

ConocoPhillips
COP
Investment Notes

Please read Disclaimer at bottom of these notes!

CORPORATE STRUCTURE

ConocoPhillips is an international, integrated energy company. ConocoPhillips was incorporated in the state of Delaware on November 16, 2001, in connection with, and in anticipation of, the merger between Conoco Inc. and Phillips Petroleum Company. The merger between Conoco and Phillips was consummated on August 30, 2002.

Our business is organized into six operating segments:

- **Exploration and Production (E&P)**—This segment primarily explores for, produces, transports and markets crude oil, bitumen, natural gas, liquefied natural gas (LNG) and natural gas liquids on a worldwide basis.
- **Midstream**—This segment gathers, processes and markets natural gas produced by ConocoPhillips and others, and fractionates and markets natural gas liquids, predominantly in the United States and Trinidad. The Midstream segment primarily consists of our 50 percent equity investment in DCP Midstream, LLC.
- **Refining and Marketing (R&M)**—This segment purchases, refines, markets and transports crude oil and petroleum products, mainly in the United States, Europe and Asia.
- **LUKOIL Investment**—This segment consists of our investment in the ordinary shares of OAO LUKOIL, an international, integrated oil and gas company headquartered in Russia. At December 31, 2010, our ownership interest was 2.25 percent based on issued shares. See Note 6—Investments, Loans and Long-Term Receivables, in the Notes to Consolidated Financial Statements, for information on sales of LUKOIL shares.
- **Chemicals**—This segment manufactures and markets petrochemicals and plastics on a worldwide basis. The Chemicals segment consists of our 50 percent equity investment in Chevron Phillips Chemical Company LLC (CPChem).
- **Emerging Businesses**—This segment represents our investment in new technologies or businesses outside our normal scope of operations.

At December 31, 2010, ConocoPhillips employed approximately 29,700 people.

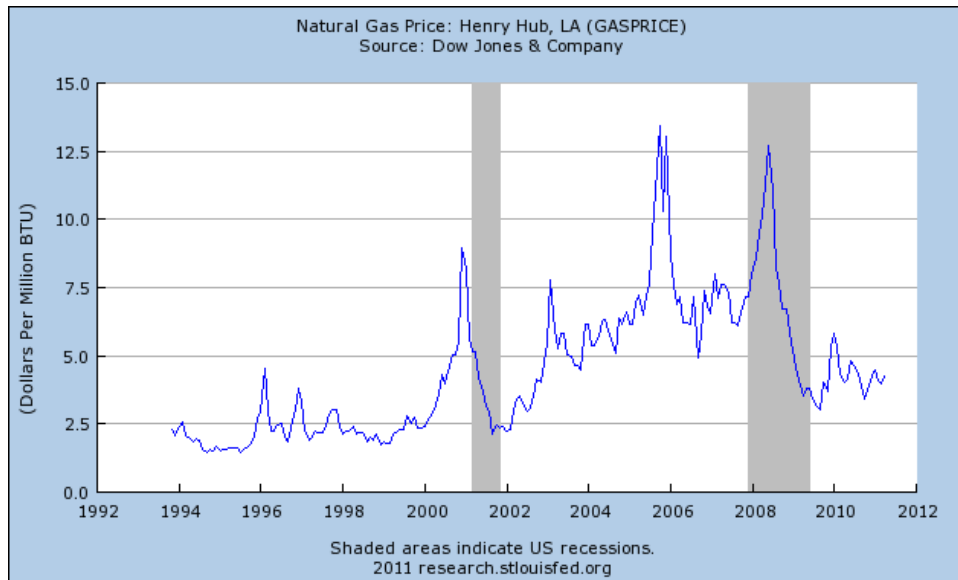
Profile: ConocoPhillips is an international integrated energy company. In 2010, it produced 913,000 barrels per day of oil and natural gas liquids and 4.6 billion cubic feet a day of natural gas, primarily from the United States, Canada, Norway, and the United Kingdom. Proven reserves at year-end 2010 stood at 6.7 billion barrels of oil equivalent (plus 2.1 billion for equity affiliates), 44% of which are natural gas. With refining capacity of 2 million barrels of oil a day, it's the second-largest refinery operator in the U.S.

Morningstar 5/4/11

May 13, 2011 (71.74)

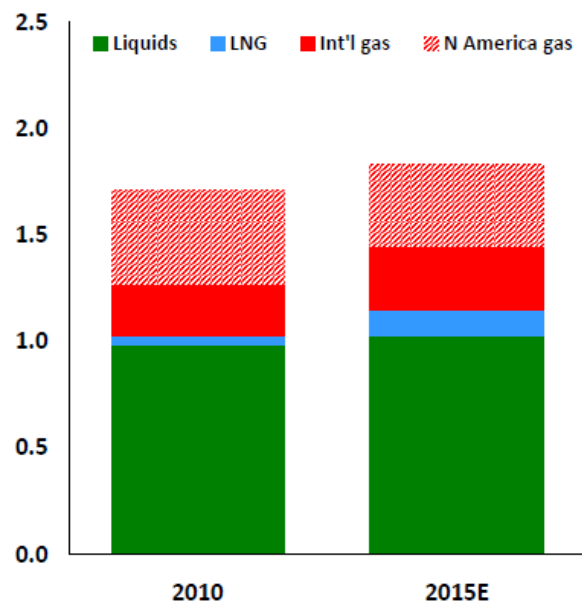
Thesis

Conoco is a worldwide producer, explorer, refiner and distributor of oil, and natural gas. Also has growing Liquid Natural Gas (LNG) exposure. International organization. Earnings are often correlated with oil prices as well as natural gas prices. Natural Gas has been in a depression. Spot gas prices have dropped 70% and forward prices have dropped 50% from their 2008 peak through F2010.



Production Outlook

Production by Product - MMBOED



This thesis really tied into price of Oil and Natural Gas, commodity exposure, international growth exposure and recovering economy. We are buying a safe dividend at historically proper fundamentals. I think it is impossible to project earnings and cash flow. The price of the commodities will constantly change. Yet, we see have a healthy company, which is reinvesting in its core competence. Has a fairly conservative balance sheet, although it sees no reason to substantially reduce debt %'s, as is indicated in graph posted below from 2011 shareholder meeting. I think this holding is a good pairing with XOM for a 10% holding. I could see this sector bringing a 15% portfolio allocation at the right prices.

