NORTH AMERICAN MORNING RESEARCH SUMMARY

Tuesday, September 09, 2008

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This summary is compiled from research published by Lehman Brothers.

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MORNING MEETING FOCUS

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MasterCard Inc. (MA)	Conf Takeaways Suggest Solid 3Q Results	Bruce Harting	1-OW / 2-NEU
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COMPLETE LIST OF TODAY'S PUBLICATIONS

Company Publications		
Ameriprise Financial (AMP)	First Midwest Bancorp (FMBI)	National Financial Partners (NFP)
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AuthenTec Inc. (AUTH)	Kendle International Inc. (KNDL)	OneBeacon Insurance Group (OB)
Cardinal Health (CAH)	KeyCorp (KEY)	PAREXEL International (PRXL)
China Communications Services (0552.HK)	Lam Research (LRCX)	TCF Financial (TCB)
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Electronic Arts (ERTS)	MasterCard Inc. (MA)	

Industry Publications		
Health Care Facilities	Health Care Facilities	Solar Energy
Health Care Facilities	Health Care- Managed Care	Washington Research
Health Care Facilities	Oil & Gas: E&P (Large Cap)	
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LATE INTRADAY PUBLICATIONS FROM PREVIOUS BUSINESS DAY

Company / Industry		
Brown & Brown, Inc. (BRO)	Oil Service & Drilling - Oil Service	
Gaming	RenaissanceRe Holdings (RNR)	

PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 17.

KEY FORECAST CHANGES

SECURITY / SECTOR	TICKER	CURR	RATING		PRICE TARGET		CUR YEAR EPS		NEXT YEAR EPS	
			OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
COMPANY RATING CHANGES										
Nestle India Limited	NEST.BO	INR	0-NR	3-UW	N/A	1493.00	N/A	60.00	N/A	68.70
TARGET PRICE CHANGES										
AuthenTec Inc.	AUTH	US$	1-OW	unch	12.00	4.00	0.17	0.11	0.40	0.05
Kendle International Inc.	KNDL	US$	2-EW	unch	45.00	50.00	1.89	2.05	2.32	2.49
PAREXEL International	PRXL	US$	2-EW	unch	27.00	29.00	0.88	0.90	1.14	unch
ESTIMATE CHANGES										
Cardinal Health	CAH	US$	1-OW	unch	65.00	unch	3.85	unch	N/A	4.30
Electronic Arts	ERTS	US$	1-OW	unch	60.00	unch	1.63	1.50	2.49	2.60
First Solar Inc.	FSLR	US$	1-OW	unch	335.00	unch	3.55	3.78	7.20	7.50

* unch - no change

Ameriprise Financial (AMP): Déjà vu

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 44.37
Price Target:	US$ 65.00
Current Year EPS:	3.66
Next Year EPS:	4.41
Market Cap:	US$ 10137 (m)

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- We view AMP's presentation at the Lehman Brothers Financial Service conference as a reiteration of what AMP has been saying for the last six months. Focusing on client relationships and continuing to grow its Asset Management and Advice & Wealth Management business remains AMP's top priority. Increasing investment in advisor training and technology platforms, coupled with opportunities to improving cost structure and investing in high ROE businesses is consistent with AMP's business model. We affirm our 1-Overweight rating and our $65 price target.

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Apple, Inc. (AAPL): Weekly Apple Monitor 9/09/08

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 160.18
Price Target:	US$ 220.00
Current Year EPS:	5.23
Next Year EPS:	6.05
Market Cap:	US$ 141900 (m)

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- Even as the economy remains weak, we believe Apple's momentum can still build into year-end due to the 3G iPhone, potential for new Macs, and heightened enthusiasm around AAPL's "mobile community." Reiterate 1-OW.
- Apple will host a new product event today (9/9) in CA to announce new products. We are looking for iPod price cuts & new iTunes features around content. We aren't anticipating any Macs until later in October, but believe important upgrades are coming.
- US iPhone availability remains solid; the iPhone began selling in Best Buy stores on 9/7.
- NPD weekly US data suggests that AAPL's iPod sales 2/3 of the way into cal3Q are +10% y/y (3pts ahead of the overall MP3 market) even before new products ship.
- No major changes to Apple.com product availability; AAPL & Best Buy appear to be working to deplete iPod inventory into today's event.
- As expected, iPods fell in the Amazon.com top seller lists this week w/new products expected later today. We believe iPods will move back up the charts as the new products become available.

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AuthenTec Inc. (AUTH): Preannounces Q3, Share Loss in PC

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 2.55
Price Target:	US$ 4.00
Current Year EPS:	0.11
Next Year EPS:	0.05
Market Cap:	US$ 73 (m)

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- Following a negative preannouncement yesterday, we revise our estimates lower and price target to $4 (1.0x C09 EV/Sales) due to share loss at a major PC OEM and excess notebook components inventory.
- Our estimates decrease for 3Q08 to $18.4M/$0.03 excl ESO vs $19.5M/$0.04 prior. C08 decreases to $70.0M/$0.17 ($0.11 prior), and C09 to $70.2M/$0.05 ($0.50 prior)
- The decrease in forecast is mainly due to share loss at HP, which will use an alternative fingerprint sensor for the 2009 design cycle. HP accounts for 30-35% of sales
- AUTH indicated that a new PC customer (Lenovo) is working down inventory built in the Q2 period, and also cited less than normal seasonality in high end notebooks. This weakness is expected to spill into Q4 (guided down 4%)
- We expect profit margins to decline on weaker revenues though AUTH should remain profitable next year
- We think the stock at 0.3x EV/sales discounts weakness but an emerging catalyst (handsets) does not appear on the horizon.

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Brown & Brown, Inc. (BRO): BRO: Conference Presentation

Stock Rating:	3-Underweight
Sector Rating:	2-Neutral
Price:	US$ 21.75
Price Target:	US$ 16.00
Current Year EPS:	1.20
Next Year EPS:	1.15
Market Cap:	US$ 2859 (m)

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- BRO's President Powell Brown presented at Lehman's Financial Services conference today.
- In our opinion, BRO could continue to be negatively impacted by falling P&C prices and a slowing economy. About half of BRO's negative organic growth ytd 2008 is from falling P&C prices and half is from a slowing economy, and we do not expect these headwinds to subside near-term. That being said BRO expects year-over-year comparisons to become easier in 4Q08.
- In Florida (one-third of BRO's revenues), Citizens is offering 20-25% risk mitigation rate credits, which should put further pressure on P&C property prices in Florida.
- As long as BRO's organic growth is negative, we expect BRO to experience margin compression because it has little room to cut fixed costs.
- Despite recent acquisitions in the insurance brokerage industry, BRO said it is not looking to sell its business.
- BRO's acquisition pipeline remains robust, and the number of insurance agencies for sale has increased. BRO pays about 6-7x EBITA on average.

