both same-store improvements and new construction. We look for ACC to use its competitive advantages in 2011 to produce strong internal growth, augmented by new acquisitions and additional on-campus development awards.

- Favorable macro trends boosting student housing outlook.** Full-time enrollment at universities is projected to continue its upward trend, and we look for increased demand for housing to boost NOI at existing communities and necessitate new development. We look for development growth to be accentuated by a trend at universities toward outsourcing the replacement of aging campus housing stock. Finally, we view the sector as a consolidation play of under-managed assets with few well-capitalized competitors
- Best-in-class operator can consolidate assets in a fragmented industry.** Student housing is a highly fragmented industry consisting of three public companies, several large, private operators, and many smaller, often campus-specific, ownership groups. This fragmentation presents an opportunity for consolidation, as ACC can integrate new communities into its proven, highly-efficient operating platform, driving community NOI higher than other owners. This ability was most notably demonstrated by the REIT's acquisition of then-public peer GMH Communities. With over \$1.5B in student housing property on the market today, we look for ACC to add to its portfolio in coming quarters.
- Proven developer with housing solution for cash-strapped universities.** Many U.S. states have reduced higher education funding, and more are facing substantial near-term budget deficits. Decreased funding during a period of increasing enrollment means universities must seek alternative ways of financing new on-campus housing facilities; ACC offers a solution through its American Campus Equity (ACE) program. ACC has built 2 communities through ACE, has 1 in progress, and has received preliminary approval for 6 additional developments.
- Valuation.** Our \$35 fair value implies that ACC should trade at a 15% premium our \$30/sh reNAV estimate (6.25% cap rate), and places ACC at 21.3x 2011E FFO/sh. ACC currently trades at 19.2x our 2011E, an 18.4% premium to its student housing peers, 0.5% discount to the Small/Mid-cap multifamily REIT sector, and a 15.9% premium to the REIT industry. At the asset level, ACC trades at a 5.9% premium to our reNAV/sh estimate, a 1,020bps premium to its student housing peers, 560bps discount to the multifamily sector, and a 590bps discount to the REIT industry.

Allstate

(ALL) BUY

Robert Glasspiegel, CFA

rglasspiegel@langenmcalleeney.com

860-724-1203

Key Metrics

Price: \$31.88
 52-Week Range: \$35.51-\$26.86
 Market Cap (MM): \$17,157

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$3.48A | \$3.25E | \$3.80E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 9.2x | 9.8x | 8.4x |
| Quarterly: | | | |
| Q1 | \$0.84A | \$0.69A | \$0.98E |
| Q2 | \$0.55A | \$0.81A | \$0.94E |
| Q3 | \$0.99A | \$0.83A | \$0.81E |
| Q4 | \$1.09A | \$0.91E | \$1.07E |

Allstate (ALL): Pick for 2011

While there is some near-term uncertainty (Q4 earnings and book value are likely to disappoint) and it is controversial currently, Allstate shares have the most upside in my coverage list. We would note the following positives:

- Personal lines industry fundamentals are better than commercial lines. With State Farm at 108%, industry conditions are likely to be favorable.
- Allstate is well positioned to achieve EPS growth over the intermediate term in light of: (1) improving underlying underwriting, (2) reduced cat volatility and (3) capital management. Our current 2011 estimate factors in 17% EPS growth.
- Importantly, current earnings are not benefiting from reserve releases. 2011 projected ROE of 10.0% on an accident year basis (ex reserve releases) are the second highest in our PC universe (to Progressive's 11.6%).
- We believe Joe Lacher's (head of Protection) actions will soon result in improving homeowner's results.
- Allstate shares are attractively valued at .9x book and 8x 2011 earnings. Historically, buying Allstate shares under book when pricing conditions were favorable has proven to be rewarding.

Abercrombie & Fitch Co.

(ANF) BUY

Adrienne Tennant
atennant@janney.com
703-448-7807

Simeon Siegel
ssiegel@janney.com
646-840-4606

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$57.63 |
| Fair Value Estimate: | \$64.00 |
| 52-Week Range: | \$58.50-\$29.88 |
| Market Cap (MM): | \$5,063 |

EPS

| | 2009A | 2010E | 2011E |
|------------|-----------|-----------|-----------|
| FYE: Jan | \$1.12A | \$1.84E | \$2.66E |
| Prior EPS: | | NC | NC |
| Quarterly: | | | |
| Q1 | \$(0.26)A | \$(0.13)A | \$(0.03)E |
| Q2 | \$(0.09)A | \$0.22A | \$0.33E |
| Q3 | \$0.55A | \$0.56A | \$0.79E |
| Q4 | \$0.91A | \$1.19E | \$1.57E |

Revenue (M)

| | 2009A | 2010E | 2011E |
|------------|----------|----------|----------|
| FYE: Jan | \$2,929A | \$3,421E | \$3,977E |
| Quarterly: | | | |
| Q1 | \$602A | \$688A | \$775E |
| Q2 | \$637A | \$746A | \$864E |
| Q3 | \$754A | \$886A | \$1,037E |
| Q4 | \$936A | \$1,101E | \$1,301E |

Best Idea: ANF

Recommend ANF as our Best Idea for 2011 in our sector as we believe the mix shift to international will continue to drive margin expansion and domestic business will stabilize, if not improve. We added ANF to the Janney Capital Markets Best Ideas List on November 29, following a surge in traffic and conversion at the ANF concepts through our channel checks. We have seen carryover strength following an impressive Black Friday and expect the company will continue to capture share as it offers consumers values difficult to ignore. Combined with our belief that the international and direct-to-consumer channels will continue to be accretive to consolidated operating margins, we believe that ANF could see earnings upside through 2011.

- Expect international segment to continue to drive operating margin expansion.** With the early success of the company's international flagship Abercrombie & Fitch stores, as well as the international mall-based Hollister stores, management is clearly focused on the international appeal of their core brands and is aggressively pursuing this avenue of store growth. During 3Q10, the company opened its first Hollister stores in Spain, including one in Madrid and one in Barcelona, which management noted are both exceeding expectations. ANF also opened a second Hollister store in Germany, which has been met with notable success. Further, as the UK Hollister stores comped in the double digits for the quarter, we remain confident that ANF will benefit from its plans to accelerate the expansion of Hollister internationally in 2011 and 2012. ANF flagship stores continue to be a high priority, with the recent opening of a Hollister Epic store on 5th Avenue, a Paris flagship opening in May of 2011 and a Madrid Abercrombie flagship opening in July or August of 2011.
- Expect ongoing domestic stabilization with positive comps and regaining marketshare.** In addition to the success seen internationally, we expect to see domestic rationalization of the store base as leases come up for either "kick out" or renewal over the next three years or so (approximately 290 lease actions over the next three years), which should offer a boost to sales productivity and profitability. Although we do note that we fully expect negative comps in January due to a significant benefit from gift card accounting last year, we believe the company has turned to sustainably positive comps. As a point of reminder, beginning FY11, the company will no longer report monthly comps.
- Longer term we see \$5.00 in earnings power.** We calculate a long term EPS of \$5.00 using an Operating margin of 15%, in line with management's goal, and sales of approximately \$4.6 billion in the longer term, with top line growth coming from both the direct to consumer and international channels.

American Water Works

(AWK) BUY

Ryan M. Connors

rconnors@janney.com
215-665-1359

Christopher J. Purtill

cpurtill@janney.com
215-665-6601

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$25.29 |
| Fair Value Estimate: | \$28.00 |
| 52-Week Range: | \$25.82-\$19.41 |
| Market Cap (MM): | \$4,423 |

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$1.25A | \$1.55E | \$1.65E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 20.2x | 16.3x | 15.3x |
| Quarterly: | | | |
| Q1 | \$0.19A | \$0.18A | \$0.24E |
| Q2 | \$0.32A | \$0.42A | \$0.46E |
| Q3 | \$0.52A | \$0.71A | \$0.65E |
| Q4 | \$0.21A | \$0.24E | \$0.31E |

American Water Works: Our Top Idea for 2011 in the Water Utility Space

While American Water has made significant progress over the last few years, and the stock has performed accordingly, there is still considerable work to be done to bring the nation's largest private sector water utility into line with its peers in terms of financial performance. Fortunately for investors, this creates the opportunity for continued outperformance, as American Water's rate base growth will likely remain among the fastest in the industry and the company will also maintain one of the group's most active rate case dockets. These factors will drive the top-line, and the earnings will follow - helped along by incremental cost-cutting initiatives under the new leadership team and an improving regulatory climate in NJ (the company's largest state at 25% of revenue). Longer-term, we believe American Water has significant opportunities to improve operationally and enhance its profitability and financial return metrics to match top-flight water utility peers - providing another leg of growth. Coupled with a discount P/E multiple and an attractive dividend yield (3.5%) that adds meaningfully to investors' total return opportunity, we believe these factors make American Water one of the most compelling stories in the water space and our top idea in the water utility sector for 2011.

- **Prudent capital improvements to drive significant rate base growth.** With a current rate base of approximately \$9.7 billion and annual depreciation of less than \$300 million, American Water's capital expenditure target of \$0.8-\$1.0 billion per year equates to significant rate base growth over time. Harvesting the allowed rate of return on the equity investments required to fund these much-needed capital improvements is in our view the principal growth avenue for investor-owned water utilities, and American Water is well positioned in this regard.
- **Active rate case docket boosts growth profile.** Translating capital investments onto the P&L requires higher prices, and American Water maintains the industry's most active rate case program. The company is currently awaiting decisions on more than \$100 million in new rate relief, and all indications are that 2011 will be another active one for American Water on the rate case front. Overall, we believe American Water's steady stream of rate relief not only enables the company's long-term growth, but also provides a near-term earnings catalyst.
- **New leadership driving culture of operational excellence.** In August 2010, American Water underwent a leadership change, with Jeff Sterba emerging from a brief retirement to assume the role of CEO. Jeff has made operational excellence (rather than cost-cutting per se) the cornerstone of his program to take American Water to the next level, and these efforts will begin to bear fruit over the course of 2011. Ultimately, we believe American Water Works will be able to bring its financial metrics closer to parity with key peers such as Aqua America.
- **Unique among peers, AWK offers opportunity for multiple expansion.** While the water utility space is somewhat infamous for its lofty Price/Earnings multiples, American Water is an exception - currently trading at a very reasonable 15 times our 2011 estimate. Coupled with a solid dividend yield (3.5%), we believe the opportunity for incremental multiple expansion makes AWK shares highly compelling on a risk-adjusted total return basis.

