

July 11, 2011



*Analysts' Best Picks<sup>®</sup>  
for 2011*

*Mid-Year Update*

**Allscripts Healthcare  
Solutions Inc.**  
(MDRX:NASDAQ)

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

**CONSOL Energy Inc.**  
(CNX:NYSE)

**Covidien plc**  
(COV:NYSE)

**Digital Realty Trust, Inc.**  
(DLR:NYSE)

**Equinix**  
(EQIX:NASDAQ)

**Halliburton**  
(HAL:NYSE)

**HealthSouth  
Corporation**  
(HLS:NYSE)

**Lincoln National Corp.**  
(LNC:NYSE)

**NVIDIA Corporation**  
(NVDA:NASDAQ)

**Panera Bread Co.**  
(PNRA:NASDAQ)

**Pioneer Natural  
Resources, Inc.**  
(PXD:NYSE)

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

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Please read disclosure/risk information and Analyst Certification beginning on page 20.

# 2011 Analysts' Best Picks® Mid-Year Assessment

July 11, 2011

## Dear Investors,

U.S. equity markets were fairly strong following the release of the *Analysts' Best Picks*® for 2011 on December 6, 2010 (stocks were priced as of 12/2/10) and continued to advance through April 29, 2011 with the S&P 500 up 11.6% before dividends and the list up 22.4% over this nearly five-month period. Over the last two months through June 30, on a before dividends basis, the S&P 500 has fallen 3.2% while the list has corrected somewhat more. The actual performance for the complete period ending June 30, 2011 on a total return basis produced a gain of 16.5% for the ABP11 list versus the S&P 500's 9.3% return. Many factors contributed to the recent decline in the list and the S&P 500, including a weak May U.S. private sector employment report, a decline in the May and June retail sales numbers, and concerns about slowing U.S. GDP growth in 2H11 and 2012. Other issues adding to investor uncertainties include the economic and financial market effects from the new healthcare bill, and future impacts from ongoing efforts in Congress to legislate major financial reforms which will impact federal spending. With credit already tight for many U.S. citizens and small businesses, more regulatory constraints could add to credit and financial market uncertainties.

The challenge with any non-actively managed list such as the *Analysts' Best Picks*® (ABP) is to have stocks selected which collectively perform better than the S&P 500 over a measured period. The list is meeting this test to date. For the period ending June 30, 2011, the ABP list has outperformed the S&P 500 on a total return basis. Since the initial pricing on December 2, 2010 through the close on June 30, 2011, ten of the thirteen ABP11 stocks outperformed the S&P 500, with only MDRX, BAC, and PXD underperforming. Since the inception of the ABP11 list, two of the stocks have been downgraded from Strong Buy to Outperform: MDRX and PNRA. We have had no acquisitions or announcements of intent for any of the ABP11 selections by a third-party acquirer as of this publication.

Since the inception of the Raymond James *Analysts' Best Picks*® in December of 1995, we have found that a winning formula for favorable relative performance of this fixed list has been: (1) careful selection based on sustainable or improving business trends and favorable earnings growth prospects in combination with detail valuation assessments of the stocks' appreciation potential; and (2) a greater emphasis on balance sheet strength, cash flows, and capital-raising options to assess the ability to grow and thrive under current capital markets and still somewhat constrained credit markets. At roughly the halfway point for this year's ABP (the close of 6/30), only one stock has appreciated 30% or more: HLS was up 41.1%. Disappointingly, one selection was down on a total return basis: BAC was down 6.0%.

Investors should be aware that prospects for 2H11 and 2012 may be constrained by slow U.S. GDP growth and some slowing of recent corporate earnings growth trends which may be more pronounced in 2012. Analysts' assessments, ratings, and price targets attempt to determine company growth outlooks, potential stock valuations, and make judgments about the relative attractiveness of individual stocks versus their peer group and the S&P 500.

S&P 500 operating EPS growth is expected to improve modestly from ~16% in 1H11 (versus 1H10 comparisons) to ~18% in 2H11, according to the latest S&P Index Services estimates of S&P 500 analysts' earnings aggregates. Operating EPS growth in 2012 is currently projected to slow to 14% according to aggregate analyst estimates; however, according to the latest projections by strategists and economists compiled by S&P, growth will slow to 7%. Investors also face more uncertainty with regard to the pace of GDP growth as consumer spending trends in the post-government incentives period have been moderating. In addition, slow employment growth in the private sector, weak growth in salary and wages, constraints on consumer borrowing for many, higher gasoline prices versus a year ago, and higher savings rates are limiting factors to consumer spending. Business spending for capital expenditures and working capital needs should provide the strongest support, but even outlays here in 2012 may moderate if business executive confidence continues to temper.

The latest analysts' comments on the thirteen ABP11 names are provided within this document.



David A. Henwood, CFA  
Chief Investment Officer

## 2011 Analysts' Best Picks® Mid-Year Results

Company	Symbol	Analyst	12/2/10 Price	6/30/11 Price	% Change	Dividends Paid to Date	Dividend Yield %	Total Return YTD %
Allscripts Healthcare Solutions Inc.	MDRX	Draper	\$17.94	\$19.42	8.25%	\$0.00	0.00%	8.25%
Bank of America Corporation	BAC	Polini	\$11.68	\$10.96	-6.16%	\$0.02	0.17%	-5.99%
CONSOL Energy Inc	CNX	Rollyson	\$44.43	\$48.48	9.12%	\$0.20	0.45%	9.57% +
Covidien plc	COV	Bedford	\$43.04	\$53.23	23.68%	\$0.40	0.93%	24.61% +
Digital Realty Trust, Inc.	DLR	Crow	\$53.79	\$61.78	14.85%	\$1.89	3.51%	18.37% +
Equinix	EQIX	Louthan	\$81.52	\$101.02	23.92%	\$0.00	0.00%	23.92% +
Halliburton	HAL	Adkins	\$40.61	\$51.00	25.58%	\$0.18	0.44%	26.03% +
HealthSouth Corporation	HLS	Ransom	\$18.61	\$26.25	41.05%	\$0.00	0.00%	41.05% +
Lincoln National Corp.	LNC	Schwartz	\$25.12	\$28.49	13.42%	\$0.10	0.40%	13.81% +
NVIDIA Corporation	NVDA	Mosesmann	\$14.38	\$15.94	10.81%	\$0.00	0.00%	10.81% +
Panera Bread Co.	PNRA	Elliott	\$104.47	\$125.66	20.28%	\$0.00	0.00%	20.28% +
Pioneer Natural Resources, Inc.	PXD	Freeman	\$83.92	\$89.57	6.73%	\$0.04	0.05%	6.78%
Stanley Black & Decker	SWK	Darkatsh	\$62.41	\$72.05	15.45%	\$0.82	1.31%	16.76% +
Average Price Per Selection				\$54.14		0.56%		
<b>Best Picks Average Change</b>					<b>15.92%</b>		<b>16.48%</b>	
S&P 500			1,221.53	1,320.64	8.11%			9.30%*
Performance Differential					7.81%			
Percent of Picks outperforming S&P (as of 6/30/11)								76.92%

+ = Outperforming S&P 500

**Note: The performance data on Analysts' Best Picks® is on a total return basis before commissions and/or fees.**

Note: Stocks continue on the list until EOY 2011, even if downgraded, unless the corporation is acquired.

