

## D.I. Reports®

**BMC Software Inc.** (BMC- \$39.39 Mkt. Cap.- \$6910 M) **Medium Risk - Negative Bias.**

**D.I. PROFILE®** Acquisition activity; ongoing patent litigation; one-time items; turnover on the board; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating on BMC. BMC reported 12 acquisitions for approximately \$1.3 billion, of which \$815 million was allocated to goodwill. In Dec-10, a patent infringement lawsuit was filed against a number of software companies, including BMC, which remained ongoing as of its most recent 10-Q filed in Jul-11. Since FY07, BMC has recorded severance, exit costs, and related charges of \$112 million and in-process research and development charges of \$54 million. There were 6 director departures and a chairman change. Robert Beauchamp has been CEO since Jan-01 and Chairman since Oct-08.

**E\*TRADE Financial Corporation** (ETFC- \$11.27 Mkt. Cap.- \$3210 M) **High Risk.**

**D.I. PROFILE®** An ongoing SEC inquiry; non-SEC activity; patent litigation; board turnover; and turnover in the CEO and CFO positions support our opinion of a High Risk rating for ETFC. The SEC inquiry, disclosed in Oct-07, relates to ETFC's mortgage loan and loan securities portfolios. ETFC continued to report this inquiry in its most recent 10-Q filed 4-Aug-11. Beginning in approximately Aug-08, representatives of various states attorneys general and FINRA initiated inquiries regarding the purchase of auction rate securities by E\*TRADE Securities LLC's (subsidiary) customers. On 9-Feb-11, E\*TRADE Securities received a "Wells Notice" from the FINRA staff. ETFC reported that E\*TRADE Securities is cooperating with these inquiries and has submitted a Wells response to FINRA. The matter appeared ongoing as of 4-Aug-11. On 16-May-11, Droplets Inc., the holder of 2 patents pertaining to user interface servers, filed a lawsuit against ETFC and multiple other unaffiliated financial services firms alleging patent infringement. There have been 7 director departures and 3 chairmen changes since 2007. Most recently, Chairman Robert Druskin did not stand for re-election at the 2011 annual meeting held 12-May-11 due to the time required by other business commitments. Steven Freiberg was appointed as interim Chairman at that time. There have been 5 CEOs, including 2 interim CEOs. The current CEO, Steven Freiberg, was appointed in Mar-10. There have been also 3 CFOs. On 1-Jan-11, CFO Bruce Nolop retired and Matthew Audette was appointed CFO.

**First BanCorp** (FBP- \$3.10 Mkt. Cap.- \$66 M) **High Risk.**

**D.I. PROFILE®** One-time items; a series of dilutive transactions expected to be completed in 3Q11; related party transactions; and FirstBank operating under an FDIC order support our opinion of a High Risk rating on FBP. One-time items include \$1.36 billion in net charge-offs since 2006. In 2Q11, FBP entered into agreements with Thomas H. Lee Partners and Oaktree Capital Management under which each entity would acquire \$174.1 million in newly issued common stock, representing a 24.4% ownership interest. The company also entered

into agreements with other institutional investors and private equity firms for the issuance of an additional \$176.8 million in stock. The transactions are subject to shareholder and regulatory approval, and are expected to be completed in 3Q11. If the transactions are approved, FBP reported that it will exercise its right to compel the Treasury to convert its holdings of preferred stock into common shares. As of 15-Mar-11, the Treasury beneficially owned 58.2% of the company's outstanding common stock through its right to convert preferred holdings into common shares. The net impact of the series of transactions, if completed, would be to increase the shares of common stock outstanding from 21.3 million as of 15-Mar-11 to 230.0 million. In a proxy filed 2-Aug-10, FBP reported that it granted loans to its directors, executive officers, and certain related individuals or entities in the ordinary course of business. The balance of these loans fell from \$179.2 million as of 31-Dec-08 to \$24.2 million as of 31-Dec-09. During that period, new loans were \$3.5 million, payments were \$6.4 million, and other changes totaled \$(152.1) million. In the 10-K filed 15-Apr-11, the company reported only 2 related party loans totaling \$6.6 million. FBP entered into an FDIC order dated 2-Jun-10 as well as an agreement with the Federal Reserve dated 3-Jun-10. The agreements stem from the FDIC's 2H09 examination, and indicate that the company cannot be regarded as "well-capitalized" as of 30-Jun-11.

