

December 12, 2011



*Analysts' Best Picks[®]
for 2012*

BB&T Corporation
(BBT:NYSE)

BMC Software, Inc.
(BMC:NASDAQ)

Brinker International
(EAT:NYSE)

Chevron Corp.
(CVX:NYSE)

Lincoln National Corp.
(LNC:NYSE)

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

**NVIDIA
Corporation**
(NVDA:NASDAQ)

Post Properties, Inc.
(PPS:NYSE)

**Stanley
Black & Decker**
(SWK:NYSE)

**Superior Energy
Services, Inc.**
(SPN:NYSE)

tw telecom inc.
(TWTC:NASDAQ)

**VeriFone
Systems, Inc.**
(PAY:NYSE)

**Whiting
Petroleum Corp.**
(WLL:NYSE)

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Dear Investors,

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

The purpose of the annual *Analysts' Best Picks*® list is to identify and select stocks likely to produce above-average price appreciation over the next 54 weeks. The long-term record has been excellent with fourteen of the last complete fifteen years outperforming the S&P 500. During the last ten years (2002-2011), the *Analysts' Best Picks*® lists produced an average total return of 17.5% versus an average total return of only 6.2% for the S&P 500.

Finding stocks able to outperform proved unusually difficult for last year's list with the ABP11 performance below the S&P 500 at -1.23% versus 3.19% on a total return basis as of December 8, 2011. What accounted for this year's lackluster performance? Two of the thirteen ABP11 selections badly underperformed with Bank of America (BAC/\$5.59/Strong Buy) down 51.8% and Lincoln National Corporation (LNC/\$19.64/Strong Buy) down 21.0% on a total return basis as of the close of December 8. On the other hand, five of the thirteen stocks (38.5%) have outperformed the S&P 500 through the close of December 8. The best performer from the ABP11 list was Panera Bread Company (up ~33%; PNRA/\$138.46/Outperform). Two stocks increased by 15% or more [Digital Realty (DLR/\$64.35/Strong Buy) +24.4% and Equinix (EQIX/\$100.91/Strong Buy) +23.8%]. We have updated our sixteen-year performance table on the next page with the inclusion of the year-to-date ABP11 results through December 8.

As in all ABP selections, the analyst's judgment about the company's fundamentals, its growth prospects, and the risks associated with the stock's anticipated appreciation are based largely on their knowledge of the industry and the company. Clearly, company management's ability to execute and deliver on growth expectations during a period of slow economic expansion is also a critical factor.

Equity markets around the world have been extremely volatile over the last year with U.S. equity markets as measured by the S&P 500 declining by 1.85% year-to-date and increasing 1.05% (on a price appreciation only basis) since the pricing of the ABP11 list on 12/2/10. The encouraging elements during a year of great market turbulence are that corporate earnings and cash flows have grown impressively for most companies, while the financial strength and liquidity of most companies continue to improve through cash flow retention, new equity financing, and long-term debt reductions. In addition, interest rates and inflation remain well-contained. The negative issues that remain for 2012 are stubbornly high U.S. unemployment and expected weak GDP growth. Investors have also been frustrated by a U.S. government that is deeply divided between Democrats who want to deal more aggressively with new incentive programs in order to stimulate economic growth and jobs creation, and Republicans and other fiscal conservatives who want sharp reductions in federal spending and a significant slowing of growth in our massive \$15.0 trillion national debt in the years ahead. Gridlock in Congress has produced frustratingly little progress which does not enhance investor confidence or that of business leaders. Problems in Europe with growing budget deficits and difficulties with managing sovereign debt payments in Greece, Italy, Portugal, Spain, and Ireland continue to be an ongoing melodrama as efforts to regain fiscal responsibility in these heavily debt-laden countries continues. Alarming news from Europe about the severity of these issues, particularly Greece and more recently Italy, has certainly added to major market swings in worldwide equity markets over the last year. These issues are likely to continue to be a negative cloud over financial markets in the year ahead.

Once again our analysts have been challenged to find the best stocks to own in 2012 from among the approximately 900 companies we actively follow. A brief discussion of the selections comprising the *Analysts' Best Picks*® for 2012 is presented on pages 7-19 of this publication. All of these selections currently carry a Strong Buy rating. These selections will remain on the list until December 31, 2012, unless the company is acquired and no longer trades publicly.

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



David A. Henwood, CFA
Chief Investment Officer

Best Picks Performance Record

Year	Best Picks List ^a	S&P 500 ^h	Excess Return ^f	Best Picks CY Basis ^c
1996 ^b	37.2%	22.6%	14.7%	33.2%
1997	53.5	37.1	16.4	44.8
1998	38.9	30.8	8.2	32.9
1999	143.9	25.4	118.6	93.0
2000	46.9	-4.8	51.7	31.8
2001	11.6	-15.0	26.6	3.9
2002	-0.6	-22.7	22.2	-5.2
2003	37.2	24.3	12.9	36.4
2004	27.7	14.9	12.9	19.7
2005	17.2	7.1	10.1	10.4
2006	5.9	14.9	-9.0	1.9
2007	30.5	6.2	24.2	30.7
2008	-35.0	-38.6	3.5	-34.3
2009	62.5	35.4	27.1	38.2
2010	31.2	16.8	14.4	25.7
2011 ^d	-1.2	3.2	-4.4	-5.2
5 Yr. Avg. ^e	17.6	4.6	13.0	11.0
10 Yr. Avg. ^g	17.5	6.2	11.3	11.8

a. On a total return basis with performances averaged as if an equal dollar allocation was made to each stock at the beginning of the period and held until 12/31 of the following year.

b. This was the first year performance of the *Analysts' Best Picks*[®] list.

c. Total return performance for the calendar years indicated.

d. Picks 2011 and 2011's S&P 500 represent total return performance through the close of 12/8/11.

e. Years 2007, 2008, 2009, 2010, and 2011 with total returns averaged.

f. Annual average Best Picks total return performance minus the comparable S&P 500 performance. Figures may not total due to rounding.

g. Years 2002 through 2011 with total returns averaged.

h. S&P 500 on a total return basis for comparable ABP lists' time periods.

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

Since 1996 a total of 184 stocks have been recommended through the *Analysts' Best Picks*[®] list. Of this total, 125 advanced (67.9%) and 59 declined (32.1%) within the recommended holding period. The holding period for each year's list is approximately 55 weeks from the inception date to 12/31 of the following year.

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

Economic Outlook for 2012

The Economy in 2012 – A “Conditional” Outlook

Students of forecasting know that every projection is composed of a point estimate (such as 2012 GDP growth will be 2.8%) and a range of uncertainty around that forecast ($\pm 2.0\%$). In economic forecasting, the range of uncertainty is often embarrassingly large; therefore, it is usually not discussed. This year, that level of uncertainty is exceptionally high and the outlook is as clouded as ever. In addition, the base-case outlook depends significantly on a couple of key items.

The basic elements of the economy appear to be consistent with more of the same in 2012 – a moderate pace of growth, but not enough to make up much of the ground lost in the labor market during the recession. The U.S. economy continues to face a number of headwinds thereby limiting the pace of growth, but there is enough positive momentum to carry us forward (that is, a recession appears unlikely). However, fiscal policy is a significant near-term uncertainty and Europe remains a major question mark.

Payroll taxes were lowered in 2011, leaving workers with more take-home pay. However, gasoline prices, near \$3 per gallon at the start of the year, rose to more than \$4 per gallon in early May offsetting nearly all the positive benefit of the payroll tax cut. Spending slumped in the spring and early summer, but picked up again as gasoline prices moved lower. Currently, payroll taxes are set to go back up in 2012; however, there is likely to be a significant legislative push to extend the payroll tax cut. It is, after all, an election year. My forecast assumes an extension, but the consumer spending outlook would be noticeably weaker if Congress does not act.

Unemployment insurance benefits were extended a year ago. Individuals are still limited to 99 weeks of benefits, but the extension helped many of the unemployed to pay bills. Unemployment insurance benefits tend to discourage people from taking jobs, but this impact is relatively small. As stimulus, extended unemployment insurance benefits provide a good bang for the buck. That is, the money gets spent and plowed back into the economy. However, most of that is prevention. Growth would be weaker without the extension. Currently, the extension of unemployment insurance benefits is set to expire, but there is a good chance that we will get another one.