Fundamental Analysis:

Company Name	Conoco Phillips
Symbol	COP
Date Worked On	16-May-11
Base Year	31-Dec-11
Price	\$71.65
Shares Outstanding	1,445
Market Capitalization	\$103,568
Cash and CE	\$8,403
Long Term Debt	\$22,604
Minority Interests	\$0
Goodwill	\$3,630
Intangibles	\$797
Other Intangibles	\$0
Enterprise Value	\$117,769
Short Term Debt	\$605
Stockholders Equity	\$69,972
Depreciation and Amortization	\$2,070
CapEx	\$13,500

Revenues	\$240,000
Total Assets	\$159,643
Net Income	\$12,500
Dividend Per Share	\$2.64
Interest Expense	\$1,050
Net Income Before Taxes	\$24,000
Enterprise Value Per Share	\$81.47
Price To Enterprise Value	87.94%
Total Debt	\$23,209
Total Debt / Net Income	185.67%
Total Debt Per Share	\$16.06
Tangible Book Value	\$65,545
Book Value Per Share	\$48.41
Tangible Book Value Per Share	\$45.34
Price / Book Value	148.01%
Price / Tangible Book Value	158.01%
Price / Earnings Ratio	8.29
Enterprise Value / Earnings Ratio	9.42
Earnings Yield	12.07%
Earnings / Enterprise Value	10.61%
Price To Sales Ratio	43.15%
Net Income / Total Assets	7.83%
Total Assets / (Revenues/365)	242.79
Enterprise Value / Revenues	49.07%
Goodwill / Total Assets	2.27%

Goodwill / Stockholders Equity	5.19%
Debt / Equity	33.17%
Average P/E Last 10 Years	10.0
Operating Cash Flow	\$14,570
Operating Cash Flow Per Share	\$10.08
Free Operating Cash Flow	\$1,070
Free Operating Cash Flow Per Share	0.74
Free Operating Cash Flow Flow Yield	1.03%
Price / Free Operating Cash Flow	96.79
Revenues Per Share	\$166.04
Net Income Per Share	\$8.65
Return on Equity	17.86%
Bond Rating (S&P)	A
Growth Rate	5.00%
Dividend Yield	3.68%
Dividend / Net Income	30.53%
Dividend / Cash Flow	356.64%
Interest Coverage Ratio	23.86
Insider Activity	Some Sales
Buy-Backs	Yes
Dilution	No
Management Compensation	Fair
Price to consider to buy more	\$80.00
Price to sell or consider reducing	\$86.00

Action (Buy, Hold or Sell)	Buy
Portfolio Allocation Suggestion	5%

Company	Company
As of Date	March 31, 2011
EV Analysis	
Date Worked On	May 16, 2011
Share Outstanding	1,445.48
Share Price	\$71.65
Market Capitalization	\$103,568.43
Less: Cash and Short Term Investments	(\$8,403.00)
Add: Long Term Debt	\$22,604.00
Minority Interest	\$0.00
Enterprise Value	\$117,769.43
EV per share	\$81.47
Stockholders' Equity	\$69,972.00
Adjustments:	
Goodwill	(\$3,630.00)
Tradenames	\$0.00
Other Intangibles	(\$797.00)
Net Stockholders' Equity	\$65,545.00
Adjusted Book Value per Share	\$45.34

Quick Projections	May 16, 2011
Revenue	\$24,000.00
Net Margin % before tax	81.50%
Net Margin before taxes	\$19,560.00
Tax Rate	48.00%

Corporate Taxes	\$9,388.80
Net Income after Taxes	\$10,171.20
Net Margin %	42.38%
Shares Outstanding	1,445.48
eps	\$7.04

Company	Company
FV of current equity and future earnings	16-May-11
Adjusted Stockholder's Equity	\$65,545.00
Net Income after Taxes	\$10,171.20
Growth Rate of Net Profit for 10N	3.00%
Growth Rate of Net Profit after 10N through 15N	3.00%
FV of Net Profit in 10N	\$13,669.24
FV of Net Profit in 15N	\$15,846.40
FV of tangible book value plus Net Profits for 10N	\$204,688.41
FV of tangible book value plus Net Profits for years 11 - 15N	\$309,861.83
Current Enterprise Value	\$117,769.43
FV of tangible book value plus Net Profits for 10N	(\$204,688.41)
Years	10
ROI on tangible book value plus Net Profits for 10N	5.68%
FV of tangible book value plus Net Profits for 10N	\$204,688.41
FV of tangible book value multiplier	1.50
FV of Tangible Book Value using BV multiplier in year 10	\$307,032.61
Current Enterprise Value	\$117,769.43
FV of tangible book value plus Net Profits for years 11 - 15N	(\$309,861.83)
Years	15
ROI on tangible book value plus Net Profits for 15N	6.66%
FV of tangible book value plus Net Profits for 15N	\$309,861.83
FV of tangible book value multiplier	1.5
FV of Tangible Book Value using BV multiplier in year 15	\$464,792.74
Potential Future EV using BV multiplier above	

Current Enterprise Value	\$117,769.43
FV of Tangible Book Value using BV multiplier in year 10	(\$307,032.61)
Years	10
ROI on FV of Tangible Book Value using BV multiplier in year 10	10.06%
Current Enterprise Value	\$117,769.43
FV of Tangible Book Value using BV multiplier in year 15	(\$464,792.74)
Years	15
ROI on FV of Tangible Book Value using BV multiplier in year 15	9.58%
Sanity Checks:	
P/E in future	
FV of Net Profit in 15N	\$15,846
P/E estimate	15.00
Market Cap on above	-\$237,696
Years	15
Current Enterprise Value	\$117,769
ROI in 15N using above	4.78%
Potential Revenue Growth	
Current Revenues	\$24,000
Growth Rate of Revenues for 10N	3.00%
Growth Rate of Revenues after 10N through 15N	3.00%
FV of Revenues in 10N	(\$32,254)
FV of Revenues in 15N	\$37,391
FV of Revenues in 15N	\$37,391
Revenue Multiplier based on Al Meyer Rule of Thumb net margins	8
Possible Market Cap year 15	(\$299,130)
Years	15
Current Enterprise Value	\$117,769
ROI in 15N using above	6%

Growth Rate	6.00%	3.00%
Earnings Per Share	5.90	7.50
Projected EPS Year 2	6.70	7.00

Projected EPS Year 3	7.10	7.21
Projected EPS Year 4	7.53	7.43
Projected EPS Year 5	7.98	7.65

Report Date	07-Dec-10	16-May-11
Price	64.37	71.65
Growth Rate	6.00%	3.00%
Price/Sales	0.52	0.43
Price/ Net Cash Flow	13.27	96.82
Price/ Net Book Value	1.35	1.58
P/E Ratio Current	10.91	9.55
P/E Ratio Year 2	9.61	10.24
Current Ratio	1.05	1.22
Quick Ratio	0.77	0.95
LT Debt / Shr. Equity	28.67%	32.30%
LT Debt / Current Assets	75.00%	63.47%
Return on Shr. Equity	12.50%	17.86%
PEG Ratio (Current)	1.82	3.18
PEG Ratio Year 2	1.60	3.41
PEGY Ratio (Current)	1.17	1.43
PEGY Ratio Year 2	1.03	1.53
Graham Ratio (current)	14.71	15.10
Graham Ratio Year 2	12.95	16.18
Growth Flow Ratio (<12=nrml)	10.91	9.55
Cash King (s/b > 10 %)	3.95%	0.45%
Flow Ratio (s/b < 1.25)	0.90	0.95
Intrinsic Value (current)	95.89	86.22
Intrinsic Value Year 2	108.89	80.47
Intrinsic Value Year 3	115.42	82.88
Intrinsic Value Year 4	122.35	85.37
Intrinsic Value Year 5	129.69	87.93
Intrinsic Value / Price (current)	48.96%	20.33%
Intrinsic Value / Price Year 2	69.16%	12.31%
Intrinsic Value / Price Year 3	79.31%	15.68%
Intrinsic Value / Price Year 4	90.07%	19.15%
Intrinsic Value / Price Year 5	101.48%	22.72%