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Cardinal Health (CAH): 10K HIGHLIGHTS TOP CUSTOMERS' GROWTH

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 53.89
Price Target:	US$ 65.00
Current Year EPS:	3.85
Next Year EPS:	4.30
Market Cap:	US$ 19685 (m)

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- We are providing takeaways from Cardinal's 10-K filing from August 27, 2008:
- 1) Largest customer CVS Caremark showed accelerating growth w/ CAH this past FY, up roughly 10%, now representing 25% of total CAH drug revs; recall this cust. up for bid 6/30/09. We look for CAH to retain this key relationship, but do note CVS also largest cust. of MCK;
- 2) With #2 cust. WAG, these two rep. some 47% of total drug revenues;
- 3) Top 5 suppliers rep. 19% of total revs., comparable to last year, w/ no suppliers over 5% of total;
- 4) Slight wording change w/ $307mm impact from customer "re-pricings" in this year's K, broadening to 18 mo's, vs wording of $319mm impact from cust. discounts in FY07;
- 5) Drug price inflation index for CAH calculated at 7.7% in FY08, up from 6.3% in FY07;
- 6) Vendor reserve drops meaningfully from past two years, though rep. only a small fraction of total inventories carried by CAH;
- 7) Details of tax notices received since June 30th rep close to $600mm in est. owed taxes, before any penalties/interest - co. looks to contest.

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China Communications Services (0552.HK): Business on track towards robust 2009

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	HKD 5.45
Price Target:	HKD 7.60
Current Year EPS:	0.27
Next Year EPS:	0.38
Market Cap:	HKD 12754 (m)

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- We maintain our 1-Overweight rating on China Communications Services (CCS) and our 12-month target price of HK$7.60.
- For 1H08, CCS reported total revenue of RMB13.6 bn (+38% YoY), GP of RMB2.1 bn (+20% YoY) and NP of RMB567 mn (+11% YoY).
- Given 1H08 NP represents 38% of consensus forecast for FY, we believe CCS' 1H results are slightly below market expectations.
- We believe the slip in NP margin is mainly due to: (1) sharp growth of distribution service within the BPO division, which carries a lower GP margin; (2) rising costs of construction materials; and (3) rising costs of utilities used in the construction process. At the analyst briefing, management indicated that there were signs that margins were stabilizing during the first two months of 2H08.
- Although NP margin slipped a bit in 1H08, given the projected revenue and earnings growth in 2009 due to higher capex spending by mainland telcos, we reiterate that any short-term share price weakness in CCS would present a good buying opportunity.

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Consolidated Edison (ED): ConEd NY Electric GRC Testimony Filed

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 40.56
Price Target:	US$ 37.00
Current Year EPS:	3.00
Next Year EPS:	3.10
Market Cap:	US$ 11081 (m)

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- As expected, NYPSC Staff filed its testimony in the pending ConEd Electric GRC on 9/8/08. We reiterate our 2-EW rating on ED and our '08/'09/'10E of $3.00/$3.10/$3.23. We maintain our $37 price target, premised on '10 of $3.23 on a group multiple of 12.1X, discounted 5% for regulatory uncertainty.
- Staff recommended a 9.5% ROE v. ED's requested 10.0% and a slightly lower common equity ratio of 47.96% v. 48.51%.
- We view this outcome as constructive and we believe that it will be more likely to achieve a multi-year settlement for ConEd NY Electric as has been the case prior to the last rate order (April 1, 2008-March 31, 2009).
- Despite the potential upside associated with the prospect of an improved ROE, we remain cautious around demand destruction, O&M expense and continued equity needs (beyond '08).

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Electronic Arts (ERTS): Approaching An Inflection Point

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 46.48
Price Target:	US$ 60.00
Current Year EPS:	1.50
Next Year EPS:	2.60
Market Cap:	US$ 14819 (m)

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- We look for a number of positive data points from Electronic Arts' recent and upcoming releases over the next couple months, which should suggest turnaround efforts are taking hold. These events, in our view, should outweigh the reduced EPS outlook for F2008 due to the delay for the next Harry Potter title until next summer.
- Reviews and recent retail channel checks have been positive for Tiger Woods PGA Tour 09 and Mercenaries 2. Tiger Woods had its best launch ever in the UK. Mercenaries 2 appears to be selling well in the U.S. and should remain a franchise property. Spore has launched to very positive reviews.
- Upcoming key titles to watch include: Warhammer Online (9/16), Dead Space (10/14), Mirror's Edge (11/11) and Skate It (TBD). Warhammer, Mirror's Edge and Skate It received "Best of" awards at last month's Leipzig Games Conference.
- We are lowering our F2009 non-GAAP rev/EPS to $5.11B/$1.50 from our prior $5.23B/$1.63 outlook, reflecting the delay in the next Harry Potter title until next summer's movie release. We are raising our F2010 rev/EPS to $5.82B/$2.60 from our previous $5.71B/$2.49 forecast.

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First Midwest Bancorp (FMBI): Update from New York City Conference

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 25.82
Price Target:	US$ 29.00
Current Year EPS:	2.09
Next Year EPS:	2.15
Market Cap:	US$ 1254 (m)

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- Highlights from FMBI's presentation are as follows: (1) It appears that housing deflation of 10% in Chicago is less than in the rest of the country. But, movement in housing inventory is sluggish. Job growth has slowed to less than 1%. (2) Management is evaluating whether to move its CDO portfolio into the held-to-maturity category. (3) Management described its loan pipeline as strong. It is aggressively focused on commercial and still expects some growth in commercial real estate. In contrast, it expects cash flows from its resi and land development portfolio. (4) It appears that its resi and land development portfolio is now fully valued. (5) Management also noted the challenge of liquidating nonperforming assets. Still, in 3Q08, it expects to sell 2 pieces of OREO without incurring further losses. (6) In coming quarters, cash flows from its securities book should provide funding to support loan growth. (7) Its tangible equity-to-tangible asset ratio, ex-OCI, was 5.90% in 2Q08, compared to its targeted 6.00% to 6.50%. We rate FMBI 2-Equal weight.

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First Solar Inc. (FSLR): Attractive Risk-Reward

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 236.01
Price Target:	US$ 335.00
Current Year EPS:	3.78
Next Year EPS:	7.50
Market Cap:	US$ 18891 (m)

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- FSLR remains our high conviction idea as we see upside to '09 street ests even in the worst case scenario. We continue to believe FSLR is well positioned to gain market share and consequently grow earnings by at least twice the run rate of sector peers over the next three years.
- In our view, 1) tight poly supply, 2) smooth Malaysia execution and 3) improved technology roadmap should play to FSLR's strengths in 2009. We continue to see margin expansion in 2009 as costs decline faster than ASPs.
- Our channel checks with system integrators in Germany and European mkts suggest demand for FSLR's products far exceeds supply. We believe FSLR is currently turning down orders from several system integrators in order to meet demand from existing customers.
- Our '09/'10 ests are based on FX assumption of 1.40/1.30 and in the worst case scenario, we still see $7/$10 earnings power in '09/'10 respectively (assuming FX of 1.30/1.20 in '09/'10). We are raising our '08 ests from $3.71 to $3.78, '09 ests from $7.20 to $7.50. Shares are trading at 30x '09 ests, at a modest premium to the group however at the low end of historical valuation range.

