

footnoted*pro

reading filings so you don't have to

December 30, 2011

footnotedPro: 2011 in review

With the end of the year upon on us, we thought we'd take a look back at 2011, both as a kind of quality control exercise, and to get a better sense of what works, what doesn't and what can be improved.

Longer term, we're working on some more rigorous tracking mechanisms and a number of technical improvements in how we compile and distribute reports and the Red Flag Alert items. As we do so, the best judge of how we're doing is you — and the best way to get more out of footnotedPro is for you to let us know what you want to see: new features, new approaches, adjustments to what we cover and how, or anything else. Email us at pro@footnoted.com any time.

Before we get to hits and misses, an overview: With our report earlier this week on **Altera (ALTR)**, we've published 56 footnotedPro reports in 2011, as well as 52 weekly Red Flag Alert PDFs. A number of those reports were on individual companies, but we've had as many as 19 separate companies in a single report (on [inflation signals](#) among retailers, in early April); in all, those 56 reports covered more than 160 unique tickers — see the full list at the end of this report. Here's a look at both the good and the bad:

Hits

Perhaps most significantly, three of the companies we listed in our January 14 [M&A report](#) announced deals:

- **Pride International** (formerly PDE) announced on February 7 that the company had agreed to be acquired by **Enscopl (ESV)** for \$41.60 a share in cash and stock, a 21% premium to the previous Friday's close and a 22% premium over the share price when we published the original M&A report. The deal [closed](#) on May 31.
- **Smurfit-Stone Container** (formerly SSCC) [announced](#) on January 24 that it had agreed to be acquired by **Rock-Tenn (RKT)** for \$35 in cash and stock, a 21% premium over the previous Friday's close, and a 25% premium over the share price when we published the original M&A report. The deal [closed](#) May 27.

- **Lawson Software** (former LWSN) announced on April 26 that it had entered into an agreement to be taken private at \$11.25 a share in cash, a 23% premium over when we issued our report. The deal [closed](#) July 6.

It wasn't part of that January M&A report, but on August 12, we had issued a footnotedPro [report](#) asking whether **Success Factors (SFSF)** was positioning itself for a deal, based on a variety of factors. The company [announced](#) in early December that it would sell to **SAP (SAP)** for \$40 a share in cash, a 59% premium over the close on the date of publication (\$25.13).

Other M&A calls haven't been borne out yet, but have offered investors substantial gains since we published. For example, on October 5, we published a [report](#) on **WebMD (WBMD)**, calling attention to some unusual and unexpected stock grants to the company's top executives. We didn't raise deal prospects explicitly, but in the Red Flag Alert [report](#) we put out November 13, we did note the company had disclosed the adoption of a poison pill a few days earlier. Since then, reports of investments by Carl Icahn, and the potential for a private-equity deal have helped drive the stock up, to about \$38 from \$27 on the day of publication.

One of our more dramatic non-M&A calls involved **AMR Corp. (AMR)**, the parent of American Airlines, which filed for bankruptcy on November 29. A little over a month previously, on October 21, we published a footnotedPro [report](#) titled, "Looking for bankruptcy clues in AMR's 10-Q" — and finding a few that were consistent with the company gearing up for a bankruptcy filing. (We also noted that our colleague covering AMR for Morningstar Equity Research was explicitly predicting bankruptcy and putting a \$0 price target on the company the same day.) At the time of publication, AMR was trading at \$2.69 a share; it's down to about 34 cents a share.

Netflix (NFLX) is down considerably from where it was when we published our September 19 [report](#) calling attention to the SEC's inquiries into the company's fiddling with various operational metrics (as well as the company's combative response to the inquiries). Netflix has made a lot of missteps, of course, but the signals we cited can be read, certainly in retrospect, as hallmarks of some larger managerial problems. The company's shares were down more than 50% in the three months after our report.

