

## NORTH AMERICAN MORNING RESEARCH SUMMARY

Wednesday, June 11, 2008

## MORNING MEETING FOCUS

Company / Industry	Headline	Analyst	Ratings
FelCor Lodging (FCH)	REMAINS OUR TOP LODGING PICK	Felicia R. Hendrix	1-OW / 1-POS
Grey Wolf (GW)	Unsolicited Offer from PDS at \$9/sh	James West	2-EW / 1-POS
Insurance/Non-Life	Bermuda P&C Trip Takeaways	Jay Gelb	2-NEU
Mortgage Finance	OFHEO Adopts New Risk-Based Capital Calc	Bruce Harting	3-NEG
NBTY Inc. (NTY)	Driving on all cylinders	Karen Howland	1-OW / 2-NEU

## COMPLETE LIST OF TODAY'S PUBLICATIONS

Company Publications		
AMERIGROUP Corp. (AGP)	Grasim Industries (GRAS.NS)	Progressive Corp. (PGR)
Apple, Inc. (AAPL)	Grey Wolf (GW)	Schering-Plough (SGP)
CMS Energy (CMS)	Hartford Financial (HIG)	
FelCor Lodging (FCH)	NBTY Inc. (NTY)	

Industry Publications		
Insurance/Non-Life	Mortgage Finance	

## LATE INTRADAY PUBLICATIONS FROM PREVIOUS BUSINESS DAY

Company / Industry		
Biotechnology	El Paso Corp. (EP)	Marriott International (MAR)

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► Morning Meeting Focus

► Complete List of Today's Notes

► Key Forecast Changes

► Individual Note Summaries

This summary is compiled from research published by Lehman Brothers.

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For complete details of the research together with the associated important disclosures and valuation methodologies, please see the full note on LehmanLive.

PLEASE SEE IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

## KEY FORECAST CHANGES

SECURITY / SECTOR	TICKER	CURR	RATING		PRICE TARGET		CUR YEAR EPS		NEXT YEAR EPS	
			OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
<b>TARGET PRICE CHANGES</b>										
AMERIGROUP Corp.	AGP	US\$	2-EW	unch	32.00	30.00	2.40	2.25	2.65	2.55
NBTY Inc.	NTY	US\$	1-OW	unch	38.00	41.00	2.72	2.78	3.15	3.27
<b>ESTIMATE CHANGES</b>										
El Paso Corp.	EP	US\$	1-OW	unch	26.00	unch	1.27	1.38	1.43	1.47
Grasim Industries	GRAS.NS	INR	2-EW	unch	2474.00	unch	223.0	unch	229.6	227.8
Progressive Corp.	PGR	US\$	2-EW	unch	20.00	unch	1.30	1.35	1.25	unch

\* unch - no change

<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 27.04
<b>Price Target:</b>	US\$ 30.00
<b>Current Year EPS:</b>	2.25
<b>Next Year EPS:</b>	2.55
<b>Market Cap:</b>	US\$ 1448 (m)

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### AMERIGROUP Corp. (AGP): TN Issues Arise Again; Ests Cut.

- Last night, AMERIGROUP announced that operations in Tennessee have deteriorated further and the company is yet to reach an agreement with the state around a retroactive rate increase for the higher than anticipated costs.
- Actions: We are choosing to reduce our estimates for 2008 and 2009 with this news. At this point, we are going to assume that AMERIGROUP gets no retroactive rate increase, nor change to the benefit design. Simply the most conservative method for our projections. Reducing 08' ests our by \$0.15 to \$2.25 per share. 09' ests goes to \$2.55 per share, from \$2.65. Change PT to \$30 representing 11.8 times our new 09 EPS est.
- 1) TN represents approximately 12% of overall premium revenues. 2) Every 100bps increase in the TN MLR equates to a reduction of \$0.06 per share on aggregate EPS on an annual basis. 3) Previous guidance included the assumption of relief in TN on both costs and rates. 4) Results in TN have deteriorated well beyond the negative trends seen in 1Q08 5) Another example of states struggling to find funding for Medicaid in a difficult economic environment. 6) Suggesting resolution to this issue by the end of June, 2008.