The situation in Europe is more precarious. We are now nearly two years into the European debt crisis and a clear resolution is nowhere in sight. The risks are huge. One or more countries may end up leaving the euro or we could see a complete collapse. The eurozone economy appeared to be near a recession in late 2011. Credit has been tightening. Manufacturing activity has slumped.

To date, the policy prescriptions have not helped. European governments have tightened budgets, which weakens the pace of recovery. Budget deficits and generous social programs were not the root cause of Europe's problems. On entry into the euro, many countries enjoyed suddenly-lower borrowing costs. Capital flowed in. Private and public borrowing increased. As with most global financial problems, the trouble begins when a country borrows in currencies that they do not have any control over. Borrowing costs for the troubled eurozone economies have risen, but troubled countries outside the eurozone, such as the United Kingdom, have low long-term interest rates. If any of these troubled countries had their own currency, then they could devalue, take their lumps, and move on – but wedded to the euro, they cannot do that. The problem is a lack of growth and there is no visible path out of the mess.

Not having a broad fiscal authority is just one of the problems inherent in the construction of the eurozone. Another is the absence of a lender of last resort. The European Central Bank (ECB) has refused that role. If investors begin to doubt the stability of a particular country, for example Italy, they will take capital out of the country, adding to borrowing costs, which adds to financial strains, thereby creating even more incentive to pull capital out. Like a run on a bank, this is a run on a country. A crisis becomes a self-fulfilling expectation. The ECB must take on a bigger role, and probably will, but only after other alternatives are exhausted – and hopefully, before it is too late.

A European meltdown would have a significant effect on the U.S. economy, partly due to a loss of exports, but more importantly, through financial market strains. U.S. bank exposure to European sovereign debt may be limited, but the big banks here have significant relationships with the big banks in Europe. Banks in Europe are raising capital. Many of them do business in the U.S., which means tighter credit here as they bring capital home. U.S. banks could step in to fill that gap. In late November, the Federal Reserve and other central banks moved to increase dollar liquidity thereby greasing the wheels ahead of potential financial strains. The increase in liquidity should reduce counterparty risks and limit the kind of financial strains that were seen three years ago.

This being an election year, not much is expected out of Congress. In the 1990s, gridlock was good. By the end of the decade, we ended up with a budget surplus. However, in the current environment, things have to get done – and gridlock is not going to help. The Bush tax cuts are set to expire at the end of 2012. Following the failure of the super committee on the budget, spending cuts are set to begin in 2013. Another showdown over the debt ceiling is expected after the November election. Yet, currently the government is not having much trouble borrowing.

It is not all bad news. In fact, if not for the uncertainties in fiscal policy and in Europe, the economic outlook would be considered pretty good right now. Corporate profits are up, helping to fuel business fixed investment. Job destruction remains low and new hiring has picked up. While net job growth is unlikely to be spectacular in 2012, it should be enough to drive improvement in consumer spending growth. Replacement needs should contribute to further growth in auto sales. Borrowing costs are low. Bank credit to consumers and businesses is expected to get easier over time. The housing sector is likely to remain depressed, but less so. The contraction in state and local government should fade. Federal Reserve policy is expected to remain accommodative.

In short, it is a promising, but uncertain outlook. The recovery remains somewhat fragile, but appears to have built up a fair degree of forward momentum. For investors, constantly changing expectations of the strength of the economy and potential risks should mean a continued high level of market volatility.

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

Scott Brown, Ph.D.
Senior Economist

Analysts' Best Picks® for 2012 Statistical Overview

Company Name	Sym.	RJ&A Rank	SR	12/08/2011 Close	12 Mo. Trail. Price Range		Proj. 12-Mo. Price Target	Current Year P/E	2010A	2011E	2012E	Div. Yld.	BV/ Shr.	FY	Mkt. Cap. (Mil)	
					High	Low										
S&P 500	#	SPX	NA	NA	1234.35	1370.58	1074.77	NA	12.7x	83.77	97.45	107.68	2.1%	NA	Dec	NA
BB&T Corporation (hs,hs^,ng,o)	BBT	1	TR	23.06	29.60	18.92	30.00	12.7x	1.16	1.82	2.50	2.8%	25.74	Dec	15,660	
BMC Software, Inc. (m,ng,o)	BMC	1	G	34.20	56.55	32.91	49.00	11.4x	2.66	2.99A	3.24	0.0%	8.93	Mar	5,821	
Brinker International (hs,ng,o)	EAT	1	G	23.74	26.80	19.50	28.00	15.6x	1.18	1.52A	1.85	2.7%	4.53	Jun	1,985	
Chevron Corp. (ng,o,s)	CVX	1	TR	102.25	110.01	86.24	125.00	7.3x	9.28	13.96	11.57	3.2%	60.49	Dec	204,367	
Lincoln National Corp. (h,hn,ng,o)	LNC	1	AG	19.64	32.68	13.75	27.00	4.8x	3.13	4.12	3.65	1.6%	49.43	Dec	5,986	
Nuance Communications, Inc. (m,ng,o)	NUAN	1	AG	23.77	26.97	15.56	30.00	17.5x	1.19	1.36A	1.59	0.0%	7.81	Sep	7,511	
NVIDIA Corporation (g,m,o)	NVDA	1	AG	14.69	26.17	11.47	28.00	35.0x	(0.15)	0.42A	1.02	0.0%	6.48	Jan	9,014	
Post Properties, Inc. (o,x,z)	PPS	1	TR	39.82	44.37	32.18	49.00	20.9x	1.50	1.91	2.00	2.2%	18.61	Dec	2,071	
Stanley Black & Decker (ng,o)	SWK	1	TR	63.98	78.19	47.07	85.00	12.4x	3.88	5.15	5.98	2.6%	41.67	Dec	10,806	
Superior Energy Services, Inc. (g,o)	SPN	1	AG	28.59	42.87	22.19	47.00	13.9x	1.55	2.05	3.10	0.0%	17.97	Dec	2,284	
tw telecom inc. (hn,m,ng,o)	TWTC	1	AG	18.19	22.87	15.42	25.00	46.6x	0.41	0.39	0.61	0.0%	6.64	Dec	2,718	
VeriFone Systems, Inc. (ng,o)	PAY	1	AG	41.62	58.88	30.25	53.00	22.1x	1.31	1.88	2.40	0.0%	4.63	Oct	4,383	
Whiting Petroleum Corp. (hn,hs,ng,o)	WLL	1	AG	46.73	75.91	28.87	70.00	12.1x	2.72	3.86	4.23	0.0%	25.18	Dec	5,486	

g - EPS is GAAP EPS.

h - Raymond James & Associates managed/co-managed a public/follow-on offering of these shares or has provided investment banking services within the past 12 months.

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

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

hs^ - Howe Barnes Hoefer & Arnett, Inc. (a wholly owned subsidiary of Raymond James Financial) received non-investment banking securities-related compensation from these stocks within the past 12 months.

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

ng - EPS is Non-GAAP EPS.

o - Security is optionable.

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

x - EPS is Funds From Operations (FFO).

z - Book value represents the depreciated value of real estate. Real Estate values increase with inflation, widening the gap between real value and book value over time. Thus, we regard stated book value as not meaningful.

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

12-Month Target Price..... **\$30.00**
 Current Price (12/08/2011)..... **\$23.06**
 Suitability..... **Total Return**

Hist. 12-month Price Range\$29.60-\$18.92
 Dividend/Yield\$0.64/2.8%
 Market Capitalization (mil.) \$15,660
 Shares Outstanding (mil.) 679.1
 Book Value (09/11)\$25.74
 ROE (TTM)..... 5%

FY (Dec)	2010A	2011E	2012E
EPS	\$1.16	\$1.82	\$2.50
P/E	19.9x	12.7x	9.2x
Revenue (mil.)	\$9,412	\$8,539	\$8,749

Non-GAAP EPS are operating earnings.

BB&T Corporation, headquartered in Winston-Salem, North Carolina, is a bank holding company with approximately \$168 billion in assets. The company operates approximately 1,800 banking offices in 12 states and Washington, D.C., along with various non-bank subsidiaries.