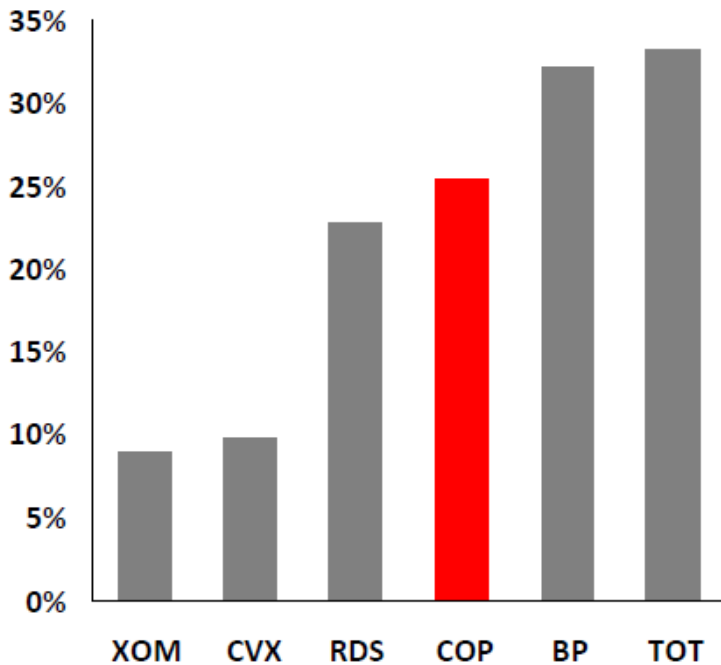
Miscellaneous Notes

2011 Shareholder Meeting – Slide on Debt and debt comment:

Improved Financial Flexibility



Debt-to-Capital Ratio

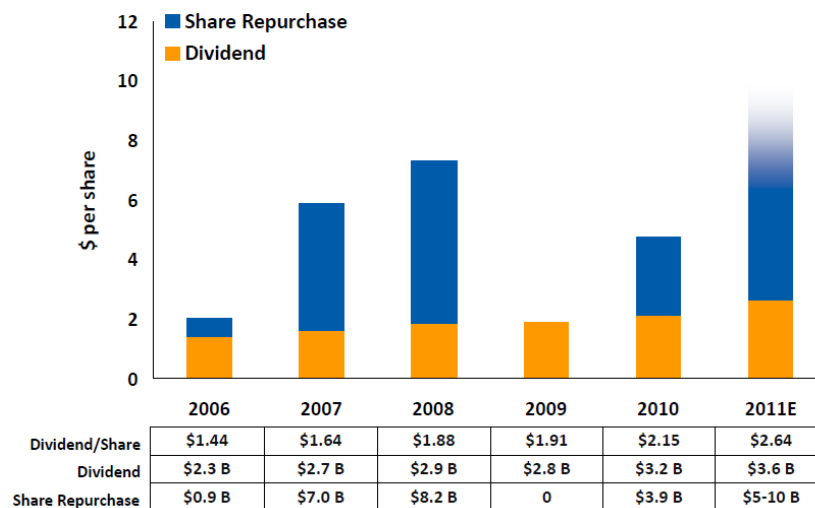


- 20 - 25% debt-to-capital target
- ~90% fixed-rate debt
- Well-structured debt maturity profile
- Strong liquidity position

No need for substantial debt reduction

2011 Shareholder Meeting – Slide on Share Repurchases and Dividends:

Shareholder Distributions



2011 Investor Update:

Capital Program

	\$MM		
	2009	2010	2011 Budget
E&P			
Capital expenditures and investments	\$ 8,899	\$ 8,493	\$ 11,300
Loans and advances	175	113	-
Joint venture acquisition obligation--principal	625	659	700
E&P total	9,699	9,265	12,000
Midstream ¹	5	3	-
R&M			
Capital expenditures and investments	1,726	1,056	1,200
Loans and advances	350	200	-
R&M total	2,076	1,256	1,200
LUKOIL Investment ¹	-	-	-
Chemicals ¹	-	-	-
Emerging Businesses ¹	97	27	100
Corporate and Other ¹	134	182	200
Total Capital Program	\$ 12,011	\$ 10,733	\$ 13,500

Morningstar 5/4/11

ConocoPhillips COP [NYSE] | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
71.52 USD	73.00 USD	51.10 USD	102.20 USD	Medium	Narrow	C	A	Oil & Gas Integrated

McDep.com

I read the following at www.mcdep.com. I'm not sure the source or accuracy. I have read this site for many years, and it is my understanding it is known as a proper source of information. "The value of the stock is sensitive to oil price (64%), U.S. natural gas price (14%), global natural gas price (9%) and refining and chemical margins (13%)." This at a minimum quantifies my thesis of a commodity hedge and an eventual resurgence of the price of Natural gas.

Credit Suisse 4/28/11

Financial and valuation metrics				
Year	12/10A	12/11E	12/12E	12/13E
Revenue (US\$ m)	—	—	—	—
EBIDAX (US\$ m)	22,657.6	24,501.1	22,244.3	24,796.9
EPS (CS adj.) (US\$)	5.92	8.32	9.02	11.31
Prev. EPS (US\$)	—	—	—	—
ROGIC (%)	11.6	13.5	12.4	13.9
P/E (x)	13.5	9.6	8.8	7.1
P/E rel. (%)	86.5	71.2	74.8	66.2
OCFPS (US\$)	11.43	12.51	15.86	18.38
P/OCF (x)	6.0	6.4	5.0	4.3
Qtrly ent. val./tot. EBIDAX	4.1	3.5	3.8	3.3
Net debt (US\$ m)	13,165	20,107	22,151	20,455
Dividend (12/11E, US\$)	0.66	Dividend yield (%)		0.83
Net debt current qtr (US\$ m)	13,165.0	Net debt/total cap. (12/11E, %)		22.3
BV/share (12/11E, US\$)	59.7	GIC (12/11E, US\$)		89,579.3
EV qtr/GIC (x)	1.5	Current WACC		—
Free float (%)	—	Number of shares (m)		1,455.79

Source: Company data, Credit Suisse estimates.