Other companies where we've spotted some potentially troubling signals in what we think of as our "sweet spot" time-horizon of three to six months: **Accuray (ARAY)**, down 22% after six months and 54% after nine months; **Northrop Grumman (NOC)**, down almost 30% after six months; **Whirlpool (WHR)**, down about 30% after six months; **St. Joe Cos. (JOE)**, down 21% after three months; and **STEC Inc. (STEC)**, down 38% after three months. (Links to these reports in the full list of companies, below.)

Misses:

While we're proud of our hits, we don't get them all right. Perhaps most obviously, there are the seven companies in our original January 14 M&A report that *haven't* done deals, as well as three other companies we [added](#) to our list in late March. (One of the original 10 is **Leap Wireless International (LEAP)**, which is [reportedly](#) a potential target for AT&T or another big cellular company; but despite nice gains in recent days, the stock is down a whopping 35% from when we published.) We think a 30% hit rate is pretty good, but our goal is to do better, and we're making a number of efforts to improve our track-record in 2012.

In other cases, we've found information that looks good (or bad — we identified potentially troubling information for about three-quarters of the companies we covered in 2011), only to see the stocks go the other direction. Finding signals in SEC filings is an inexact and evolving science; we also recognize that SEC filings often don't tell the whole story — that's why we look at our research as an adjunct to the other resources at subscribers' disposal. Still, the goal is to find the signals that are most likely to make a difference in a stock's trajectory.

In June, we put out a [report](#) about some changes in the supply-chain for cigarette manufacturers and tobacco suppliers that we thought would have a big impact on companies like **Universal Corp. (UVV)**. While the stock initially declined, it was up 7% after three months and 18% after six months, far outperforming the market.

We'd also have to chalk **Extreme Networks (EXTR)** up in the miss category, at least so far. We wrote about them twice, once in [April](#), and again in [late October](#), after also writing about them in early [November 2010](#). In short, we cited reasons late last year that we thought the company could be gearing up for a sale; in April, we said new signals seemed to downplay that possibility. So far so good, perhaps — but then this October, we spotted what looked like more signals that the company could be in play. The company's negotiations with activist investors were stretching on, and the company kept delaying its annual meeting in the process. So far, though, nothing much has happened, and the stock is down to about \$2.95 a share, from \$3.41 on the date of our April report.

Full list of companies covered in 2011

Company	Ticker	Report date
3M Company	MMM	9/8/2011
A. Schulman, Inc.	SHLM	5/27/2011
Aaron's, Inc.	AAN	9/16/2011
Abercrombie & Fitch Company	ANF	4/5/2011
ABIOMED, Inc.	ABMD	1/14/2011
Accuray Incorporated	ARAY	1/28/2011
Aflac Incorporated	AFL	11/14/2011
Akamai Technologies, Inc.	AKAM	12/16/2011

Albemarle Corporation	ALB	7/15/2011
Alliance One International, Inc.	AOI	6/16/2011
Altera Corporation	ALTR	12/28/2011
Altria Group	MO	6/16/2011
American Apparel Inc	APP	8/19/2011
American Electric Power Company, Inc.	AEP	9/16/2011
AMR Corporation	AMR	10/21/2011
ANSYS, Inc.	ANSS	12/21/2011
Apollo Group, Inc.	APOL	6/3/2011
Bank of America Corporation	BAC	6/20/2011
Beam Inc.	BEAM	7/15/2011
BioScrip, Inc.	BIOS	2/7/2011
Boston Scientific Corporation	BSX	7/15/2011
Boston Scientific Corporation	BSX	11/14/2011
British American Tobacco Industries, p.l.c.	BTI	6/16/2011
Broadcom Corporation	BRCM	9/16/2011
Brocade Communications Systems, Inc.	BRCM	9/16/2011
Capella Education Company	CPLA	5/19/2011
Capital One Financial Corporation	COF	6/20/2011
CareFusion Corporation	CFN	11/14/2011
Carter's, Inc.	CRI	3/23/2011
Caterpillar, Inc.	CAT	9/8/2011
Charming Shoppes, Inc.	CHRS	4/5/2011
Cisco Systems, Inc.	CSCO	9/16/2011
Citigroup Inc.	C	3/7/2011
Citigroup Inc.	C	6/20/2011
CNO Financial Group, Inc.	CNO	11/14/2011
Coca-Cola Company (The)	KO	9/8/2011
Comerica Incorporated	CMA	6/20/2011
Community Health Systems, Inc.	CYH	4/15/2011
Community Health Systems, Inc.	CYH	4/18/2011
Community Health Systems, Inc.	CYH	4/23/2011
Community Health Systems, Inc.	CYH	4/26/2011
Computer Sciences Corporation	CSC	11/14/2011
Copano Energy, L.L.C.	CPNO	1/14/2011
Corinthian Colleges, Inc.	COCO	5/19/2011
Costco Wholesale Corporation	COST	4/5/2011
DeVry Inc.	DV	5/19/2011
Dice Holdings, Inc.	DHX	8/1/2011
Dominion Resources, Inc.	D	9/16/2011
Edison International	EIX	11/14/2011
Education Management Corporation	EDMC	5/19/2011
Emulex Corporation	ELX	9/16/2011