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

**Results if bought at the close of the day following release:**

Company	Symbol	Analyst	12/7/10 Price	6/30/11 Price	% Change	Dividends Paid to Date	Dividend Yield %	Total Return YTD %
Allscripts Healthcare Solutions Inc.	MDRX	Draper	\$17.94	\$19.42	8.25%	\$0.00	0.00%	8.25%
Bank of America Corporation	BAC	Polini	\$11.57	\$10.96	-5.27%	\$0.02	0.18%	-5.09%
CONSOL Energy Inc	CNX	Rollyson	\$44.70	\$48.48	8.46%	\$0.20	0.41%	8.87%
Covidien plc	COV	Bedford	\$42.90	\$53.23	24.08%	\$0.40	0.75%	24.83% +
Digital Realty Trust, Inc.	DLR	Crow	\$54.71	\$61.78	12.92%	\$1.89	3.06%	15.98% +
Equinix	EQIX	Louthan	\$84.31	\$101.02	19.82%	\$0.00	0.00%	19.82% +
Halliburton	HAL	Adkins	\$40.38	\$51.00	26.30%	\$0.18	0.35%	26.65% +
HealthSouth Corporation	HLS	Ransom	\$18.39	\$26.25	42.74%	\$0.00	0.00%	42.74% +
Lincoln National Corp.	LNC	Schwartz	\$25.34	\$28.49	12.43%	\$0.10	0.35%	12.78% +
NVIDIA Corporation	NVDA	Mosesmann	\$14.98	\$15.94	6.41%	\$0.00	0.00%	6.41%
Panera Bread Co.	PNRA	Elliott	\$106.42	\$125.66	18.08%	\$0.00	0.00%	18.08% +
Pioneer Natural Resources, Inc.	PXD	Freeman	\$84.55	\$89.57	5.94%	\$0.04	0.04%	5.98%
Stanley Black & Decker	SWK	Darkatsh	\$63.15	\$72.05	14.09%	\$0.82	1.14%	15.23% +
Average Price Per Selection				\$54.14		0.48%		
<b>Best Picks Average Change</b>					<b>14.94%</b>		<b>15.43%</b>	
S&P 500			1,223.75	1,320.64	7.92%			9.09%*
Performance Differential					7.02%			
Percent of Picks outperforming S&P (as of 6/30/11)								61.54%

+ = Outperforming S&P 500

**Note: The performance data on Analysts' Best Picks® is on a total return basis before commissions and/or fees.**

Note: Stocks continue on the list until EOY 2011, even if downgraded, unless the corporation is acquired.

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

Since 1996, and excluding ABP11, a total of 171 stocks have been recommended through the *Analysts' Best Picks®* list. Of this total, 117 advanced (68%) and 54 declined (32%) 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. The market value of securities fluctuates and investors may incur profits or losses.

## Canadian Equity-Linked Note

Raymond James Limited is again pleased to have offered an equity-linked note, issued by Bank of Montreal, designed to present our retail clients with a vehicle to invest in the names on the 2011 *Analysts' Best Picks*<sup>®</sup> (ABP) report published by Raymond James & Associates Equity Research. The note is structured to offer clients the ability to invest in the ideas in a more cost-efficient manner than purchasing the stocks individually. Below we review the performance of the note through June 30, 2011 in comparison to the returns published by Raymond James & Associates Equity Research and the broader equity markets.

Investors who own the equity-linked note in their accounts show a return of +2.31% as of June 30, 2011. A comparison of this year's note versus the S&P 500 Index is illustrated in the following table. The note is currently outperforming the S&P on a currency-adjusted basis. Investors can review the discussions from our equity research analysts in this mid-year update to better understand all of the factors affecting the ABP11. As with any year, the list is intended to be a selection of stocks that our research analysts believe will outperform the broader equity markets for a one-year period. The final performance of this year's note will be determined by what happens between now and the end of the year.

The ABP11 list as published by the Raymond James & Associates Equity Research department shows a return of 16.48% using the closing prices from December 2, 2010 as the cost basis. The spread between the returns is comprised of three factors: commissions, exchange rate, and varying dates of initiation.

	Cost	Price	% Change
<b>2011 ABP Note</b>	<b>\$ 100.00</b>	<b>\$ 102.31</b>	<b>2.31%</b>
S&P 500 Index	1,258.84	1,320.64	5.94%
USD/CAD Exchange	0.98	1.03	-4.91%
Net S&P Index – Currency Adjusted			1.03%

The first factor in the spread is the commissions paid on the note. Investors in the note paid 2.5% in upfront commissions. As is consistent with most research reports across the Street, commissions are ignored when computing returns. The reason for this is that they can vary widely across different types of accounts. Issues such as institutional versus retail accounts, fee-based versus commission-based accounts, and full commissions versus different discount rates all make it difficult to choose an appropriate level of fees to build into a report that would apply to the various recipients of our research.

The second factor in the spread is the effect of the exchange rate on the return. The note is priced in Canadian (CAD), but the underlying investments are U.S. securities which are priced and trade in U.S. dollars (USD). The exchange rate from the inception of the note to June 30, 2011 declined 4.91%. The note automatically adjusts the return based on changes in the exchange rate between CAD and USD. Any comparison of other returns, including the stated performance of the ABP11 research selections, would also have to be adjusted for the change in exchange rate in order to compare returns. The exchange rate will vary from year to year, and the final effect of the exchange rate for this year's note will not be determined until the note matures in December 2011.

The final factor in the spread is the difference in cost basis recognized by Raymond James & Associates Equity Research versus what is achieved in the note. When the report is published, research must choose a price for calculating returns and no matter what day or price they use, there will always be a difference between that return and what investors actually receive. Raymond James & Associates Equity Research is using the closing price from Thursday, December 2, 2010 prior to the list's announcement day of Monday, December 6, 2010. The cost basis received by investors who purchased this note is based on the market close on Wednesday, December 22, 2010. While the cost basis difference will vary from year to year, we continue to make every effort to mitigate the effect of market volatility during the time the list is released and the execution of the registered offering of these notes.

**Equity Linked Securities**  
Raymond James & Associates  
Equity Capital Markets

# Analysts' Best Picks® for 2011 Statistical Overview

Company Name	Sym.	RJ&A Rank	SR	07/07/2011 Close	12 Mo. Trail.			Proj. 12-Mo. Price Target	Current Year P/E	Earnings per Share			Div. Yld.	BV/ Shr.	FY	Mkt. Cap. (Mil)
					High	Low	Price Range			2010A	2011E	2012E				
S&P 500 #	SPX	NA	NA	1353.22	1370.58	1039.70	NA	13.8x	83.77	98.40	112.98	1.9%	NA	Dec	NA	
Allscripts Healthcare Solutions Inc. (m,ng,o)	MDRX	2	AG	20.50	23.13	15.77	24.00	22.8x	0.76	0.90	1.12	0.0%	7.51	Dec	3,030	
Bank of America Corporation (hs,m,ng,o)	BAC	1	AG	10.92	15.72	10.40	20.00	7.8x	0.76	1.40	2.00	0.4%	21.15	Dec	111,177	
CONSOL Energy Inc. (hn,ng,o)	CNX	1	AG	50.90	56.32	31.08	69.00	18.5x	2.22	2.75	4.15	0.8%	13.80	Dec	11,534	
Covidien plc (ng,o)	COV	1	G	54.27	57.65	35.12	63.00	14.2x	3.38	3.83	4.15	1.5%	19.65	Sep	27,081	
Digital Realty Trust, Inc. (hn,o,p,x,z)	DLR	1	TR	63.60	64.25	47.42	69.00	15.9x	3.39	4.01	4.37	4.3%	15.85	Dec	6,385	
Equinix (g,h,m,o,p)	EQIX	1	AG	103.16	105.09	69.42	115.00	53.7x	0.83	1.92	2.66	0.0%	42.09	Dec	4,869	
Halliburton (hs,ng,o,p)	HAL	1	AG	54.30	54.55	27.31	60.00	17.2x	2.06	3.15	4.30	0.7%	11.94	Dec	49,685	
HealthSouth Corporation (hn,ng,o)	HLS	1	AG	26.88	28.50	16.20	33.00	21.3x	1.19	1.26	1.48	0.0%	NM	Dec	2,503	
Lincoln National Corp. (h,hn,ng,o)	LNC	1	AG	29.39	32.68	20.65	36.00	7.3	3.13	4.05	4.30	0.7%	41.74	Dec	9,217	
NVIDIA Corporation (g,m,o)	NVDA	1	AG	15.73	26.17	8.65	40.00	37.5x	(0.15)	0.42A	1.09	0.0%	5.62	Jan	9,644	
Panera Bread Co. (m,ng,o)	PNRA	2	AG	131.96	132.24	72.83	140.00	29.3x	3.62	4.50	5.05	0.0%	20.97	Dec	3,985	
Pioneer Natural Resources, Inc. (ng,o)	PXD	1	AG	92.51	106.07	54.89	120.00	29.0x	1.81	3.19	4.08	0.1%	39.19	Dec	10,805	
Stanley Black & Decker (ng,o,p)	SWK	1	TR	75.33	78.19	50.57	85.00	14.5x	3.88	5.18	6.06	2.2%	42.65	Dec	12,949	

g - EPS is GAAP EPS.