A Bank Stock for the Times

While the U.S. banking sector remains plagued by economic uncertainty, increasing regulatory burdens, and European debt/banking issues, we believe BB&T's lower risk profile, diverse business mix, and capital strength provide for an attractive investment opportunity at a reasonable valuation. In sum, we believe BBT is a bank stock for the times as continued progress in many fundamental areas will drive superior operating results and profitability relative to peers which in turn will benefit shares.

Fundamentally, we anticipate continued improvement in asset quality, solid loan growth, positive operating leverage, and capital repatriation via dividend increases. In addition, we note it has minimal exposure to European banks, no sovereign debt exposure, and is not hampered by mortgage issues affecting several of its peers. In light of these factors, coupled with less net interest margin risk, a solid fee income base, and opportunities to improve expenses (particularly as credit costs wane), we have greater confidence in our earnings estimates relative to many other banks in our coverage universe.



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Credit improvement expected to continue. In light of efforts to de-risk the balance sheet and diversify its loan portfolio over the past few years, improvement in asset quality metrics has been broad-based in recent periods and is expected to continue in 2012. Management has recently taken a more aggressive stance to resolve problem credits and reduce foreclosed property, which in turn should drive lower other real estate (ORE) and credit-related expenses in 2012 and beyond.

Market share gains and specialty business to fuel loan growth. Going into 4Q11, management noted its loan pipeline “remains robust” and recently stated that it expects to be at the high end of its guidance range of 4-6% average annualized loan growth in the quarter. As we peer into 2012, we expect continued growth in commercial & industrial and several specialized lending categories, coupled with improving market share, to fuel overall loan growth in excess of many peers and the industry.

Net interest margin (NIM) should hold up better than most. BB&T's NIM fell 6 bp to 4.09% in 3Q11, it expects a low 4.00% level in 4Q11, and guided to 3.85-3.95% for 2012. Its long-term outlook calls for NIM in a range of 3.70-3.80%. Accretion from the Colonial acquisition, further improvement in its funding mix, and solid loan growth should provide better-than-peer downside NIM protection and should translate into modest net interest income growth in 2012.

Capital strength is a key variable. With a Tier 1 common ratio of 9.8% (8.8% under Basel III) and solid underlying earnings power, BB&T is well-positioned for this year's regulatory stress test and we forecast it will raise its dividend when results are announced in March 2012. At 2.8%, it also has among the highest dividend yield of the stress-tested banks.

Anticipate solid profitability. With NIMs under pressure and fees impacted by regulatory reform, we project a 1.05% return on average tangible assets and a 15% return on average tangible common equity in 2012 which should exceed many peers.

Valuation. BBT shares currently trade at 9.2x our 2012 EPS estimate of \$2.50 (in line with peers) and at 7.7x our 2013 EPS estimate of \$2.98 (a modest 1.5% discount to peers). Our \$30 target price assumes BBT shares trade at 12x our 2012 EPS estimate, at the low end of its 15-year average of 12-13x. In addition, it translates to 10x our 2013 EPS estimate of \$2.98.

— Michael Rose

12-Month Target Price..... **\$49.00**
Current Price (12/08/2011)..... **\$34.20**
Suitability..... **Growth**

Hist. 12-month Price Range\$56.55-\$32.91
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.)\$5,821
 Shares Outstanding (mil.) 170.2
 Book Value (09/11)\$8.93
 ROE (TTM)..... 30%
 LT Debt (mil.)\$337/18%

FY (Mar)	2011A	2012E	2013E
EPS	\$2.99	\$3.24	\$3.50
P/E	11.4x	10.6x	9.8x
Revenue (mil.)	\$2,065	\$2,178	\$2,274

Non-GAAP excludes option expense and amortization of acquired intangibles.

BMC Software, Inc., based in Houston, Texas, is a leading global provider of enterprise management solutions that enable companies to automate their information technology and align it to the needs of the business. Delivering Business Service Management (BSM), BMC solutions span enterprise systems, applications, databases, and service management.

Top Cloud and Systems Management Vendor Working on Sales Force Restructuring

BMC is a solid systems management software play with potential upside from managing cloud environments. With over 70% of revenue from the balance sheet, we see BMC as a good defensive pick in the event of a worsening economic environment. BMC was one of the top relative performers in our group during the 2008-2009 recession.



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Solid Market Position

BMC is the #2 independent systems management vendor following CA Technologies (CA/\$20.98/Market Perform). While the smallest of the “Big Four” vendors [CA Technologies, BMC, IBM, and HP (HPQ/\$27.66/Outperform)], BMC has proven more nimble, focusing strategically on service management and automation which are key technologies for cloud management. BMC also has impressive technology partnerships with Cisco (CSCO/\$18.57/Outperform), salesforce.com (CRM/\$120.63/Outperform), and Accenture.

Macro Tailwind

BMC should benefit from increased enterprise investment in data center optimization and cloud management. Enterprises have virtualized their data centers and created “private clouds” that now need to be managed, and service providers are deploying “public clouds” with similar needs.

New Product Cycle

Cloud LifeCycle Manager (CLM) 2.0 was released last quarter. BMC signed over 80 deals in the last twelve months for CLM totaling an estimated \$90 million (four points of growth). BMC is competing well in the “cloud stack” market against VMware’s (VMW/\$95.04/Market Perform) vCloud Director, as well as products from the “Big Four.”

Solid Balance Sheet

BMC’s balance sheet is strong with total cash of \$1.6 billion, debt of \$0.3 billion, and net cash per share of \$6.91. Our FY12 free cash flow estimate of \$686 million implies a FCF yield of 14%.

Valuation Opportunity

BMC is off 38% from its 52-week high following two disappointing quarters as a result of sales force turnover and the slowing macro environment. Its FY12 P/E is 10.6x, just below BMC’s three-year trough valuation of 10.7x. We believe BMC has taken aggressive steps to address sales force compensation and quotas that should begin to “right the ship” in the next twelve months. Our \$49 target price is based on BMC’s three-year average P/E of 14x applied to our FY13 EPS estimate of \$3.50, thereby presenting a 43% upside opportunity.

— Michael Turits, Ph.D.

12-Month Target Price..... **\$28.00**
Current Price (12/08/2011)..... **\$23.74**
Suitability..... **Growth**

Hist. 12-month Price Range\$26.80-\$19.50
 Dividend/Yield\$0.64/2.7%
 Market Capitalization (mil.)\$1,985
 Shares Outstanding (mil.) 83.6
 Book Value (09/11)..... \$4.53
 ROE (TTM)..... 24%
 LT Debt (mil.)\$589/61%

FY (Jun)	2011A	2012E	2013E
EPS	\$1.52	\$1.85	\$2.05
P/E	15.6x	12.8x	11.6x
Revenue (mil.)	\$2,761	\$2,808	\$2,878

Non-GAAP EPS exclude one-time charges.

Brinker International, headquartered in Dallas, Texas, owns, operates, and franchises 1,500 restaurants, including a growing franchised international presence. The Chili's Grill & Bar concept provides the bulk of revenue and profit. The very successful Maggiano's Little Italy concept is an upscale, niche concept that operates more than 40 units.

Phase II of Chili's Transformation = Big Margin, Free Cash Flow Opportunity

Over the past few years, Brinker's management team has successfully streamlined its asset portfolio via divestitures in order to reduce debt and position the company to generate significant free cash flow (FCF) for shareholders. More recently the focus has turned toward improving the performance of the core Chili's concept (at least 80% of Brinker's profit). As detailed below, we expect Phase II of the Chili's business model transformation to accelerate the margin and operational improvements seen in 2011, which should result in significant increases in FCF (we expect to be used for meaningful annual dividend increases and continued share repurchases). EAT shares have been range-bound for most of 2011 despite management consistently meeting its goals from Phase I of the transformation (improved labor productivity). We expect similar success with Phase II initiatives (a significant kitchen technology upgrade and a major store remodel program). If we are correct, investor sentiment should improve, which could materially increase EAT's valuation metrics.