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Gaming: ATLANTIC CITY PREVIEW: AUG 08

Sector Rating: 1-Positive

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- Our conversations with Atlantic City operators indicate that August's results have the potential to be positive. August revenues should be reported by the New Jersey Casino Control Commission around September 10.
- Heading into August, operators were optimistic that it might be AC's best month of the year, as August had five true weekends and captured the Labor Day holiday weekend; however, following the month's end, we received mixed signals with one operator describing August as very good while another indicating that it was more of the same. This leads us to believe that the disparity between properties with new assets and those without could be increasing. As a reminder, Borgata and Harrah's Marina both have new expansions (Borgata's new WaterClub tower soft opened in early June and Harrah's new retail promenade and Waterfront Tower opened in 1Q08). Additionally, Trump Taj opened part of its new Chairman tower around Labor Day weekend.
- September will likely be a challenging month for the market as any gains seen in August could likely be taken from September. Additionally, Hurricane Hanna likely washed out September's first Saturday. One operator noted that business that first Saturday was off 50%-60% from usual levels; however, he also noted that weekends after holidays are typically weak.
- Marketing promotions again continue to remain elevated but toned down from levels seen last year. While this could affect revenues, it should have a more positive impact on margins.
- August 2008 has an easy comp. Revenues in August 2007 were down 5.9% (to $465.2 million) versus August 2006.
- Calendar Effect: August 2008 benefits from having one more Saturday and Sunday than August 2007 and from capturing the Labor Day holiday weekend.
- In our gaming universe, Boyd and MGM derive approximately 15% and 3% of their total EBITDA from Atlantic City, respectively. In 2007, Borgata (a 50/50 joint venture between Boyd and MGM) garnered market share of 15%. Harrah's four properties (Bally's, Caesars, Harrah's and Showboat) and the Tropicana earned market share of 44% and 8%, respectively, while the three Trump properties garnered about a 21% share.

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Health Care Facilities: CLINICAL LABS JUNE QUARTER REVIEW

Sector Rating: 2-Neutral

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- We are pleased to provide you with our detailed review of the Clinical Labs subsector.
- We remain positive on the clinical labs and continue to view this as a defensive space, despite the increase in bad debt expense in the quarter. Revenue and pricing have returned to more normal levels, after adjusting for a few items that are skewing results, but we suggest that it can accelerate again in 2009 with the potential for improved pricing. We note that this is primarily due to labs receiving a higher-than-expected 4.5% rate increase under the Clinical Laboratory Fee Schedule in 2009 (noting that the Clinical Laboratory Fee Schedule represents 10% of LH's consolidated revenue and we believe it also represents 10% of DGX's revenue). Also, the managed care contracting landscape will likely continue to be much more stable, contrasting the active contracting environment in 2007 (with 4 out of the 5 largest managed care contracts finalized in 2007), suggesting less "noise" in the future. At the same time, cost cutting has emerged as a major theme at both DGX and LH. While the bad debt charge recorded by LabCorp was a major source of disappointment, in our opinion, and while bad debt may tick a little higher over the next few quarters, we do not believe this should be a major source of concern for either LH or DGX since we suggest that the magnitude of any increase will be relatively modest from current levels.
- LEHMAN KEY TAKEAWAYS: 1) Revenue and pricing have returned to more normal levels, after adjusting for a few items that are skewing results; 2) While the economy is likely having a negative impact on lab volumes, the bigger issue for LH, in our view, was that its initial guidance for revenue growth was overly optimistic (whereas DGX did not face this issue since its expectations were more modest); 3) While the bad debt charge recorded by LabCorp was a major source of disappointment, in our opinion, and while bad debt may tick a little higher over the next few quarters, we do not believe this should be a major source of concern for either LH or DGX; 4) Cost cutting has emerged as a major theme at both DGX and LH; 5) We note a relatively stable managed care reimbursement environment through the end of 2009; and 6) We highlight a very favorable Medicare reimbursement environment for labs in 2009, with the potential for this to continue.
- Per our norm, along with the Lehman Health Care Services Team, we will host a call today at 11:00 AM EDT. The call-in number is (800) 706-8249 (U.S.) or (706) 634-5881 (Int'l) and the replay number is (800) 642-1687 (passcode: 61416722). A detailed slide presentation will be available later this morning. Please contact Bryan Sekino at (212) 526-3647 or brysekin@lehman.com for a copy of the PowerPoint slides.
- Our "Lehman Health Care Facilities Quarterly Statistics Worksheet" with detailed statistics on the quarter for both hospitals and alternate site companies is now available. Please contact us at (212) 526-5496 if you would like an email copy.
- For additional details on all of our subsectors please see our detailed note published this morning entitled "JUNE QUARTER REVIEW: SIGNS OF STABILITY - AGAINST CONVENTIONAL WISDOM." We highlight that the report contains additional information not included in this email including our review of the Hospitals, Institutional Pharmacy, and Alternate Site subsectors. Our detailed note also contains our company-by-company "Adam's Anecdotes" section, our review of recent Medicare rules, and our focus stocks.

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Health Care Facilities: INST PHARMA JUNE QUARTER EARNINGS REVIEW

Sector Rating: 2-Neutral

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- We are pleased to provide you with our detailed review of the Institutional Pharmacy subsector.
- Institutional Pharmacy companies should continue to benefit from increased generic utilization. We note that the benefit from this macro trend has taken longer than expected, but we believe this was related to the mix of products going off patent in recent months playing a more significant role in institutional pharmacy. As a result, both OCR and PMC are starting to see a benefit to margins from generic drugs. We note the second quarter launch of generic Wellbutrin, Paxil and Precose. Omnicare is currently the largest buyer of Risperdal in the U.S., buying around $200 million of the product per year (of the roughly $2.5 billion of Risperdal sold annually). Risperdal went generic on June 28, 2008; the company suggested the conversion rate is already 95%. As a result, we have better visibility in the institutional pharmacy space overall as the companies have adjusted to Part D and enter a period where we expect continued margin expansion.
- LEHMAN KEY TAKEAWAYS: 1) Institutional pharmacy companies reported strong results for the second consecutive quarter; 2) While challenges remain in the institutional pharmacy space, we believe positive pricing growth is a sign that things are turning around; 3) Margins expanded during the June quarter due to both increased utilization of generics at OCR and consolidation of pharmacies at PMC; and 4) Both OCR and PMC raised their guidance with the strong quarter.
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Health Care Facilities: ALT SITE JUNE QUARTER EARNINGS REVIEW