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

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.

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

ng - EPS is Non-GAAP EPS.

o - Security is optional.

p - Projected 12-month price target does not reflect recent stronger price action in the stock.

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.

# Allscripts Healthcare Solutions Inc.

(MDRX:NASDAQ)

12-Month Target Price..... **\$24.00**

Current Price (07/07/2011)..... **\$20.50**

Suitability..... **Aggressive Growth**

Rating..... **Outperform**

FY (Dec)	2010A	2011E	2012E
EPS	\$0.76	\$0.90	\$1.12
P/E	27.0x	22.8x	18.3x
Revenue (mil.)	\$1,196	\$1,430	\$1,597

Hist. 12-month Price Range .....\$23.13-\$15.77

Dividend/Yield .....\$0.00/0.0%

Market Capitalization (mil.) .....\$3,030

Shares Outstanding (mil.) ..... 147.8

Book Value (03/11) .....\$7.51

ROE (TTM)..... NM

LT Debt (mil.) .....\$414/22%

Non-GAAP EPS excludes FAS123, deal-related amortization, merger-related costs, and one-time charges, but includes Eclipsys contributions. Revenues are non-GAAP revenue.

Allscripts Healthcare Solutions Inc., headquartered in Chicago, Illinois, is a leading provider of software, services, information, and connectivity solutions for physicians, hospitals, and other healthcare providers. The company's inpatient, enterprise ambulatory, and professional solutions serve to enhance patient safety, clinical outcomes, and financial results. Over 180,000 physicians and 1,500 hospitals use Allscripts' solutions.

## Undervalued Name Positioned to Close Valuation Gap

We continue to view Allscripts Healthcare Solutions as our top pick within our healthcare information technology coverage group. From a valuation standpoint, MDRX shares have remained at a meaningful discount relative to its peers as integration-related apprehensions have not completely abated. In addition, the comparability of current company results to pre-merger performance levels remains challenging. This is in contrast to the arguably 'cleaner' stories offered by some of Allscripts' clinically-focused peers. As we move into and through the second half of the calendar year, we expect investor concerns over integration-related progress to ease, the optics of y/y bookings growth to improve, and the comparability of historical financials to progress. We believe that these dynamics will close the valuation gap between Allscripts and its peers, ultimately driving outperformance in shares through the balance of 2011.

As a reminder, the fundamental industry backdrop for Allscripts remains positive, by virtue of the Health Information Technology for Economic and Clinical Health (HITECH) portion of the American Recovery and Reinvestment Act. While some timing aspects of the stimulus have been modified, the program still incentivizes the meaningful use of certified electronic health records through Medicare and Medicaid-based bonus payments from 2011 to 2015 (after which penalties for non-meaningful users go into effect).

In our view, Allscripts remains one of the best diversified plays on the stimulus program. Recall that the company completed a merger with Eclipsys, a provider of inpatient-focused solutions, in September 2010. We believe that the merger enables Allscripts to offer one of the more attractive ambulatory-to-inpatient solutions to the healthcare provider market. Our channel checks suggest that the product integration continues to progress well despite some headline-worthy personnel departures (principally the former chief technology officer, effective May 31). In 2H11, we expect y/y bookings growth to return to a double-digit pace, while the company maintains its target 20+% margin growth profile and continues to pay down its merger-related debt balance (\$448 million remaining as of March 31 from the initial \$570 million amount borrowed in August 2010).

Our \$24 price target is supported through the use of a 21.5x P/E multiple to our 2012 non-GAAP estimate of \$1.12. Our target multiple is conservatively positioned relative to our 24% non-GAAP EPS growth expectation for 2012, and is within a half turn of the current NTM consensus P/E for shares. Allscripts' clinical peers currently average a NTM consensus P/E multiple in excess of 30x.

— Alexander Y. Draper, CFA

# Bank of America Corporation

(BAC:NYSE)

12-Month Target Price..... **\$20.00**

Current Price (07/07/2011)..... **\$10.92**

Suitability..... **Aggressive Growth**

Rating..... **Strong Buy**

FY (Dec)	2010A	2011E	2012E
EPS	\$0.76	\$1.40	\$2.00
P/E	14.4x	7.8x	5.5x
Revenue (mil.)	\$104,017	\$98,731	\$105,119

Hist. 12-month Price Range .....\$15.72-\$10.40

Dividend/Yield .....\$0.04/0.4%

Market Capitalization (mil.) ..... \$111,177

Shares Outstanding (mil.) ..... 10,181.0

Book Value (03/11) ..... \$21.15

ROE (TTM)..... 4%

LT Debt (mil.) ..... NM/NM

Non-GAAP EPS excludes unusual items.

Bank of America Corporation, headquartered in Charlotte, North Carolina, is one of the nation's largest banks with \$2.3 trillion total assets, \$932 billion loans, and \$1.0 trillion deposits. It serves individual consumers, small- and middle-market businesses, and large corporations with a full range of banking, investing, asset management, and other financial and risk management products and services. It has more than 6,000 retail banking offices and 18,000 ATMs. Bank of America is among the world's leading wealth management companies and is a global leader in corporate and investment banking and trading across a broad range of asset classes serving corporations, governments, institutions, and individuals around the world. In 1Q11, the company reported total revenue of \$27 billion from seven business segments: Global Banking, Global Card Services, Global Markets, Global Wealth & Investment Management, Consumer Real Estate, Deposits, and All Other.

## Private-Label Settlement is a Potentially Huge Positive

In our opinion, Bank of America represents an outstanding buying opportunity trading at only 52% of book value (\$21.15), 83% of tangible book value (\$13.21), and 5.5x 2012E EPS of \$2.00.

On June 29, the company announced an \$8.5 billion (\$0.53 per share) settlement mitigating legacy Countrywide-issued private-label mortgage-backed securities exposure. Although the company will post a 2Q11 loss of about \$0.90 per share, it will put the lion's share of the reps and warranties issue behind it. Despite the large loss in 2Q11, book value per share and tangible book value per share are expected to remain above \$20.00 and \$12.50, respectively. This announcement goes a long way to reduce the headline risk (and uncertainty) surrounding the mortgage mess. With clarity on Durbin forthcoming and a foreclosure settlement likely this year, the path has been paved for the company to return to a more normal valuation level given less macroeconomic uncertainty. Even if shares of BAC garner only an 8.0x forward P/E over the next 12 months, they move to the mid to high teens or 40-60% above recent price levels.

Bank of America will readily meet all minimum capital requirements under Basel III. It expects risk-weighted assets of \$1.8 trillion at the end of 2012 and to achieve a Basel III Tier 1 common ratio of 6.75-7.00% by January 1, 2013, assuming no benefit from mitigation against capital deductions (phase-in starting in 2014). The company will likely be required to hold a 2.50% buffer, which is required for systemically important financial institutions. However, the company has until 2019 to meet those requirements. The company's Tier 1 common ratio guidance of 6.75-7.00% under Basel III was lowered from the company's previous guidance of 8.00% largely due to the aforementioned settlement.

We believe the company has put most of its reps and warranties exposure behind it. Recall that Bank of America reached a \$1.1 billion settlement with Assured Guaranty on April 15, thereby eliminating \$35.8 billion original collateral exposure with total principal risk of \$10.9 billion. Bank of America also reached a \$3.0 billion settlement with Fannie Mae and Freddie Mac on December 30, 2010. The agreement reduced the government-sponsored entity (GSE) pipeline of claims from \$6.8 billion to \$2.7 billion. The company estimates the remaining possible range of losses on non-GSE reps and warranties exposure at up to \$5.0 billion (\$0.31 per share). Going forward, losses will likely be driven by incremental changes in forecasts rather than new claims, which have been almost completely eliminated by the three large settlements. Our \$20 target price assumes BAC trades at 10.0x 2012E EPS of \$2.00, in line with its three-year average P/E of 9.7x.