Beneficial Mutual BC

(BNCL) BUY

Rick Weiss

rweiss@janney.com
215-665-6224

David C. Peppard

dpeppard@janney.com
215-665-6457

Key Metrics

| | |
|----------------------|----------------|
| Price: | \$8.83 |
| Fair Value Estimate: | \$11.00 |
| 52-Week Range: | \$11.05-\$7.15 |
| Market Cap (MM): | \$715 |
| Tang Book Value: | \$6.52 |

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|-----------|---------|
| FYE: Dec | \$0.24A | \$(0.07)E | \$0.20E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 36.8x | NA | 44.2x |
| Quarterly: | | | |
| Q1 | \$0.07A | \$0.08A | \$0.05E |
| Q2 | \$0.00A | \$0.07A | \$0.05E |
| Q3 | \$0.07A | \$(0.28)A | \$0.05E |
| Q4 | \$0.08A | \$0.04E | \$0.05E |

EPS, 2010, Q1: Reported earnings per share were \$0.10, which included one-time gains of \$0.02 (after-tax) from the sale of equity securities. Operating, or core earnings were \$0.08 per share.

Best Idea 2011 - Better Early Than Late

Trading at a substantial discount to pro forma tangible book value, we favor an investment in Beneficial as a bet that management identified the bulk of credit-related issues in the September 2010 quarter. Credit quality problems are not over, but stock buybacks at attractive values can be pursued when more confidence is gained regarding asset quality. The company is adequately capitalized – the tangible capital ratio is 10.6% - and the stock price decline since reporting third quarter results provide investors with sufficient cushion should credit woes linger longer than we expect. Because Beneficial operates in the MHC structure, its stock trades more on MHC valuations and pro forma book value rather than fundamentals. Currently, the stock trades at a lower valuation than that historically accorded to a mutual holding company (MHC) with a strong deposit franchise

- As of September 30, 2010, the tangible capital ratio was 10.6%. We believe Beneficial's strong capital levels would support stock buybacks, which should occur when management gains comfort with asset quality. Buybacks would be accretive to pro forma tangible book value at prices below approximately \$11.90.
- We do not expect Beneficial would seek to undertake a full conversion at this time due to the valuations accorded to recent second-step offerings.
- Credit costs soared in the September 2010 quarter, which resulted from management's assessment that the weaker local commercial real estate market caused considerable collateral value deterioration and a recovery will take longer than previously anticipated.
- Beneficial's asset quality has been a concern for nearly two years as the non-performing asset ratio increased from 1.03% as of June 30, 2008, to 5.19% as of June 30, 2010. Despite the outsized loan loss charge-off (\$57 million) for the September 2010 quarter, nonperforming assets only decreased \$13 million, or to 4.80% of total assets, from June 30, 2010. As of September 30, 2010, commercial real estate and construction loans were 31% and less than one percent of total loans, respectively.
- Our model projects net charge-offs will remain relatively elevated at 1.00% of total average loans, and will be matched by loan loss provisions for the foreseeable future. We also forecast that the loan loss reserve ratio remains around 1.60% and loan growth will be muted.
- Our December 2010 quarter earnings per share estimate is \$0.04 and our fiscal 2011 earnings per share estimate is \$0.20, which incorporates elevated credit costs, slow loan growth, and a slight decline in the net interest margin.

Brown & Brown

(BRO) BUY

Steven R Labbe, CFA

slabbe@langenmcalenney.com

860-724-1203

Key Metrics

Price: \$23.94
 52-Week Range: \$24.39-\$8.04
 Market Cap (MM): \$3,441

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$1.08A | \$1.13E | \$1.20E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 22.2x | 21.2x | 20.0x |

Quarterly:

| | 2009A | 2010E | 2011E |
|----|---------|---------|---------|
| Q1 | \$0.34A | \$0.31A | \$0.36E |
| Q2 | \$0.29A | \$0.29A | \$0.31E |
| Q3 | \$0.29A | \$0.31A | \$0.32E |
| Q4 | \$0.17A | \$0.23E | \$0.22E |

Brown & Brown (BRO) - A Top Pick for 2011

- Our 2011E of \$1.20 incorporates 4% revenue growth (0% organic) and an operating margin of 35.6%. In a normal environment, we would expect revenue growth of 8% (3% organic, 5% M&A) and a margin close to 40% (management's goal). EPS in 2012 would approximate \$1.50 under that scenario.

- Significant non-cash expenses are included in net EPS. Amortization expenses total \$.23 per share in 2011 and the difference between taxes accrued and paid may approximate \$.20 per share.

- On an EV/EBITDA basis, shares of BRO sell for ~9x 2011E, a modest discount to its historic average of 9.5x. The ratio was as high as 13x, attained on several occasions in multiple years (2002, 2005, 2006). Should shares sell at 13x our current 2011E, shares would approximate \$33.50.

- Sell-side sentiment remains bearish on BRO. The stock has 3 Buy ratings (including ours), 10 Neutral ratings, and 1 Sell rating.

- Short interest on BRO is significant, at 6 days to cover and 4% of the float, for an insurance broker.

- BRO currently has \$0 net debt and no pension liabilities.

Chipotle Mexican Grill

(CMG) BUY

Mark Kalinowski

mkalinowski@janney.com

212-940-6997

Key Metrics

| | |
|----------------------|------------------|
| Price: | \$212.66 |
| Fair Value Estimate: | \$300.00 |
| 52-Week Range: | \$262.78-\$86.00 |
| Market Cap (MM): | \$6,581 |

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$3.95A | \$5.52E | \$6.60E |
| Prior EPS: | | NC | NC |
| Quarterly: | | | |
| Q1 | \$0.78A | \$1.19A | \$1.40E |
| Q2 | \$1.10A | \$1.46A | \$1.72E |
| Q3 | \$1.08A | \$1.52A | \$1.82E |
| Q4 | \$0.99A | \$1.35E | \$1.66E |

Revenue (M)

| | 2009A | 2010E | 2011E |
|------------|----------|----------|----------|
| FYE: Dec | \$1,518A | \$1,805E | \$2,023E |
| Quarterly: | | | |
| Q1 | \$355A | \$410A | \$461E |
| Q2 | \$389A | \$467A | \$527E |
| Q3 | \$388A | \$477A | \$515E |
| Q4 | \$388A | \$463E | \$520E |

Chipotle Mexican Grill: Higher Food Quality and Speedy Service

We view the potential positives for the company and its stock as outweighing the risks. Among the positive factors for the company and its stock are the quality of the Chipotle experience from a customer perspective (including higher-quality ingredients and speedy service), which we believe will lead to additional market-share gains; a continuation of enviable same-store sales expansion; and a continued unit growth rate above that of the vast majority of other publicly traded restaurant companies.

- Based on our discussion with management, we now believe it possible that Chipotle's overall unit growth rate has a chance to re-accelerate into the 15%-plus range over the next few years, as more "developing markets" -- Chipotle's term for metropolitan areas/states within the U.S. that don't generate what it considers to be mature average unit volumes -- "graduate" from developing market status.
- At present, Chipotle has only one unit open in all of Europe -- a fairly recently-opened store in London, England. Management indicates that this particular store's transaction levels are running above that of the average new U.S. store, and that the London's store's sales volumes are coming in substantially above that of the average new U.S. store. This helps give us a somewhat greater comfort level about international expansion potential, and is one factor behind our increased fair value estimate. We believe the next store may be in France.
- We believe that we will be hearing more about Chipotle's Asian concept in 2011. At that time, we believe Wall Street may view the concept as another growth lever for Chipotle.
- As expected, Chipotle introduced a 2011 target for its same-store sales that was muted: "Low single digit comparable restaurant sales growth." (FYI, our updated 2011 EPS estimate of \$6.60 is based on full-year 2011 same-store sales expansion of 2.0%).
- Over the last decade, Chipotle Mexican Grill has enjoyed some of the most favorable in-sector market-share trends of any restaurant concept. Back in 2000, Chipotle had less than half a percentage point of market share within the limited-service Mexican segment. By year-end 2009, Chipotle was up to 12.2% market share. We believe that Chipotle's positioning in the marketplace -- among other things, touting higher food quality, and featuring speedy service -- will enable it to generally grab additional market share for years to come.
- CMG is one of the most volatile stocks in the restaurant universe, plus it carries a high P/E relative to most other restaurant names, and as such it may not be suitable for all portfolios. Our fair value estimate of \$300 compares with the December 23rd closing price of \$212.66. Our EPS estimates for 2010 and 2011 are \$5.52 and \$6.60, respectively. We forecast long-term annualized EPS growth for Chipotle Mexican Grill of 20%.

Cognizant Technology

(CTSH) BUY

Joseph D. Foresi

jforesi@janney.com
617-557-2972

Jeffrey Rossetti

jrossetti@janney.com
617-557-2989

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$73.29 |
| Fair Value Estimate: | \$80.00 |
| 52-Week Range: | \$74.79-\$42.08 |
| Market Cap (MM): | \$22,244 |

EPS

| | 2010E | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Dec | \$2.35E | \$2.67E | \$3.18E |
| Prior EPS: | NC | \$2.60 | NC |
| P/E Ratio: | 31.2x | 27.4x | 23.0x |

Quarterly:

| | | | |
|----|---------|---------|---------|
| Q1 | \$0.49A | \$0.63E | \$0.75E |
| Q2 | \$0.56A | \$0.63E | \$0.75E |
| Q3 | \$0.66A | \$0.69E | \$0.82E |
| Q4 | \$0.64E | \$0.71E | \$0.85E |

Revenue (M)

| | 2010E | 2011E | 2012E |
|----------|----------|----------|----------|
| FYE: Dec | \$4,553E | \$5,670E | \$6,846E |

Quarterly:

| | | | |
|----|----------|----------|----------|
| Q1 | \$960A | \$1,320E | \$1,594E |
| Q2 | \$1,105A | \$1,397E | \$1,686E |
| Q3 | \$1,217A | \$1,452E | \$1,752E |
| Q4 | \$1,271E | \$1,501E | \$1,813E |

2011 Top Pick; Raising Fair Value

Our favorite pick for 2011 is Cognizant. The company has historically been the fastest growing name in the offshore outsourcing space, and deserves a premium multiple. Cognizant is well positioned to outgrow its competitors again in 2011, as spending from the financial services vertical remains strong (42.8% of revenue) and high growth potential areas such as healthcare (24.9% of revenue) expand. The company manages its margins, which are below the group average, making them more sustainable as resources are added to fuel growth. A better than expected IT spending environment should continue to provide upside to our estimates.

- **The catalyst for 2011 continues to be increased IT spending.** According to Gartner, IT spending increased 5% in 2010 and is expected to increase 3% in 2011. NASSCOM expects growth to rebound in fiscal 2011 (March FYE) to 13% to 15% from 4% to 7% in fiscal 2010. We expect the offshore outsourcers to benefit from increased IT spending as customers look to cut costs by moving work offshore. Initial IT spending patterns have been strong to end 2010, which should continue assuming the economy remains healthy. Cognizant's focus on high growth areas such as Financial Services, Healthcare, and BPO positioning the company well to take advantage of a healthy demand environment in 2011.

- **Cognizant to maintain its poll position as the fastest growing name in the space.** The company has historically outgrown its competitors, exceeding initial guidance and leading to multiple expansion. For perspective, management gave guidance of "at least 20% revenue growth" at the start of 2010. The company is on track to deliver 39% growth compared to industry growth of 13% to 15% (NASSCOM). The same beat & raise pattern is expected for 2011 with management expected to guide to give initial 2011 guidance consistent with Street expectations.