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<b>Stock Rating:</b>	1-Overweight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 181.61
<b>Price Target:</b>	US\$ 234.00
<b>Current Year EPS:</b>	5.30
<b>Next Year EPS:</b>	6.60
<b>Market Cap:</b>	US\$ 160112 (m)

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### Apple, Inc. (AAPL): Weekly Apple Monitor 06/10/08

- Apple remains our "top pick" in the IT Hardware space. We believe momentum is building into year-end due to the 3G iPhone & the corresponding halo effect. Reiterate 1-OW rating.
- WWDC brings new 3G iPhone; business model shifts from ARPU to subsidies. We believe that iPhone margins should increase up to 10 percentage points with higher volumes, more than offsetting the elimination of carrier payments.
- We estimate fiscal 3Q08 iPhone unit sales of 710K, fiscal 4Q08 sales of 3.6 million, FY09 iPhone unit sales of 23 million and FY10 iPhone unit sales of 31.1 million.
- Our checks indicate that iPod demand remains stable despite market saturation. NPD weekly US data suggests that Apple's calendar 2Q iPod sales (data through 5/31) are up in low single digits y/y (MP3 market is up slightly as well).
- All major Apple products are shipping within 24 hours on Apple.com with the exception of the 1.8Ghz MacBook Air & the 3.06Ghz iMac. The iPhone is no longer being sold online.
- Of the top 10 MP3 players sold through Amazon as of June 9, the top 8 were iPods

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**Sector Rating:** 2-Neutral

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## Biotechnology: Lehman Biotech Search Engine Results

- Our review of key data publications, clinical trial initiations, intellectual property issuance, and company news releases with our proprietary search engine has identified incremental data points relevant for AMGN, AMLN, ARRY, BIIB, CELG, DNA, ONXX, OSIP, PDLI, REGN and ZGEN. We believe that the most impactful update related to listing of ONXX's STORM study of Nexavar in the adjuvant HCC setting. This 1100 patient study will compare Nexavar to placebo with dosing continuing until toxicity or disease progression, the latter being the study's primary endpoint.
- We have provided an update this week on key data publications, clinical trial updates, IP issuance and company news items with our proprietary search engine. Key data points of interest include phase III trial initiations for ONXX's Nexavar in adjuvant HCC, CELGs Revlimid in frontline Myeloma, Infinity's HSP-90 inhibitor IPI-504 for GIST, PFE's Sutent for frontline NSCLC maintenance therapy and Merck KGaA's cilengitide for glioblastoma. Data publications include those related to the Avastin ECOG 4599 study in NSCLC and new product approvals include EMEA approval of Betaseron brand Extavia.
- As mentioned above the EMEA has approved Novartis' version of Betaseron, Extavia in the EU and we assume that Extavia will be priced at parity to the other IFN drugs for MS. Novartis plans to launch Extavia in both the US and EU markets in 1H09 as a vehicle to develop relationships with neurologists for FTY-720.
- CELG has listed a ~1600 patient study of Revlimid + dexamethasone (Rd) Rd versus MPT. This study fits with CELG's strategy to establish Rd as the universal front line regimen of choice in myeloma irrespective of intent or ability to transplant. This study is also notable as it will compare maintenance Revlimid to a fixed dosing period of approximately 18 months. As such, patients in this trial should receive Revlimid for at least 18 months of therapy and we expect the trial to be a future driver of long term maintenance therapy.
- Following data at ASCO Infinity and partner AZN listed a 150 patient phase 3, placebo controlled study of HSP 90 inhibitor, IPI-504, in gastrointestinal stromal tumor (GIST) patients that have failed both Gleevec and Sutent. We would note that IPI-504 is administered as a twice weekly IV infusion; BIIB's leading HSP 90 inhibitor is an oral and has a clear advantage over IPI-504 as a follow on drug after Gleevec and Sutent.
- This week saw DNA competitor Merck KGaA list a phase 3 study for integrin inhibitor cilengitide, in front line treatment of glioblastoma multiforme. This 504 patient study will evaluate Temodar/radiotherapy (RT) +/- cilengitide with overall survival as the primary endpoint.
- Another DNA competitor, Genmab/GSK listed a phase 1/2 study of SC administered ofatumumab in patients with rheumatoid arthritis (RA). DNA elected not to explore SC administration of ocrelizumab despite the dominance of SC biologics in front line rheumatoid arthritis (RA).
- We believe that a publication in the journal Clinical Lung Cancer provides some context for the recent FLEX data at ASCO. Authors from the Fox Chase Cancer Center concluded that > 70% of patients who might otherwise have been eligible for standard advanced NSCLC trials were not candidates for the Avastin ECOG 4599 phase 3 trial. This may in part explain the stagnant market penetration of Avastin at 50-60% of its theoretical patient base
- We also note that the CALGB has listed a phase 3 study of Sutent as a maintenance agent following induction chemotherapy for untreated stage IIIB/IV NSCLC. Not only did this study start a year ago but with only 150 patients this placebo controlled trial has clearly been designed with different assumptions than SATURN as well as the recently presented Alimta maintenance study.