**Lamar Advertising Co.** (LAMR- \$19.45 Mkt. Cap.- \$1810 M) **Medium Risk - Negative Bias.**

**D.I. PROFILE**<sup>®</sup> Insider ownership; a recent CEO change; and related party transactions support our opinion of a Medium Risk - Negative Bias rating for LAMR. LAMR has 2 classes of stock: A and B, which are entitled to one vote and ten votes per share, respectively. Stock ownership by members of the Reilly family represented 66% of the voting power as of 1-Apr-11. Chairman Kevin Reilly, Jr., CEO Sean Reilly, and directors Anna Reilly and Wendell Reilly are siblings. In Feb-11, Kevin Reilly, Jr. (CEO since 1989) resigned as the CEO, but continued as President. He was succeeded by his brother, Sean Reilly. Lamar Texas Limited Partnership (the company's subsidiary) and Reilly Consulting Company (controlled by Kevin Reilly, Sr., the father of Chairman Kevin Reilly, Jr.) entered into a consulting agreement providing for an annual consulting fee of \$0.19 million for the 5-year period commencing on 1-Jan-04 and an annual consulting fee of \$0.15 million for any subsequent one-year renewal. The agreement was renewed in 2009 and 2010.

**News Corp.** (NWS- \$16.52 Mkt. Cap.- \$43400 M) **Medium Risk - Negative Bias.**

**D.I. PROFILE**<sup>®</sup> One-time items; acquisition activity; related party transactions; insider ownership; government investigations; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating for NWS. From FY09 - FY11, NWS recorded \$9.7 billion in impairment charges and \$553 million in restructuring charges. NWS reported 16 acquisitions for at least \$9.6 billion. In Jun-10, NWS announced that it had proposed an acquisition to the board of directors of British Sky Broadcasting Group (BSkyB), in which NWS currently has an approximate 39% interest. In Jul-11, NWS announced that it no longer intended to make an offer for the BSkyB shares that the company does not already own and as a result of the announcement would have to pay a \$63 million breakup fee. In Apr-11, NWS acquired Shine Group for \$615 million. Shine Group, a television production and distribution company, was controlled by Elisabeth Murdoch, the daughter of Chairman & CEO Rupert Murdoch. Certain subsidiaries of NWS had entered into various production and distribution arrangements with Shine Group and had paid Shine \$12.6 million over the past 5 years. Chairman & CEO Murdoch's son-in-law, Matthew Freud, controls Freud Entertainment and provides external support to the press and publicity activities. NWS paid Freud Communications \$2.7 million over the past 5 years. In Jul-11, NWS announced that it would close its publication, News of the World, after allegations of phone hacking and payments to police. As a result of these allegations, the company is subject to several ongoing investigations by U.K. and U.S. regulators and

governmental authorities, including investigations into whether similar conduct may have occurred at the company's subsidiaries outside of the U.K. NWS faces criminal investigations regarding allegations of phone hacking and inappropriate payments to police and other related matters. As of Aug-11, K. Rupert Murdoch (Chairman & CEO since 1991), along with the Murdoch Family Trust, owned 39.7% of the class B stock.

**Pioneer Natural Resources Co.** (PXD- \$75.54 Mkt. Cap.- \$8820 M) **Medium Risk - Negative Bias.**

**D.I. PROFILE**<sup>®</sup> Impairment charges; concentrated revenue; related party transactions; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Negative Bias rating for PXD. PXD recorded impairment charges for long-lived assets (oil and gas properties) totaling \$137 million. From 2009 through 1H11, the company recorded inventory impairment charges of \$13.6 million. PXD also recorded a \$3.4 million rig impairment charge in 2008. Plains Marketing LP and Enterprise Product Partner accounted for 12% and 10%, respectively, of the company's sales during 2010. Tom Sheffield, brother of Chairman & CEO Scott Sheffield, is employed at a subsidiary of the company as VP of the Rockies Asset Team. In Aug-08, Bryan Sheffield, son of Scott Sheffield, obtained from his maternal grandfather ownership of Parsley Energy Operations LLC, a company that operates 120 Spraberry field wells in which the PXD holds an average 30% working interest. Parsley Energy has received standard overhead and supervision fees from the company for operating these wells. Scott Sheffield has been CEO since Aug-97 and Chairman since Aug-99.

**Procter & Gamble Company** (PG- \$62.91 Mkt. Cap.- \$172880 M) **Medium Risk - Positive Bias.**

**D.I. PROFILE**<sup>®</sup> Investigations into potential violations of competition laws; 10 director departures; concentrated revenue; and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Positive Bias rating on PG. PG disclosed that it was subject to a variety of investigations into potential competition law violations by the European Commission (EC) and national authorities from a number of countries. Several countries in Europe issued separate complaints pursuant to their investigations alleging that the company engaged in violations of competition laws in those countries. In Oct-08, PG disclosed its own investigation into potential violations of competition laws. PG reported that it had identified some violations in certain European countries. In Aug-11, the company disclosed that it has received final decisions from the Czech Republic, EC, Italy, Spain, Switzerland, and the United Kingdom, which all decided not to pursue cases against the company. As of Aug-11, PG is still under investigation by national authorities in Belgium, France, Germany, Greece, and Romania. The internal investigation appears to be concluded. Of the 10 director departures, 5 appear to be per the company's retirement policy. Wal-Mart Stores, Inc. accounted for 15% of PG's FY11 revenue. Robert McDonald has served as CEO since Jul-09 and Chairman since Feb-10.