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Phase I was rolled out in late 2010/early 2011. It entailed a new customer service model and new food prep processes (drove 150 bp of EBIT margin improvement). Management has begun the rollout of Phase II, which entails the installation of more sophisticated kitchen equipment, Point-of-Sale and other technology upgrades, and a major store remodel package. In test, these changes generated 250 bp of EBIT margin improvement via better labor productivity, significantly faster cook times, lower food waste, and measurable traffic gains. The Phase II margin and EPS benefits should become more impactful through 2012 and into 2013.

We are also optimistic that the comp sales recovery at Chili's that began in the spring of 2011 should sustain, barring an outright recession. Factors that led to said turnaround should continue to gain traction, such as strong menu innovation, a solid and well-engineered value section to the menu (2-for-\$20 value meal platform), and initiatives to drive weekday lunch and happy hour traffic. We would also highlight that contrary to many investors' perception, Chili's has actually maintained the bulk of its market share during the difficult industry environment of the past few years and continues to generate the highest average unit volumes and sales per square foot among its publicly traded bar and grill peer group.

Said sales momentum, combined with the aforementioned margin initiatives, should support strong EBITDA, EPS, and FCF growth which should in turn support material increases in cash returned to shareholders over the next few years. Our current FY12 and FY13 FCF forecast of \$127 million and \$169 million, respectively, reflects temporary increases in capital expenditures related to the aforementioned Phase II kitchen equipment and remodel initiatives. As these investments are lapped, capital expenditures should normalize to \$75-100 million annually, which combined with the margin improvement discussed above should result in FCF north of \$200 million annually. Said FCF should provide ample cushion to support double-digit dividend increases for many years, while also supporting \$100+ million of ongoing share repurchases.

Our target price of \$28 equates to an EV/EBITDA multiple of 7.5x, toward the top end of the stock's five-year historical range of 5-8x, which we believe is justified given upside to our current expectations on the aforementioned Chili's restructuring.

— Bryan C. Elliott, CFA

12-Month Target Price..... **\$125.00**
Current Price (12/08/2011)..... **\$102.25**
Suitability..... **Total Return**

Hist. 12-month Price Range\$110.01-\$85.63
 Dividend/Yield\$3.24/3.2%
 Market Capitalization (mil.)\$204,367
 Shares Outstanding (mil.) 1,998.7
 Book Value (09/11)\$60.49
 LT Debt (mil.)\$9,629/7%

FY (Dec)	2010A	2011E	2012E
EPS	\$9.28	\$13.96	\$11.57
P/E	11.0x	7.3x	8.8x
Revenue (mil.)	\$204,928	\$250,587	\$213,466

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

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

Structurally the Best-Positioned of the Supermajors

We have long been constructive on Chevron for several key reasons. The first is an above-average oil focus, which should be seen within the context of our bifurcated current commodity outlook – bullish on oil (globally) and ultra-bearish on natural gas (in North America). At year-end 2010, pro forma the Atlas acquisition, only 5% of Chevron's proved reserves were comprised of natural gas in the U.S. and Canada. By contrast, oil was 62% and overseas gas (typically oil-linked) was 33%. On a related note, the bulk of Chevron's oil production is priced off Brent or similar benchmarks, which for the time being enjoy premium pricing vs. West Texas Intermediate (WTI).



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The second factor is Chevron's impressive drill-bit track record, with the highest (non-GAAP) organic resource replacement rate among peers. Over the 2002-2009 timeframe, Chevron achieved organic replacement of approximately 89%, 1.5x higher than the 59% average of the other supermajors. Chevron's upstream core competencies include sour (high-sulfur) oil and gas, heavy oil, and deepwater operations – the latter being key in the Gulf of Mexico's Lower Tertiary Trend as well as Brazil. Both exploration areas are, of course, operationally and politically sensitive. Gulf permitting remains difficult, and last month's oil spill near the Chevron-operated Frade field suggests that Chevron's operations in Brazil are likely to experience heightened regulatory scrutiny for a period of time. In addition to the Gulf of Mexico and Brazil, Liberia is emerging as a key "frontier" exploration play for Chevron. The company's ongoing exploration program is complemented by reserve bookings from long-term development projects. To give just one example: following the final investment decision (FID) for the Wheatstone liquefied natural gas (LNG) project offshore Australia, Chevron is set to begin booking proved reserves this year, which is one reason we expect GAAP reserve replacement to improve materially from 2010 levels.

Finally, while current production growth is minimal, the start-up of the Gorgon and Wheatstone LNG projects in 2014 and 2016, respectively, should accelerate growth toward 5% per year which is well ahead of most peers. Despite Chevron's currently high capital intensity as it spends heavily on the long-term LNG projects, the free cash flow yield remains robust. Specifically, we are projecting FCF of \$7 billion in 2012 (based on our current oil price forecast of \$92.50/Bbl WTI and \$100/Bbl Brent, along with the company's capital budget of \$30 million).

Combining these three factors with what we consider to be an attractive valuation – currently only 8.8x 2012E EPS of \$11.57, well below the stock's historical (2000-2011) mean of 11.5x – makes Chevron, in our view, an ideal core holding for energy investors. Our \$125.00 target price is based on approximately 11x our 2012 EPS estimate of \$11.57, a slight discount to the mean 2000-2011 P/E. Inclusive of the current 3.2% dividend yield, our target price implies total return potential of 25%.

— Pavel Molchanov

Lincoln National Corp.

(LNC:NYSE)

12-Month Target Price..... **\$27.00**
Current Price (12/08/2011)..... **\$19.64**
Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$32.68-\$13.75
 Dividend/Yield\$0.32/1.6%
 Market Capitalization (mil.)\$5,986
 Shares Outstanding (mil.) 304.8
 Book Value (09/11) \$49.43
 ROE (TTM)..... 8%
 LT Debt (mil.)\$5,348/30%

FY (Dec)	2010A	2011E	2012E
EPS	\$3.13	\$4.12	\$3.65
P/E	6.3x	4.8x	5.4x
Revenue (mil.)	\$10,550	\$11,043	\$11,358

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

Lincoln National Corp. is a leading provider of life insurance, savings, retirement, and supplemental health insurance products to retail and institutional customers throughout the United States, as well as a provider of radio and television sports programming on a more regional basis. The company, which was founded in 1905, has executive headquarters in Philadelphia, Pennsylvania.

Remains Undervalued as Fundamentals Improve

Reflecting current valuation levels following a multiple month sell-off in shares of life insurers and strong operating fundamentals, we believe that Lincoln National Corp. has the potential for substantial share price appreciation. Lincoln continues to perform as a top-ten player in various life insurance product arenas and remains well-suited to continue to benefit from the demand for the investment and insurance guarantees provided by the life insurance industry.

We believe that concern regarding Lincoln’s sensitivity to the lower interest rate environment is overdone, with the annual earnings drag from low interest rates limited to just a few percent over the next two years. Even in a worst-case scenario, in which rates remain at current levels for the next ten years, it would only result in a balance sheet “hit” of roughly \$500 million to statutory reserves.



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At the current time, the company continues to sit on substantial excess capital which is available to increase the dividend, make acquisitions, or repurchase shares. As of September 30, 2011, the company still held \$770 million of liquidity at the holding company level. The actual risk-based capital ratio at the end of September remained in the 500% range, consistent over the last three quarters.

The company repurchased \$150 million of common stock during the third quarter for a year-to-date total of \$400 million. Lincoln has indicated plans to continue buybacks over the remainder of 2011 and into 2012.

Our target price of \$27 assumes that LNC shares can sell at a P/E multiple of 8.0x our 2012 EPS estimate of \$3.65 less roughly \$1.70 per share of after-tax investment losses. This multiple is a 34% discount to the then current S&P 500 multiple of 12.1x 2012E EPS (according to Thomson Reuters). Our relative P/E (66%) is based on the average historical relative multiple for LNC shares during the period January 1, 2003 through June 30, 2007 (a timeframe during which we believe valuation tendencies were normalized).