— Anthony Polini

12-Month Target Price..... **\$69.00**  
 Current Price (07/07/2011)..... **\$50.90**  
 Suitability..... **Aggressive Growth**  
 Rating..... **Strong Buy**

Hist. 12-month Price Range .....\$56.32-\$31.08  
 Dividend/Yield .....\$0.40/0.8%  
 Market Capitalization (mil.) .....\$11,534  
 Shares Outstanding (mil.) ..... 226.6  
 Book Value (03/11) .....\$13.80  
 ROE (TTM)..... 15%  
 LT Debt (mil.) .....\$3,184/54%

FY (Dec)	2010A	2011E	2012E
EPS	\$2.22	\$2.75	\$4.15
P/E	22.9x	18.5x	12.3x
Revenue (mil.)	\$5,241	\$5,569	\$6,230

Non-GAAP EPS represents continuing operations.

CONSOL Energy Inc., headquartered in Pittsburgh, Pennsylvania, is predominantly a producer of coal and natural gas. The company is the largest U.S. producer of high-Btu bituminous coal, operating 18 mining complexes and maintaining the second largest U.S. coal reserve base of 4.5 billion tons. The company produced ~62 million tons of coal in 2010. CONSOL is also the second largest producer of natural gas in the Appalachian basin, with more than 3.7 Tcf of natural gas reserves and recent annual production of more than 94 Bcf. Through its extensive network of customers and land ownership, the company also participates in several other ventures, including land development and a joint venture power plant project.

## Still an Attractively Valued, “Asset Rich” Company

**A leading diversified energy producer in the eastern U.S.** CONSOL Energy is the largest coal producer east of the Mississippi River and controls the second largest U.S. coal reserve base with 4.4 billion tons. Following its acquisition of Dominion Appalachian E&P and further drilling efforts last year, CONSOL’s total proved gas reserves at year-end 2010 grew to over 3.7 Tcf. CONSOL also sits on the third largest net acreage position in the Marcellus Shale with approximately 750,000 acres. Likewise, the company has approximately 200,000 net prospective acres in the Utica Shale play, as well as other potential plays.

**Attractive valuation.** We believe the current market value of CONSOL remains sharply below what we estimate is the long-term asset value potential of the coal, gas, and other inherent assets within the company. To derive our \$69 target price, we value CONSOL’s E&P assets on what we deem as conservative estimates applied to its proved reserves and acreage position. We currently value the company’s E&P segment at approximately \$7.7 billion, which includes an estimated \$3.5 billion proved reserve value (after tax) run using the Raymond James price deck (\$5/Mcf long term) and \$4.2 billion for the unbooked Marcellus upside. On a per-acre basis, that is less than \$6,000 per acre and well below recent transactions in the play. Moreover, we still view our \$7.7 billion E&P valuation of CONSOL as conservative since we currently do not give the company any credit for its 10.3 Tcfe of additional non-Marcellus 3P potential (coalbed and conventional) or any value for its upside in the emerging Utica, New Albany, and Huron Shales. For the coal and other businesses, we use target EBITDA multiples that fit within the trading ranges of other coal companies, as well as CONSOL’s historical trading range, or 6x our 2012 coal estimates and 4x our “other” estimates for EBITDA.

**Focus on unlocking shareholder value.** The strong “sum-of-the-parts” valuation with potential catalysts (and underperformance last year) was the basis for our choice of CONSOL as our best pick for 2011. To date, the stock has outperformed many of its peers but has yet to achieve our expectations. Instead of a sale of certain met reserves that we anticipated, the company has elected to develop the Amonate mine with production expected to begin next year and a capital investment payback period of a little over one year. This comes in addition to other growth projects. As for E&P, we continue to look for several potential catalysts over the next few quarters that could enhance the public market value, including: 1) strong well results/added clarity in the Marcellus drilling program; 2) results from the initial six-well program in CONSOL’s Utica acreage; 3) potential news surrounding other plays contained within the company’s acreage position; or 4) the joint venture or sale of certain E&P acreage under the company’s rather large current position. While the timing of such events is uncertain, we remain convinced that improved clarity and/or transactions that are focused on unlocking the underappreciated asset value should enhance CONSOL’s value over time – hopefully starting during the second half of 2011.

— James M. Rollyson

<b>12-Month Target Price</b> .....	<b>\$63.00</b>	Hist. 12-month Price Range .....	\$57.65-\$35.12
<b>Current Price (07/07/2011)</b> .....	<b>\$54.27</b>	Dividend/Yield .....	\$0.80/1.5%
<b>Suitability</b> .....	<b>Growth</b>	Market Capitalization (mil.) .....	\$27,081
<b>Rating</b> .....	<b>Strong Buy</b>	Shares Outstanding (mil.) .....	499.0
<b>FY (Sep)</b>	2010A	2011E	2012E
EPS	\$3.38	\$3.83	\$4.15
P/E	16.1x	14.2x	13.1x
Revenue (mil.)	\$10,429	\$11,421	\$11,789
		Book Value (03/11) .....	\$19.65
		ROE (TTM).....	20%
		Net Debt (mil.) .....	\$3,141/34%

Non-GAAP EPS exclude one-time items.

Covidien plc, based in Ireland, is a diversified healthcare company focused on the medical device market. The company's segments include: Medical Devices (~64% of sales), Pharmaceuticals (~19%), and Medical Supplies (~17%). Covidien separated from Tyco in July 2007.

## Executing Well in a Choppy Environment

We believe that **Strong Buy**-rated Covidien continues to offer one of the most attractive risk/reward profiles in our universe. Covidien addresses large (\$52 billion) and growing (+4-6%) markets with favorable competitive dynamics. Its diversified portfolio of medically-necessary devices, medicines, and supplies is less exposed to significant pricing pressure and healthcare reform measures than its peers. Given the solid F1H11 results, we believe that there is upside potential to our estimates, and the accelerating revenue growth profile should fuel increased investor interest. Although the stock has performed well year-to-date (+19% vs. 1.3% for the S&P 500), we believe that valuation remains attractive.

Several transient issues depressed FY10 organic sales growth to a low single-digit level from the mid single-digit range in FY09. However, Covidien has divested several slower growth businesses (sleep diagnostics, sleep therapy, oxygen therapy, and radiopharmacies) and acquired faster growth and higher margin product lines (Bacchus Vascular in March 2009, VNUS in June 2009, and ev3 in July 2010). With a refreshed portfolio, we believe that Covidien is positioned for accelerating organic growth in FY11 and FY12. Even with recently raised FY11 guidance, we see potential revenue upside primarily from the Medical Devices segment. We believe Covidien's vascular business will continue to grow organically in the double-digit range, and the acquired product lines offer an additional source of potential upside. We also expect growth in its surgical businesses (primarily endomechanical and energy) to pick up from FY10 levels, driven by share gains and expansion in emerging markets. Covidien currently generates an estimated \$1 billion (approximately 10% of total revenue) in emerging markets, which should continue to grow in the double-digit range. Medical Devices is Covidien's largest, fastest-growing, and most profitable segment. We expect this mix shift to drive continued gross margin. Year-to-date, gross margin expanded 140 bp y/y and exceeded our estimate by approximately 120 bp.

We believe that the company's new product flow is improving. In F2Q, Covidien launched all sizes of its Tri-Staple device (approximate \$1 billion market opportunity) and generic Duragesic (a fentanyl patch for pain with \$20-40 million sales potential). It also received FDA approval for the Pipeline Embolization Device (\$100-150 million opportunity) and Sonicision Ultrasonic Energy Device (approximate \$800 million market opportunity).