Exar Corporation	EXAR	12/16/2011
Extreme Networks, Inc.	EXTR	4/1/2011
Extreme Networks, Inc.	EXTR	10/28/2011
Fifth Third Bancorp	FITB	6/20/2011
Fifth Third Bancorp	FITB	8/7/2011
First American Corporation (The)	FAF	4/7/2011
Frontier Communications Company	FTR	9/16/2011
Gap, Inc. (The)	GPS	4/5/2011
Gap, Inc. (The)	GPS	8/19/2011
General Electric Company	GE	11/14/2011
Genon Energy Inc.	GEN	11/14/2011
H&R Block, Inc.	HRB	6/30/2011
Halliburton Company	HAL	11/7/2011
Hanesbrands Inc.	HBI	4/5/2011
Hewlett-Packard Company	HPQ	7/15/2011
Hewlett-Packard Company	HPQ	9/16/2011
Imax Corporation	IMAX	12/16/2011
Infinera Corporation	INFN	1/14/2011
International Business Machines Corporation	IBM	9/8/2011
IntraLinks Holdings, Inc.	IL	12/16/2011
Intuit Inc.	INTU	9/16/2011
J P Morgan Chase & Co	JPM	3/7/2011
J P Morgan Chase & Co	JPM	6/20/2011
J P Morgan Chase & Co	JPM	11/14/2011
J.C. Penney Company, Inc. Holding Company	JCP	4/5/2011
J.C. Penney Company, Inc. Holding Company	JCP	12/16/2011
JDS Uniphase Corporation	JDSU	8/25/2011
KeyCorp	KEY	6/20/2011
KKR & Co. L.P.	KKR	3/8/2011
Kohl's Corporation	KSS	4/5/2011
Kohl's Corporation	KSS	9/14/2011
Kopin Corporation	KOPN	12/16/2011
Krispy Kreme Doughnuts, Inc.	KKD	3/23/2011
Landstar System, Inc.	LSTR	8/1/2011
Lawson Software	LWSN	1/14/2011
Leap Wireless International, Inc.	LEAP	1/14/2011
LKQ Corporation	LKQX	1/14/2011
Lorillard, Inc	LO	6/16/2011
M&T Bank Corporation	MTB	6/20/2011
Macy's Inc	M	8/19/2011
Magellan Midstream Partners L.P.	MMP	11/14/2011
McKesson Corporation	MCK	12/23/2011
Men's Wearhouse, Inc. (The)	MW	4/5/2011