Exhibit 2: COP Financial & Operating Summary

Assumptions	2009	2010	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2012E
WTI oil price (\$/bbl)	61.70	79.41	93.93	96.00	98.00	90.00	94.48	92.50	106.25
US gas price (\$/mcf)	3.65	4.40	3.93	4.25	5.25	5.25	4.67	5.75	6.25
US Gulf 3-2-1 refining margin (\$/bbl)	7.76	8.70	17.96	19.00	15.50	17.00	17.37	15.12	11.06
Operating Statistics	2009	2010	1Q11A	2Q11E	3Q11E	4Q11E	2011E	2012E	2012E
Worldwide Oil Production (MBD)	1,042	984	924	903	894	902	906	913	958
US Gas production (MMCFD)	2,021	1,777	1,589	1,615	1,615	1,589	1,602	1,414	1,387
Worldwide Gas production (MMCFD)	4,877	4,606	4,669	4,433	4,415	4,425	4,486	4,361	4,214
Worldwide BOE production (MBD)	1,854	1,752	1,702	1,642	1,630	1,640	1,653	1,640	1,661
BOE Growth (sequential)	3.6%	-5.5%	-3%	-4%	-7%	7%	-5.6%	-0.8%	1.3%
Refinery Throughput (MBD)	2,389	2,323	2,315	2,398	2,398	2,398	2,377	2,398	2,421
Refinery Utilization (%)	80%	85%	85%	88%	88%	88%	87%	88%	89%
Marketing Sales (MBD)	2,974	3,039	3,060	3,053	3,116	3,207	3,109	3,118	3,128

Merrill Lynch 4/28/11
Estimates (Dec)

(US\$)	2009A	2010A	2011E	2012E	2013E
EPS	3.37	5.93	7.73	6.77	6.32
GAAP EPS	2.99	7.61	8.02	6.77	6.32
EPS Change (YoY)	-68.5%	76.0%	30.4%	-12.4%	-6.6%
Consensus EPS (Bloomberg)			8.12	8.79	8.42
DPS	1.91	2.15	2.53	2.74	2.88

Valuation (Dec)

	2009A	2010A	2011E	2012E	2013E
P/E	23.7x	13.5x	10.3x	11.8x	12.6x
GAAP P/E	26.7x	10.5x	10.0x	11.8x	12.6x
Dividend Yield	2.4%	2.7%	3.2%	3.4%	3.6%
EV / EBITDA*	7.5x	5.2x	5.3x	5.7x	6.0x
Free Cash Flow Yield*	0.4%	5.2%	3.3%	3.4%	2.7%

* For full definitions of *iQmethod*SM measures, see page 9.

iQmethod*SM – Bus Performance

(US\$ Millions)	2009A	2010A	2011E	2012E	2013E
Return on Capital Employed	4.3%	9.2%	9.2%	7.3%	6.6%
Return on Equity	8.6%	13.5%	15.9%	13.1%	11.6%
Operating Margin	7.1%	10.5%	8.9%	8.3%	8.1%
Free Cash Flow	469	5,759	3,642	3,779	2,969

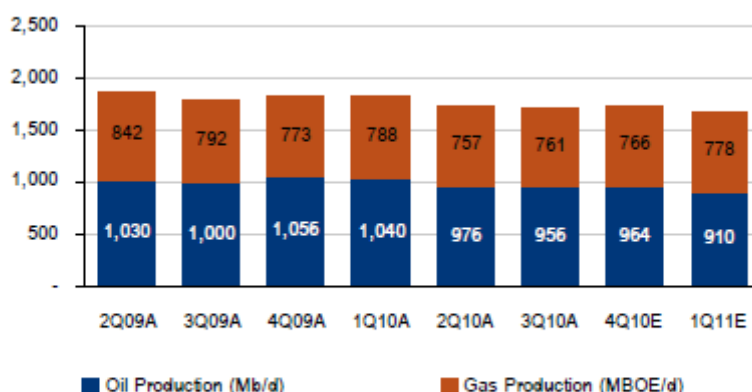
iQmethod*SM – Quality of Earnings

(US\$ Millions)	2009A	2010A	2011E	2012E	2013E
Cash Realization Ratio	2.5x	1.9x	1.6x	2.1x	2.2x
Asset Replacement Ratio	1.3x	1.3x	1.6x	1.7x	1.8x
Tax Rate	53.3%	42.4%	42.9%	49.3%	49.4%
Net Debt-to-Equity Ratio	44.6%	20.5%	17.8%	23.3%	22.8%
Interest Cover	8.4x	17.6x	19.7x	17.8x	16.4x

Income Statement Data (Dec)

(US\$ Millions)	2009A	2010A	2011E	2012E	2013E
Sales	152,452	198,640	231,384	223,552	212,005
% Change	-38.1%	30.3%	16.5%	-3.4%	-5.2%
Gross Profit	50,019	62,889	231,384	223,552	212,005
% Change	-35.5%	25.7%	267.9%	-3.4%	-5.2%
EBITDA	21,332	31,078	30,144	28,211	26,754
% Change	177.2%	45.7%	-3.0%	-6.4%	-5.2%
Net Interest & Other Income	(1,289)	(1,187)	(1,048)	(1,044)	(1,044)
Net Income (Adjusted)	5,041	8,834	10,812	8,881	8,146
% Change	-69.4%	75.2%	22.4%	-17.9%	-8.3%

Chart 7: Oil and Gas Production Mix



Source: BofA Merrill Lynch Global Research

Notes to 1Q11 10-Q 3/31/11

No longer owns LUKOIL. Ownership was 2.5% of LUKOIL as of December 31, 2010, 20% at December 31, 2008 and 2009 respectively.

	Dollars Per Unit	
Average Sales Prices		
Crude oil and natural gas liquids (per barrel)		
United States	\$ 85.36	70.40
International	96.86	73.08
Total consolidated operations	91.30	71.89
Equity affiliates	94.95	71.30
Total E&P	91.55	71.86
Synthetic oil (per barrel)		
International	-	78.67
Bitumen (per barrel)		
International	47.94	59.18
Equity affiliates	56.15	56.15
Total E&P	54.77	56.57
Natural gas (per thousand cubic feet)*		
United States	4.10	5.16
International	6.43	5.92
Total consolidated operations	5.54	5.63
Equity affiliates	2.59	2.67
Total E&P	5.22	5.57

*Prior period reclassified to conform to current-year presentation which includes intrasegment transfer pricing.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	Millions of Dollars
				Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2011	2,007,569	\$ 68.18	2,002,000	\$ 998
February 1-28, 2011	4,648,780	75.53	4,633,946	10,648
March 1-31, 2011	14,824,457	77.67	14,805,958	9,498
Total	21,480,806	\$ 76.32	21,441,904	

*Includes the repurchase of common shares from company employees in connection with the company's broad-based employee incentive plans.

**On March 24, 2010, we announced plans to repurchase up to \$5 billion of our common stock through 2011. Repurchase of shares under this authorization was completed during the first quarter of 2011. On February 11, 2011, we announced plans to repurchase up to \$10 billion of our common stock over the subsequent two years. Acquisitions for the share repurchase program are made at management's discretion, at prevailing prices, subject to market conditions and other factors. Repurchases may be increased, decreased or discontinued at any time without prior notice. Shares of stock repurchased under the plan are held as treasury shares.