- **Margin sustainability in Cognizant's favor.** Cognizant has historically maintained operating margin at approximately 18% (below industry average in the 20% to 30% range) choosing to reinvest for growth. The company's ability to maintain margins could be a key factor next year as margins could be negatively impacted by the need to add resources to grow or by currency fluctuation. We continue to keep an eye on the currency movements and demand backdrop in Europe (19% of revenue).

- **Valuation:** As one of the fastest growing companies in the IT services industry, we believe Cognizant deserves to trade at the top end of the range for the offshore IT services sector. We value the stock at 30x our FY11 earnings estimate, giving us a fair value of \$80 (raised from \$74) over the next 6-12 months. The stock has traded at an average forward P/E multiple of 32x over the last 8 years ranging from 18x to 42x. Upward earnings revisions are expected to push fair values higher. Risks to our valuation thesis include deterioration of IT spending budgets, pricing and wage pressure, and/or impact from US protectionism.

Fifth Street Finance Corp.

(FSC) BUY

John T.G. Rogers, CFA

jrogers@janney.com

202-955-4316

Key Metrics

| | |
|----------------------|----------------|
| Price: | \$12.14 |
| Fair Value Estimate: | \$13.00 |
| 52-Week Range: | \$13.64-\$9.79 |
| Market Cap (MM): | \$662 |

EPS

| | 2010A | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Dec | \$0.95A | \$1.12E | \$1.29E |
| Prior EPS: | | NC | NC |
| Quarterly: | | | |
| Q1 | \$0.22A | \$0.26E | -- |
| Q2 | \$0.26A | \$0.28E | -- |
| Q3 | \$0.26A | \$0.28E | -- |
| Q4 | \$0.21A | \$0.31E | -- |

Strong Growth Prospects & Improved Outlook Not Reflected in Discount Valuation

Fifth Street Finance Corp. is our best idea for 2011 based on the company's strong NII growth potential and discount valuation. Fifth Street has significantly upgraded its infrastructure, adding both experienced originators and investing in its portfolio management team, placing the company in a position to grow the portfolio and NII over the next 1-2 years. Recently announced record originations ease major concern over the company's portfolio growth and places FSC on pace to cover the dividend in the near term. With a dividend cut now unlikely, we anticipate investor focus will shift to the significant upgrades the management team has made to its infrastructure and strong long-term growth prospects. The current valuation does not reflect FSC's low leverage and ability to drive 35-45% NII growth. We view the risk/reward trade-off as attractive and maintain our BUY rating.

- FSC has announced \$230.2 million of new commitments in 1Q11:** Our primary concern with the name has been the company's ability to grow the portfolio and drive NII in line with the dividend. Since 4Q10 end, the company has announced significant new origination activity, realizing management's expectations for a record December quarter and easing our concerns over new originations. Fifth Street Finance Corp has closed \$230.2 million of new originations quarter-to-date, \$201.8 million of which were funded at close. This exceeds the prior quarter record of \$144.2 million of new portfolio investment.
- Long-Term outlook positive:** The company stands to benefit from deployment of cash on hand and capital available under its revolving lines of credit as well as through the SBA. We also see potential benefit from improved pricing on the company's lines of credit and greater fee realization from increased portfolio rotation. Over time, we expect incremental NII from portfolio growth to be somewhat offset by rotation of the portfolio into lower yielding investments. In total we calculate FSC earnings power of \$1.30-\$1.40 per share, implying 35%-45% NII growth from the current level and 10% growth in the dividend.
- Shares trade at a discount to peers:** Fifth Street trades at a forward P/NII multiple of 10.9x and 9.5x our FY11E and FY12E estimated NII, respectively. Valuation is at a discount to peer average forward P/NII of 10.6x and 10.2x. FSC shares currently yield 10.5%, greater than the peer average yield of 8.5%.

Gaylord Entertainment Company

(GET) BUY

Brian McGill

bmcgill@janney.com
215-665-6485

Brian Mullan, CFA

bmullan@janney.com
646-840-4604

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$35.94 |
| Fair Value Estimate: | \$45.00 |
| 52-Week Range: | \$37.38-\$18.65 |
| Market Cap (MM): | \$1,710 |

EPS

| | 2010E | 2011E | 2012E |
|------------|-----------|---------|---------|
| FYE: Dec | \$(1.42)E | \$0.73E | \$1.02E |
| Prior EPS: | NC | NC | NC |
| P/E Ratio: | NA | 49.2x | 35.2x |

Quarterly:

| | | | |
|----|-----------|---------|----|
| Q1 | \$(0.06)A | \$0.05E | -- |
| Q2 | \$(0.55)A | \$0.24E | -- |
| Q3 | \$(0.67)A | \$0.13E | -- |
| Q4 | \$(0.13)E | \$0.32E | -- |

Revenue (M)

| | 2010E | 2011E | 2012E |
|------------|--------|--------|----------|
| FYE: Dec | \$753E | \$961E | \$1,012E |
| Quarterly: | | | |
| Q1 | \$217A | \$219E | -- |
| Q2 | \$184A | \$236E | -- |
| Q3 | \$158A | \$231E | -- |
| Q4 | \$194E | \$275E | -- |

BUY Gaylord Entertainment, Our Best Idea

Gaylord stands to benefit from strong trends in group meetings and convention bookings that can drive 2011 CCF higher than expectations. After attending the Gaylord Opryland grand reopening in November, we came away impressed with the improvements to the property and viewed the event as an overwhelming success. Going forward, we think that the Opryland will be able to operate with higher margins than it was able to pre-flood. We also expect both the Texan and National to have stronger than expected finishes to 2010 and strong starts to 2011. The Texan will benefit from property upgrades coming online and a growing convention market in Dallas, while the National continues to ramp in the strong Washington DC hotel market. For the National, Texan, and Palms, we assume blended RevPar growth of 6.0% in 2011 over 2010. In our opinion, it is possible it may come in higher than this, as the company sees better than expected growth in ADR and out of room spending. We have raised our fair value to \$45, up from \$39, which is based on 11.5x our 2012 CCF estimate of \$254 mln.

- The successful reopening of the Opryland gives us additional confidence in our thesis surrounding Gaylord. The company spent \$270 mln on repairs and renovations to reopen the property. This included moving certain restaurants and remodeling others. It completely redid the entrance to make it feel like a modern upscale hotel. With the changes to the infrastructure of the property including power and laundry facilities, it should allow the property to drive higher margins. We expect margins could come in closer to the rest of the Gaylord portfolio in the low 30% level.
- We have also visited the Texan recently, and came away believing that the property is well positioned in the growing Dallas convention market. The property will benefit from a new pool area that will open next spring to attract additional transient customers, as well as new F&B outlets at the property. It will also benefit from additional events held at the Dallas Cowboys Stadium including the Super Bowl in 2011, Cotton Bowl, and other events that will drive RevPar at the Texan. We believe margins could grow from the low 30% level into the mid 30% level, which could drive CCF higher than 10% in 2011.
- The National should benefit from the strong hotel market in Washington DC and further development at the National Harbor site. We expect the property will drive more transient business in 2011. We do not assume significant growth in 2011 at the Palms, as the market is now in the process of absorbing the major expansion from the Peabody Hotel. We believe this will create challenging conditions in Orlando and believe we have modeled it appropriately. However, we think there could be upside to our estimates in 2H:11.
- We continue to like the overall outlook for Gaylord, as Opryland reopens and the company benefits from the strength of the group meeting and convention segment. We expect there could be upside to our \$229 mln CCF in 2011, and we reiterate our BUY rating and \$45 fair value.

Green Mountain Coffee Roasters, Inc.

(GMCR) BUY

Mitchell B. Pinheiro, CFA

mpinheiro@janney.com
215-665-6280

Brian Holland

bholland@janney.com
215-665-4478

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$32.86 |
| Fair Value Estimate: | \$50.00 |
| 52-Week Range: | \$38.86-\$21.83 |
| Market Cap (MM): | \$4,367 |

EPS

| | 2010A | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Sept | \$0.70A | \$1.15E | \$1.91E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 46.9x | 28.6x | 17.2x |
| Quarterly: | | | |
| Q1 | \$0.09A | \$0.17E | -- |
| Q2 | \$0.20A | \$0.36E | -- |
| Q3 | \$0.19A | \$0.27E | -- |
| Q4 | \$0.22A | \$0.36E | -- |

Revenue (M)

| | 2010A | 2011E | 2012E |
|------------|----------|----------|----------|
| FYE: Sept | \$1,357A | \$2,031E | \$2,742E |
| Quarterly: | | | |
| Q1 | \$345A | \$505E | -- |
| Q2 | \$322A | \$492E | -- |
| Q3 | \$317A | \$476E | -- |
| Q4 | \$373A | \$557E | -- |

The K-Cup Runneth Over – Expect Continued Strong Performance in 2011

GMCR remains our best idea for 2011, as the fundamental backdrop has never been better and the stock's valuation has pulled back on inconsequential short-term noise. We estimate the installed base of brewers (the primary driver of earnings growth) is up 80% at the end of FY10 (Sep) and is set to increase 60% in FY11, driven by vibrant consumer demand during the important holiday quarter (Dec). We estimate the installed brewer base of six million brewers is about 9% of the addressable household penetration potential for single cup coffee, suggesting Keurig is still in the early innings of growth. Our FY11 estimate EPS growth rate is 62% and assumes little operating expense leverage as the company faces higher green coffee costs and higher investment spending to build K-Cup capacity. We are particularly encouraged by the strong capital spending plans for FY11 as it suggests the potential for an acceleration in K-Cup consumption, which we believe is likely to be driven by new licensees. At current levels, GMCR trades at 26.7x our FY11 operating cash EPS estimate of \$1.24, and 16.5x our FY12 operating cash EPS estimate of \$2.00; on an EV/EBITDA basis, GMCR is trading at 13.7x FY11 and 8.8x FY12 - levels that we believe are understated relative to the 60%+ EPS growth forecast over the next two years. Our fair value estimate is \$50/sh, derived from our discounted cash flow analysis (or 25.0x FY12).