Sector Rating: 2-Neutral

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- We are pleased to provide you with our detailed review of the Alternate Site subsectors (including Hospice, Senior Living, Skilled Nursing, Home Respiratory, and Healthcare REITs).
- In the alternate site space, 2Q08 results were generally better than expected. In addition to the strong results in the quarter, legislation has been generally positive for the alternate site subsector. These legislation changes include the following: 1) Skilled Nursing reimbursement saw a delay to the proposed cut to Medicare reimbursement; 2) The doc fix legislation has created increased visibility for the home respiratory space and the delay to the respiratory drug cuts is a positive; and 3) IRF's and LTAC's continue to benefit from the SCHIP bill passed late last year leading to a more stable reimbursement and regulatory environment. The exception to this trend is that Hospice operators face cuts which are scheduled to reduce reimbursement over the next three years. Finally while senior living is less susceptible to the annual legislation from Medicare, we highlight that reduced expectations coming in the quarter proved to be somewhat overstated as the senior living operators reported a better than expected quarter (after a build up in negative sentiment in June) and suggested that a potential turnaround is on the horizon.
- LEHMAN KEY TAKEAWAYS: 1) Declining occupancy rates remain a key source of overhang on the senior living sector, although BKD was upbeat about rates starting to improve in June and July; 2) For senior living, same store revenue growth and same store pricing growth were positive (albeit weaker than previous quarters), while same store volume growth was very weak; 3) While senior living saw negative volume growth and a continued decline in occupancy, we highlight that much of the problems in the space were anticipated; 4) SNF pricing remains strong, and we highlight that the Medicare final rule for SNF's was better than expected suggesting that Medicare pricing will come under less pressure than originally expected; 5) SNF margins increased 36 bps, due largely to higher rent expense; 6) Lincare reported better-than-expected results, resulting in year-over-year margin expansion, primarily due to additional leverage on SG&A; 7) While the provisions in the doc fix legislation passed by Congress in mid-July result in payment cuts in 2009, it also results in much better visibility thus allowing multiples to expand; 8) Hospice results were better than expected, although, expectations had been lowered following the very challenging 1Q08 results at CHE; 9) Medicare's tone towards hospice is becoming incrementally more negative, which could be a major source of overhang given that Medicare represents over 90% of hospice revenue; and 10) More traditional sources of income have allowed the REITs to maintain steady FFO growth.
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Health Care Facilities: HOSPITALS JUNE QUARTER EARNINGS REVIEW

Sector Rating: 2-Neutral

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- LEHMAN HEALTH CARE FACILITIES JUNE QTR EPS REVIEW - Despite concerns about the impact from the economy, we note that the June quarter earnings season was better than expected for the entire Health Care Facilities sector. Specifically, we note that the hospital results were slightly better than anticipated (but not as uniform as Q1'08), reflecting a continued stabilization of bad debt expense, but modest volume growth. Nonetheless, in our view, the biggest surprise of the year has been the stabilization in bad debt expense. We highlight that virtually every company has recognized several charges related to bad debt expense over the past five years. At the same time, companies have boosted reserves. As a result, the accounting is now more conservative. As a result, we expect less prior period catch up charges in 2008. Although we are not looking for significant improvement in bad debt expense in the near team, we think that we should continue to see gradual improvement and the worst is behind the sector. We also highlight the potential for a continued improvement in sentiment with more discussion about healthcare reform with the upcoming election. As a result, we are generally upbeat about the prospects for the Health Care Facilities sector, but would highlight volume pressure as the biggest near-term risk.
- We note that the hospital results were slightly better than anticipated (but not as uniform as Q1'08 with some issues in a few reports - HMA issues with volume growth and CYH had a minor issue with Indiana Medicaid), reflecting a continued stabilization of bad debt expense, but modest volume growth. Nonetheless, in our view, the biggest surprise of the year has been the stabilization in bad debt expense. We highlight that virtually every company has recognized several charges related to bad debt expense over the past five years. At the same time, companies have boosted reserves. As a result, the accounting is now more conservative. As a result, we expect less prior period catch up charges in 2008. Although we are not looking for significant improvement in bad debt expense in the near team, we think that we should continue to see gradual improvement and the worst is behind the sector. We also highlight the potential for a continued improvement in sentiment with more discussion about healthcare reform with the upcoming election. As a result, we are generally upbeat about the prospects for the Health Care Facilities sector, but would highlight volume pressure as the biggest near-term risk.
- We also provide you with a review of our focus names CYH, DGX, HCP, HGR, HLS, PMC, THC and UHS.
- Per our norm, along with the Lehman Health Care Services Team, we will host a call today at 11:00 AM EDT. The call-in number is (800) 706-8249 (U.S.) or (706) 634-5881 (Int'l) and the replay number is (800) 642-1687 (passcode: 61416722). A detailed slide presentation will be available later this morning. Please contact Bryan Sekino at (212) 526-3647 or brysekin@lehman.com for a copy of the PowerPoint slides.
- Our "Lehman Health Care Facilities Quarterly Statistics Worksheet" with detailed statistics on the quarter for both hospitals and alternate site companies is now available. Please contact us at (212) 526-5496 if you would like an email copy.
- For additional details on all of our subsectors please see our detailed note published this morning entitled "JUNE QUARTER REVIEW: SIGNS OF STABILITY - AGAINST CONVENTIONAL WISDOM." We highlight that the report contains additional information not included in this email including our review of the Clinical Labs, Institutional Pharmacy, and Alternate Site subsectors. Our detailed note also contains our company-by-company "Adam's Anecdotes" section, our review of recent Medicare rules, and our focus stocks.

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Health Care Facilities: JUNE QUARTER EARNINGS REVIEW

Sector Rating: 2-Neutral

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- LEHMAN HEALTH CARE FACILITIES JUNE QUARTER EPS REVIEW - "SIGNS OF STABILITY - AGAINST CONVENTIONAL WISDOM"
- LEHMAN HEALTH CARE FACILITIES JUNE QTR EPS REVIEW - Despite concerns about the impact from the economy, we note that the June quarter earnings season was better than expected for the entire Health Care Facilities sector. Specifically, we note that the hospital results were slightly better than anticipated (but not as uniform as Q1'08), reflecting a continued stabilization of bad debt expense, but modest volume growth. Nonetheless, the biggest surprise of the year has been the stabilization in bad debt expense. We highlight that virtually every company has recognized several charges related to bad debt expense over the past five years. At the same time, companies have boosted reserves. As a result, the accounting is now more conservative. As a result, we expect less prior period catch up charges in 2008. Although we are not looking for significant improvement in bad debt expense in the near team, we think that we will continue to see gradual improvement and the worst is behind the sector. We also highlight the potential for a continued improvement in sentiment with more discussion about healthcare reform with the upcoming election. As a result, we are generally upbeat about the prospects for the Health Care Facilities sector, but would highlight volume pressure as the biggest near-term risk.
- With that, this morning we are pleased to provide: a) a review of our investment theme, b) key takeaways from recently reported June quarter earnings season for hospitals/surgery centers, psych hospitals, clinical labs and institutional pharmacy, c) key takeaways from recently reported June quarter earnings season for the alternate site sectors (nursing homes, LTACs, senior living, REITs, hospice and home respiratory), d) a review of all of the recent Medicare rules and regulations that were issued in the past month, e) Adam's Anecdotes - a key takeaway for every company in our universe, e) a detailed valuation analysis and stock price performance review, and f) reviewing focus names CYH, DGX, HCP, HGR, HLS, PMC, THC and UHS.
- Per our norm, along with Lehman Health Care Services Team, we will host a call today at 11:00 AM EDT. The call-in number is (800) 706-8249 (U.S.) or (706) 634-5881 (Int'l) and the replay number is (800) 642-1687 (passcode: 61416722). A detailed slide presentation will be available later this morning. Please contact Bryan Sekino at (212) 526-3647 or brysekin@lehman.com for a copy of the PowerPoint slides.
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Health Care- Managed Care: 2Q Results: One Step Forward