2010 Annual Report Notes

Financial and Operating Highlights

	Millions of Dollars Except as Indicated		
	2010	2009*	% Change
Financial			
Total revenues and other income	\$ 198,655	152,390	30%
Net income attributable to ConocoPhillips (Earnings)	\$ 11,358	4,414	157
Earnings per share of common stock – diluted (dollars)	\$ 7.62	2.94	159
Net cash provided by operating activities	\$ 17,045	12,479	37
Capital expenditures and investments	\$ 9,761	10,861	(10)
Repurchase of company common stock	\$ 3,866	—	—
Dividends paid on company common stock	\$ 3,175	2,832	12
Total assets	\$ 156,314	152,138	3
Total debt	\$ 23,592	28,653	(18)
Total equity	\$ 69,109	62,613	10
Total debt to capital (percent)	25%	31	(19)
Common stockholders' equity	\$ 68,562	62,023	11
Common stockholders' equity per share – book value (dollars)	\$ 47.92	41.73	15
Cash dividends per common share (dollars)	\$ 2.15	1.91	13
Closing stock price per common share (dollars)	\$ 68.10	51.07	33
Common shares outstanding at year end (in thousands)	1,430,765	1,486,256	(4)
Average common shares outstanding (in thousands)			
Basic	1,479,330	1,487,650	(1)
Diluted	1,491,067	1,497,608	—
Employees at year end (in thousands)	29.7	30.0	(1)

	Millions of Dollars Except as Indicated				
	2010	2009*	2008*	2007*	2006*
Sales and other operating revenues	\$189,441	149,341	240,842	187,437	183,650
Net income (loss)	11,417	4,492	(16,279)	11,545	15,410
Net income (loss) attributable to ConocoPhillips	11,358	4,414	(16,349)	11,458	15,334
Per common share (dollars)					
Basic	7.68	2.96	(10.73)	7.06	9.67
Diluted	7.62	2.94	(10.73)	6.96	9.53
Total assets	156,314	152,138	142,865	177,094	164,557
Long-term debt	22,656	26,925	27,085	20,289	23,091
Joint venture acquisition obligation—long-term	4,314	5,009	5,669	6,294	—
Cash dividends declared per common share (dollars)	2.15	1.91	1.88	1.64	1.44
Market quotations for common stock (dollars)					
High	68.58	57.44	95.96	90.84	74.89
Low	46.63	34.12	41.27	61.59	54.90
Year-end close	68.10	51.07	51.80	88.30	71.95

* Recast to reflect a change in accounting principle.

Consolidated Results

A summary of the company's net income (loss) attributable to ConocoPhillips by business segment follows:

Years Ended December 31	Millions of Dollars		
	2010	2009	2008
Exploration and Production (E&P)	\$ 9,198	3,604	(13,479)
Midstream	306	313	541
Refining and Marketing (R&M)	192	37	2,322
LUKOIL Investment*	2,503	1,219	(4,839)
Chemicals	498	248	110
Emerging Businesses	(59)	3	30
Corporate and Other	(1,280)	(1,010)	(1,034)
Net income (loss) attributable to ConocoPhillips	\$ 11,358	4,414	(16,349)

*2009 and 2008 recast to reflect a change in accounting principle. See Note 2—Changes in Accounting Principles, for more information.

Dollars Per Unit

Average Sales Prices			
Crude oil and natural gas liquids (per barrel)			
United States	\$	69.73	53.21 89.38
International		74.95	57.40 89.32
Total consolidated operations		72.63	55.47 89.35
Equity affiliates		74.81	58.23 71.15
Total E&P		72.77	55.63 88.91
Synthetic oil (per barrel)			
International		77.56	62.01 103.31
Bitumen (per barrel)			
International		51.10	39.67 46.85
Equity affiliates		53.43	45.69 58.54
Total E&P		53.06	44.84 56.72
Natural gas (per thousand cubic feet)*			
United States		4.27	3.50 7.60
International		5.60	5.06 8.65
Total consolidated operations		5.07	4.40 8.20
Equity affiliates		2.79	2.35 2.04
Total E&P		4.98	4.37 8.18

*Prior periods reclassified to conform to current year presentation which includes intrasegment transfer pricing.

Average Production Costs Per Barrel of Oil Equivalent			
United States	\$	8.30	7.73 8.34
International		7.96	7.72 8.03
Total consolidated operations		8.10	7.73 8.17
Equity affiliates		8.11	7.68 13.36
Total E&P		8.10	7.72 8.33

Millions of Cubic Feet Daily

Natural gas produced*			
Alaska	82	94	97
Lower 48	1,695	1,927	1,994
United States	1,777	2,021	2,091
Canada	984	1,062	1,054
Europe	815	876	954
Asia Pacific/Middle East	712	713	609
Africa	149	121	114
Other areas	-	-	14
Total consolidated operations	4,437	4,793	4,836
Equity affiliates			
Asia Pacific/Middle East	169	84	11
	4,606	4,877	4,847

*Represents quantities available for sale. Excludes gas equivalent of natural gas liquids included above. Equity affiliate statistics exclude our share of LUKOIL, which is reported in the LUKOIL Investment segment.

CAPITAL RESOURCES AND LIQUIDITY

Financial Indicators

	Millions of Dollars Except as Indicated		
	2010	2009	2008
Net cash provided by operating activities	\$ 17,045	12,479	22,658
Short-term debt	936	1,728	370
Total debt	23,592	28,653	27,455
Total equity*	69,109	62,613	56,265
Percent of total debt to capital**	25%	31	33
Percent of floating-rate debt to total debt***	10%	9	37

*2009 and 2008 recast to reflect a change in accounting principle. See Note 2—Changes in Accounting Principles, for more information.

**Capital includes total debt and total equity.

***Includes effect of interest rate swaps.

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources. Cash generated from operating activities is the primary source of funding. In addition, during 2010, we received \$15,372 million in proceeds from asset sales. During 2010, the primary uses of our available cash were: \$9,761 million to support our ongoing capital expenditures and investments program, \$5,202 million to repay debt, \$3,866 million to repurchase common stock, \$3,175 million to pay dividends on our common stock, and \$982 million to purchase short-term investments. During 2010, cash and cash equivalents increased by \$8,912 million to \$9,454 million.

Owns 2.5% of LUKOIL as of December 31, 2010. Ownership was 20% at December 31, 2008 and 2009 respectively.

Note 22—Cash Flow Information

	Millions of Dollars		
	2010	2009	2008
Noncash Investing and Financing Activities			
Increase in PP&E related to an increase in asset retirement obligations	\$ 808	974	1,117
Cash Payments			
Interest	\$ 1,210	998	858
Income taxes	8,474	6,641	13,122

Note 23—Other Financial Information

	Millions of Dollars Except Per Share Amounts		
	2010	2009	2008
Interest and Debt Expense			
Incurred			
Debt	\$ 1,414	1,485	1,189
Other	244	291	314
	1,658	1,776	1,503
Capitalized	(471)	(487)	(568)
Expensed	\$ 1,187	1,289	935
Other Income			
Interest income	\$ 187	227	245
Other, net	91	131	(46)
	\$ 278	358	199

Geographic Information

	Millions of Dollars					
	Sales and Other Operating Revenues ⁽¹⁾			Long-Lived Assets ⁽²⁾		
	2010	2009	2008	2010	2009	2008
United States	\$ 124,173	97,674	166,496	53,706	53,761	52,972
Australia ⁽³⁾	2,789	2,229	2,735	12,461	10,729	8,656
Canada	4,784	3,617	5,226	20,439	22,451	20,429
Norway	2,248	1,749	3,036	5,664	5,797	5,002
Russia ⁽⁴⁾	-	-	-	815	8,383	7,604
United Kingdom	26,693	20,671	29,699	4,885	5,778	5,844
Other foreign countries	28,754	23,401	33,650	16,819	17,441	15,919
Worldwide consolidated	\$ 189,441	149,341	240,842	114,789	124,340	116,426

⁽¹⁾Sales and other operating revenues are attributable to countries based on the location of the operations generating the revenues.