Microsoft Corporation	MSFT	7/15/2011
Moneygram International, Inc.	MGI	12/16/2011
NetApp, Inc.	NTAP	12/6/2011
Netflix, Inc.	NFLX	9/19/2011
Nike, Inc.	NKE	4/5/2011
Nordstrom, Inc.	JWN	8/19/2011
Norfolk Souther Corporation	NSC	9/16/2011
Northrop Grumman Corporation	NOC	2/10/2011
NYSE Euronext, Inc.	NYX	7/5/2011
Ocwen Financial Corporation	OCN	3/7/2011
Pacific Sunwear of California, Inc.	PSUN	4/5/2011
Pall Corporation	PLL	3/11/2011
Parametric Technology Corporation	PMTC	12/2/2011
Peabody Energy Corporation	BTU	11/14/2011
PHH Corp	PHH	3/7/2011
Philip Morris International Inc	PM	6/16/2011
Piedmont Natural Gas Company, Inc.	PNY	9/16/2011
Pinnacle Entertainment, Inc.	PNK	3/23/2011
PNC Financial Services Group, Inc. (The)	PNC	3/7/2011
PNC Financial Services Group, Inc. (The)	PNC	6/20/2011
Pride International	PDE	1/14/2011
Progress Software Corporation	PRGS	12/16/2011
Prudential Financial, Inc.	PRU	11/14/2011
Public Service Enterprise Group Incorporated	PEG	11/14/2011
Regions Financial Corporation	RF	6/20/2011
Regions Financial Corporation	RF	11/4/2011
Reynolds American Inc	RAI	6/16/2011
Schawk, Inc.	SGK	5/23/2011
Sears Holdings Corporation	SHLD	4/5/2011
Sears Holdings Corporation	SHLD	8/19/2011
Select Medical Holdings Corporation	SEM	1/14/2011
Shaw Group Inc. (The)	SHAW	11/14/2011
Smurfit-Stone Container	SSCC	1/14/2011
St. Joe Company (The)	JOE	7/5/2011
Stage Stores, Inc.	SSI	1/14/2011
Stanley Black & Decker, Inc.	SWK	7/15/2011
Staples, Inc.	SPLS	9/16/2011
STEC, Inc.	STEC	7/25/2011
SuccessFactors, Inc.	SFSF	8/12/2011
SunTrust Banks, Inc.	STI	3/7/2011
SunTrust Banks, Inc.	STI	6/20/2011
Talbots, Inc. (The)	TLB	4/5/2011
Target Corporation	TGT	4/5/2011

Target Corporation	TGT	8/19/2011
The Children's Place Retail Stores, Inc.	PLCE	4/5/2011
The Knot Inc.	KNOT	1/31/2011
Time Warner Cable Inc	TWC	9/16/2011
TiVo Inc.	TIVO	9/16/2011
TJX Companies, Inc. (The)	TJX	4/5/2011
Transocean Inc.	RIG	6/24/2011
Tyson Foods, Inc.	TSN	11/23/2011
U.S. Bancorp	USB	3/7/2011
U.S. Bancorp	USB	6/20/2011
Under Armour, Inc.	UA	4/5/2011
Universal Corporation	UVV	6/16/2011
Vera Bradley, Inc.	VRA	4/5/2011
Verizon Communications Inc.	VZ	9/8/2011
Visteon Corporation	VC	10/18/2011
Vmware, Inc.	VMW	9/16/2011
Wal-Mart Stores, Inc.	WMT	4/5/2011
Washington Post Company (The)	WPO	5/19/2011
Waste Management, Inc.	WM	9/16/2011
WebMD Health Corp	WBMD	10/5/2011
Webster Financial Corporation	WBS	6/20/2011
Wells Fargo & Company	WFC	3/7/2011
Wells Fargo & Company	WFC	6/20/2011
Wells Fargo & Company	WFC	10/13/2011
Wendy's Company (The)	WEN	1/20/2011
Whirlpool Corporation	WHR	2/22/2011
Whole Foods Market, Inc.	WFM	9/27/2011
Wisconsin Energy Corporation	WEC	11/14/2011
Wright Medical Group, Inc.	WMGI	5/4/2011
Zumiez Inc.	ZUMZ	4/5/2011

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