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**Stock Rating:** 2-Equal weight

**Sector Rating:** 2-Neutral

**Price:** US\$ 15.57

**Price Target:** US\$ 18.00

**Current Year EPS:** 1.28

**Next Year EPS:** 1.35

**Market Cap:** US\$ 3508 (m)

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## CMS Energy (CMS): MI PUC Gives Consumers Final Rate Order

- We reiterate our 2-EW rating and our \$1.28/\$1.35E for '08/09E respectively. We feel regulatory risk is removed now that the rate case is complete, however risks around the Michigan legislative process remain.
- On 6/10 the MI PSC authorized Consumer's Energy a \$221M rate increase on a 10.7% ROE & 41.75% equity on avg Rate Base of \$5,013.9M using a '08 test year. This ruling is inclusive of the removal of Palisades (which was sold to Entergy Corp.), and a \$69.5M partial increase previously authorized by the PSC related to the Zeeland acquisition. We had modeled a 10.6% ROE on a 41.5% equity ratio on \$5,100M. On 7/3 the company had filed revised testimony requesting a \$282M increase on an 11.25% ROE & 42.02% equity on rate base of \$5,126.8M.
- We still see risks going forward around both the MI economy and the legislative process. 6/20 is the deadline to move bills from committee to the Senate floor for a vote prior to summer recess. We see this and any action in the fall, given the election cycle, as challenging, given the tightness of schedule, Republican opposition, and the breaking of the tie-bar on the group of bills.

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<b>Stock Rating:</b>	1-Overweight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 21.27
<b>Price Target:</b>	US\$ 26.00
<b>Current Year EPS:</b>	1.38
<b>Next Year EPS:</b>	1.47
<b>Market Cap:</b>	US\$ 14938 (m)

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### El Paso Corp. (EP): EPS Housekeeping - Raising Estimates

- We have updated our model and have posted it to LehmanLive. We have increased our longer term forecast given a modestly higher commodity outlook for 2008 and 2009 as well as changes made in our outlook for EPB. Reiterate our 1-Overweight rating and our price target of \$26 tied to our NAV analysis.
- Embedded commodity assumptions comfortably below current NYMEX implying additional potential upside if current macro backdrop persists.
- Current model can work either standalone or with EPB model - also posted to LehmanLive.

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<b>Stock Rating:</b>	1-Overweight
<b>Sector Rating:</b>	1-Positive
<b>Price:</b>	US\$ 13.21
<b>Price Target:</b>	US\$ 16.00
<b>Current Year EPS:</b>	2.38
<b>Next Year EPS:</b>	2.79
<b>Market Cap:</b>	US\$ 831 (m)

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### FelCor Lodging (FCH): REMAINS OUR TOP LODGING PICK

- FCH has traded off 7.4% since the co reported 1Q results on 5/7 (vs -2.8% for the S&P 500), due to concerns re the U.S. economy and lodging demand. While we expect lodging demand to weaken overall, FelCor's renovated portfolio of high quality upper upscale hotels should provide a buffer and allow the co to outperform the industry and its peers this year. This was evident in the co's 1Q results and we expect it to continue. As investors look for solid investment ideas, we reiterate FCH as our top lodging pick, and highlight that it trades at 8.8x our 09E EBITDA, near the low-end of its historical range of 8x to 12x. Our \$16 PT represents a 21% potential return. The co's 10.6% div yield is noteworthy.
- We recently met with FCH CEO. The co reiterated 1Q08 comments and indicated that performance should continue to outpace industry trends.
- While renovations have already started to anniversary, the co is seeing continued share gains beyond the 12 month mark.
- Redevelopments should drive growth beyond renovations. The Union Sq. Marriott is on track for early 09 completion and other projects should be announced over time.

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<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	3-Negative
<b>Price:</b>	INR 2217.20
<b>Price Target:</b>	INR 2474.00
<b>Current Year EPS:</b>	223.0
<b>Next Year EPS:</b>	227.8
<b>Market Cap:</b>	

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### Grasim Industries (GRAS.NS): Sale of sponge iron business

- The company has hived off its sponge iron business to Welspun Power and Steel Ltd for a consideration of INR 10300 mn. As a result of this hive off we have changed our EPS estimates for the company. We continue to maintain 2 EW on the stock.
- The business had a revenue of INR 9501 mn in FY08 and an EBITDA of INR 1599 mn.
- As of FY08 the sponge iron business had a capital employed of INR 4590 mn.
- The sponge iron business had been plagued by poor availability of natural gas and its capacity utilisation was only 60%.
- After this development we have reduced our EPS estimates for FY09 from INR 229.6 to INR 227.8 and for FY10 from INR 198.5 to INR 182.0.
- There will be no significant impact on our price target as a result of this transaction and hence we maintain our target price and 2 EW rating on the stock.