⁽²⁾Defined as net properties, plants and equipment plus investments in and advances to affiliated companies.

⁽³⁾Includes amounts related to the joint petroleum development area with shared ownership held by Australia and Timor-Leste.

⁽⁴⁾2009 and 2008 recast to reflect a change in accounting principle. See Note 2—Changes in Accounting Principles, for more information.

CONOCOPHILLIPS AND CONSOLIDATED SUBSIDIARIES
TOTAL ENTERPRISE Computation of Ratio of Earnings to Fixed Charges

	Millions of Dollars				
	Years Ended December 31				
	2010	2009**	2008**	2007**	2006**
Earnings Available for Fixed Charges					
Income from continuing operations before income taxes and noncontrolling interests that have not incurred fixed charges	\$19,696	9,507	(2,902)	22,871	28,147
Distributions less than equity in earnings of affiliates	(1,073)	(1,254)	5,127	(1,400)	(738)
Fixed charges, excluding capitalized interest*	1,573	1,700	1,288	1,680	1,410
	<u>\$20,196</u>	<u>9,953</u>	<u>3,513</u>	<u>23,151</u>	<u>28,819</u>
Fixed Charges					
Interest and expense on indebtedness, excluding capitalized interest	\$ 1,187	1,289	935	1,253	1,087
Capitalized interest	471	487	568	565	458
Interest portion of rental expense	185	205	207	171	232
Interest expense relating to guaranteed debt of affiliates	-	-	3	19	-
	<u>\$ 1,843</u>	<u>1,981</u>	<u>1,713</u>	<u>2,008</u>	<u>1,777</u>
Ratio of Earnings to Fixed Charges	11.0	5.0	2.1	11.5	16.2

Standard and Poors Debt Rating:

ConocoPhillips

Issuer Credit Rating

	Ratings	Rating Date	Regulatory Identifiers	Last Credit Rating Action/
Foreign Long Term	A	10-Oct-2007	--	10-Oct-2007 Outlook Stable
Foreign Short Term	A-1	10-Oct-2007	--	
Local Long Term	A	10-Oct-2007	--	10-Oct-2007 Outlook Stable
Local Short Term	A-1	10-Oct-2007	--	

December 7, 2010 (64.37) ® Review of Value Line 12/10/10

1. P/E ratio 10.91 (64.37 / 5.90). Earnings were reduced by \$0.60 since June report, and \$0.25 since 9/10 report... 2013 – 2014 Target price ~90 -100 (This is also reduced from prior report.)
2. Financial Strength 'A++'
3. Dividend Yield 3.34% (2.15/64.37)
4. Thinks the company will continue to produce solid gains in 2011. Expects earnings of \$6.70 (down from \$7.10 in last report), dividends of \$2.20, Cash flow of \$13.20 (down from \$13.55 in last report) and Capex of \$7.50(down from \$9.25 in last report).
5. Thinks capex program will be accretive to future results.
6. Likes this issue for long term appreciation and income-oriented investors.

October 25, 2010 (61.90) J

COP is scheduled to report 3rd qtr results on 10/27/10 so I will delay a detailed review until after release of the results and 10-Q.

I did update the intrinsic value and valuation analysis. The results and assumptions are noted below:

Intrinsic value

30 yr bond rate	6%	5.25%
Growth rate	6%	5%
2010 est eps	\$6.25	\$6.25
2011 est eps	\$7.10	\$7.10
Current Intrinsic value	\$93.96	\$96.90

Valuation analysis

2010 eps est	\$6.12	\$6.12	\$6.12
10 yr growth	3.5%	5%	7%
11-15 yr growth	3.5%	5%	5%
Tangible book multiple	3	3	3
10 yr ROI using tangible book mult	17.83%	19.06%	20.72%
15 yr ROI using tangible book mult	14.85%	16.20%	17.37%
15yr ROI if PE=15	4.9%	6.42%	7.77%
15 yr ROI Meyer rule of thumb	8%	9%	11%

Some quick notes on the assumptions:

Value Line projects a 6% eps growth rate and the Reuters consensus estimated LT growth rate is 14.5%. The current yield on COP's long term bonds is around 5%.

COP announced a share repurchase program in March 2010 and during the 2nd quarter said that is had repurchased 6.9M shares at an average cost of \$56.60 and there was \$4.6B remaining in the program as of June 30, 2010.

Credit Suisse (10/20/10; price \$61.26) rates as outperform and raised price target from \$66 to \$69. They think the estimated NAV is \$80 and COP is trading at a 25% discount to its NAV, while "big oil" is trading at a 15% discount. Large buyback and 4% dividend are shareholder friendly. They project eps of \$5.82, \$5.38 and \$6.98 in 2010, 2011 and 2012, respectively.

September 8, 2010 (54.49) ® Review of Value Line 9/10/10

7. P/E ratio 8.72 (54.49 / 6.25). Earnings were reduced by \$0.25 since last report. There was no mention of earnings reduction from prior report.
8. 2013 – 2014 Target price ~90 -100 (This is also reduced from prior report.)
9. Financial Strength 'A++'
10. Dividend Yield 3.95% (2.15/54.49)
11. Thinks the company will continue to produce solid gains in 2011. Expects earnings of \$7.10, dividends of \$2.20, Cash flow of \$13.55 and Capex of \$9.25. Earnings and Cash flow

were decreased slightly from last report, whereas Capex and dividend projection has been increased.

12. Reduced long term debt by \$2.7B during 2Q10.
13. Company allocated \$11 - \$12B to its 2010 capital budget.

July 30, 2010 (55.17) J

Credit Suisse report; Price \$56.01; Rated as outperform with a price target of \$68. Sale of Lukoil interest represents further strategic progress. It will cause lower eps estimates but they call Lukoil's earnings an optical illusion as they did not represent cash. The sales should leave enough cash for \$5B buyback and leave \$10B-\$14B for investment or share repurchases). COP looks undervalued based on NAV and trade at 14% discount of XOM on EV/CF in 2011. Need a strong economic recovery to boost refining margins and gas prices.

July 28, 2010 (54.56) J

COP reported 2Q earnings today. Adjusted earnings were \$2.5B (the adjusted earnings exclude \$1.1B in impairments and \$2.9B in gains on sales of assets). Total earnings for the were \$4.164B. Adjusted earnings YTD 6/30/10 were \$4.715B vs. \$1.694B last year.

(\$000,000)	2Q 2010	YTD 6/30/10	2Q 2009	YTD 6/30/09
Total revenues	\$50,127	\$90,507	\$36,186	\$67,424
Total earnings	\$4,164	\$6,262	\$859	\$1,659
Adjusted earnings	\$2,507	\$4,715	\$982	\$1,694
Total EPS	\$2.77	\$4.17	\$0.57	\$1.11
Adjusted EPS	\$1.67	\$3.14	\$0.66	\$1.13

COP also announced that it is going to sell its entire stake in Lukoil. It said that the proceeds would be used to reduce debt. COP will sell 64.6M shares directly to Lukoil for \$3.44B. COP also owns 98.7M depository receipts that it will sell either to Lukoil or on the open market by the end of 2011. Lukoil has the option to purchase the DR until 9/26/10 for \$56/DR.