— Steven D. Schwartz, CFA

12-Month Target Price..... **\$30.00**
Current Price (12/08/2011)..... **\$23.77**
Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$26.97-\$15.56
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.)\$7,511
 Shares Outstanding (mil.) 316.0
 Book Value (09/11)\$7.81
 ROE (TTM)..... 21%
 LT Debt (mil.)\$853/25%

FY (Sep)	2011A	2012E	2013E
EPS	\$1.36	\$1.59	\$1.70
P/E	17.5x	14.9x	14.0x
Revenue (mil.)	\$1,394	\$1,685	\$1,916

Non-GAAP EPS excludes one-time items.

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

Unprecedented Business Momentum Should Drive a Strong FY12

Nuance has built a dominant and defensible position as the leader in speech recognition and natural language understanding (NLU) technology. On the heels of the successful iPhone 4S deployment, speech recognition is starting to become mainstream. In fact, we believe the company is seeing an unprecedented level of interest in its voice and language solutions for large-scale deployments across mobile, enterprise, and healthcare. The strong business momentum combined with what we view as conservative FY12 guidance should allow for upward estimate revisions throughout the year. In addition, Nuance has substantial diversity to its revenue streams and a large base of SaaS revenue, both of which provide the company with high levels of visibility. In 2012, mobile, imaging, and healthcare should be the primary drivers followed by a gradual improvement in enterprise licensing revenue.



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Mobile: We believe Nuance is seeing the strongest momentum in mobile and expect this segment to grow the fastest in 2012. The successful iPhone 4S deployment has created substantial interest in Nuance’s technology, not only in its traditional handset and auto markets but also in newer emerging areas (such as the living room). Mobile cloud speech services, particularly voicemail-to-text, are also seeing impressive uptake.

Healthcare: Healthcare is the largest segment by revenue and we expect this business to return to double-digit growth in FY12. The main product cycles are eScription (U.S. and Europe), Dragon Medical, and PowerScribe. In addition, we view the 3M and IBM partnerships as incremental growth opportunities.

Enterprise: Enterprise has finally reached a turning point after several tough years. We believe that newer applications (such as web self-service, next-generation mobile care, and voice biometrics) and improved on-demand trends should drive revenue and margin improvement in F2H12.

Imaging: Imaging (~13% of revenue) is a very profitable double-digit organic grower. A renewed focus and better-than-expected synergies from Equitrac are driving record momentum in the business.

Our \$30 target price is based on approximately 17x our FY13 non-GAAP EPS estimate of \$1.70, which is in line with the average forward multiple over the past five years. The main risks include execution (given acquisitive nature) and the macro climate.

— Shyam Patil, CFA

12-Month Target Price..... **\$28.00**
 Current Price (12/08/2011)..... **\$14.69**
 Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$26.17-\$11.47
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.)\$9,014
 Shares Outstanding (mil.) 613.6
 Book Value (10/11)\$6.48
 ROE (TTM)..... 18%
 LT Debt (mil.)\$0/0%

FY (Jan)	2011A	2012E	2013E
EPS	\$0.42	\$1.02	\$1.33
P/E	35.0x	14.4x	11.0x
Revenue (mil.)	\$3,543	\$4,111	\$4,700

NVIDIA Corporation, headquartered in Santa Clara, California, is a leading supplier of graphics processing units (GPUs), media and communications processors (MCP), handheld GPUs, and graphics technologies supporting game consoles and other digital consumer electronics devices, such as the PlayStation3 and Xbox.

Bear Case Overstated – Tegra Traction Driving Growth in FY13

We believe the bear case for NVIDIA is overstated as investors are discounting too many apparent headwinds for the company that we do not believe will materialize in FY13 (CY12). Therefore we believe that the stock will likely outperform as a true “show-me story” over the course of CY12, and the stock should see multiple expansion relative to existing levels at 11.5x our FY13 EPS estimate of \$1.33.



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Tegra – The Lead in Quad Core Should Drive Traction

Investors have been increasingly concerned about NVIDIA’s applications processor, Tegra, and its ability to compete given new dynamics in the tablet and smartphone market. Specifically, much has been said about the new Android operating system Ice Cream Sandwich (ICS), and how the “reference design” for Google’s (GOOG/\$616.05/Outperform) first ICS device included the TI OMAP apps processor. Therefore, Tegra 3 tablets will be using ICS by December 2011, indicating to us that the first advantage in ICS will be relatively short-lived and that share shifts based on ICS will be limited. Moreover, investors have also voiced bearish sentiment about NVIDIA’s lack of integration or that its applications processor does not yet have integrated baseband functionality such as that of Qualcomm. Note that integrated solutions are cost effective, and as such mostly target the lower end of the market. Intel (INTC/\$24.71/Market Perform) and NVIDIA tend to view baseband as a commodity, which is a view supported by Texas Instruments’ (TXN/\$29.92/Outperform) decision to abandon this market in the last few years. In essence, we believe Qualcomm will be successful in targeting the lower end of the market, but NVIDIA’s early lead at quad core will allow the company to have meaningful traction for Tegra in FY13.

GPU Attach Rates Not Declining

One of the more pervasive myths over the past decade regarding discrete GPUs relates to the attach rate of these products in PCs. Given that integrated graphics has grown to a near 1:1 relationship in mainstream and low-end computing, the thought process is that discrete GPUs are destined to become obsolete. **This is not the case.** Note that oftentimes GPUs are attached to processors with integrated graphics, which can lead to the issues of double attach rates, despite the fact that the integrated graphics functionality is replaced by the discrete GPU. In essence, these share losses are more a function of traction in Intel’s Sandy Bridge vs. previous processors without integrated graphics, but the true attach rate of GPUs to CPUs has been stable. Thus, investors bracing for a meaningful erosion in GPU attach rates are overly draconian, in our view.

Our \$28 target price is based on a 21x P/E multiple off of our FY13 GAAP EPS estimate of \$1.33. The multiple is a discount to the 10-year historical P/E average in the mid-20s, which we attribute to a soft consumer spending environment. We believe a 20x multiple is reasonable due to margin expansion, share gains, and new growth businesses (Tegra).

— Hans Mosesmann

Post Properties, Inc.

(PPS:NYSE)

12-Month Target Price..... **\$49.00**
Current Price (12/08/2011)..... **\$39.82**
Suitability..... **Total Return**

Hist. 12-month Price Range\$44.37-\$32.18
Dividend/Yield\$0.88/2.2%
Market Capitalization (mil.)\$2,071
Shares Outstanding (mil.)52.0
Book Value (09/11)\$18.61
Total Debt (mil.).....\$1,080/37%

FY (Dec)	2010A	2011E	2012E
EPS	\$1.50	\$1.91	\$2.00
P/E	26.5x	20.8x	19.9x
Revenue (mil.)	\$286	\$307	\$329

EPS is FFO/Share.

Post Properties, Inc., headquartered in Atlanta, Georgia, is a vertically-integrated REIT specializing in the development, management, and ownership of high-quality multifamily communities. The company's portfolio is located in multiple markets but concentrated in Atlanta, Dallas, Washington, D.C., Tampa, and Charlotte.

Attractive Multi-Year Earnings Growth Profile and Valuation

Poised to Outperform in 2012

Due to the ongoing challenges facing single-family housing and the U.S. mortgage market, we continue to believe the apartment REIT sector is poised for near-record earnings growth in 2012. As part of that favorable backdrop, we believe Post Properties' accelerating rent growth, low rent/income ratios, and attractive development pipeline present a compelling multi-year earnings growth profile at a valuation that remains quite attractive.



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Positioned to Benefit from Secular Tailwinds

Overall, we believe Post is well-positioned to benefit from several positive secular trends within the multifamily space, including: 1) a demographic surge of echo boomers reaching their peak rental ages; 2) a structural supply deficit formed by years of under-building in multifamily rentals and a very shallow development pipeline; and 3) the likelihood of prolonged weakness and a slow recovery in single-family housing due to tightening mortgage underwriting standards and higher down payment requirements. Post continues to have tremendous success pushing rents higher, with pricing power supported by a portfolio of well-located assets populated by higher-income households.

Strong Operating Results and Attractive Development Pipeline

In our view, Post's high mix of A-quality assets and exposure to households with rising incomes are allowing the company to push rents more aggressively than many peers. With rent-to-income ratios (approximately 17%) in many of its markets still below peak levels, we expect strong pricing momentum to continue into 2012 which could produce upside to current earnings estimates. Looking ahead, we also believe Post's development platform for 2012-2013 is not completely reflected in the current valuation of PPS shares. Given the steady acceleration in rent growth, we believe stabilized yields on projects currently underway are likely to exceed management's most recent forecast (6.8-7.3%).