Sector Rating: 2-Neutral

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- After (more than) two steps backwards this year, the managed care industry took one step forward with the reporting of earnings season for the second quarter. This has been the most challenging year for managed care investors since 1999. Our coverage universe (excluding the ancillary benefit providers) is down 32.0% year to date. This all compares to the S&P500 Index down 9.3%. A majority of the damage was done prior to the second quarter earnings season.
- General Observations: 1) Investment Income, or the lack thereof, has provided a significant drag on reported earnings for the first half of 2008. 2) On average, commercial medical loss ratios were up 138 bps from the prior year quarter, as six (of seven) companies experienced year over year MLR increases. 3) After several very strong years of operating earnings growth, the managed care companies actually showed a decline in EBIT from the prior year. 4) Regional plans actually added more lives than national plans in 2Q08 though this was driven by an acquisition at Humana. 5) Overall organic commercial membership trends were negative in the quarter, with losses in the risk book only modestly offset by fee based gains. 6) There has been much discussion over overall cost trends and premium yields for the rest of this year and into 2009. 7) We saw the majority of overall medical loss ratios increase in the second quarter, driven by upticks in cost trend, lower than anticipated yields, and mix-shift impacts. 8) Relative to FirstCall consensus EPS estimates, second quarter results came in line with reduced expectations. 9) After missing estimates for the first time in "recorded history" in the previous quarter, companies rebounded this quarter with a average upside to estimates of 4.3%. 10) Coming off the heels of already reduced expectations, most metrics were in-line. 11) On average, we note that Coventry continues to grow its top line fastest in the group, while CIGNA showed the strongest net income growth (helped by its acquisition of Great West). 12a) In aggregate, we believe that reserve quality was slightly above average. 12b) We stress the importance of cash flow trends because it is impossible to manipulate the reserve balances without seeing deteriorating cash flow trends in the long run, in our opinion. 13) Year to date in 2008, roughly $6.5 billion has been used for share repurchases.
- Medicare Observations: 14) In the second quarter, the average Medicare MLR was 86.2% which represented a year over year increase of roughly 320 bps. 15) Turning to PDP, aggregate membership levels are up 26% but PMPMs are down 6% year over year.
- Medicaid Observations: 16) In certain states, budgetary pressures are clouding the outlook for Medicaid plans in the near term. 17) Medicaid managed care medical loss ratios decreased 150 bps year over year and were flat sequentially at 81.7%. 18) On the Medicaid front, better than expected revenue growth and MLR improvements led to earnings upside at all of our Medicaid names.

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Kendle International Inc. (KNDL): 2Q MOVES IN THE RIGHT DIRECTION

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 49.28
Price Target:	US$ 50.00
Current Year EPS:	2.05
Next Year EPS:	2.49
Market Cap:	US$ 725 (m)

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- We are raising our EPS est's for KNDL to reflect the company's good 2Q EPS. This qtr's performance marked a sharp reversal from recent periods where KNDL consistently reported results below expectations. This performance brought KNDL's financial performance more inline our positive view of KNDL's customer franchise. While we continue have some concerns & believe mgmt must ensure greater consistency in results, 2Q goes a long way to show that mgmt can yield good results from the business.
- Mgmt outlook raised to EPS of $2.00-$2.15 on revenues of $490-$500M. Previous ranges were $1.90-$2.07 & $450-$460M respectively.
- We saw signs of progress with better revenue growth based on increased billable hours. New guidance range appears reasonable with even modest sequential growth from 2Q's run rate.
- Mgmt forecast does not include impact of F/X or one-large billable that helped 2Q results. We note 2Q normally results in best billable hours in the year, so we anticipate some deceleration in Q/Q growth in 2H08.

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KeyCorp (KEY): Conference: NIM Lower, Sales On-going

Stock Rating:	3-Underweight
Sector Rating:	1-Positive
Price:	US$ 13.74
Price Target:	US$ 14.00
Current Year EPS:	0.75
Next Year EPS:	1.35
Market Cap:	US$ 6797 (m)

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- New/forward looking info from KEY at our conference includes: a) it guided its anticipated net interest margin to the low end of its 3.15-3.20% guidance due primarily to stiff pricing competition on the CD front (3.32% in 2Q); b) it reiterated its expected 2H NCO forecast of 1.20-1.60% (0.67% in 1Q, 2.75% in 2Q); c) it stated it expects to sell more than half of its $340MM (45bps of NPA) of construction loans HFS before quarter-end. Still, given increased supply, it sounded to us like additional marks may be needed. Also, we sensed it was more inclined to retain a portion as REO; d) overall loan balances are expected to be flat to down in 3Q; e) overallotment of its 2Q capital issuance adds 9bps to 3Q ratios (tier 1 8.58% pro forma); f) it stated it does not hold any common or preferred GSE shares; g) 3Q/4Q expected to included $33MM/qtr for disputed taxes pushing tax rate to 35%; h) areas of focus for '09 include asset management, investment banking & capital markets and CRE loan servicing. Unlike several of its peers, it reiterated its commitment to the asset management space; and i) it expects to increase its de novo effort from 10 branches in '08 to 15-30 a year looking out.

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Lam Research (LRCX): $250M Stock Buyback Announced

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 31.96
Price Target:	US$ 50.00
Current Year EPS:	1.58
Next Year EPS:	3.15
Market Cap:	US$ 4009 (m)

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- While the magnitude of the announced stock buyback was somewhat disappointing, we view the announcement as a step in the right direction and continue to view Lam as the cheapest of the high quality front-end equipment names and continue to rate 1-Overweight.
- After the close, LRCX announced that its Board of Directors authorized (remember they met late August) the repurchase of up to $250M in stock effective immediately.
- While we had been expecting such an announcement, we are a bit surprised by the limited size of the program considering net cash level of $928M as of the June quarter end. We believe limited size announced reflects conservative approach from Board of Directors and not indicative of mgmt's view on value of stock.
- At $31.96, shares trade 1.5x/1.4x EV/our CY08/09 revenue estimates and 13x our CY09 EPS estimate of $2.50. Excluding net cash of $7 per share, trading less than 10x our CY09 EPS estimate.

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M&T Bank (MTB): Conference: 'Very Content With Capital'

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 76.00
Price Target:	US$ 76.00
Current Year EPS:	6.00
Next Year EPS:	6.00
Market Cap:	US$ 8376 (m)

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- New/forward looking info from MTB at our conference includes: a) at 2Q it had $42MM of unrealized losses on $162MM of preferred FRE/FNM stock. Unrealized losses were $103MM at 8/31 and likely higher currently. Still it believes its current capital generation (15% in 1H) should allow it to replenish any hit. It stated it was "very content with its capital position"; b) 7.76% tier 1 is its highest level in 5yrs. It believes its position in slow growth markets and lower risk profile allows it to operate at lower levels than peers. Still, its TCE target is 5.4%-5.6% vs. 5.0% currently; c) it believes its $295MM investment in BLK is "sound" and "accounted for appropriately". Its agreement with Bayview Financial allows it to benefit from non-BLG cash flows. Still, severance costs should weigh on 3Q (like 2Q); d) it commented HELOC & H/E delinquencies are improving, while 1st mortgage and other consumer are deteriorating (has $3.5B in auto); e) it does see signs homebuilders (4% of loans) are starting to get some traction at reduced prices, although projects in outlying locations remain soft; and f) non-resi CRE and C&I yet to show meaningful deterioration. However, watching small biz.