The Lukoil divestiture is in-line with previous management announcements that it was looking to be a smaller company. The CEO noted that the original investment in Lukoil was intended to lead to projects within Russia but that had not occurred and there wasn't a compelling reason to hold the investment since COP only received cash when Lukoil paid a dividend. It looks like the investment in LUKOIL was about \$7B and they are selling for around \$9B.

Divisional breakdown:

(\$M)	2Q 2010	2Q 2009	Change
Adjusted earnings by division			
Exploration & Production (E&P)	1,517	776	95.49%
Midstream	61	31	96.77%

Refining & Marketing	736	20	3580.00%
LUKOIL	430	243	76.95%
Chemicals	138	67	105.97%
Emerging Businesses	-10	2	-600.00%
Other & Corp	-365	-157	-132.48%
	2,507	982	155.30%
	YTD June 30		
Adjusted earnings by division	2010	2009	Change
Exploration & Production (E&P)	3,432	1,476	132.52%
Midstream	138	66	109.09%
Refining & Marketing	757	225	236.44%
LUKOIL	817	251	225.50%
Chemicals	248	90	175.56%
Emerging Businesses	-4	2	-300.00%
Other & Corp	-673	-416	-61.78%
	4,715	1,694	178.34%

	YTD June 30	
	2010	2009
% of total		
Exploration & Production (E&P)	72.79%	87.13%
Midstream	2.93%	3.90%
Refining & Marketing	16.06%	13.28%
LUKOIL	17.33%	14.82%
Chemicals	5.26%	5.31%
	-	-
Emerging Businesses	0.08%	0.12%
	-	-
Other & Corp	14.27%	24.56%

We do not have a balance sheet yet so I cannot compute book value and the Q may have revenue detail so that we can see profit margins for each division.

Based on the earnings and the sale of assets, I don't see anything that would cause me to change my opinion of the holding at this time. We should continue to hold. I Did not come across other analyst reports on the earnings – perhaps they are waiting for the Q as well.

June 10, 2010 (52.70) ® Review of Value Line 6/11/10

14. P/E ratio 8.1 (52.70 / 6.50)
15. 2013 – 2014 Target price ~102- 122
16. Financial Strength 'A++'
17. Dividend Yield 4.1% (2.15/52.7)

18. 10% ownership of LUKOIL. (reduced from 20%)
19. Claims company got a good price on their Syncrude assets.
20. Began a \$5B share repurchase program, and may try to improve balance sheet by paying down debt.
21. Company allocated \$11.2B to its 2010 capital budget.

5/19/10 ConocoPhillips (COP) 54.33 J

Current year eps estimate of 6.20, PE 8.8; and next year eps estimate of 7.45, PE of 7.2. The annual dividend is 2.10 (3.9%). I think eps estimates are probably high as oil price has dropped over 15% in the past month.

March 22, 2010 (51.97) ® Review of Value Line 3/12/10

22. 20% ownership of LUKOIL.
23. Improving business trends.
24. Thinks they will pay down debt with free cash flow.
25. "High quality stock." "above-average dividend yield."
26. Financial Strength 'A++'
27. 2013 – 2014 Target price 100- 120.
28. P/E ratio 8.6 (49.71 / 5.85)
29. Dividend Yield 4.0%.

October 28, 2009 (49.63) (J)

Stock is down 2.5% today after third quarter earnings were reported this morning. 3Q earnings were \$1 per share (\$1.5B), a decrease of 71% vs. 3Q08. E&P (Exploration and Production) was up 5% ytd.

Average prices	3Q09	3Q08
Crude oil	\$66.22	\$118.90
Natural gas	\$2.99	\$8.64

They did not release a balance sheet with the earnings release. The 4th qtr earnings release will be a more realistic comparison to the prior year's qtr. If I estimate 4Q earnings of \$1.00, the PE is just under 15 – not unrealistic. I'd continue to hold at this point and would consider purchasing if price went down to \$45 or \$46.

October 2, 2009 (46.65) (J)

COP announced this morning that 3rd qtr earnings would be affected by continuing weakness in refining margins. Margins are lower than both 2Q09 and 3Q08. The company will also write-up the value of its investment in Lukoil by \$33M (investment was written down by \$7.4B in 4th qtr 2008) and the chemicals division results will be slightly improved versus 2Q09. Diluted shares outstanding during 3rd qtr were estimated to be 1,498M (vs 1,496M in 2Q).

January 29, 2009 (47.21) (J)

COP issued \$6B in debt today. Reading the prospectus, it appears that the proceeds will be used for the reduction of outstanding commercial paper and general corporate purposes. This doesn't appear to be concerning as it will eliminate need to roll over commercial paper.

From a note from Bloomberg's Ed Baldinger:

Conoco Phillips 6 bln launched

1.5 bln 5 yr +295

2.25 bln 10 yr +295

2.25 bln 30 yr +295

2.95% over treasuries is an excellent rate. (AT&T issuance today was 3% over treasuries and Goldman Sachs was 5% over)

Fitch rated the notes "A" and stable. Notes that financing is expected to enhance COP's liquidity by freeing up capacity in its revolver facility. Issuance will not increase current debt levels. If lower commodity prices persist, it could result in increased debt levels which might impact ratings.

January 21, 2009 (46.00) (J)

We purchased ~2.5% position at 50.50 last week. As we thought, COP issued an 8K saying they would write-down the value of their Lukoil investment by \$7.3B (we estimated write-down of \$6B). COP also wrote-down goodwill of \$25.4B. Both of these charges are non-cash.

January 9, 2009 (52.04) (J)

ConocoPhillips operates as an integrated energy company worldwide. It operates in six segments: Exploration and Production (E&P), Midstream, Refining and Marketing (R&M), LUKOIL Investment, Chemicals, and Emerging Businesses. E&P segment explores for, produces, and markets crude oil, natural gas, and natural gas liquids. It also mines deposits of oil sands in Canada to extract the bitumen and upgrade it into a synthetic crude oil. Midstream segment gathers, processes, and markets natural gas; and fractionates and markets natural gas liquids in the United States and Trinidad. R&M segment purchases, refines, markets, and transports crude oil and petroleum products, including gasoline, distillates, and aviation fuels primarily in the U.S., Europe, and Asia Pacific. LUKOIL Investment segment consists of 20% interest in OAO LUKOIL, an international integrated oil and gas company. Chemicals segment manufactures and markets petrochemicals and plastics. It offers olefins and polyolefins, such as ethylene, propylene, and other olefin products; aromatics products, such as benzene, styrene, paraxylene, cyclohexane, polystyrene, and styrene-butadiene copolymers; and various specialty chemical products comprising organosulfur chemicals, solvents, catalysts, drilling chemicals, mining chemicals, and engineering plastics and compounds. Emerging Businesses segment develops new technologies and businesses. It focuses on the power generation; development of carbon-to-liquids technology through coal and petroleum coke; and alternative energy and programs, such as advanced hydrocarbon processes, energy conversion technologies, new petroleum-based products, and renewable fuels. It also offers E-Gas, a gasification technology producing high-value synthetic gas. As of December 31, 2007, the company had 8.72 billion barrels of oil equivalent of proved reserves. ConocoPhillips was founded in 1917 and is based in Houston, Texas with additional offices in Belle Chasse and Westlake, Louisiana.