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<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	1-Positive
<b>Price:</b>	US\$ 9.02
<b>Price Target:</b>	US\$ 9.00
<b>Current Year EPS:</b>	0.58
<b>Next Year EPS:</b>	0.68
<b>Market Cap:</b>	US\$ 1978 (m)

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### Grey Wolf (GW): Unsolicited Offer from PDS at \$9/sh

- Precision Drilling Trust (PDS) has made an unsolicited offer to acquire Grey Wolf for \$9.00 per share in cash and stock. We believe the proposed transaction would be a better strategic move for Grey Wolf and represents greater value for shareholders compared to the prior merger agreement with Basic Energy Services.
- The \$9.00 offer price from PDS represents approximately 5x our 2009E EV/EBITDA estimate. Under the terms of the agreement, GW shareholders would receive up to 33.3% of the consideration in cash, with the remainder in Precision Drilling stock.
- Based on other recent transactions, we believe fair value for GW could approach \$10/sh.
- The combined company would have a fleet of 368 drilling rigs, with PDS contributing 247 rigs (230 in Canada, 16 in the U.S. and one in Chile) and GW contributing 121 rigs (all in the U.S. except for two rigs in Mexico). Both Precision and Grey Wolf's fleets have a deep-drilling bias.
- PDS also has 21 newbuilds under construction, and operates 223 service rigs (all in Canada).

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<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 71.08
<b>Price Target:</b>	US\$ 99.00
<b>Current Year EPS:</b>	
<b>Next Year EPS:</b>	
<b>Market Cap:</b>	

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### Hartford Financial (HIG): HIG Enters ASR

- HIG announced today that it entered into an agreement to repurchase \$500 million of its common stock which was financed by a hybrid debt offering. Furthermore, the board of directors authorized a new \$1 billion stock repurchase program in addition to the \$121 million remaining from the previous authorization. We have updated our model. We are affirming our 2-Equal Weight rating and our maintaining our \$99 price target.

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<b>Sector Rating:</b>	2-Neutral
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### Insurance/Non-Life: Bermuda P&C Trip Takeaways

- We met with 6 Bermuda P&C insurers and reinsurers this week and 1 broker, and also attended a conference in Bermuda. Our main takeaway is pricing for the important mid-year Florida property catastrophe reinsurance renewals, although down 10%-15%, appears adequate.
- The property catastrophe reinsurance market at mid-year is reacting to increased capacity and mostly stable demand. Efforts by the Florida Hurricane Catastrophe Fund to purchase reinsurance coverage have been pushed back perhaps to July 1, and if successful could mean up to another \$500 mil of premiums for the reinsurance market.
- The consensus among industry participants is losses from hurricanes in 2008 would likely need to exceed \$25 billion to reverse reinsurance market softening because the market remains excessively capitalized.
- M&A - The appetite for mergers and acquisitions in Bermuda appears low currently, although our sense is with many companies trading at or below book value they could become attractive to a strategic buyer at some point. Establishing Lloyd's operations remains a long-term goal for many (re)insurers because of expanded opportunities.
- Capital Management - Reinsurers appear content not to return substantial additional levels of capital to shareholders during hurricane season, although share buybacks would likely resume if losses are low.
- Our observations from our meetings with AWH, WSH, AHL, RNR, MRH, VR, and FSR follow.

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<b>Stock Rating:</b>	1-Overweight
<b>Sector Rating:</b>	1-Positive
<b>Price:</b>	US\$ 29.76
<b>Price Target:</b>	US\$ 37.00
<b>Current Year EPS:</b>	1.85
<b>Next Year EPS:</b>	2.20
<b>Market Cap:</b>	US\$ 10532 (m)

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### Marriott International (MAR): 2Q TIMESHARE SECURITIZATION COMPLETED