- Installed brewer base estimate to increase 60%+ in FY11 – the key driver of EPS growth:** We are estimating Keurig's installed base to increase 60% in FY11 to 10+ million households from 6+ million currently; based on a total addressable market of 64 million U.S. households, there remains significant growth potential. Holiday channel checks point to stronger than forecast brewer sales (our estimate is +15%) which sets the year up for continued upside surprises.
- FY11 outlook:** Our FY11 cash operating EPS estimate is \$1.24 (vs. \$0.77). Driven by the growing installed base, we expect K-Cups to increase 60% to 4.7 billion. Green coffee costs are expected to increase 40% to 50% in FY11, offset largely by price increases. The acquisition of Van Houtte will likely be slightly dilutive to earnings. Operating profit margin is expected to reach 14.2% from 11.6% in FY10, levels that we believe have further room to expand with greater SG&A leverage and lower warranty and sales returns relative to FY10.
- Strong capital spending increase indicative of incremental K-Cup growth opportunities:** GMCR guided FY11 cap ex spending to a range of \$215 to \$260 million (ex-Van Houtte), well ahead of our expectations (\$130M). The increased infrastructure investment will support roasting and packaging capacity. Interestingly, GMCR historically maintained K-Cup capacity about twelve months ahead of expected needs. Currently, we estimate GMCR's capacity at five billion K-Cups, just shy of our FY11 K-Cup forecast of 4.7 billion. If we assume half of the capital spending (~\$125 million) is used for K-Cup packaging, we estimate that K-Cup capacity would be expected to grow to nine billion, or up four billion in twelve months. We believe a capacity increase, over and above the current estimates, likely signals the anticipation of new licensing arrangements with the likes of Starbucks, Dunkin' Donuts, and/or Peet's Coffee.

GameStop

(GME) BUY

Tony Wible, CFA
twible@janney.com
215-665-6529

Key Metrics

Price: \$22.88
Fair Value Estimate: \$32.00
52-Week Range: \$25.75-\$17.12
Market Cap (MM): \$3,464

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Jan | \$2.27A | \$2.67E | \$3.02E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 10.1x | 8.6x | 7.6x |

Quarterly:

| | 2009A | 2010E | 2011E |
|----|---------|---------|---------|
| Q1 | \$0.43A | \$0.48A | \$0.49E |
| Q2 | \$0.23A | \$0.26A | \$0.30E |
| Q3 | \$0.32A | \$0.38A | \$0.44E |
| Q4 | \$1.29A | \$1.57E | \$1.81E |

EBITDA

| | 2009A | 2010E | 2011E |
|----------|--------|--------|--------|
| FYE: Jan | 830.8A | 873.8E | 960.1E |

Revenue (M)

| | 2009A | 2010E | 2011E |
|----------|----------|----------|----------|
| FYE: Jan | \$9,078A | \$9,459E | \$9,738E |

Quarterly:

| | 2009A | 2010E | 2011E |
|----|----------|----------|----------|
| Q1 | \$1,981A | \$2,083A | \$2,124E |
| Q2 | \$1,739A | \$1,799A | \$1,870E |
| Q3 | \$1,835A | \$1,899A | \$1,967E |
| Q4 | \$3,524A | \$3,678E | \$3,778E |

2011 Best Idea - GME

We recommend GME based on: 1) the launch of new loyalty and digital programs that could improve GME's position in the evolving landscape; 2) the potential for 3D video game catalysts; 3) the launch of new hardware; 4) the potential revival of casual games through new peripherals (e.g. Kinect and Move); 5) competitor store closures; and 6) the active cross sale of DLC in store. Furthermore, the company will benefit from easing comps, title visibility, a strong balance sheet, and share repurchases. While competitive risks remain and questions about the health of the game cycle linger, we believe the low street expectations and aforementioned catalysts create a positive risk/reward.

- The FCC's new broadband policy will also help to eliminate digital threats and could act as an ideal catalyst for an LBO.
- We believe the low street expectations and aforementioned catalysts create a positive risk/reward.

GSI Commerce

(GSIC) BUY

Shawn Milne

smilne@janney.com

415-981-9539

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$23.23 |
| Fair Value Estimate: | \$35.00 |
| 52-Week Range: | \$31.35-\$20.87 |
| Market Cap (MM): | \$1,545 |

Adjusted EBITDA (\$M)

| | 2009A | 2010E | 2011E |
|------------|--------|--------|--------|
| FYE: Dec | 106.4A | 133.9E | 175.0E |
| Quarterly: | | | |
| Q1 | 9.3A | 17.4A | 17.3E |
| Q2 | 9.3A | 11.8A | 21.0E |
| Q3 | 12.1A | 13.3A | 21.3E |
| Q4 | 75.7A | 91.4E | 115.4E |

Revenue (M)

| | 2009A | 2010E | 2011E |
|------------|----------|----------|----------|
| FYE: Dec | \$1,004A | \$1,406E | \$1,550E |
| Quarterly: | | | |
| Q1 | \$197A | \$273A | \$315E |
| Q2 | \$187A | \$264A | \$312E |
| Q3 | \$190A | \$284A | \$319E |
| Q4 | \$430A | \$533E | \$604E |

Expect Strong Growth and Margin Expansion in FY11

Despite concerns over GSI technology upgrade, the stock remains our top pick given 1) the eCommerce platform market has been and will be competitive, yet Oracle's acquisition underscores the overall health/value, as retailers/consumer brands invest in eCommerce technology; 2) we expect GSI eCommerce service fees to grow at strong pace in FY11/FY12, as comp growth and new partners far outpace low client churn; 3) Interactive Marketing Services is under-appreciated and strengthening; 4) while Rue and ShopRunner have dented margins near term, we believe there is opportunity for significant value. We see IMS/CE asset value in \$0.9-1.4BN range. We continue to expect 25% FCF growth over the next 2-3 years driven by: 1) growth in eCommerce services with new partners and improved comp growth; 2) rapid growth in IMS; 3) international expansion; 4) incremental contribution from Consumer Engagement.

-The "taking it in-house" debate. Retailers upgrading technology; fueling a healthy market. We believe one of the most misunderstood concepts of the current GSI bear thesis is the idea of retailers taking "eCommerce in-house." For example, Dicks Sporting Goods openly talks about "taking the business in-house" as it now controls the inventory, merchandising, and pricing. They renewed/extended a 15-year deal with GSI providing incremental multi-channel services, fueling significant volume growth (+82% in Q3). We see solid client demand from traditional players: ATG, IBM, GSI and smaller players such as Demandware. A Forrester survey indicated 57% of e-retailers have increased eCommerce tech spending due to attractive ROI and importance of the channel.

-Platform upgrade expected in Spring. The one specific beef we have heard from some of GSI's partners is lack of "front-end" flexibility, while we hear praises of stability/reliability. Over the past 18 months, GSI has been working on upgrading the "webstore" technology, which we estimate accounts for 2-3% of its ~20% service fee "stack". We believe the upgrade will better facilitate sales of "unbundled" services (clients choosing multiple services including Donna Karan).

-Expect solid eCommerce services growth; comp/new clients outweigh likely Q1 small churn. We continue to expect GSI eCommerce service fee revenue to grow at a 10-15% pace driven by new client wins/yr (8-10). GSI "comps" have grown ~500bps above eCommerce industry growth rates over the past several quarters. We expect these trends to continue due to multi-channel initiatives for key partners. We note that GSI's top 10 partners on average have 8 years remaining on their contract.

-Rue & SR impact margins now; value creation points to significant "sum of parts" valuation. One of the key parts of the negative thesis has been the "margin compression." We believe investor expectations of margin ramp were stronger after GSI significantly outperformed in Q1. In Q2/Q3, GSI reinvested with the bulk of the incremental spend going into its Consumer Engagement (CE) Segment and International launches of Polo and ToysRUs. CE is dragging down overall EBITDA margins by roughly 120bps in FY10, but we believe Rue is building long-term value given significant membership ramp and viral nature of growth while ShopRunner remains a wild card despite strong retailer interest.

Hersha Hospitality Trust

(HT) BUY

Daniel P. Donlan

ddonlan@janney.com
215-665-6476

Andrew DiZio, CFA

adizio@janney.com
215-665-6439

Key Metrics

| | |
|------------------------|---------------|
| Price: | \$6.60 |
| Fair Value Estimate: | \$8.00 |
| 52-Week Range: | \$6.69-\$3.14 |
| Equity Market Cap (M): | 1,165.6 |

EBITDA

| | 2010E | 2011E | 2012E |
|------------|--------|--------|--------|
| FYE: Dec | 107.0E | 127.1E | 143.8E |
| P/FFO: | 17.4x | 15.7x | 13.2x |
| Quarterly: | | | |
| Q1 | 13.5A | 20.6E | 23.7E |
| Q2 | 34.3A | 40.8E | 45.5E |
| Q3 | 35.5A | 39.7E | 44.9E |
| Q4 | 27.3E | 29.6E | 33.3E |

FFO

| | 2010E | 2011E | 2012E |
|------------|-----------|---------|---------|
| FYE: Dec | \$0.38E | \$0.42E | \$0.50E |
| Quarterly: | | | |
| Q1 | \$(0.01)A | \$0.03E | \$0.04E |
| Q2 | \$0.13A | \$0.15E | \$0.17E |
| Q3 | \$0.14A | \$0.14E | \$0.17E |
| Q4 | \$0.07E | \$0.08E | \$0.10E |

FFO: FFO above is adjusted to match the Company's Adjusted AFFO/sh, which matches Thomson FC estimates.

Taking a Limited Service Bite Out of the Big Apple in 2011

With over 40% of the REIT's hotel EBITDA concentrated in New York City (1,851 pro-rata rooms), Hersha's earnings growth and per room valuation are highly leveraged to a lodging recovery in the nation's top hotel market. Coupled with Hersha's 21% aggregate concentration in the gateway markets of Boston and Washington D.C., the REIT should continue its streak of growing RevPAR at a greater clip than its peer average. Additionally, Hersha should see greater earnings flow-through to its bottom-line than its peers as the REIT's limited and select-service hotels will not be burdened by future amenity creep from the brands. Accordingly, we view Hersha as a solid income and growth story for total return investors that want multi-year double-digit earnings growth and steady dividend increases to combat inflation. Our \$8 fair value implies a 24.2% total return over the next 12 months when combined with the REIT's 3.0% current yield.

- **Solid footprint in Northeast and Mid-Atlantic**—Hersha's Northeast and Mid-Atlantic portfolio is mostly concentrated within four major metropolitan markets: New York (51.0% of EBITDA), Philadelphia (11.0%), Boston (11.0%), and Washington D.C. (10.0%). Historically, these markets have benefited from strong barriers to entry, high nominal RevPARs, and above-average RevPAR growth.
- **Exposure to New York City is the highest among the public hotel REITs**—With 43% of Hersha's EBITDA derived from urban hotels in New York City, the REIT's future earnings growth is highly correlated to the nation's top hotel market. To wit, through November 2010, New York City has seen a 7.7% increase in ADR (next closest market is Miami at 2.8%) and a 14.0% increase in RevPAR, which compares to the 7.1% RevPAR increase for the average top 25 market.
- **RevPAR growth outperformance should continue**—From 2005-2009, Hersha's consolidated same-store RevPAR grew at a compounded annual growth rate (CAGR) of 1.6%, which outperformed its peers by 80bps and the hotel REIT average by 120bps. Through 3Q'10, Hersha's quarterly RevPAR in 2010 has grown 3.8%, which is 180bps higher than its peers and 120bps higher than the average hotel REIT. Given that Hersha has increased its exposure to both New York City and Washington D.C. via acquisitions in 2010, and mostly operates in major metropolitan markets, we expect continued RevPAR growth outperformance by the REIT.
- **Sector leader in margins**—Hersha has produced the highest hotel EBITDA margins in the hotel REIT sector in each of the last six years. This is driven by the REIT's concentration of limited and select-service hotels, which offer limited food outlets, meeting facilities, and amenities.
- **\$8 fair value**—Our 12-month fair value of \$8 assumes that HT should trade at 14.1x 2012E EV/EBITDA, 17.9x 2012E FFO/sh, 16.1x 2012E Company adjusted AFFO/sh, 18.2x 2012E AFFO/sh, and an implied cap rate of 6.8% on 2012E hotel-level NOI, which includes a 3.0% maintenance CapEx reserve.