Our \$63 price target assumes a 15x multiple applied to our CY12 Non-GAAP EPS estimate of \$4.22, which is in line with its peer group of large-cap healthcare companies and Covidien's historical average. In the long term, we believe Covidien is a low to mid single-digit top-line grower and a double-digit bottom-line grower. Potential sources of downside include: increased pricing pressure, further deterioration in procedure volume and utilization rates, additional competition in the generic pharmaceuticals space, and a stronger U.S. dollar.

— Jayson Bedford

# Digital Realty Trust, Inc.

(DLR:NYSE)

12-Month Target Price..... \$69.00\*  
Current Price (07/07/2011)..... \$63.60  
Suitability..... Total Return  
Rating..... Strong Buy

FY (Dec)	2010A	2011E	2012E
FFO	\$3.39	\$4.01	\$4.37
P/E	18.8x	15.9x	14.6x
Revenue (mil.)	\$866	\$1,041	\$1,205

Hist. 12-month Price Range .....\$64.25-\$47.42  
Dividend/Yield .....\$2.72/4.3%  
Market Capitalization (mil.) .....\$6,385  
Shares Outstanding (mil.) ..... 100.4  
Book Value (03/11) .....\$15.85  
ROE (TTM)..... NM  
LT Debt (mil.) .....\$3,055/26%

\*Projected 12-month price target does not reflect recent stronger price action in the stock.

Digital Realty Trust, Inc. is a REIT headquartered in San Francisco, California, that owns, acquires, repositions, and manages technology-related real estate. Digital Realty Trust targets high quality, strategically located properties containing applications and operations critical to the day-to-day operations of technology industry tenants and corporate and institutional data center users. As of April 28, 2011, the company owned a portfolio of 96 properties comprising a total of 16.9 million rentable square feet, including 2.2 million square feet held for redevelopment.

## Fundamentals and Growth Combine to Keep DLR a Top Pick

Digital Realty Trust is the clear leader among the data center REITs, based on portfolio scope, global reach, and market capitalization. Strong data center fundamentals, an advantageous cost of capital, and a strong management team have combined to produce robust earnings growth, impressive share price appreciation, and a dividend CAGR of 18% since the company's IPO.

The demand for data processing, storage, and security caused by the proliferation of personal computers, smartphones, tablets, and other devices has resulted in a dynamic secular growth story for Digital Realty Trust. Demand for data centers is expected to readily surpass new supply growth for the next several years, which should drive increasing pricing power on new and renewal leases.

In addition to impressive organic growth, Digital Realty Trust's value-added acquisition/redevelopment platform, growing global footprint into Europe and Asia-Pacific, and strong balance sheet allow the company to tally among the highest growth rates in cash flow, net asset value, and dividends among all real estate entities.

DLR shares have gained an impressive 21% year-to-date. However, given the favorable leasing outlook in the sector, we think the stock has further upside from these levels. The outperformance reflects the strong fundamental backdrop, expectations for robust 2011-2013 FFO per share and AFFO per share growth, powerful NAV growth potential, and the high likelihood of future dividend increases. In the past two years, Digital has increased its dividend five times, representing a cumulative 106% increase.

Our NAV estimate for Digital at the end of the first quarter was \$53.06, up 17% from a year earlier. DLR shares currently trade at a 14.6x multiple on our 2012 FFO per share estimate of \$4.37 and a 17.0x multiple on our 2012 AFFO per share estimate of \$3.74. By contrast, our larger REIT coverage list trades at higher average multiples of 16.9x and 19.9x, respectively, despite Digital's superior growth expectations. Our \$69.00 price target is based on an 18.5x multiple of our 2012 AFFO per share estimate of \$3.74, in line with the current 2011 AFFO multiple.

— William A. Crow

**12-Month Target Price**..... **\$115.00\***  
**Current Price (07/07/2011)**..... **\$103.16**  
**Suitability**..... **Aggressive Growth**  
**Rating**..... **Strong Buy**

Hist. 12-month Price Range .....\$105.09-\$69.42  
 Dividend/Yield .....\$0.00/0.0%  
 Market Capitalization (mil.) .....\$4,869  
 Shares Outstanding (mil.) ..... 47.2  
 Book Value (03/11) .....\$42.09  
 ROE (TTM)..... NM  
 LT Debt (mil.) .....\$2,096/45%

FY (Dec)	2010A	2011E	2012E
EPS	\$0.83	\$1.92	\$2.66
P/E	NM	53.7x	38.8x
Revenue (mil.)	\$1,220	\$1,547	\$1,803

\*Projected 12-month price target does not reflect recent stronger price action in the stock.

Equinix, headquartered in Foster City, California, provides carrier neutral data center solutions, primarily colocation and interconnection, to enterprises, content and digital media providers, system integrators, and network providers in major metropolitan markets in the U.S. and abroad. The company operates 90 data centers in 35 markets through a combination of company owned and leased facilities.

## Steady the Course

**Strong industry backdrop.** We continue to see favorable drivers for the data center space and strong top-line growth. Growth in Internet traffic and related commerce, and the corresponding need for this traffic to be economically and efficiently exchanged among the participants of the Internet economy, is driving demand for highly specialized and strategically located data centers. As mobile data consumption increases with the shift to 4G, carriers will need to resolve latency issues that require more data to be stored closer to the device being used. In addition, the digital universe is expected to grow 44x by 2020, aided by growth in IP traffic (4x by 2014), mobile data (39x by 2014), business IP (21% by 2014), and Ethernet services (2x by 2014). Equinix estimates that its target market will grow 12-14% per year to \$19 billion in 2013, with the supply/demand imbalance remaining favorable over that time frame. We believe this dynamic provides a solid operating environment for Equinix to create shareholder value through growth in revenues and EBITDA.

**Dominant position.** Equinix has maintained its dominant position in the U.S. colocation market and remains one of the only colocation providers that can offer its services on a global level (96 data centers in 37 cities spanning 12 countries and five continents). These factors, combined with the company's large base of customers (over 4,000) and interconnection ecosystems, give Equinix a significant advantage as it would be very difficult for new entrants to match this scale.

**Balance Sheet.** Equinix's balance sheet remains strong as the company has \$304 million in cash and \$2.1 billion in debt. Equinix is currently 2.7x levered, which is below its stated 3-4x leverage target, giving the company ample room to pursue acquisitions and organic growth opportunities.

**Conclusion.** Our \$115 price target is based on 8.4x our 2012 EBITDA estimate of \$819 million versus the data center group at 9.7x, which still represents a conservative discount despite Equinix being the leader in the colocation space. We believe investors will be attracted to this sector, and Equinix in particular, given its dominant position in the colocation space, superior revenue growth (27% in 2011E), and our belief that it is a highly investable name with a sizeable market cap.

— Frank G. Louthan IV

12-Month Target Price.....	\$60.00*	Hist. 12-month Price Range .....	\$54.55-\$27.31
Current Price (07/07/2011).....	\$54.30	Dividend/Yield .....	\$0.36/0.7%
Suitability .....	Aggressive Growth	Market Capitalization (mil.) .....	\$49,685
Rating .....	Strong Buy	Shares Outstanding (mil.) .....	915.0
		Book Value (03/11) .....	\$11.94
		ROE (TTM).....	19%
		LT Debt (mil.) .....	\$3,824/26%

FY (Dec)	2010A	2011E	2012E
EPS	\$2.06	\$3.15	\$4.30
P/E	26.4x	17.2x	12.6x
Revenue (mil.)	\$17,973	\$23,259	\$26,694

\*Projected 12-month price target does not reflect recent stronger price action in the stock. Non-GAAP EPS excludes non-recurring items.

Halliburton was founded in 1919 and is one of the world's largest providers of products and services to the energy industry. With over 50,000 employees in approximately 70 countries, the company, based in Houston, Texas, serves the upstream oil and gas industry throughout the life cycle of the reservoir - from locating hydrocarbons and managing geological data to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field.