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MasterCard Inc. (MA): Conf Takeaways Suggest Solid 3Q Results

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 221.44
Price Target:	US$ 335.00
Current Year EPS:	9.05
Next Year EPS:	11.45
Market Cap:	US$ 28592 (m)

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- MasterCard's comments at the Lehman Brothers conference yesterday reinforced our view that the Company is one of the most resilient growth stories in our space. We believe MasterCard's 3Q08 Y-o-Y revenue growth will be above consensus estimates of 17% for the following reasons: 1) During July and August, U.S. and International transaction volume growth was stable with 2Q08 levels, 2) cross-border transaction growth is similar to 2Q08 levels, 3) European volume is holding up well and its mostly debit and/or emerging market exposure should allow for resilience, 4) the Company's recent price increase was on cross-border transactions, which are seasonally the strongest during third quarters, and should boost revenue growth during 3Q08. During 2Q08, net revenue increased 25% (Y/Y) including the weak dollar, and while the dollar has strengthened versus 2Q08 (it's still weaker Y/Y), we believe our estimate for 3Q08 revenue growth of 19% (Y/Y) is conservative. The company also suggested that 2009 expense growth will moderate versus 2008 growth rates. Overall, we expect MA to grow earnings by at least 25% during 2009, and at a multiple of 19x (0.76 PEG), we believe shares of MA offer compelling value.

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National Financial Partners (NFP): Positive Impetus

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 19.89
Price Target:	US$ 34.00
Current Year EPS:	2.62
Next Year EPS:	3.08
Market Cap:	US$ 790 (m)

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- We hosted National Financial Partners at Lehman's 2008 Global Financial Services Conference here in New York. While we are cognizant of the fact that current market conditions present a strong headwind, we came away with a positive impression. We believe that the addition of Donna Blank to the management as the new CFO should provide a positive impetus. Given our longer view of the stock, we affirm our 1-Overweight rating.

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Nestle India Limited (NEST.BO): Take a break

Stock Rating:	3-Underweight
Sector Rating:	1-Positive
Price:	INR 1784.50
Price Target:	INR 1493.00
Current Year EPS:	60.00
Next Year EPS:	68.70
Market Cap:	INR 172054 (m)

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- While Nestle's long-term growth prospects look appealing given the new initiatives, we remain concerned about near-term earnings visibility. We believe that current valuations are expensive and provide an unfavorable risk-reward ratio. We initiate coverage with a 3-Underweight rating and a price target of INR1,493, representing potential downside of 16.3%.
- We believe that the current growth momentum (average revenue growth of 25% in the past six quarters) is unlikely to be sustained. Promotional spend, which is currently very low (5% of sales for Nestle India compared with 11% for other Indian consumer goods companies we cover), is likely to increase. We expect this, coupled with limited operating leverage, will put pressure on margins.
- The premium valuations accorded by the street based on the company's strong performance in the recent past are unjustified, in our opinion, because the company appears to be nearing its peak in terms of operational performance.

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Oil & Gas: E&P (Large Cap): 2008 Energy Conf. Review -- Large E&P

Sector Rating: 2-Neutral

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- Sharply declining commodity prices in recent weeks have caused E&P investor sentiment to turn very negative following the dramatic run-up of oil and gas prices in the first half of the year. Investors are now concerned about the potential for the natural gas market to be oversupplied come winter, causing further downward pressure for gas prices. E&P companies did not dispel that concern. Eagerness to continue to drill and the confidence expressed about future production growth plans imply that price may need to fall sharply, or stay low for a prolonged period of time, to moderate the current supply surge. While we retain our $7.50/mmBtu natural gas price for 2009, we believe that the risk remains to the downside and that gas prices could potentially fall to $5-6 in the short term if U.S. supply remains strong and severe winter weather does not materialize.
- Investors remain concerned that gas supply is growing far faster than gas demand. The Energy Information Administration (in its EIA-914 report) shows that US production volumes rose roughly 9% in the first half of 2008. Many companies expressed the view that the strong gains were unsustainable as they resulted from one-time items, including the start-up of the Independence Hub platform and the Rockies Express pipeline. We believe that these two items represented less than a 2% year-over-year gain in the first 6 months of the year.
- Many companies expressed concern about natural gas prices but gave little indication that they are ready to reduce drilling activity and to lower production forecasts. Investors routinely asked, "At what gas price do you lay down rigs?" Nearly all companies are just going into the capex planning process and have been very hesitant to give definitive answers. Companies have given the impression that drilling economics are very robust down to $7/MMbtu or so, but "unnamed other companies" have high cost gas that could see slowing activity below $8-9 (this implies that many companies plan to drill through short-term weakness).
- Can the industry continue to grow US gas volumes? Many presenters pointed to pipeline constraints (Rockies in particular) and suggested '09 volume growth would be materially below 2008 growth. Despite these suggestions, few Rockies producers indicated that they were cutting budgets as a result (although gas has been shut in this month due to outages at Rockies Express).
- Asset values are falling in some regions. PXP and CHK indicated that asset values in select shale plays are down 25-30% from the peak. The gas price drop was certainly a factor in this. Several companies suggested that acreage transactions in hot plays were done at prices that were far too high to be economic.
- We are concerned the E&P industry is too complacent. Nearly every company expects to deliver strong gas volume growth. At the same time, most companies expressed the view that others cannot grow a lot in 2009. If the companies are right about their own ability to deliver volume growth, there could be a continued period of oversupply.
- We continue to believe that, in the intermediate term, the downside risk for natural gas is greater than oil and prefer oil-levered names to gas-oriented producers, although we are attracted to a couple of gas-levered producers trading at significant discounts. Our favorite picks for intermediate performance are APA, NBL and TLM, while we recommend those investors looking for natural gas exposure at an attractive valuation acquire the shares of APC and DVN.
- What follows is a brief summary of the most material points from each E&P company's presentation.

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Oil Service & Drilling - Oil Service: The Original Oil Patch Weekly