An attempt to forecast earnings for COP is difficult at best. Oil prices and the price of related products have been volatile. The price of a barrel of oil is around \$40 and in July was \$150. Is \$40 the right price? "Experts" say price should be \$60-\$80. In computing the intrinsic valuation schedule, I had reduced 2009 earnings by 33%. A Merrill Lynch report reduced COP's earnings by 56%.

The below table offers the intrinsic value calculations under various eps/growth scenarios.

Company Symbol Report Date Report Used Base Year	Conoco cop 12/10/2008 vl 2008	Conoco cop 12/10/2008 rb 2008	Conoco cop 1/9/2009 merrill lynch/vl 2008
Price	52.65	52.65	52.30
30 year Bond Rate (AAA)	10.00%	10.00%	10.00%
Growth Rate	5.00%	5.00%	5.00%
Earnings Per Share 2008	12.50	11.39	10.70
Projected EPS Year 2 2009	13.10	7.59	4.70
Projected EPS Year 3 2010	13.76	7.97	7.57
Projected EPS Year 4 2011	14.44	8.37	7.95
Projected EPS Year 5 2012	15.16	8.79	8.35
Intrinsic Value (current) 2008	101.75	92.71	87.10
Price / Intrinsic Value(current)	51.74%	56.79%	60.45%
Intrinsic Value Year 2 2009	106.63	61.78	38.26
Price / Intrinsic Value Year 2	49.37%	85.22%	137.62%
Intrinsic Value Year 3 2010	111.97	64.87	61.62
Intrinsic Value Year 4 2011	117.56	68.12	64.70
Intrinsic Value Year 5 2012	123.44	71.52	67.94

A quick comparison of how COP stacks up when using some Ben Graham guidelines:

Ratios to consider

Graham likes current ratio of at least 1.5 and debt less than 100% of current assets

		Graham guidelines	
		Aggressive	Defensive
Current ratio	0.959878	1.5	2
Current assets	28326		
Current liabilities	29510		
LT Debt : current assets	76.65%	< 110%	
Current assets	28326		
Long term debt	21713		< curr assets

Total debt :current assets	78.02%	< 110%	
Current assets	28326		
Long term debt	21713		< curr assets
Short term debt	387		
Dividends	3.53%	>0	>0; 20 years
Earnings growth - 5 years	58.64%	higher than 5 yrs earlier	33% greater than 10 yrs ago
Price/earnings	4.4		3 yr avg <15
Price/Tangible Book	1.26	<120% tangible book	1.5 or lower
P/E * P/Book	5.544		<25.5

Insiders have not been selling and have exercised options at prices above today's levels.

SEC Filing	Insider	Track Record	Trade Date	Transaction	Total	% Holdings	Return
10-Oct-08 4:35 PM View:	Mulva James J Chairman and CEO Director	--	09-Oct-08	Payment of Exercise (61,416 @ \$58.66)	\$3,602,969.70	9%	--
10-Oct-08 4:35 PM View:	Mulva James J Chairman and CEO Director	--	09-Oct-08	Option Exercise (99,830 @ \$23.14)	\$2,310,565.59	16%	--
23-Sep-08 11:35 AM View:	Cornelius Sigmund L Senior Vice President	--	22-Sep-08	Gift (250 @ \$0.00)	\$0.00	< 1%	--
11-Sep-08 10:28 AM View:	Harkin Ruth R Director	--	10-Sep-08	Option Exercise (3,650 @ \$24.59)	\$89,747.66	24%	--
11-Sep-08 10:28 AM View:	Harkin Ruth R Director	--	10-Sep-08	Payment of Exercise (1,272 @ \$70.65)	\$89,866.80	7%	--
19-Aug-08 11:57 AM View:	Cornelius Sigmund L Senior Vice President	--	18-Aug-08	Gift (50 @ \$0.00)	\$0.00	< 1%	--
21-Jul-08 2:25 PM	Cornelius Sigmund L	--	17-Jun-	Gift (355 @ \$0.00)	\$0.00	1%	--

View:	Senior Vice President		08				
12-Jun-08 4:11 PM	Carrig John A	--	11-Jun-08	Payment of Exercise (32,986 @ \$93.93)	\$3,098,374.99	12%	--
View:	EVP, Finance and CFO						
12-Jun-08 4:11 PM	Carrig John A	--	11-Jun-08	Option Exercise (60,000 @ \$27.38)	\$1,643,100.01	28%	--
View:	EVP, Finance and CFO						
12-Jun-08 3:58 PM	Mulva James J	--	12-Jun-08	Gift (23,494 @ \$90.76)	\$2,132,315.49	4%	--
View:	Chairman and CEO Director						
12-Jun-08 3:58 PM	Mulva James J	--	10-Jun-08	Option Exercise (49,170 @ \$23.14)	\$1,138,039.58	8%	--
View:	Chairman and CEO Director						
12-Jun-08 3:58 PM	Mulva James J	--	10-Jun-08	Payment of Exercise (25,676 @ \$93.26)	\$2,394,671.93	4%	--
View:	Chairman and CEO Director						

Berkshire increased holdings significantly in 3rd qtr and now is largest shareholder with a 5.6% ownership interest.

COP has a large investment in LUKOIL. At 9/30/08 the book value of investment was \$12,864M. The market value was \$10,003M. In Q, COP said impairment was temporary and did not take a charge. Since 9/30, LUKOIL's market value has fallen 60%. There is the potential for an impairment charge in the 4th qtr. ML also notes this issue in its report. The charge might be \$6B and that represents about 6.5% of common equity. This would give a book value of around \$52 per share. Not the end of the world but not an insignificant decrease either.

The company seems to be a prime candidate for purchase and would be a nice long term holding given its ~4% yield and a current PE of 4+. Even with a significant cut in eps as ML projects, the PE is 11.

ML is not very positive (rated as underperform) and notes few positive near-term catalysts and substantial headwinds from macro exposure vs. its peer group (Russia and US refining). They see value in the stock but it is too soon to become constructive on COP. On the financial front, ML notes that COP "has a history of living within its cash flows for capex and paying down debt post acquisition." Interestingly, ML doesn't see headwinds for Chevron, yet they have modeled a 60% decline in 2009 earnings for CVX.

S&P rates as a strong buy (11/21/08) and notes COP's diversified and strong business profile.

What should we do? Using the RBCo 2009 intrinsic value of \$62, and reduce by 20%-25% for some level of safety and we have a purchase price of somewhere between \$46-\$49. Given the volatility, it

will reach those levels. I don't think there is a need to chase anything and we should be patient and wait for the right price.

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