## Super Bullish North American Fundamentals Play Right into Wheelhouse

**More upside remains in 2H11.** Halliburton's superior operational execution continued in the first half of 2011, especially in North America. The pressure pumping market should remain supply-constrained into mid-2012; as the largest U.S. pressure pumper, Halliburton should keep outperforming. Despite a 25% rally so far this year, HAL still has an attractive valuation and we reiterate it as our best pick for 2011.

**Street still wrong on pressure pumping.** Market sentiment has been negative toward U.S.-levered names. Despite having been wrong for the past six months, many market prognosticators still expect an oversupplied market later this year. What the market fails to realize is that the horizontal rig count (the rigs that actually require pressure pumping horsepower) continues to set new highs. It is up 15% thus far in 2011, and y/y growth could be twice that by year-end. Service intensity continues to increase (frac stages, lateral length, etc.), which should drive demand for pressure pumping above the growth in the rig count. While there is a massive and well-documented buildout on the supply side, the Street again fails to take into account industry underinvestment over the past few years. When combined with tougher fracking conditions (pressure, temperature, 24/7 schedules), we believe the attrition rate has gone from its historical 5% range to over 15%. This leaves the market undersupplied into mid-2012, and we expect margins to continue to grow for the rest of the year (with upside surprises likely in 2Q results).

**U.S. shale plays fueling growth in other product lines as well.** Halliburton has the highest exposure to North America within its diversified peer group (approximately 50% of total revenues). Roughly half is pressure pumping, with the rest being a combination of other services such as drilling & completion fluids and directional drilling. We had originally called for a 10% increase in the rig count in 2011 (the market expected a flattish rig count). Now we are looking for the y/y rig count to be up closer to 20% as continued drilling in oily and liquids-rich basins is dwarfing the declines from gassier regions. As a result, these other product lines are also seeing the benefits of increased activity. Moreover, Halliburton continues to bundle pressure pumping with other services, resulting in above-average top-line growth. Net net, we model North American margins at 27% in 2011 versus only 21% in 2010. If correct, this would be the highest margin level since 2007, despite continued Gulf of Mexico headwinds.

**Attractive valuation.** On virtually any valuation metric, Halliburton trades at a discount to its diversified peer group – 10% below the group on 2012 EPS and EBITDA multiples. Our \$60 price target is based on a ~14x multiple to our 2012 EPS estimate of \$4.30, well below the historical (last twenty years) mid-cycle diversified peer group average of closer to 18x.

— J. Marshall Adkins

<b>12-Month Target Price</b> .....	<b>\$33.00</b>	Hist. 12-month Price Range .....	\$28.50-\$16.20
<b>Current Price (07/07/2011)</b> .....	<b>\$26.88</b>	Dividend/Yield .....	\$0.00/0.0%
<b>Suitability</b> .....	<b>Aggressive Growth</b>	Market Capitalization (mil.) .....	\$2,503
<b>Rating</b> .....	<b>Strong Buy</b>	Shares Outstanding (mil.) .....	93.1
<b>FY (Dec)</b>	2010A	2011E	2012E
EPS	\$1.19	\$1.26	\$1.48
P/E	22.6x	21.3x	18.2x
Revenue (mil.)	\$1,999	\$2,034	\$2,085
		Book Value (03/11) .....	NM
		LT Debt (mil.) .....	\$1,564/100%

Non-GAAP EPS is adjusted fully-taxed net income (before preferred dividends) divided by diluted shares.

HealthSouth Corporation, headquartered in Birmingham, Alabama, is one of the largest providers of inpatient rehabilitation care in the United States, with 99 inpatient facilities and six long-term acute care (LTAC) hospitals.

## Operational Momentum and Deleveraging to Drive 2H11 Encore

Shares of HLS have performed nicely year-to-date (+20%) driven by robust execution and capital deployment clarity. We continue to believe HealthSouth, one of the largest inpatient rehabilitation facility (IRF) operators, remains an attractive investment opportunity given: (1) ongoing operational momentum (and limited industry regulatory/reimbursement headwinds); (2) a more flexible balance sheet; (3) attractive FCF growth (could increase 50+% over the next two years); and (4) valuation (an estimated 12% 2012 FCF yield – one of the most attractive in our coverage universe).

### Top-Line Visibility and Industry-Leading Margins Driving Operations

HealthSouth started 2011 on a strong note, with same-facility discharge volumes rebounding to 4% (several points above the industry average), commitment to a more aggressive IRF de novo and M&A strategy, pricing visibility (healthcare reform cuts; the IRF industry is no longer a CMS target), and disciplined cost management (margins double that of the industry average yet they continue to grow, jumping 130 bp y/y in 1Q11 to 22.3% and breaking the 22% barrier for the first time) fueling share price appreciation. We believe HealthSouth is poised to achieve 5-8% annual EBITDA growth for 2011 and 2012 despite the impending sale of the company's LTAC business (~3% of EBITDA), as management reiterated that its current 2011 guidance range remains conservative even when including the LTAC sales (a testament to the strength in the core IRF operations).

### De-Leveraging Remains #1 Priority; Balance Sheet Is Well-Positioned Following Recent Refinancing

Through its focus on EBITDA growth and debt repayment, management has lowered the company's leverage profile from 6x in 2007 to approximately 3.5x as of 1Q11. Furthermore, the company's balance sheet refinancing [extending the revolver and issuing new senior notes to pay down nearer-term term loans (nearest maturity now 2015)] allowed the company to pay down a larger-than-expected initial portion of its 10.75% notes (pro forma leverage closer to 3.3x and within shouting distance of management's long-established 3x goal) and positions HealthSouth for continued FCF growth and an improved earnings profile.

### Free Cash Flow Growth and Healthy Yield Offer Attractive Valuation

Importantly, as a result of the aforementioned operating momentum and balance sheet refinancing, HealthSouth should see significant FCF growth over the coming years. Specifically, in addition to the healthy expected EBITDA growth, FCF will benefit from 1) the roll-off of \$44 million of interest rate swap payments by 2012; 2) lower interest expense from incremental debt repayment of the company's 10.75% senior notes; and 3) virtually no cash taxes as a result of net operating losses. We conservatively forecast FCF of \$280 million in 2012 (+25% growth CAGR off of 2010 levels) or an estimated 12% yield at current levels, one of the more attractive yield profiles in our coverage universe.

Overall, we believe the combination of solid operational momentum, growing levels of FCF, and a more aggressive capital restructuring strategy position HLS shares well for the balance of 2011, especially with shares currently offering a low-teens FCF yield and the IRF industry relatively insulated to major reimbursement reform. Our \$33 target price represents an 8.7% yield off of our 2012 FCF per share estimate of \$2.88, which is toward the midpoint of the historic provider group yield average of 7-10%.

— John W. Ransom

**12-Month Target Price**..... **\$36.00**  
**Current Price (07/07/2011)**..... **\$29.39**  
**Suitability**..... **Aggressive Growth**  
**Rating**..... **Strong Buy**

Hist. 12-month Price Range .....\$32.68-\$20.65  
 Dividend/Yield .....\$0.20/0.7%  
 Market Capitalization (mil.) .....\$9,217  
 Shares Outstanding (mil.) ..... 313.6  
 Book Value (03/11) ..... \$41.74  
 ROE (TTM)..... 9%  
 LT Debt (mil.) .....\$5,370/30%

FY (Dec)	2010A	2011E	2012E
EPS	\$3.13	\$4.05	\$4.30
P/E	9.4x	7.3x	6.8x
Revenue (mil.)	\$10,550	\$11,070	\$11,615

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.

## Undervaluation Remains While Favorable Life Insurance Trends Continue

Reflecting current valuation levels following a recent sell-off in shares of life insurers and strong operating fundamentals, we continue to believe that Lincoln National Corp. has the potential for substantial share price appreciation.

As a top-ten player in a number of life insurance product arenas, Lincoln is well-suited to continue to benefit from the investment and insurance guarantees that only the life insurance industry can provide. The company will prosper as risk aversion continues to drive the demand for life insurance and annuity products, the retirement asset accumulation story continues, and the retirement income distribution story plays out.