Sector Rating:	1-Positive

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- The "Original Oil Patch Weekly" provides industry and company commentary for the oil service and drilling universe. It also contains industry data and analysis.
- Last week, we hosted 59 oil service and contract drilling companies and a total of over 170 energy companies at the 22nd Annual Lehman Brothers CEO Energy Conference in New York. The conference had very strong attendance at 2,433 people, up 8% from last year's level.
- Presenting companies were generally positive about industry conditions, expressing no concern about the recent weakness in oil prices and limited concern regarding the sharp decline in natural gas prices. Companies were particularly encouraged by the rig count improvement in the U.S. year-to-date, prospects for a strong seasonal rebound in Canada, and continued growth in the international markets. While we expect volatility to persist in the equity markets given uncertainty for commodity prices, we remain bullish on the group and we would use weakness to build positions.
- The Land Rig Newsletter U.S. total active rig count as of August 29 stands at 2,036 rigs, up by 17 rigs since August 15. Excluding rigs drilling 5,000ft or less, the count rose by 35 rigs to 1,905. The higher overall rig count was primarily driven by higher rig totals for Pioneer and Grey Wolf.
- Key Energy Services -- The company received a $68 million award to provide well servicing units to PEMEX. The company will supply four well servicing rigs and install its proprietary KeyView System to five PEMEX-owned well servicing units. The contract is in addition to Key's $47 million award which began in early 2007. The company currently operates 9 well servicing rigs for PEMEX.
- Transocean Fleet Update -- The company secured several better-than-expected dayrates on recent commitments. The semisubmersible Transocean Rather (4,500ft. - 4th gen, North Sea) received a one-month contract beginning in October '09 with Dong E&P at a $515k, above the prior $436k dayrate and our $440k estimate. The semisubmersible Sedco 700 (3,600ft. - 3rd gen, West Africa) received two new contracts with Total (from August to Nov '08 at $421k and from Nov '08 until August '09 at a $410k dayrate), above the prior $410k dayrate and our $410k estimate. Also, the semisubmersible Sedco 704 (1,000ft. - 2nd gen, North Sea) received a two-year contract beginning in February 2010 with Shell in the North Sea at a $420k dayrate, above the prior $371k dayrate and our estimate. Additionally, the jackup Trident XIV (300ft. - IC, Angola) will work with Chevron from May '09 until May 2010 at a $195k dayrate, above the prior dayrate of $98k and our $150k estimate. The jackup Harvey H. Ward (300ft. - IC, Malaysia) will be in the shipyard for a total of 185 days beginning in September '08 (previously, we had expected the rig to incur 125 days of SY time beginning in August); following this, the rig will work with Talisman in Malaysia from April '09 until October 2010 at $150k, above our $140k estimate.
- Pride Int'l Fleet Update -- PDE secured several GOM jackup contracts at dayrates that are generally in-line with our estimates. The jackup Pride Alaska (250ft. - MC) will work with W&T from Sept '08 until Jan '09 at $90k, in-line with our est and above the prior $67.5k dayrate. In addition, the jackup Pride Michigan (250ft. - MS) will work with Apache from Aug '08 to Oct '08 with Apache at $70k, slightly below our $75k estimate and above the prior $62k rate. Also, the jackup Pride Wyoming (250ft. - MS) will work from Sept '08 to Dec '08 at $77.5k, in-line with our est and above the prior $60k rate.
- U.S. drilling permits issued over the past four weeks according to Rigdata totaled 6,728, down 7.1% from the total of the prior four weeks.
- The Baker Hughes U.S. rig count fell by 18 during the week ended September 5 to 2,013 active rigs. The land rig count fell by 19 (to 1,919) and the inland water rig count declined by one (to 22). The offshore rig count was up by two compared to the prior week, to 72.
- The Baker Hughes Canadian rig count as of September 5 is at 418, off by 18 versus the prior week. The count is up by 24.8% compared to its year-ago level.
- Jackup utilization in the GOM was flat at 76.3% during the week ended September 5. Worldwide offshore rig utilization was at 90.4%, up by 0.3% compared to the prior week. The number of jackups contracted in the Gulf of Mexico is at 61 (unchanged), and there are six idle jackups in the region.

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OneBeacon Insurance Group (OB): OB: Conference Presentation

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 21.64
Price Target:	US$ 20.00
Current Year EPS:	1.60
Next Year EPS:	1.60
Market Cap:	US$ 2067 (m)

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- OB's CEO Mike Miller and CFO Paul McDonough presented at Lehman Brothers' Financial Services conference today.
- We anticipate losses from Hurricane Gustav will be immaterial for OB based on its geographic footprint.
- Improving OB's elevated expense ratio remains a priority, although we believe this will be difficult to achieve in an environment with little to no top-line growth.
- We anticipate OB is unlikely in the near term to return meaningful additional capital to shareholders based on its 32% debt-to-total capital ratio.
- Reiterate 1-OW rating on OneBeacon based on our view that, over the long term, OB should benefit from improving operating cash flow, solid investment returns, and strong book value growth. OB trades at 1.3x book value and offers an attractive dividend yield of 3.9%.

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PAREXEL International (PRXL): GUIDANCE UPDATED FOR CLINPHONE, FX

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 30.59
Price Target:	US$ 29.00
Current Year EPS:	0.90
Next Year EPS:	1.14
Market Cap:	US$ 1688 (m)

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- We are adjusting our EPS est' for PRXL to reflect the mgmt's updated guidance for the Clinphone acquisition. Mgmt confirmed its initial expectations of $0.04-$0.06 dilution on a GAAP basis in addition to a $0.02 charge for deal-related charges (we exclude these from our 1Q est). Mgmt modestly lowered revenue guidance for the core business to reflect the recent strengthening of the U.S. dollar which was only partially offset by better-than-expected operating performance. Our FY09 EPS stays at $1.14, but we will revisit after getting add'l details on purchase accounting & cost savings on today's conference call. Few details in press release on these issues, though our initial review suggests cost savings of ~$10M.
- Mgmt lowers core business revenue expectations by $5-15M to reflect F/X & operating performance. US$ up 4% against Euro relative to levels in FY08 & up 10% from levels in F4Q. We est. core business revenues being raised by $10-15M on constant-dollar basis.
- Clinphone expected to add $95-$105M, up 15-20% from '08 & would be acceleration from recent levels. No details on "cash" EPS accretion, though our initial analysis suggests $0.10-$0.15.

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RenaissanceRe Holdings (RNR): RNR: Conference Presentation

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 49.17
Price Target:	US$ 49.00
Current Year EPS:	8.75
Next Year EPS:	8.85
Market Cap:	US$ 3105 (m)

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- RNR's EVP & CFO Fred Donner presented at Lehman's Financial Services conference today.
- RNR reiterated its top-line guidance for approx. a 10% decline in 2008 driven by increasingly competitive reinsurance markets, particularly in specialty lines.
- RenRe believes it can still find attractive business despite reinsurance rates declining since the 2006 peak.
- RNR expects to experience some losses from Hurricane Gustav. While it is still too early to quantify the losses, RNR believes the range will be within the company's modeled loss expectations. Importantly, RNR has no off-shore energy exposure.
- Investment income could continue to be impacted by reduced hedge fund & private equity returns.
- Hurricane activity so far in 2008 is unlikely to significantly alter reinsurance market conditions, although Hurricane Ike threatens the Gulf Coast.
- Capital Management: RenRe continues to find stock repurchases as an attractive way to deploy excess capital given the current valuation of 1.13x book value.

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Software: LB Tech Conference.Software Lineup

Sector Rating:	1-Positive

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- We are pleased to announce the Lehman Brothers 2008 Global Technology Conference at San Francisco's Fairmont Hotel December 9 - 11. Our annual Technology conference is the last major tech investor conference of 2008 and will serve as an important platform for management to highlight accomplishments during the year and provide updates on the 2009 outlook. The conference will feature approximately 90 - 120 speakers across a range of companies and 10 keynotes from some of the world's largest technology players..
- We are particularly excited to have Paul Maritz, President & CEO of VMware, kick off the conference as the opening keynote on December 9th. Other presenting software companies include Microsoft (MSFT), SAP AG (SAP), Symantec (SYMC), McAfee (MFE), BMC Software (BMC), Sybase (SY), Citrix Systems (CTXS), Informatica (INFA), Check Point Software (CHKP),. VeriSign (VRSN),. ArcSight (ARST), Epicor (EPIC), Deltek (PROJ), WebSense (WBSN) and Absolute Software.(TSX: ABT).