**Safeway Inc.** (SWY- \$18.69 Mkt. Cap.- \$6540 M) **Medium Risk - Positive Bias.**

**D.I. PROFILE**<sup>®</sup> **We are changing our rating from Medium Risk - Negative Bias to Medium Risk - Positive Bias due to the conclusion of an action by the California attorney general.** One-time items and the chairman and CEO positions being held by one person support our opinion of a Medium Risk - Positive Bias rating on SWY. Over the past 5 years, SWY recorded impairment charges totaling \$274 million related to the write-down of long-lived assets and \$30 million for store exit activities. In 2009, SWY recorded a goodwill impairment charge of approximately \$2 billion primarily attributed to its reduced market capitalization and the weak economy. Steven Burd has been Chairman since May-98 and CEO since Apr-93.

**STEC, Inc.** (STEC- \$9.26 Mkt. Cap.- \$478 M) **High Risk.**

**D.I. PROFILE**<sup>®</sup> SEC investigative activity; concentrated revenue; related party transactions; and the chairman and CEO positions being held by one person support our opinion of a High Risk rating on STEC. In Feb-10, STEC disclosed that the SEC was conducting a formal investigation regarding trading in its securities. The company and certain officers, including CEO Manouch Moshayedi and his brother COO Mark Moshayedi, received subpoenas in connection with the matter. STEC reported in Jul-11 that it had received a Wells Notice, indicating that the SEC was considering recommending a civil injunction against the company and the Moshayedis, charging them with violations of the antifraud and reporting provisions of federal securities laws. The investigation appeared ongoing as of the 10-Q filed 3-Aug-11. EMC, IBM, SMART Modular, and Hitachi accounted for 38%, 13%, 13%, and 11% of 2010 total revenue, respectively. Three unnamed customers accounted for 28%, 25%, and 18% of 1H11 revenue. The company leases 2 facilities from an entity majority owned by Manouch and Mark Moshayedi. Base rent under the agreements totaled \$56,000 per month in 2010.

**Synovus Financial Corp.** (SNV- \$1.37 Mkt. Cap.- \$1080 M) **High Risk.**

**D.I. PROFILE**<sup>®</sup> SEC investigative activity; turnover on the board; one-time items; and related party transactions support our opinion of a High Risk rating on SNV. In Mar-10, the company disclosed that it had received a letter indicating that the SEC was conducting an informal inquiry to "determine whether any person or entity has violated the federal securities laws." The matter appeared ongoing as of the 10-Q filed 9-Aug-11. There have been 7 director departures, including 4 who did not stand for re-election at the Apr-11 annual meeting. One-time items include restructuring charges each year since 2008 totaling \$55 million, \$495 million in goodwill impairments in 2008 and 2009, and \$3.81 billion in net charge-offs since 2006. The company leases properties and has an aircraft sharing agreement with W.C. Bradley, an entity at which directors Blanchard and Yancey serve on the board. In 2010, SNV made \$2.7 million in payments under the lease agreement and paid \$1.4 million for its share of aircraft costs. In Mar-10, the company sold certain residential property to the son of former director Amos. The total sale price was \$4.0 million, \$1.8 million of which was paid through the exchange of like-kind property.

**Tellabs Inc.** (TLAB- \$4.07 Mkt. Cap.- \$1490 M) **Medium Risk - Negative Bias.**

**D.I. PROFILE**<sup>®</sup> Concentrated revenue; one-time items; and patent infringement litigation support our opinion of a Medium Risk - Negative Bias rating on TLAB. AT&T and Verizon accounted for 35% and 20% of 2010 total revenue, respectively. Two unnamed customers accounted for a combined 34% of 1H11 revenue. One-time items include restructuring charges each year since 2006 totaling \$77 million as well as a \$988 million goodwill impairment charge in 2008. TLAB reported in Jul-11 that it expects to record an additional \$22 million in restructuring charges through 2Q12. The company is a defendant in patent infringement lawsuits filed by Fujitsu Network Communications in Jan-08, Telcordia Technologies in May-09, Lambda Optical Solutions in Jun-10, and Cheetah Omni in Jun-11.

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**Required Disclosure** - Please see <http://www.disclosureinsight.com/disclosures.html> for certain disclosures regarding ITG Inc. (a member of FINRA and SIPC) required under NASD Rule 2711(h).

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