We expect the variable annuity market to become increasingly concentrated. As a major player in this arena, we expect Lincoln to hold or gain share. That said, we believe near-term market share trends for Lincoln in the variable annuity market may be negative given the company's heavy reliance on products featuring American Funds investment offerings during a period of time in which American Funds' performance has lagged a bit.

The company continues to sit on substantial excess capital which is available to increase the dividend, make acquisitions, or repurchase shares. The company has an excess of \$1.6 billion of capital at the insurance company level, which is over and above a 400% risk-based capital ratio. In addition, the company still holds \$500 million of liquidity at the holding company level. The actual risk-based capital ratio at the end of March was 500%, up from 491% at year-end.

The company repurchased \$75 million of common stock during the first quarter and expects to commit another \$100-150 million in buybacks over the remainder of 2011, which is an increase from beginning-of-year plans to spend \$125 million over the following 15 months, since free cash flow has been greater than expected as the economy improves.

While the company has spread sensitivity to the current low interest rate environment, we believe these headwinds are manageable.

Our price target of \$36 assumes that LNC shares can sell at a P/E multiple of 8.7x our 2012 EPS estimate of \$4.30 less roughly \$1.00 per share of after-tax investment losses. This multiple is a 34% discount to the then current S&P 500 multiple of 13.2x 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..... **\$40.00**  
 Current Price (07/07/2011)..... **\$15.73**  
 Suitability..... **Aggressive Growth**  
 Rating..... **Strong Buy**

Hist. 12-month Price Range .....\$26.17-\$8.65  
 Dividend/Yield .....\$0.00/0.0%  
 Market Capitalization (mil.) .....\$9,644  
 Shares Outstanding (mil.) ..... 613.5  
 Book Value (05/11) .....\$5.62  
 ROE (TTM)..... 16%  
 LT Debt (mil.) .....\$0/0%

FY (Jan)	2011A	2012E	2013E
EPS	\$0.42	\$1.09	\$1.68
P/E	37.5x	14.4x	9.4x
Revenue (mil.)	\$3,543	\$4,142	\$4,900

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.

## Market Share Gains and Tegra2 Ramp

In our view, the Street misunderstands the opportunity associated with NVIDIA, which is experiencing share gains in notebooks and strong momentum in Tegra2 for tablets and smartphones. In addition, NVIDIA is currently enjoying the strongest portfolio of high-margin products in its history and is enjoying 50+% gross margins, which few believed would be possible just a few quarters ago. Consumer PC demand continues to be weak thereby pressuring the discrete GPU business, in line with our expectations. However, we expect this weakness to be more than offset by growth in workstation and high performance computing, market share gains in discrete GPUs, and the solid ramp of Tegra2 (smartphones and tablets).

NVIDIA has finally started to see sales momentum in the mobile handset and tablet space with Tegra2, which is a new growth vector for the company. In addition, NVIDIA has come back strong after the delay in introducing its Fermi architecture from late 2009 to early 2010 (due to issues at its foundry partner) and now has these GPUs in every segment of the desktop, notebook, and workstation product lines. As a result, NVIDIA is seeing market share gains, particularly in notebooks, with the launch of Intel's (INTC/\$23.23/Outperform) Sandy Bridge platform in March. Early indications suggest that NVIDIA is on target to release its next-generation (Kepler) GPU in the latter part of 2011.

Much has and will be debated regarding the future of discrete GPUs vs. "integrated" graphics [Intel's Sandy Bridge or AMD's (AMD/\$7.15/Underperform) Fusion], with the implied imminent demise of the discrete GPU as we saw ten years ago when Intel created the category. While there will clearly be cycles in which integrated solutions are favored (as we just saw this summer and always in the low-end segments), the secular trend, in our view, points to increasing graphics transistor counts in computing systems which is a trend that is a friend of Moore's Law. Therefore, NVIDIA appears to be well-positioned.

Concerns about the impact on NVIDIA from the cannibalization of the PC market by tablets are overdone, in our opinion. NVIDIA does not sell any products in low-end desktops, low-end notebooks, or netbooks as this is the domain of integrated graphics. To the degree that there is cannibalization of low-end notebooks by tablets, then it is a net positive for NVIDIA as they are in nearly all the Android-based tablets in the market today. In addition, concerns about the success of non-Apple (Android-based) tablets off of a slightly weaker start early in the year are also overdone, in our opinion. We are seeing reasonable demand trends off of a reset of expectations in March and April, and recently launched Android-based tablets such as the ASUS Transformer are sold out.

NVIDIA has a clean balance sheet with \$2.7 billion in cash and short-term investments (\$4.44 per share) and no debt. Over the past 12 months, the company has generated an ROE of approximately 16% and the stock is up an estimated 50%. Shares of NVDA remain one of our favorite ideas with a 12-month target price of \$40, based on a 26x P/E multiple of our FY13 GAAP EPS estimate of \$1.68 discounted back 10%. The multiple is consistent with its ten-year historical forward P/E average of mid-20x, which we believe is reasonable due to gross margin expansion, market share gains, and new growth businesses in the computing markets.

— Hans Mosesmann

# Panera Bread Co.

(PNRA:NASDAQ)

12-Month Target Price..... **\$140.00**  
Current Price (07/07/2011)..... **\$131.96**  
Suitability..... **Aggressive Growth**  
Rating..... **Outperform**

FY (Dec)	2010A	2011E	2012E
EPS	\$3.62	\$4.50	\$5.05
P/E	36.5x	29.3x	26.1x
Revenue (mil.)	\$1,542	\$1,822	\$2,038

Hist. 12-month Price Range .....\$132.24-\$72.83  
Dividend/Yield .....\$0.00/0.0%  
Market Capitalization (mil.) .....\$3,985  
Shares Outstanding (mil.) ..... 30.2  
Book Value (03/11) .....\$20.97  
ROE (TTM)..... 19%  
LT Debt (mil.) .....\$0/0%

Non-GAAP EPS excludes one-time items.

Panera Bread Co., based in Richmond Heights, Missouri, owns and franchises a fast-growing chain of more than 1,400 bakery-cafes. The company has become the leader in the emerging "quick casual" segment via its fresh baked specialty bread, high-quality sandwich ingredients, and more upscale setting compared to traditional fast food.

## Sales and EPS Visibility Remains High; "Emerging Power Brand" Thesis Intact

**Mid-year update:** PNRA shares have been very strong in 2011 (+28%) and surged an estimated 20% after the company's 4Q10 earnings release in mid-February. The company's sales momentum remains solid and should be further supported by 1) the launch of a \$40 million TV advertising campaign in mid-June, and 2) a 1% incremental menu price increase to be taken in 2H11. Coupled with recent declines in wheat prices (lagged impact as 2011 needs have already been hedged), we believe the company's earnings visibility (and potential for further guidance increases) is among the highest in our coverage universe.

**Rating and price target update:** On February 14 at \$116.11 (following the aforementioned surge), we lowered our rating on Panera to Outperform from Strong Buy largely due to valuation. We are currently willing to tolerate a slightly elevated valuation given the company's strong underlying fundamentals, significant free cash flow power and debt-free balance sheet, and open-ended growth potential. **As a result, we reiterate our Outperform rating and our recently raised price target of \$140, which equates to a cash-adjusted P/E of 25.5x our 2012 EPS estimate of \$5.05 (at the upper end of the stock's three-year historical range of 21-26x).**

**Our long-term "emerging power brand" thesis remains intact, and we believe investors will be well-rewarded as it plays out over the next five-plus years.** From a brand management and operations standpoint, the company has never been as strong as it is today, in our view. We believe that management has clearly "hit its stride" in the areas of new product and day-part innovation, quality and process enhancements, and broader operational efficiency initiatives. Coupled with a broader and more sophisticated marketing and advertising strategy, we believe Panera is well-positioned to gain share in existing markets and grow significantly beyond its current footprint for many years to come.

Regarding unit growth potential, we believe Panera is essentially an upscale fast food concept competing in a market with an estimated \$200 billion in annual retail sales. We see no reason why the chain cannot eventually achieve an upscale niche market share of around 5%. If we are correct, the chain could still grow by over three times its current size before reaching maturity in the U.S.