Attractive Valuation

We find PPS shares currently trading at a 6.0% implied cap rate, or an 11% discount to our NAV estimate of \$44.56. Although the valuation gap relative to multifamily peers (currently trading in line with NAV on average) has narrowed considerably over the past year, we believe Post still represents an attractive value primed to take advantage of the strong secular trends in the apartment sector. Our \$49 target price reflects PPS shares trading at a 10% premium to our NAV estimate, within the historical 10-20% NAV premium range at which higher-growth REITs typically trade in the early stages of an upcycle.

— Buck Horne, CFA

12-Month Target Price..... **\$85.00**
 Current Price (12/08/2011)..... **\$63.98**
 Suitability..... **Total Return**

Hist. 12-month Price Range\$78.19-\$47.07
 Dividend/Yield\$1.64/2.6%
 Market Capitalization (mil.)\$10,806
 Shares Outstanding (mil.) 168.9
 Book Value (10/11)\$41.67
 ROE (TTM)..... 13%
 LT Debt (mil.)\$3,817/35%

FY (Dec)	2010A	2011E	2012E
EPS	\$3.88	\$5.15	\$5.98
P/E	16.5x	12.4x	10.7x
Revenue (mil.)	\$8,410	\$10,437	\$11,212

Non-GAAP EPS excludes Black & Decker acquisition-related one-time charges and items.

Stanley Black & Decker, based in New Britain, Connecticut, is a leading global producer of power tools, hand tools, security hardware, and security systems for professional, industrial, and consumer use. Stanley has three business segments: Construction and Do-it-Yourself (power tools, hand tools, tool boxes, hardware, and mechanics' tools), Industrial (fastening, storage, laser tools, etc.), and Security (commercial doors, residential security hardware, and security systems).

Valuation Compelling; Heady FCF Yield and Sum-of-the-Parts Arithmetic Both Very Attractive

We view SWK shares as significantly undervalued heading into 2012. **Valuation has reached a point where it may act as its own catalyst** via a disproportionately heavy share repurchase and/or a business portfolio review. While macro trends in Europe and the U.S. housing market are certainly not favorable, modest low single-digit organic growth seems a reasonable expectation given potential revenue synergies from Black & Decker.

Stanley's diverse business portfolio should provide it with **greater sales stability relative to other consumer and industrial names.**

The CDIY segment (~47% of sales), while exposed to a slow housing recovery and low U.S./European consumer confidence, has tailwinds from Black & Decker top-line synergies (two-thirds of management's \$300-400 million 2013 sales synergy target involves CDIY, or 4-5% of overall 2011 sales). The Industrial segment (~23% of sales) will likely slow following strong growth in 2011 but is more mid to late cycle. Security (~30% of sales) is a largely recurring revenue business, and we also expect accretion from the recent Nisacayah acquisition.

However, even though the stable Security business has become a larger portion of the portfolio, the **market does not appear to be granting full valuation credit** for this segment. Several security deals were completed in 2011 for 14-15x EBITDA, yet Stanley overall currently trades at only 6-7x 2012 EBITDA. If we assume a 10-12x EBITDA multiple on the Security segment, this implies only a 3.5-5.0x multiple on the rest of the company at current levels (we believe 6-7x is much more appropriate).

Should such a valuation gap persist, we believe management will be incentivized to either "monetize" the Security segment or (more likely) continue the recently much heavier share repurchase activity in lieu of making additional expensive (less accretive) acquisitions. To wit, management repurchased \$350 million (5.6 million shares) during 3Q11, \$100 million more than prior commentary and more than the total repurchases from 2007-2010 combined (an estimated \$318 million). Stanley has an **excellent history of shareholder-friendly cash use**, with a long-standing goal to invest one-third of the company's cash flow in dividends and share repurchases, and has increased its dividend in each of the past 44 years. We expect **\$1.2 billion in free cash flow in 2012, a yield of ~10% on the current market capitalization.**

Our target price is \$85.00. Our target is supported by our previously published DCF-derived estimate of intrinsic value. Our target also implies only an 11x multiple on our 2013 "cash" EPS estimate of \$7.78 (we view "cash" EPS as more relevant given high non-cash amortization expenses). This target multiple is 89% of the current market multiple, compared to the five-year historical median for SWK of 94%. Our target price is also supported by the aforementioned "sum-of-the-parts" arithmetic in which the Security business is granted a 10-12x EBITDA multiple and the Tools business is granted a 6-7x EBITDA multiple.

— Sam Darkatsh



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Superior Energy Services, Inc.

(SPN:NYSE)

12-Month Target Price..... **\$47.00**
Current Price (12/08/2011)..... **\$28.59**
Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$42.87-\$22.19
Dividend/Yield\$0.00/0.0%
Market Capitalization (mil.)\$2,284
Shares Outstanding (mil.) 79.9
Book Value (09/11).....\$17.97
ROE (TTM)..... 7%
LT Debt (mil.)\$810/30%

FY (Dec)	2010A	2011E	2012E
EPS	\$1.55	\$2.05	\$3.10
P/E	18.4x	13.9x	9.2x
Revenue (mil.)	\$1,682	\$2,059	\$2,403

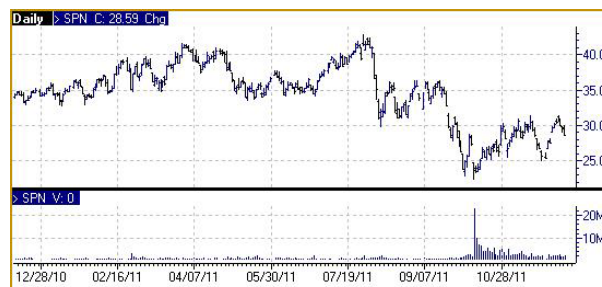
Superior Energy Services, Inc., based in Harvey, Louisiana, provides a broad range of specialized oilfield services and equipment along the Gulf Coast. Such services include oilfield equipment rental, electric and mechanical wireline services, and plug and abandonment (P&A) services. The company also offers the largest, most diversified fleet of liftboats in the Gulf of Mexico and is involved in the manufacture, sale, and/or rental of drilling instrumentation and oil spill containment equipment. In addition, the company owns a 25% interest in SPN Resources, a Gulf of Mexico-based oil & gas company that it developed in early 2003.

Superior Energy Services...It's All in the Name

Poised for Outperformance in 2012

Superior Energy Services continues to establish itself as one of the strongest performing companies in our coverage universe. A top-tier management team paired with organic expansion as well as the recent acquisition of Complete Production Services (CPX/\$33.74/ Strong Buy) should position Superior to reap the benefits of nearly every burgeoning fundamental theme we see unfolding in the oil service universe in 2012 and beyond. These themes include:

1) near-term earnings momentum from North American operations (pressure pumping, coiled tubing, rental tools, etc.), **2)** a rebound in Gulf of Mexico activity, and **3)** an international ramp-up. Add in an attractive valuation and we have our top pick for 2012.



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“Complete” Growth Strategy

Following the company’s recent merger announcement with Complete Production Services (see our comment published on October 11), Superior is betting that the North American onshore market continues to see improvement over the next few years – a bet we are more than comfortable taking. The combination of Complete’s onshore, U.S.-centric operations and Superior’s vastly diverse onshore/offshore/international portfolio will create one of the first mid-cap diversified service companies with the ability to provide a broad array of completion services.

Gulf of Mexico/International Revival

Although the pace of recovery in the Gulf of Mexico this year has been slower than anticipated, Superior remains well-positioned to take advantage of any boost in activity experienced next year. Given our bullish sentiment for crude – barring any serious European meltdown – our outlook remains positive for companies with exposure to the “oily” international markets and that should benefit Superior. Hence, despite the delays to the recovery since the 2009 meltdown, we look for significant improvements through 2012. Furthermore, the added size and scale from the Complete acquisition should allow Superior to accelerate growth for the onshore and offshore markets internationally and domestically.