Kimberly Clark Corp.

(KMB) BUY

John San Marco

jsanmarco@janney.com
646-840-4607

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$63.04 |
| Fair Value Estimate: | \$75.00 |
| 52-Week Range: | \$67.24-\$58.25 |
| Market Cap (MM): | \$25,707 |

EPS

| | 2010E | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Dec | \$4.65E | \$5.04E | \$5.40E |
| Prior EPS: | NC | NC | NC |
| P/E Ratio: | 13.6x | 12.5x | 11.7x |
| Quarterly: | | | |
| Q1 | \$1.14A | \$1.19E | \$1.22E |
| Q2 | \$1.20A | \$1.25E | \$1.30E |
| Q3 | \$1.14A | \$1.25E | \$1.36E |
| Q4 | \$1.17E | \$1.34E | \$1.52E |

Best Risk/Reward In Household and Personal Care is Kimberly-Clark

Most Undervalued and Overlooked Large-Cap. Kimberly's strong core Personal Care segment, growing emerging markets presence, cost savings initiatives, and potential easing competitive environment position it as the most undervalued large-cap name in our coverage. We also note possible relief from the private label threat (flat shares in 2010), commodities (softwood pulp down 375 bps since 8/30/10), and an unemployment pause (key KCP segment driver). We see value of \$75, based on 9.5x EV/EBITDA, on top of its 4.2% dividend yield.

- Personal Care Segment Houses Substantial Overlooked Value.** Kimberly's gem segment (58% of profits up from 46% in FY05) has consistently enjoyed innovation-driven growth (+6.8% 5-year profit CAGR) along with high margins (+20% 5-year average). Category re-defining innovation opportunities such as U-By-Kotex (feminine care growing increased double digits for third consecutive quarter) and gender specific incontinence products (incontinence care up double digits) ought to help accelerate already strong baseline performance. We also expect "trade-up" type competitor innovation and a modicum of inflation to further support sector-leading profit growth.
- Recovery for Remaining Portfolio.** For Consumer Tissue, innovations (tube-less bathroom tissue, Viva paper towels), commodity normalization, advantaged production vs. private label, and cyclical margin recovery underpin our optimism for above-expectations performance. K-C Professional, which has been hurt by unemployment will be revisiting lost contracts in 2011. In Health Care, the 2011 focus will be on lapping more normal volume performance (2009 benefited massively from H1N1-related volume) and integrating a bevy of acquisitions which are expected to be growth and margin accretive once fully integrated.
- Discounted Valuation Ignores Business Mix Shift.** Trading at 8.2x EV/EBITDA (9.4x 10-year average) vs. 9.3x for other HPC Large Caps (some of whom have indicated consumer trade-up is once again a possibility), we think now is the opportune time to buy HPC's most undervalued large-cap. With a best in class dividend yield of 4.2%, cost savings to reach \$400mm-\$500mm in next three years, Kimberly is on track to dramatically exceed the implied LSD earnings growth suggested by its valuation.

Nordson Corporation

(NDSN) BUY

Liam D. Burke

lburke@janney.com
202-955-4305

Key Metrics

Price: \$91.88
Fair Value Estimate: \$115.00
52-Week Range: \$94.62-\$53.47
Market Cap (MM): \$3,122

EPS

| | 2010A | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Oct | \$4.45A | \$5.30E | \$5.90E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 20.6x | 17.3x | 15.6x |

Quarterly:

| | | | |
|----|---------|---------|----|
| Q1 | \$0.70A | \$1.07E | -- |
| Q2 | \$0.94A | \$1.21E | -- |
| Q3 | \$1.30A | \$1.43E | -- |
| Q4 | \$1.50A | \$1.59E | -- |

Revenue (M)

| | 2010A | 2011E | 2012E |
|----------|----------|----------|----------|
| FYE: Oct | \$1,042A | \$1,178E | \$1,297E |

Quarterly:

| | | | |
|----|--------|--------|----|
| Q1 | \$221A | \$264E | -- |
| Q2 | \$252A | \$287E | -- |
| Q3 | \$279A | \$305E | -- |
| Q4 | \$290A | \$322E | -- |

Even with the 2010 Rebound, Look for Solid Growth in 2011

Nordson is the technology leader in all three of its business segments and has leveraged its technology portfolio to provide solutions that increase productivity and reduce product cost. The company has a diverse world-wide customer base with no single customer contributing more than 5% of total revenue. Through its large embedded base and global infrastructure, Nordson's after-market product and service business, which contributes over 40% of the company's revenue, provides a dependable and profitable source of recurring revenue. With an improving global economic outlook, we would expect the company to generate strong operating leverage on higher year-over-year revenue. With relatively low capital expenditure, Nordson generates strong free cash flow and returns on invested capital in the area of 25%-30%. Although NDSN shares trade at 2011 PE in the high teens, we still think it is a value based on its revenue growth rate, free cash flow generation, and excellent ROIC profile.

- **Although NDSN stock has had a very good 2010 as a result of the rebound in its business, we would expect the company to show very strong growth in 2011.** We would expect growth revenue growth rates to slow from the recovery stage but we are still forecasting double digit year-over-year revenue growth with positive operating leverage. Better absorption due to higher production volumes and a lower cost structure from lean initiatives should be reflected in higher year-over-year operating margins.
- **Despite its strong recovery from the recession, the company's technological leadership, and deep application knowledge are major contributors to its market leadership in all of its business segments.** They continue to execute a straight forward plan of innovating around technology while providing world class product support. With over 70% of its business generated outside the U.S. the company has market diversity as well as strong positioning in emerging markets. Nordson's large world-wide embedded base of blue chip customers is an important strategic asset. With products and systems installed throughout the world, the company provides product and application support that enable their customers to achieve measurable efficiencies while allowing the company to further improve its competitive position.
- **Our fair value of \$115.00 is a P/E ratio of 21.7x our estimated 2011 EPS of \$5.30 which is within its historical range.** Although our 2011 estimate implies low double digit revenue growth and operating margins in the area of 25%. Between fiscal 2005 and 2008, increased EPS year-over-year at a rate of over 17%. Our multiple implies estimated 2011 free cash flow per share of \$4.70 and ROIC in the area of 30%-35%.

NetLogic Microsystems

(NETL) BUY

Nicholas Aberle
naberle@janney.com
415-229-7012

Key Metrics

Price: \$31.41
Fair Value Estimate: \$35.00
52-Week Range: \$35.00-\$20.40
Market Cap (MM): \$2,006

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$0.86A | \$1.44E | \$1.50E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 36.5x | 21.8x | 20.9x |

Quarterly:

| | 2009A | 2010E | 2011E |
|----|---------|---------|---------|
| Q1 | \$0.15A | \$0.31A | \$0.33E |
| Q2 | \$0.17A | \$0.38A | \$0.35E |
| Q3 | \$0.22A | \$0.40A | \$0.38E |
| Q4 | \$0.30A | \$0.36E | \$0.43E |

Revenue (M)

| | 2009A | 2010E | 2011E |
|------------|--------|--------|--------|
| FYE: Dec | \$175A | \$381E | \$425E |
| Quarterly: | | | |
| Q1 | \$30A | \$86A | \$100E |
| Q2 | \$33A | \$95A | \$103E |
| Q3 | \$42A | \$100A | \$108E |
| Q4 | \$70A | \$100E | \$114E |

NETL: Top Semiconductor Pick for 2011

NetLogic Microsystems represents our top semiconductor long idea for 2011. Following several years of strong growth driven by KBP market share gains and content increases, we look for KBP growth to be complemented by accelerating multi-core processing demand over the next several years. Given our thesis that growth rate inflection is likely to come within the next 12-18 months, we believe investors should be looking to accumulate the stock in 1H11 ahead of potential 2H and 2012 catalysts. In addition to a multitude of company specific drivers, we believe NETL is well-positioned to benefit from strong underlying secular trends within communications infrastructure including increasing complexity in the network and global 3G/4G wireless deployments.

- **NETL represents our top semiconductor long idea for 2011.** We believe burgeoning growth prospects over the next several years will be the catalyst for NETL stock to appreciate over the next twelve months. Following a strong FY10, investors should look to accumulate NETL stock in 1H11 ahead of potential growth acceleration into the back half of 2011 and beyond. We believe NETL will benefit from a combination of strong secular communications infrastructure trends and company specific drivers including new product introductions, incremental design win ramps, and increasing content per platform.
- **CSCO supply correction in the rear-view mirror.** We currently model CSCO-related revenues to decline sequentially in both Q4 of 2010 and Q1 of 2011 given continued supply chain inventory rationalization. Following these two soft quarters, we believe CSCO sales for NETL will be at trough levels with the opportunity to expand into the balance of 2011. Look for CSCO to be a tailwind to corporate growth in 2011 rather than the top-line drag it was in 2010.
- **Wireless communications catalysts will drive sales growth and strong gross margin.** Looking into 2011, we believe initial LTE (4G) deployments in Japan and the United States will accelerate multi-core XLS and XLR processor demand. With complexity driving higher content in ALU, Ericsson, Fujitsu, and MOT boxes, we look for NETL to benefit for several years from the introduction of LTE in general. Also commencing in 2011, we believe 3G infrastructure build in India can drive KBP demand through key customers including ALU and Ericsson with potential Huawei/ZTE access participation expanding the multi-core opportunity. All in all, we believe next-generation carrier IP networking equipment spending will be a key catalyst for top-line growth and gross margin strength.
- **Multi-core design cycle heats up in 2011 with incremental visibility 2H.** While NETL has proved naysayers wrong by turning the KBP segment into a cash-cow business, the success/failure of the multi-core effort in the coming years is likely to be the key driver for valuation expansion going forward. The current XLS and XLR product lines are likely to grow in excess of 20% during 2011 while next-generation XLP parts sample at top-tier customers. Given the technology differentiation and greenfield opportunities at key players including ALU, CSCO, Ericsson, and Nokia-Siemens Networks, we look for the XLP introduction to be the catalyst for strong revenue growth over the next several years.