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Solar Energy: Solar Insights 4: Solar Demand Analysis

Sector Rating:	1-Positive

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- Following a series of meetings with industry contacts in Spain, we remain constructive on the longer term growth outlook for the solar sector and believe 2009 demand could potentially remain robust further exacerbating the tight poly supply environment. We expect 2009 to be a transition year for the solar energy sector as government incentives, which have been the key growth driver, expand from two to three markets to multiple markets over the next three years. We expect grid parity to be achieved in several key markets by the 2010-12 timeframe which could potentially mark the beginning of the third growth phase for the solar sector.
- Valencia Meetings Recap: 1) Solar module companies expect strong demand in 2009 with potential price declines of less than 10% yoy, 2) New installations activity in emerging markets appears promising although growth forecasts/expectations vary significantly among industry participants, 3) Poly tightness could likely continue, we see no light at the end of the tunnel until 2H09.
- What to do with stocks? We believe the recent sell-off was partly triggered by overall markets/commodity sector sell-off and misinterpretation of comments made by SunPower CEO. We believe SunPower's comments of 10%-20% price declines in 2009 were not new and were consistent with 2009 outlook provided during Q2 earnings call. We expect sector volatility to remain high until there is any resolution on the Spanish/US market incentives or more clarity on 2009 fundamentals. Having said that, we believe solar continues to remain one of the very few growth sectors in the current macro environment where valuations appear relatively attractive - as such we expect new money to chase longer term winners in this sector. We recommend selective approach and believe FSLR, SPWR, JASO and STP offer the most attractive risk/reward in the current environment.
- 2009 Outlook: We believe one of the potential near term concerns for the sector is that most solar companies have provided somewhat aggressive guidance for 2009 on the assumption that poly supply would become readily available from the spot market or silicon partners. We expect supply tightness to continue and expect solar ASPs to decline at a faster rate than poly costs for companies without relatively long term supply contracts. We believe gross margin pressure or slower than expected output growth could lead to a wider divergence of share price performance among solar companies in 2009. We believe FSLR, SPWR, STP and JASO remain well positioned in terms of growth and profitability in 2009. Despite our constructive outlook on poly, we believe share price performance of MEMC would depend on execution of Pasedena facility.
- What's Changed - Our polysilicon supply survey suggests that execution challenges could likely result in low plant utilization rates and tight polysilicon supply over the next 12 months. We expect further tightness due to strong demand growth from emerging solar markets and forecast spot market prices above $250/kg in 2009. We are reducing our polysilicon supply estimates from 59,000MT to 52,000MT, 92,000MT to 80,000MT and 160,000MT to 145,000MT in 2008, 2009, and 2010, respectively. We are increasing our demand estimates from 4.2GW to 4.3GW, 6.7GW to 6.9GW, and 11GW to 11.3GW in 2008, 2009, and 2010, respectively.
- Longer term outlook: Three Phases of Solar Investing - During the first growth phase, solar industry shipments increased at a 40% compound annual growth rate. We expect growth to accelerate during the second growth phase; starting from 2009; as the subsidy pool for the solar industry increases and as solar panel prices decline by 30% over the next two years. During the second growth phase, we forecast government spending on subsidies to reach $200 billion for 20 gigawatts of solar installations. Investment themes: Companies with geographic diversification, access to capital, low cost poly and ability to scale are likely to emerge as winners during the second growth phase. We recommend three long-term investment themes: 1) focus on market share winners, 2) focus on lower capital intensity players, and 3) focus on low cost/innovative players.

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TCF Financial (TCB): Conference: Back on the Offensive

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 18.78
Price Target:	US$ 18.00
Current Year EPS:	1.20
Next Year EPS:	1.45
Market Cap:	US$ 2461 (m)

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- New/forward looking info from TCB at our conference includes: a) it revealed it expects to grow its balance sheet a greater than forecasted 10-15% as it aims to take market share and recent $115MM offering puts it back on the offensive. It believes industry dynamics have changed amid less securitization, reduced off-balance sheet structures, constrained competitors, and better terms; b) it reiterated that its seeing a stabilization in home pricing as well as early stage home equity delinquencies (with the exception of MI); c) it is more closely watching the construction equipment portion of its leasing book; d) commercial NCOs were $8MM in 2Q (vs. $1MM in 1Q) and should decline in 3Q; e) while it expects to build reserves over the next 4 quarters and doesn't expect its reserve/loan ratio to return below 1% (1.03% in 2Q), it does see its 3Q provision below 2Q ($63MM); f) it reiterated of its $6.9B H/E book, 64% is in fact 1st mortgages; g) it is using savings from slowed de novo expansion to improve marketing. Sees particular opportunities in Chicago; h) it believes a 15% ROE is still possible this year (implies EPS above consensus); and i) it reaffirmed its dividend.

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Washington Research: Tighter Spot, Looser Policy?

Sector Rating:

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- The full contingent of federal policymakers will be in Washington this week for the first time since August 1. In those five weeks, U.S. economic data have been mixed and financial markets generally have not improved. The August employment report came in decidedly on the disappointing side as the unemployment rate rose to a nearly five-year high of 6.1%, and the long-term unemployed count increased by 163,000, or 10%. The S&P 500 shed 1.8% of value from August 1 through September 4 and is off 15.7% since January 1. A flight to quality among global investors cut more than 35 basis points from the 10-year Treasury yield during this period, as buyers signaled relative confidence in the more stable developed economies.
The greenback's later summer rally moved it on Thursday, September 4, to its highest level against the euro this year, as the ECB and IMF reduced EU and global growth forecasts. The dollar has appreciated about 7% relative to other liquid currencies amid this rise in uncertainty. On the flip side, emerging market indices have fallen about 10%-12% in value during the past five weeks. One example of this volatility seen last week was Russia's central bank selling dollars in an attempt to bolster the ruble. Credit default insurance for that currency rose to its highest level in four years.

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Zions Bancorporation (ZION): Conference: Equity Offering, Stable NCOs

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 36.66
Price Target:	US$ 39.00
Current Year EPS:	3.05
Next Year EPS:	3.90
Market Cap:	US$ 3944 (m)

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- New/forward looking info from ZION at our conference includes: a) it entered into a $250MM ATM Equity Offering (think buyback, but in reverse). This looks to be 7% dilutive assuming no reinvestment (every $5MM adds 1bp to TCE); b) over the weekend it assumed $800MM of deposits from failed Silver State Bank and intends to consolidate 13 of its 17 branches; c) updated LTVs on CRE book for 2Q stand at 55.7%, which we believe is better than peers; d) while its expects NPA to increase, its provision and NCOs are expected to remain stable (or perhaps a slight increase) in 3Q v. 2Q, with NCOs in CA on the decline; e) it doesn't see evidence of credit problems spreading outside of construction or CA, NV and AZ; e) loan growth is expected to flat in 3Q vs. 2Q as its capital constrained; f) net interest margin compression is expected in 3Q (in the <10bp area); g) it has $1.8B of bank & insurance trust preferred that will likely require over $30MM of impairment in 3Q and 4Q; h) it expects to move its TCE target to 6.5-7.0% from 6.25-6.5% vs. 6.1% currently; i) it noted while deposit growth has been weak, it has seen some improvement of late; and j) it reiterated its current dividend.

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