Attractive Valuation Remains a Plus

On virtually every valuation metric, Superior trades at a discount to its production & workover peer group. On 2012 numbers, this is approximately 10% below the group EPS and 30% below EBITDA multiples. Keep in mind that these numbers do not include the CPX acquisition that may close prior to year-end. Our \$47 target price is derived from a blended average of conservative multiples below the 10-year mid-cycle production & workover group medians of 15x EPS and 7x EV/EBITDA.

— J. Marshall Adkins

12-Month Target Price..... \$25.00
 Current Price (12/08/2011)..... \$18.19
 Suitability..... Aggressive Growth

Hist. 12-month Price Range\$22.87-\$15.42
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.)\$2,718
 Shares Outstanding (mil.) 149.4
 Book Value (09/11)..... \$6.64
 ROE (TTM)..... 31%
 LT Debt (mil.)\$1,337/50%

FY (Dec)	2010A	2011E	2012E
EPS	\$0.41	\$0.39	\$0.61
P/E	44.4x	46.6x	29.8x
Revenue (mil.)	\$1,273	\$1,367	\$1,479

Non-GAAP EPS excludes non-recurring items.

tw telecom inc., headquartered in Littleton, Colorado, is a facilities-based competitive telecommunications carrier that provides a wide array of telecom services to business customers. The company provides local access to enterprise, carrier, and ISP customers through local and regional fiber facilities it owns in 75 primary markets. In addition, the company provides broadband data, dedicated Internet access, local, long distance, and other data services to its customers.

2012 – The Big Data Requires Big Pipes

tw telecom remains one of our favorite long-term names in our coverage universe. We believe that data-centric carriers are the best positioned within the competitive telecom space. Carriers that can securely transport customers’ data over their own networks are expected to see more strength in their models, especially as data center and cloud computing proliferate. End-customer demands for bandwidth at all levels have increased over the last 12 months, in our view, and fiber-based carriers stand to see the greatest benefit. We expect this to remain a longer-term secular thesis for the sector, which should keep tw telecom well-positioned. We believe the company will continue to take medium enterprise share from the RBOCs who put a higher priority on their wireless business and the upper end of their Fortune 1000 business. We think that based on the company’s current position within its addressable market, maintaining its current 7% annual top-line growth rate is achievable. In addition, if the macro environment happens to improve, we believe the top line will benefit as well.



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Built to last: tw telecom has been spending significant capital over the past decade – connecting to buildings, integrating its entire back office, and expanding its metro presence through additional outer fiber rings thereby creating the density now that will help lower future capex. Two-thirds of the company’s revenue is exclusively on tw telecom networks, which should increase as the company continues to add buildings on-net. We believe tw telecom’s dense network is a competitive advantage vs. its non-RBOC competitors, and the company’s sales organization is a differentiator for its customers. Within each of the company’s metro networks lies a central office and local sales team. The localized sales team is very much a key aspect of tw telecom’s success. The company has a personal sales focus and the ability to generate proposals within days, along with continually “farming” its existing customers.

Market share: The company has identified the total addressable market in its current footprint to be \$75 billion of annual revenue. tw telecom currently generates approximately \$1.4 billion of annual revenue, which leaves ample room for the company to continue growing at high single-digit rates, similar to the 7% it has grown at through the nine months ending September 30, 2011. We believe the opportunity is growing with the proliferation for data and data access by enterprises, and tw telecom’s wide product set differentiates itself from competitors. Over time, we expect it to capture a greater share of the market.

Conclusion: Our \$25 target price is based on 8.4x our 2012 EV/EBITDAS estimate of \$546 million, relative to the CLEC peer average of 6.7x and its current multiple of 6.6x. We expect TWTC to continue to command a premium similar to the data center companies which trade at a multiple of 10.5x. The company has valuable assets that we believe are positioned to benefit from the same data demand trends we see in that sub-sector, which can ultimately produce higher top-line growth than its peers.

— Frank G. Louthan IV

12-Month Target Price..... **\$53.00**
Current Price (12/08/2011)..... **\$41.62**
Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$58.88-\$30.25
 Dividend/Yield\$0.00/0.0%
 Market Capitalization (mil.)\$4,383
 Shares Outstanding (mil.) 105.3
 Book Value (07/11)\$4.63
 ROE (TTM)..... 71%
 LT Debt (mil.)\$213/24%

FY (Oct)	2010A	2011E	2012E
EPS	\$1.31	\$1.88	\$2.40
P/E	31.8x	22.1x	17.3x
Revenue (mil.)	\$1,002	\$1,290	\$1,631

Non-GAAP EPS and gross margins exclude stock-based compensation and amortization of purchased intangibles, technology assets, and debt issuance costs.

VeriFone Systems, Inc., based in San Jose, California, is a leading provider of Point-of-Sale (PoS) hardware and software that accepts and directs electronic payment transactions.

Secular Tailwinds, Pending Acquisition, and High-Margin Services Provide Visibility

In our opinion, there is a reasonably good chance that VeriFone will exceed our and the consensus' profitability expectations in F2H12 and FY13, which could result in upward EPS pressure. VeriFone is our top investment idea in the payments space given the company's strong market position, exposure to secular tailwinds, and significant company-driven revenue and profitability expansion opportunities.

VeriFone is the largest provider of PoS devices worldwide and enjoys a virtual duopoly with Ingenico, its most formidable competitor. Roughly 40% of VeriFone's revenue is generated in emerging markets where PoS terminal penetration and payment card use is much lower than the developed world, thereby lending visibility to double-digit revenue growth for the foreseeable future.

VeriFone should benefit from favorable market dynamics such as improved competitive landscape; potential terminal up-grade cycles driven by regulatory and security requirements, new payment products, and shortened PoS lifecycles (from increased use); adoption of electronic payments in traditionally cash-based industries (taxi, transit, etc.); and the demand for value-added services such as multimedia, advertising, and mobile payments capabilities.

On an organic basis, the Asian and Latin American segments are expected to grow revenue by 20+%; Europe, Middle East, and Africa by 12% (suppressed due to weak continental Europe and assumes bad economy); and North America by 10% (assumes bad economic environment). We would note that VeriFone should benefit in the European region from 80% market share in Russia, continued growth in the U.K., high service-based mix in France, and an under-penetrated German market (less than 10 PoS terminals per 1,000 people vs. 34 per 1,000 people in the U.S.). The company has less than \$50 million revenue exposure to the PIIGS (Portugal, Ireland, Italy, Greece, and Spain) countries, equating to approximately 3% of our FY12 revenue estimate.

Our positive thesis on VeriFone results from: 1) highly profitable services revenue which continues to grow as a percentage of total revenue (accelerated by the pending Point acquisition); 2) cost-driven synergies from the Hypercom acquisition could produce \$0.20 of EPS accretion in FY12, most of which is weighted toward F2H12, and the Point acquisition could be \$0.08-0.10 accretive to FY12 EPS and \$0.30-0.35 accretive to FY13 EPS; 3) the \$1 billion revenue opportunity in the domestic retail petroleum pay-at-pump market gaining more traction; and 4) the longer-term potential for a nationwide, top-to-bottom replacement cycle stimulated by the demand for new NFC-compatible PoS devices at the retail point-of-sale as mobile payments gain popularity.

Shares of PAY are trading at approximately 17x our FY12 EPS estimate of \$2.40, a discount to its five-year median forward earnings multiple of 22x. Our \$53 target price assumes shares can trade in line with the five-year median on our FY12 estimates, and we see upward bias to our target price if investors apply this multiple to our FY13 EPS estimate of \$2.84 (October fiscal year). We believe this multiple is warranted given the company's increasing mix of fast-growing, high-margin service revenue, healthy growth prospects from new product offerings and potential upgrade cycles, exposure to under-penetrated emerging markets, and accretion from recent acquisitions.



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— Wayne Johnson

Whiting Petroleum Corp.