Assuming the commercial real estate market cooperates (site availability), we expect Panera's unit growth to re-accelerate soon driven by the concept's very high return on investment (approximately 40% cash-on-cash) and the company's strong financial position (\$250 million of cash on its balance sheet with zero debt, and generates over \$100 million of annual free cash flow). Said financial strength, coupled with its 50% franchise business mix, should also allow the company to begin to return excess cash flow to shareholders.

— Bryan C. Elliott, CFA

# Pioneer Natural Resources, Inc.

(PXD:NYSE)

12-Month Target Price..... **\$120.00**

Current Price (07/07/2011)..... **\$92.51**

Suitability..... **Aggressive Growth**

Rating..... **Strong Buy**

FY (Dec)	2010A	2011E	2012E
EPS	\$1.81	\$3.19	\$4.08
P/E	51.1x	29.0x	22.7x
Revenue (mil.)	\$1,997	\$2,509	\$3,038

Hist. 12-month Price Range .....\$106.07-\$54.89

Dividend/Yield .....\$0.08/0.1%

Market Capitalization (mil.) .....\$10,805

Shares Outstanding (mil.) ..... 116.8

Book Value (03/11) .....\$39.19

ROE (TTM)..... NM

LT Debt (mil.) .....\$2,563/36%

Non-GAAP EPS excludes non-operating items such as asset sales and non-cash mark-to-market hedging activity.

Pioneer Natural Resources, Inc., headquartered in Irving, Texas, is an independent oil and gas exploration and production company. Major operating areas include the Permian Basin, the Eagle Ford, and Barnett Combo in Texas, Alaska, and South Africa. At year-end 2010, proved reserves were 987 MMboe (55% liquids and 57% developed).

## High-Return Growth in the Permian Basin and Eagle Ford Shale

Pioneer Natural Resources is a growth-oriented E&P company focused on maximizing the economic return of its large and diversified domestic asset base. As a result of depressed gas prices, the company has put its gassy, held-by-production inventory on the shelf, instead focusing its capital on higher-return liquids (oil and NGLs) drilling. Pioneer currently has almost 1 Bboe of proved reserves, with 2.5 Bboe of additional resource potential. Moreover, the company's expansive drilling inventory is over 75% liquids-weighted.

Pioneer is the largest acreage holder in the Permian Basin and holds one of the biggest and most enviable positions in the Eagle Ford Shale (two of the highest return plays in the country). In 2011, the company will continue to accelerate its oil-focused drilling in the Spraberry field and will also be accelerating the development of the Eagle Ford (as part of a joint venture with Reliance). Pioneer represents one of the few companies we cover that can deliver multi-year, double-digit organic production growth within cash flow. The company is forecasting an 18+% production CAGR for the next three years which should drive a 30+% cash flow CAGR for the same time period.

In order to protect its margins against the backdrop of escalating service costs, Pioneer is very active in the vertical integration of its operations. The company currently owns 14 of its 35 operated drilling rigs in the Spraberry and will soon be adding its seventh frac fleet to the Spraberry field. This vertical integration should save Pioneer upwards of \$500,000 per well. All in, the company has a goal of being almost 60% self-sufficient with service requirements by 2012. In addition, the company has a very attractive hedging book with over 85% of gas hedged at a floor of \$6.25/Mcf for the remainder of 2011 and approximately 80% of its 2012 gas production hedged at ~\$5.85/Mcf (vs. current strip pricing closer to \$4.60/Mcf).

On the catalyst front, Pioneer will have 6-8 additional "science project" wells testing the horizontal potential of its Spraberry acreage, with a primary focus on the Wolfcamp formation. We note that our valuation assumes no horizontal Permian potential. In addition, we believe the company will show healthy proved reserve growth in 2011 as a result of the continued success in drilling deeper Spraberry wells into the Strawn and Lower Wolfcamp intervals, along with improved well performance from its Eagle Ford program.

PXD remains one of our favorite ideas in the E&P space and we believe the stock still has ample upside from current trading levels. Our \$120 target price is based on our total company NAV of \$120 using strip pricing (\$5/Mcf and \$100/Bbl).

— John Freeman, CFA

<b>12-Month Target Price</b> .....	<b>\$85.00*</b>	Hist. 12-month Price Range .....	\$78.19-\$50.57
<b>Current Price (07/07/2011)</b> .....	<b>\$75.33</b>	Dividend/Yield .....	\$1.64/2.2%
<b>Suitability</b> .....	<b>Total Return</b>	Market Capitalization (mil.) .....	\$12,949
<b>Rating</b> .....	<b>Strong Buy</b>	Shares Outstanding (mil.) .....	171.9
<b>FY (Dec)</b>	2010A	2011E	2012E
EPS	\$3.88	\$5.18	\$6.06
P/E	19.4x	14.5x	12.4x
Revenue (mil.)	\$8,410	\$10,250	\$10,567
		Book Value (04/11) .....	\$42.65
		ROE (TTM).....	10%
		LT Debt (mil.) .....	\$3,562/33%

\*Projected 12-month price target does not reflect recent stronger price action in the stock. 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).

## Revenue Diversity and Black & Decker Synergies Support Cash and EPS Growth

We continue to view SWK shares positively, even with the macro backdrop of stubbornly low homeowner confidence. Residential construction and repair/remodel end-markets represent less than half of the overall end-market exposure for Stanley.

The balance of exposure (primarily within its Industrial and Security businesses) is broad-based, including commercial construction, industrial, automotive aftermarket and production, retail, healthcare, infrastructure, etc. In particular, the Security segment, which represents over one-fourth of total companywide profits, provides a heavily recurring base of sales and high, stable margins thereby adding further stability to cash flows. Stanley recently announced an offer to acquire Niscayah, a European commercial security business, which management believes will be \$0.35-0.40 accretive to “cash” EPS in its first year and \$0.60+ accretive by year three.

Stanley has provided further details on the synergies expected from the Black & Decker acquisition over the last six months. Cost-saving synergies are now expected to be \$425 million by 2012 and \$460 million on a run-rate basis by year-end 2012 (up from \$350 million at December 2010). The boost to EPS from these cost savings alone is \$0.78 in 2011 and \$0.53 in 2012. Management has also guided for incremental sales synergies of \$300-400 million by 2013 from the Black & Decker deal.

Strong free cash flow generation is an important part of the story. Management expects to reach \$1.1 billion of annual free cash flow generation this year (up from \$1 billion by 2012 at December 2010). The company has a history of shareholder-friendly cash use. Management’s long-standing goal is to invest one-third of the company’s capital growth in dividends and share repurchases. Stanley increased its dividend again in 2011, as it has done for the past 44 consecutive years.

Our price target of \$85 is based on our previously published estimate of intrinsic value (DCF-derived). The target price implies only a 12x multiple on our current 2012 “cash” EPS estimate of \$6.76 (we view “cash” as more relevant given high non-cash amortization expenses). This multiple is approximately 90% of the 14x multiple at which the S&P 500 currently trades (the five-year median relative multiple for SWK is 93%). Interestingly, we note that shortly after Stanley announced the proposed deal for Niscayah at ~14x EBITDA, another European security firm (Securitas Direct) was bought by two private equity firms for ~15x EBITDA. If we assume Stanley’s entire Security segment is granted only a 10-12x multiple, it implies the market is only giving a 4-5x EBITDA multiple to the rest of the business despite its various #1 market share positions and high-teens operating margins.

— Sam Darkatsh

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**Strong Buy (SB1)** Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

**Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

**Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months.

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

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

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

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

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**Market Perform (MP3)** Expected to perform in line with the underlying country index.

**Underperform (MU4)** Expected to underperform the underlying country index.

**Suspended (S)** The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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	Coverage Universe Rating Distribution		Investment Banking Distribution	
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<b>Market Perform (Hold)</b>	39%	23%	5%	39%
<b>Underperform (Sell)</b>	6%	2%	0%	0%

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