OfficeMax Incorporated

(OMX) BUY

David Strasser

dstrasser@janney.com

646-840-4609

Sarang Vora

svora@janney.com

646-840-4605

Key Metrics

| | |
|----------------------|----------------|
| Price: | \$17.70 |
| Fair Value Estimate: | \$33.00 |
| 52-Week Range: | \$19.79-\$9.67 |
| Market Cap (MM): | \$1,505 |

EPS

| | 2009A | 2010E | 2011E |
|------------|-----------|---------|---------|
| FYE: Dec | \$0.24A | \$0.85E | \$1.14E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 73.8x | 20.8x | 15.5x |
| Quarterly: | | | |
| Q1 | \$0.23A | \$0.39A | \$0.45E |
| Q2 | \$(0.04)A | \$0.12A | \$0.16E |
| Q3 | \$0.08A | \$0.23A | \$0.31E |
| Q4 | \$(0.03)A | \$0.12E | \$0.21E |

Top Pick: Operating Margin Expansion Will Continue At OMX

We re-iterate our BUY rating on OMX. The story here, and it is an exciting one, is about operating leverage – the result of structural initiatives, and significant investments made over the past few years – that will drive higher margins with modest sales growth. Additionally, OMX will benefit from expanded high margin product offerings (i.e. break-room supplies), and a recovering economy. OMX's balance sheet remains strong as well.

- Operating Margin Expansion To Continue:** OMX's operating margin went from 3.8% in 2007, to 0.9% in 2009. This was largely the result of sales decline, but in the process, the company undertook various initiatives to adjust to this environment that we believe will result in new peak operating margin at lower sales level in the next two to four years. Key drivers include 1) OMX has adopted pricing discipline by implementing centralized decision making, and using advance IT tools/systems – an approach that will continue to improve OMX's profitability, 2) The company has expanded its private label assortment, and increased global sourcing activities (i.e. recently opened a second sourcing office in Asia) - both still in the early phases, 3) No new store growth, and about 60% of store leases come due over the next four years providing an excellent opportunity to reduce occupancy costs either by store closures, re-negotiation of rent, or smaller store sizes, 4) Multiple high margin growth initiatives such as the print and copy business, a store within a store concept, an expanded product assortment related to break-room/cleaning supplies, and consultative sales to contract customers, and 5) **OMX clearly understands cost management, and has demonstrated this over the past four years by taking about \$400 million of fixed costs out of the system** – that will continue to drive leverage as sales recover. Apart from these company specific initiatives, OMX will also benefit from a macro recovery as mix shifts to more off contract purchases, and to "want" products, away from "need" products.
- Multiple Sales Initiatives, But Economic Recovery Important:** We anticipate a modest 1% sales growth in 2011 that will be helped multiple initiatives such as expanded product assortments (i.e. more break room supplies, and jan-san products), growth of a store within a store concept, and an increased focus on solutions-based selling. Our modest sales growth assumption is also the result of easy compares from the past two years (i.e. total sales down 9% in 2008, and 13% in 2009). We acknowledge that while these initiatives will boost topline, a macro recovery is important to overall growth.
- Balance Sheet/Liquidity Solid; Net Cash Represents 19-20% of Market Cap:** OMX ended 3Q with a cash balance of \$588 million, long-term debt of \$271 million, and the current portion of long-term debt of \$23 million. Thus, net cash of \$294 million represents about 19-20% of OMX's current market cap. Capex remains well managed in the range of \$80-90 million for the current year – ultimately resulting in strong free cash flows.

Prudential Financial

(PRU) BUY

Larry Greenberg, CFA

lgreenberg@langenmcalenney.com
860-724-1203

Key Metrics

Price: \$58.71
52-Week Range: \$66.80-\$46.33
Market Cap (MM): \$28,377

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$5.58A | \$5.85E | \$6.30E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 10.5x | 10.0x | 9.3x |
| Quarterly: | | | |
| Q1 | \$1.05A | \$1.49A | \$1.38E |
| Q2 | \$1.88A | \$1.51A | \$1.58E |
| Q3 | \$1.59A | \$2.12A | \$1.62E |
| Q4 | \$1.07A | \$1.36E | \$1.72E |

Prudential: A Winner

- Prudential is winning in the marketplace with a diversified product mix and differentiated product designs. In 2010, AUM grew significantly and sales were strong in Retirement and Investment Management operations. Our current 2010 estimate (4Q still to be reported) has AUM growth of 25% in Annuities, 13% in Retirement, and 18% in Asset Management.
- PRU used its strong capital position to expand its international operations by purchasing AIG's Star/Edison businesses for \$4.2B (to close Mar/Apr 2011), increasing its International Insurance segment to 39% of the company (from 28%). The deal is positive for PRU because: (1) it is earnings and ROE accretive with increasing contributions 2011 – 2015, (2) it expands and leverages PRU's existing insurance operations in Japan, a market with favorable demographics and behavioral attributes, (3) it possesses modest execution risk given PRU's existing presence in the marketplace.
- While Star/Edison will be accretive, accretion is lower than many expected due to purchase accounting adjustments. Our sense is the stock was over-owned going into the transaction; stock went from being "loved" to being "liked"
- Buying opportunity: current valuation is compelling at 99% of YE2010 estimated BV (ex AOCI) of \$59.15; 91% of YE2011 estimated BV (ex AOCI) of \$64.10; 9.3x 2011E of \$6.30 (with room for earnings upside due to recent increase in interest rates).
- From 2003 through mid 2008 stock sold at consistent premiums to ex AOCI BV averaging 132%; stock at 1.15 2011E BV (ex AOCI) would return 26%

Ralcorp Holdings

(RAH) BUY

Jonathan Feeney, CFA

jfeeney@janney.com

215-665-6679

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$65.01 |
| Fair Value Estimate: | \$96.00 |
| 52-Week Range: | \$69.86-\$53.90 |
| Market Cap (MM): | \$3,569 |

EPS

| | 2010A | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Sept | \$4.68A | \$5.48E | \$6.01E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | 13.9x | 11.9x | 10.8x |

Quarterly:

| | | | |
|----|---------|---------|---------|
| Q1 | \$1.20A | \$1.24E | \$1.37E |
| Q2 | \$1.12A | \$1.31E | \$1.44E |
| Q3 | \$1.11A | \$1.46E | \$1.60E |
| Q4 | \$1.26A | \$1.47E | \$1.60E |

Revenue (M)

| | 2010A | 2011E | 2012E |
|-----------|----------|----------|----------|
| FYE: Sept | \$4,049A | \$4,509E | \$4,630E |

Ralcorp Our Top 2011 Pick

Top Operator at Huge Discount. While many point to recent problems at Post and feared margin contraction as justification for its 10.6x free cash flow multiple – a 33% discount to the group. The reality is Post, for all its regrettable integration and category disappointments, was accretive, AIPC appears on target, and they are just the two latest deals of dozens since 2002 that have allowed Ralcorp to triple free cash and earnings -- far in excess of peers. We anticipate similar ahead of group growth in 2011 (+17%) and beyond.

- Innovation Could Be a Boost.** The soon to be released (January) Honey Bunches of Oats Raisin Medley is the first piece of significant innovation since the deal, and we believe it is likely to gain the usually targeted 0.3 share points. This could drive 3-4% volume lift in the first half of the year considering sell-in effects and Post's existing 11.5% share. It has a leg up on most innovations as it leverages a powerful existing brand, has an adjacent flavor (raisins), and also differentiated with 3 kinds of raisins.
- Expect Mills to Reiterate Cereal Pricing Plans.** While the November step back in otherwise improving cereal category pricing trends was disheartening, we expect the full impact of announced list pricing by Kellogg (K-Neutral) and Mills (GIS-Neutral) to hit mid-January. General Mills' Q2 EPS call (Dec. 16) reinforces that reality. Given Post's lower operating margins than competitors (perhaps 300 bps?), we expect pricing has a good chance of protecting margin for FY11 even with roughly +11.5% food cost input inflation for leading cereal players.
- Beneath the "Del Monte Floor," Considerable Margin of Safety.** The recent going private valuation of Del Monte Foods (8.0x EV/EBITDA), with its, in the best case, comparable portfolio of products should be a floor for Ralcorp shares as well as those of any food company today. This floor is currently 13% above where RAH is trading today, and we can only interpret that as pricing in significant declines in 2011 profits and/or poor shareholder alignment. We believe neither are true and that considerable insider holdings and return focus only augment the story. Our target price is \$96 based on 8.5x CY2011 EBITDA and a 50/50 allocation of cash between debt reduction and share repurchase.

SEI Investments

(SEIC) BUY

Thomas C. McCrohan
 tmccrohan@janney.com
 215-665-6293

Leonard A. DeProspero, CFA
 ldeprospero@janney.com
 215-665-4559

Key Metrics

Price: \$23.79
 Fair Value Estimate: \$35.00
 52-Week Range: \$24.43-\$16.76
 Market Cap (MM): \$4,449

EPS

| | 2009A | 2010E | 2011E |
|------------|---------|---------|---------|
| FYE: Dec | \$0.90A | \$1.14E | \$1.39E |
| Prior EPS: | | \$1.13 | \$1.38 |
| P/E Ratio: | 26.4x | 20.9x | 17.1x |
| Quarterly: | | | |
| Q1 | \$0.18A | \$0.26A | \$0.33E |
| Q2 | \$0.23A | \$0.28A | \$0.33E |
| Q3 | \$0.24A | \$0.30E | \$0.36E |
| Q4 | \$0.25A | \$0.30E | \$0.37E |

SEI Poised to Gain Market Share in 2011

SEI Investments is our top pick for 2011. Since the beginning of 2009, over 7,300 financial advisors have left the four largest full-service brokerages firms, many of whom are choosing to become independent fee-based advisors. We believe the trend towards fee-based advisors, an area SEI has significant experience in, will accelerate in 2011. Within the U.S., SEI has 6,000 independent advisors operating on their proprietary platform, and even more advisors/accounts within the United Kingdom. The U.K. clients are operational on SEI's new technology platform (GWS), a platform that SEI has invested well-over \$400 million to develop. SEI is scheduled to release the U.S. version of this platform later this year which could be an important catalyst for the company. SEI's outsourcing model (TAMP) provides the operational infrastructure and asset management expertise to support the growing market of independent advisors, and the introduction of their new platform in the United States market is well timed given the focus on unified managed household accounts. Recent new entrants, including a well-backed firm called Dynasty Financial, is evidence others see a similar opportunity.

SEI is poised to gain market share in 2011 from break-away brokers. According to research by Cerulli Associates, advisors leaving large broker-dealers took with them an estimated \$145 billion of client assets during 2010. This trend will continue and possibly accelerate this year as advisors conclude the reputation risk being associated with larger banks or brokerage firms is just too great, and the desire to manage wealth by household, versus accounts, gains traction.

Introducing our 2012 EPS estimate. We are introducing our 2012 EPS estimate of \$1.60 per share (consensus \$1.42/share) based on 11.3% growth in assets under management and administration and 30.5% pre-tax margins. Our 2012 estimate assumes no margin expansion in 2012 due to continued investments in the newly introduced global wealth platform. Current operating margins are 900 bps below historic levels, and thus, considerable upside to our estimates exists once scale is achieved on the new platform.