(WLL:NYSE)

12-Month Target Price..... **\$70.00**
Current Price (12/08/2011)..... **\$46.73**
Suitability..... **Aggressive Growth**

Hist. 12-month Price Range\$75.91-\$28.87
Dividend/Yield\$0.00/0.0%
Market Capitalization (mil.)\$5,486
Shares Outstanding (mil.) 117.4
Book Value (09/11)\$25.18
LT Debt (mil.)\$1,200/29%

FY (Dec)	2010A	2011E	2012E
EPS	\$2.72	\$3.86	\$4.23
P/E	17.2x	12.1x	11.0x
Revenue (mil.)	\$1,516	\$1,923	\$2,179

Non-GAAP EPS excludes unrealized hedging losses and other extraordinary items.
All per share amounts adjusted for 2-for-1 stock split effective February 22, 2011.

Whiting Petroleum Corp., based in Denver, Colorado, is an independent oil and gas exploration and production company. Properties and operations, located in the United States and Canada, are centered in the Rocky Mountains, Gulf Coast, and Permian Basin. Whiting grows through a combination of development drilling and property acquisitions. At year-end 2010, proved reserves were 305 MMBoe (83% oil).

Emerging Plays Enhance Resource Potential for Top-Tier Asset Base

Whiting Petroleum is an independent E&P company with assets in the Rocky Mountain region, Permian Basin, Mid-Continent, and Gulf Coast. The company's diverse asset base provides a steady production stream as it moves forward de-risking its impressive position of unproved acreage (internal estimates indicate over 315 MMBoe of unproved reserves). As of year-end 2010, the company had 305 MMBoe of proved reserves, 83% oil and 71% developed.

Whiting is one of the top operators in the Williston Basin, with more than 680,000 net acres across the basin. The company's technical expertise and scale has attributed to achieving some of the lowest well costs across the play. Moreover, Whiting is currently the record holder for completing the highest producing well drilled to date in the Bakken with an IP rate of over 7,000 Boe/d. Whiting's ability to exploit these "sweet spots" in the basin has become particularly relevant as the company assembles more inventory for its next leg of growth after its core Sanish/Parshall field (83,000 net acres) begins to mature. Whiting's emerging Lewis and Clark play has garnered the most attention over the past year, with over 255,000 net acres and an estimated 400 de-risked locations. However, less flashy initial well results have spooked the market before evidence of a shallower decline curve. Thus far, well performance has confirmed that the ultimate recovery of these wells is even better than initial internal estimates had indicated, and the company has made significant strides in understanding the borders and core area of the play. In 2012, results and well performance from Lewis and Clark will continue to be a focal point as the play is further de-risked.



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An extensive list of catalysts will draw further attention to the name in 2012. In addition to Lewis and Clark, well results from several other areas across the Williston Basin (Hidden Bench, Starbuck, Tarpon, and Missouri Breaks) will help unlock the resource potential across the smaller plays in the Rocky Mountain region. Whiting is also evaluating over 75,000 prospective net acres for the Niobrara shale, and is currently experimenting with well orientation and completion techniques to enhance well economics. Furthermore, the company is testing the horizontal potential of the Bone Spring, where it holds nearly 90,000 net acres. While Whiting boasts an attractive balance sheet (net debt/book cap of 29%), the company is also exploring monetization options including joint ventures and/or royalty trusts to fund operations before drawing further on its \$1.5 billion borrowing base.

WLL remains one of our top picks heading into 2012 as we believe improving well results and positive well performance from Lewis and Clark will help alleviate inventory concerns and narrow the discount at which the stock trades to its peers. Our target price of \$70 is based on a 6.4x 2012 EV/EBITDAX multiple, below the large-cap peer average of 7x. Our target price is further supported by total company NAV of \$87 per share using \$5/Mcf and \$100/Bbl long-term commodity prices.

— John Freeman, CFA

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Underperform (Sell)	6%	1%	7%	6%	0%	0%

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Management

Robert P. Anastasi, CFA (727) 567-2286
Senior Managing Director,
Director of Equity Research
Shawn Borgeson (727) 567-2571
Managing Director, Product Development
David A. Henwood, CFA (727) 567-2505
Managing Director, Chief Investment Officer
Jeffrey D. Saut (727) 567-2644
Managing Director, Chief Investment Strategist
Mercedes S. van Woerkom (727) 567-2601
Senior Vice President,
Research Associate Manager

Consumer

Budd Bugatch, CFA (727) 567-2527
Director of Furnishings Research
Sam Darkatsh (727) 567-2537
Home & Building Products/
Specialty Distribution
Bryan C. Elliott, CFA (404) 442-5856
Restaurants
Joseph D. Hovorka (404) 442-5863
Entertainment & Leisure
Samantha Panella (212) 297-5654
Softline Retailers
Dan Wewer, CFA (404) 442-5846
Hardline Retailers

Energy (800) 945-6275

J. Marshall Adkins
Director of Energy Research
Andrew Coleman
Exploration & Production
John Freeman, CFA
Exploration & Production
Collin Gerry
Oilfield Services
Darren Horowitz
Exploration & Production/
Midstream Suppliers
Pavel Molchanov
Alternative Energy/
Integrated Majors and Refiners
James M. Rollyson
Coal/Oilfield Services
Cory J. Garcia
Exploration & Production/
Integrated Majors and Refiners/
Alternative Energy
Kevin Smith
Exploration & Production/
Midstream Suppliers

Retail Liaisons (727) 567-2520

Harry G. Katica, CFA
Director of Private Client Research

Financial Services

Daniel E. Cardenas (312) 655-2986
Banking
David J. Long, CFA (312) 612-7685
Banking
Patrick J. O'Shaughnessy, CFA
(312) 612-7687
Brokerages & Exchanges
C. Gregory Peters (312) 612-7717
Insurance/Insurance Brokerage & Services
Anthony J. Polini (212) 856-4897
Banking
Michael Rose (727) 567-2643
Banking
Steven D. Schwartz, CFA (312) 612-7686
Insurance
W. Christian Stulpin (212) 856-4761
Banking
William J. Wallace IV (703) 749-1485
Banking
Donald A. Worthington (415) 538-5733
Banking

Healthcare

John W. Ransom (727) 567-2593
Director of Healthcare Research
Michael J. Baker (727) 567-2499
Benefits Management
Jayson Bedford (727) 567-2565
Medical Supplies & Devices
Alexander Y. Draper, CFA (404) 442-5888
Healthcare Information Technology/
Pharma Services
Nicholas Jansen (727) 567-2446
Diagnostics

Macro Research

Scott J. Brown, Ph.D. (727) 567-2603
Chief Economist
P. Arthur Huprich, CMT (727) 567-2494
Chief Market Technician
Jeffrey D. Saut (727) 567-2644
Chief Investment Strategist

Real Estate

Paul D. Puryear (727) 567-2253
Director of Real Estate Research
William A. Crow (727) 567-2594
REITs/Lodging
Buck Horne, CFA (727) 567-2561
Housing/REITs
RJ Milligan (727) 567-2660
REITs

Technology

Brian G. Alexander, CFA (727) 567-2312
Director of Technology Research
Robert P. Anastasi, CFA (727) 567-2286
IT Hardware & Distribution
Brian Gesuale (727) 567-2287
Government IT & Homeland Security
Wayne Johnson (404) 442-5837
Transaction Processing
Aaron Kessler, CFA (415) 616-8959
Internet
Hans C. Mosesmann (727) 567-2498
Semiconductors
Shyam Patil, CFA (404) 442-5842
Communications Software/
Internet Services
Chris Quilty (727) 567-2602
Satellite & Space
J. Steven Smigie (727) 567-2557
Analog and Communications
Semiconductors
Terry Tillman (404) 442-5825
Application Software
Michael Turits, Ph.D. (212) 297-5617
Infrastructure Software
William A. Warmington, Jr.
(617) 897-8990
Information Services

Telecommunications

Todd Koffman (727) 567-5647
Director of Telecommunications
Equipment Research
Ric Prentiss (727) 567-2567
Director of Telecommunications
Services Research
Frank G. Louthan IV (404) 442-5867
Telecommunications Services

Transportation & Industrial Services

William H. Fisher, CFA
(404) 442-5858
Transportation Services/
Waste & Industrial Services
James D. Parker, Ph.D.
(404) 442-5857
Airlines
Patrick Tyler Brown, CFA
(404) 442-5803
Transportation Services
Savanthi Syth, CFA (727) 567-5274
Airlines

John Messina
Michelle Pav
Patrick Sauve