Increasing our 12-month fair value to \$35 per share, from \$27. Our \$35 fair value represents 21.8x forward estimates, consistent with a 10-year average of 22.2x. Achievement of our fair-value requires multiple expansion from 1) increased attention on firms servicing independent advisors, and 2) upward revisions to consensus estimates.

Shorter term earnings drivers. Revenues remain highly sensitive to market valuations. Stock buybacks and cost control are two drivers more within management's control. Earnings contribution from SEI's newly introduced wealth management platform will be a late 2011-early 2012 event.

Risk/Reward remains attractive. EPS is on pace to grow over 25% this year and we are modeling for +20% next year on 10% asset under management growth (8% market appreciation + 2% organic new business). Management has exhibited the will to control expenses until market conditions improve. We believe adoption of the new global wealth platform in the UK positions the company for multiple expansion this year. In the meantime, downside is protected by buybacks, as the company generates attractive cash flow and has a solid balance sheet with \$452 million of cash.

Stanley Black & Decker

(SWK) BUY

James C. Lucas

jllucas@janney.com
215-665-6196

Michael J. Wherley

mwherley@janney.com
215-665-4476

Key Metrics

| | |
|----------------------|-----------------|
| Price: | \$66.87 |
| Fair Value Estimate: | \$83.00 |
| 52-Week Range: | \$67.70-\$48.76 |
| Market Cap (MM): | \$11,100 |

EPS

| | 2010E | 2011E | 2012E |
|------------|---------|---------|---------|
| FYE: Dec | \$3.70E | \$4.50E | \$5.05E |
| Prior EPS: | NC | NC | NC |
| P/E Ratio: | 18.1x | 14.9x | 13.2x |

Quarterly:

| | | | |
|----|---------|---------|---------|
| Q1 | \$0.70A | \$0.95E | \$1.07E |
| Q2 | \$1.03A | \$1.26E | \$1.41E |
| Q3 | \$0.97A | \$1.19E | \$1.33E |
| Q4 | \$0.90E | \$1.10E | \$1.24E |

Revenue (B)

| | 2010E | 2011E | 2012E |
|------------|---------|---------|----------|
| FYE: Dec | \$8.41E | \$9.97E | \$10.45E |
| Quarterly: | | | |
| Q1 | \$1.26A | \$2.33E | \$2.44E |
| Q2 | \$2.37A | \$2.54E | \$2.66E |
| Q3 | \$2.37A | \$2.55E | \$2.68E |
| Q4 | \$2.42E | \$2.54E | \$2.67E |

SWK is Our Top Pick for 2011

For the second consecutive year, Stanley Black & Decker is our top pick for the new year. The integration of Black & Decker is going quite well, cost synergies appear to be ahead of schedule, and revenue synergies have really yet to be captured. While much of the focus on Stanley acquiring Black & Decker was on earnings growth, what we found compelling (and still do) is the opportunities to mine significant cash from Black & Decker's balance sheet, principally through better working capital management. Stanley added to its Infrastructure and Healthcare growth platforms in 2010 and we would expect 2011 to see strong organic growth, but also further capital deployment toward select acquisitions across Stanley's five growth platforms (Convergent Security, Mechanical Security, and Engineered Fastening representing the other three). As earnings continue to deliver potential upside surprises, we would expect multiple expansion to follow.

- The first year of the combined Stanley Black & Decker has gone better than many of us skeptics (at least initially we were) could have imagined. A rebounding global economy certainly did not hurt matters, but the capturing of cost synergies and the early read-through on revenue synergies are both positive.
- From an organic standpoint, the stars are lining up for Stanley Black & Decker. The CDIY segment (consumer and housing facing) was the first to turn down for the company and the subsequent rebound, both on the top line and margins has been robust. The Industrial segment is also benefiting from increased demand for Stanley's products around the globe (not just inventory restocking) and we would expect particular strength in emerging markets in the new year. Security has been the laggard for Stanley and this later cycle business has shown signs of a bottom and we would expect this profitable segment to show signs of life in 2011.
- Innovation remains the lifeblood of Stanley Black & Decker and the marriage of these two companies stables of iconic brands has helped perpetuate further gains with key customers. Black & Decker and DeWALT are benefiting from the launch of its line-up of lithium ion cordless power tools while Stanley has a long list of successful new products, including a line of Bostitch branded hand tools that appears to be doing quite well in the marketplace.
- The net debt-to-cap ratio is just under 17% and working capital stood at 22% of sales at the end of the third quarter. There is still much room for improvement in the legacy BDK business on the working capital front (working capital was \$2 billion at the end of the quarter and BDK represented nearly 75% of that amount). Earnings growth at Stanley Black & Decker is quite good, but cash flow is the name of the game in our opinion (FCF/Share far exceeds EPS).
- Our 12-month fair value of \$83 per share (up from \$77) equates to a forward EV/EBITDA multiple of 7x-9x, a forward P/E of 16x-18x, and a forward free cash flow multiple of 12x-14x. In addition, the stock has a respectable 2.0% dividend yield and the company raised its dividend for the 43rd consecutive year in 2010 (and paid consecutively for 134 years).

Virginia Commerce Bancorp

(VCBI) BUY

Stephen M. Moss
smoss@janney.com
215-665-4595

David C. Peppard
dpeppard@janney.com
215-665-6457

Key Metrics

| | |
|----------------------|---------------|
| Price: | \$6.18 |
| Fair Value Estimate: | 7.00 |
| 52-Week Range: | \$7.69-\$3.66 |
| Market Cap (MM): | \$179 |
| Tang Book Value: | \$6.09 |

EPS

| | 2009A | 2010E | 2011E |
|------------|-----------|---------|---------|
| FYE: Dec | \$(1.41)A | \$0.62E | \$0.60E |
| Prior EPS: | | NC | NC |
| P/E Ratio: | NA | 10.0x | 10.3x |
| Quarterly: | | | |
| Q1 | \$(0.12)A | \$0.11A | \$0.13E |
| Q2 | \$(0.24)A | \$0.15A | \$0.14E |
| Q3 | \$(1.16)A | \$0.20A | \$0.16E |
| Q4 | \$0.11A | \$0.15E | \$0.16E |

Best Idea 2011 - On The Right Track

Virginia Commerce is on the right track to turn around its franchise as problem credits are resolved. The company is benefiting from the relatively strong Washington D.C. metro economy, which has resulted in lower loss severities for the company's construction projects. We believe the company's loan loss reserves are adequate, and the future credit losses will not imperil the franchise. Our BUY rating is predicated on our belief that (1) credit costs have peaked and the company's progress toward resolving problem credits is further along than many banks; (2) meaningful earnings power will be apparent in the second half of 2011; and (3) the Washington D.C. economy and housing prices stabilize near current levels of activity.

- Virginia Commerce is a well-positioned franchise that we expect will resume its history of strong organic growth, high profitability, and solid shareholder returns as credit issues are resolved over the next year.

- Capital is adequate and the stock price sufficiently reflects expectations of a common equity raise to repay TARP which was \$71 million, or 2.5% of total assets, as of September 30, 2010.

- The September 2010 common equity private placement investment is a positive for several reasons: (1) it is a step in the right direction towards repaying TARP; (2) it improves the company's capital position in the eyes of investors which supports the valuation; and (3) it will potentially reduce the dilution from a second common stock offering as the company should be in a better asset quality position.

- Acquisition, development and construction loans account for the majority of credit costs. These balances have declined 38% from the June 2008 peak and now represent 16.8% of total loans. The cumulative loss from the AD&C portfolio is 20%.

- The company has improved its core deposit mix over the last 18-months. Core deposits, which we define as all deposits other than certificates of deposit, were 64% of total deposits as of September 30, 2010, versus 39% in 2007. The increase has occurred because of the company's focus on relationship banking and incentives for employees to acquire and retain core deposits.

- Virginia Commerce's senior management team collectively has an average of approximately 30 years of in-market banking experience and an average of approximately 11 years of working together at Virginia Commerce. The advantages of the localized model enable management to make quicker decisions and deliver personalized service, which often falls short at the larger institutions. Insiders own 24% of the stock.

- Our 2010 and 2011 earnings per share estimates are \$0.62 and \$0.60, respectively. We estimate Virginia Commerce's earnings run-rate potential in 2012 is approximately \$0.75. The net interest margin could see some pressure as funding costs approach the "bottom". Extension risk, due to very low absolute interest rates, should limit the purchase of longer-term investment securities.

with January 02, 2011 closing price

| Company | Ticker | Price (\$) | Rating | Fair Value (\$) | Market.Cap (\$ millions) | 52 Week Range (\$) | EPS(\$) | | | P/E | | Div. (\$) | Yield |
|--|--------|------------|--------|-----------------|--------------------------|--------------------|---------|---------|---------|---------|---------|-----------|-------|
| | | | | | | | FY2010E | FY2011E | FY2012E | FY2010E | FY2011E | | |
| TECHNOLOGY, MEDIA & TELECOM | | | | | | | | | | | | | |
| Financial Technology | | | | | | | | | | | | | |
| Thomas C. McCrohan - 215-665-6293, tmccrohan@janney.com | | | | | | | | | | | | | |
| SEI Investments Co. | SEIC | 23.79 | BUY | 27 | 4,449 | 24 - 17 | 1.13 | 1.38 | -- | 21.1 | 17.2 | 0.19 | 0.8 |
| Entertainment & Digital Media | | | | | | | | | | | | | |
| Tony Wible, CFA - 215-665-6529, twible@janney.com | | | | | | | | | | | | | |
| GameStop Corp. | GME | 22.88 | BUY | 32 | 3,464 | 26 - 17 | 2.27 | 2.67 | 3.02 | 10.1 | 8.6 | -- | -- |
| Internet and Interactive Entertainment | | | | | | | | | | | | | |
| Shawn Milne - 415-981-9539, smilne@janney.com | | | | | | | | | | | | | |
| GSI Commerce Inc. | GSIC | 23.23 | BUY | 35 | 1,545 | 31 - 21 | 0.76 | 1.48 | -- | 30.6 | 15.7 | -- | -- |
| Consulting and Global Outsourcing | | | | | | | | | | | | | |
| Joseph D. Foresi - 617-557-2972, jforesi@janney.com | | | | | | | | | | | | | |
| Cognizant Technology Solutions Corp. | CTSH | 73.29 | BUY | 74 | 22,242 | 75 - 42 | 2.35 | 2.60 | -- | 31.2 | 28.2 | -- | -- |
| PC & Enterprise Hardware | | | | | | | | | | | | | |
| William Fearnley, Jr. - 617-367-3268, bfearnley@janney.com | | | | | | | | | | | | | |
| Apple Inc. | AAPL | 322.56 | BUY | 395 | 295,887 | 327 - 190 | 15.15 | 19.17 | 21.95 | 21.3 | 16.8 | -- | -- |
| Semiconductors | | | | | | | | | | | | | |
| Nicholas Aberle - 415-229-7012, naberle@janney.com | | | | | | | | | | | | | |
| NetLogic Microsystems Inc. | NETL | 31.41 | BUY | 35 | 2,006 | 35 - 20 | 1.44 | 1.50 | -- | 21.8 | 20.9 | -- | -- |

| Company | Ticker | Price (\$) | Rating | Fair Value (\$) | Market.Cap (\$ millions) | 52 Week Range (\$) | EPS(\$) | | | P/E | | Div. (\$) | Yield |
|---------|--------|------------|--------|-----------------|--------------------------|--------------------|---------|---------|---------|---------|---------|-----------|-------|
| | | | | | | | FY2010E | FY2011E | FY2012E | FY2010E | FY2011E | | |

CONSUMER

Gaming/Lodging

Brian McGill - 215-665-6485, bmcgill@janney.com

| | | | | | | | | | | | | | |
|---------------------------|-----|-------|-----|----|-------|---------|--------|------|----|--------|------|----|----|
| Gaylord Entertainment Co. | GET | 35.94 | BUY | 39 | 1,710 | 37 - 19 | (1.42) | 0.73 | -- | (25.3) | 49.2 | -- | -- |
|---------------------------|-----|-------|-----|----|-------|---------|--------|------|----|--------|------|----|----|

Food & Beverage

Jonathan Feeney, CFA - 215-665-6679, jfeeney@janney.com

| | | | | | | | | | | | | | |
|-----------------------|-----|-------|-----|----|-------|---------|------|------|------|------|------|----|----|
| Ralcorp Holdings Inc. | RAH | 65.01 | BUY | 96 | 3,571 | 70 - 54 | 4.47 | 5.48 | 6.01 | 14.5 | 11.9 | -- | -- |
|-----------------------|-----|-------|-----|----|-------|---------|------|------|------|------|------|----|----|

Food and Beverage

Mitchell B. Pinheiro, CFA - 215-665-6280, mpinheiro@janney.com

| | | | | | | | | | | | | | |
|-------------------------------------|------|-------|-----|----|-------|---------|------|------|------|------|------|----|----|
| Green Mountain Coffee Roasters Inc. | GMCR | 32.86 | BUY | 50 | 4,367 | 39 - 22 | 0.69 | 1.15 | 1.91 | 47.6 | 28.6 | -- | -- |
|-------------------------------------|------|-------|-----|----|-------|---------|------|------|------|------|------|----|----|

Household & Personal Care

John San Marco - 646-840-4607, jsanmarco@janney.com

| | | | | | | | | | | | | | |
|----------------------------|-----|-------|-----|----|--------|---------|------|------|----|------|------|------|-----|
| Kimberly-Clark Corporation | KMB | 63.04 | BUY | 75 | 25,707 | 67 - 58 | 4.65 | 5.04 | -- | 13.6 | 12.5 | 2.58 | 4.2 |
|----------------------------|-----|-------|-----|----|--------|---------|------|------|----|------|------|------|-----|

Restaurants

Mark Kalinowski - 212-940-6997, mkalinowski@janney.com

| | | | | | | | | | | | | | |
|------------------------------|-----|--------|-----|-----|-------|----------|------|------|----|------|------|----|----|
| Chipotle Mexican Grill, Inc. | CMG | 212.66 | BUY | 300 | 6,581 | 263 - 86 | 5.52 | 6.60 | -- | 38.5 | 32.2 | -- | -- |
|------------------------------|-----|--------|-----|-----|-------|----------|------|------|----|------|------|----|----|

Retail - Hard-line

David Strasser - 646-840-4609, dstrasser@janney.com

| | | | | | | | | | | | | | |
|----------------|-----|-------|-----|----|-------|---------|------|------|----|------|------|----|----|
| OfficeMax Inc. | OMX | 17.70 | BUY | 33 | 1,505 | 20 - 10 | 0.85 | 1.14 | -- | 20.8 | 15.5 | -- | -- |
|----------------|-----|-------|-----|----|-------|---------|------|------|----|------|------|----|----|

Retail - Soft-line

Adrienne Tennant - 703-448-7807, atennant@janney.com

| | | | | | | | | | | | | | |
|-------------------------|-----|-------|-----|----|-------|---------|----|------|------|----|------|------|-----|
| Abercrombie & Fitch Co. | ANF | 57.63 | BUY | 58 | 5,063 | 59 - 30 | -- | 1.84 | 2.66 | -- | 31.3 | 0.70 | 1.2 |
|-------------------------|-----|-------|-----|----|-------|---------|----|------|------|----|------|------|-----|

| Company | Ticker | Price (\$) | Rating | Fair Value (\$) | Market.Cap (\$ millions) | 52 Week Range (\$) | EPS(\$) | | | P/E | | Div. (\$) | Yield |
|---|--------|------------|--------|-----------------|--------------------------|--------------------|---------|---------|---------|---------|---------|-----------|-------|
| | | | | | | | FY2010E | FY2011E | FY2012E | FY2010E | FY2011E | | |
| FINANCIALS | | | | | | | | | | | | | |
| Banks & Thrifts | | | | | | | | | | | | | |
| Rick Weiss - 215-665-6224, rweiss@janney.com | | | | | | | | | | | | | |
| Beneficial Mutual Bancorp Inc. | BNCL | 8.83 | BUY | 11 | 715 | 11 - 07 | (0.07) | 0.20 | -- | (126.1) | 44.2 | -- | -- |
| Banks/Thrifts | | | | | | | | | | | | | |
| Stephen M. Moss - 215-665-4595, smoss@janney.com | | | | | | | | | | | | | |
| Virginia Commerce Bancorp Inc. | VCBI | 6.18 | BUY | 7 | 179 | 08 - 04 | 0.62 | 0.60 | -- | 10.0 | 10.3 | -- | -- |
| BDCs/Special Situations | | | | | | | | | | | | | |
| John T.G. Rogers, CFA - 202-955-4316, jrogers@janney.com | | | | | | | | | | | | | |
| Fifth Street Finance Corp. | FSC | 12.14 | BUY | 13 | 663 | 14 - 10 | 0.96 | 1.12 | 1.29 | 12.6 | 10.8 | 0.99 | 10.5 |
| Insurance | | | | | | | | | | | | | |
| Robert Glasspiegel, CFA - 860-724-1203, rglasspiegel@langenmcalenney.com | | | | | | | | | | | | | |
| The Allstate Corporation | ALL | 31.88 | BUY | -- | 17,157 | 36 - 27 | 3.25 | 3.80 | -- | 9.8 | 8.4 | 0.80 | 2.5 |
| Larry Greenberg, CFA - 860-724-1203, lgreenberg@langenmcalenney.com | | | | | | | | | | | | | |
| Prudential Financial, Inc. | PRU | 58.71 | BUY | -- | 28,495 | 67 - 46 | 5.85 | 6.30 | -- | 10.0 | 9.3 | 0.70 | 2.0 |
| Steven R Labbe, CFA - 860-724-1203, slabbe@langenmcalenney.com | | | | | | | | | | | | | |
| Brown & Brown Inc. | BRO | 23.94 | BUY | -- | 3,415 | 24 - 16 | 1.13 | 1.20 | -- | 21.2 | 20.0 | 0.31 | 1.3 |
| REITs* | | | | | | | | | | | | | |
| *Estimates and multiples based on Funds from Operations (FFO). | | | | | | | | | | | | | |
| Andrew DiZio, CFA - 215-665-6439, adizio@janney.com | | | | | | | | | | | | | |
| American Campus Communities Inc. | ACC | 31.76 | BUY | 35 | 2,120 | 34 - 24 | 0.24 | 0.38 | 0.53 | 132.3 | 83.6 | 1.35 | 4.3 |
| Daniel P. Donlan - 215-665-6476, ddonlan@janney.com | | | | | | | | | | | | | |
| Hersha Hospitality Trust | HT | 6.60 | BUY | -- | 1,116 | 07 - 03 | 0.38 | 0.42 | 0.50 | 17.4 | 15.7 | 0.20 | 3.0 |

| Company | Ticker | Price (\$) | Rating | Fair Value (\$) | Market.Cap (\$ millions) | 52 Week Range (\$) | EPS(\$) | | | P/E | | Div. (\$) | Yield |
|---------|--------|------------|--------|-----------------|--------------------------|--------------------|---------|---------|---------|---------|---------|-----------|-------|
| | | | | | | | FY2010E | FY2011E | FY2012E | FY2010E | FY2011E | | |

INFRASTRUCTURE

Industrial

James C. Lucas - 215-665-6196, jlucas@janney.com

| | | | | | | | | | | | | | |
|------------------------------|-----|-------|-----|----|--------|---------|------|------|------|------|------|------|-----|
| Stanley Black & Decker, Inc. | SWK | 66.87 | BUY | 77 | 11,095 | 68 - 49 | 3.70 | 4.50 | 5.05 | 18.1 | 14.9 | 1.33 | 2.0 |
|------------------------------|-----|-------|-----|----|--------|---------|------|------|------|------|------|------|-----|

Industrials - Special Situations

Liam D. Burke - 202-955-4305, lburke@janney.com

| | | | | | | | | | | | | | |
|---------------------|------|-------|-----|-----|-------|---------|------|------|------|------|------|------|-----|
| Nordson Corporation | NDSN | 91.88 | BUY | 115 | 3,122 | 95 - 53 | 4.27 | 5.30 | 5.90 | 21.5 | 17.3 | 0.78 | 0.9 |
|---------------------|------|-------|-----|-----|-------|---------|------|------|------|------|------|------|-----|

Water/Infrastructure

Ryan M. Connors - 215-665-1359, rconnors@janney.com

| | | | | | | | | | | | | | |
|------------------------------------|-----|-------|-----|----|-------|---------|------|------|----|------|------|------|-----|
| American Water Works Company, Inc. | AWK | 25.29 | BUY | 28 | 4,423 | 26 - 19 | 1.55 | 1.65 | -- | 16.3 | 15.3 | 0.85 | 3.5 |
|------------------------------------|-----|-------|-----|----|-------|---------|------|------|----|------|------|------|-----|



IMPORTANT DISCLOSURES

Research Analyst Certification

The Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("JMS") Equity Research Disclosure Legend

Individual disclosures for the companies mentioned in this report can be obtained by calling or writing Janney Montgomery Scott LLC as provided on the first page of this report.

Rating Definitions

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Janney Montgomery Scott Ratings Distribution as of 09/30/2010

| Rating | Count | Percent | IB Serv./Past 12 Mos. | |
|-------------|-------|---------|-----------------------|---------|
| | | | Count | Percent |
| BUY [B] | 195 | 54 | 20 | 10 |
| NEUTRAL [N] | 157 | 43 | 10 | 6 |
| SELL [S] | 10 | 3 | 1 | 10 |

***As a percent of total coverage. See ratings definition above.**

Other Disclosures

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

This research report is provided for informational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities. The information described herein is taken from sources which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This Firm, its officers, directors, employees, or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market or otherwise and may sell to or buy from customers such securities on a principal basis. Supporting information related to the recommendation, if any, made in the research report is available upon request.