- As forecast on its 1Q08 conf call, MAR completed a private placement of timeshare notes today. We expect to see one more of these events in 4Q08. This news is an obvious positive as it underscores the point that there is a market for the co's paper, which removes a risk factor in this environment.
- MAR completed a \$246MM timeshare note securitization via private placement. This is above 1Q08 guid of \$150MM due to strong demand from investors. The notes were sold at 7.198%, which is in-line with expectations, but below prior Q's.
- MAR will record a 2Q gain of \$28MM (\$0.05/sh), above guid of \$15MM-\$20MM (\$0.03-\$0.04/sh).
- The notes that were sold are AAA rated, where market pricing was more favorable. However, MAR chose to hold its AA and A rated notes as pricing was not favorable at this time.
- Given the size of the 2Q deal, MAR now expects to complete one more deal in 4Q if market conditions allow, rather than two smaller deals in each 3Q and 4Q as previously planned.
- Our 2Q estimate assumes a \$20MM gain or \$0.04/sh, which is about a penny less than what MAR reported today. Given this small difference, we are not changing our ests at this time.

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<b>Sector Rating:</b>	3-Negative
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### Mortgage Finance: OFHEO Adopts New Risk-Based Capital Calc

- Yesterday afternoon, OFHEO implemented new rules for the GSEs Risk-Based Capital (RBC) calculation which reduces the surplus capital the GSE's have against the Risk-Based Capital requirement, but does not change the minimum capital requirements which are the constraints on portfolio growth. The changes were previously announced in December 2007 and were subject to a 90 day public comment period prior to implementation. As we previously anticipated, the new rules will have a disproportionately larger effect on FNM than FRE. Together with Priya Misra, our fixed income colleague, we estimate that FNM's surplus would be reduced to \$17B from \$24B (as of 1Q08) and FRE's surplus would be reduced to \$12B from \$16B (as of 1Q08) under the new calculation. The new surplus capital calculations are above the minimum capital surplus of \$13B for FNM and \$11B for FRE which are the binding constraints on the GSE's portfolio growth.

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**NBTY Inc. (NTY): Driving on all cylinders**

<b>Stock Rating:</b>	1-Overweight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 33.69
<b>Price Target:</b>	US\$ 41.00
<b>Current Year EPS:</b>	2.78
<b>Next Year EPS:</b>	3.27
<b>Market Cap:</b>	US\$ 2077 (m)

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- NBTY announced that it entered into an agreement to buy Leiner Health Products, a large manufacturer of private label nutritional supplements. While the company had to increase its bid from \$230 million to \$370 million, we believe the transaction is still accretive in FY09 and we estimate it will add at least \$0.22, or 7% after fully integrated. Additional synergies could add incremental earnings growth as well.
- NBTY also reported very strong May sales, up 27% in the core wholesale business and up 11% overall. This compares to our expectation of up 6.0% in wholesale and up 1.5% overall. This is the second month in a row the company grossly exceeded our expectation for sales improvement. As such, we are increasing our 3Q08 EPS estimate from \$0.69 to \$0.72.
- We are also increasing our FY08 and FY09 EPS estimates due to the stronger than expected sales, and the accretion from the Leiner transaction. Due to these changes, we are increasing our price target by \$3 to \$41 and reiterate our 1-OW rating.

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<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	2-Neutral
<b>Price:</b>	US\$ 20.03
<b>Price Target:</b>	US\$ 20.00
<b>Current Year EPS:</b>	1.35
<b>Next Year EPS:</b>	1.25
<b>Market Cap:</b>	US\$ 13720 (m)

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- PGR delivered solid earnings in May reflecting better than expected underwriting results helped by favorable reserve development and a continued slowdown in the decline in premiums.
- PGR will hold its Investor Day on June 12, where we expect to hear about plans to improve premium growth, the outlook for loss costs trends, and capital management plans.
- We recently upgraded PGR to 2-Equal Weight because we anticipate margins and earnings will likely benefit from improved loss frequency trends resulting from fewer miles driven.
- We do not anticipate a major new capital management announcement at PGR's upcoming investor day based on operating & financial leverage near the high end of mgt's comfort level.
- Increased gas prices are having an impact on individuals driving habits, similar to what occurred in 1979-1980. Although the long term correlation between gas prices and miles driven tends to be low, this relationship becomes meaningful at historic all-time high gas price levels.
- PGR currently trades at 2.70x BV (hist. range: 5.1x-1.5x, median=3.3) and 16x our '09 EPS est of \$1.25 vs (hist. range 10.9-63.0x, median = 16.5x)

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<b>Stock Rating:</b>	2-Equal weight
<b>Sector Rating:</b>	1-Positive
<b>Price:</b>	US\$ 19.66
<b>Price Target:</b>	US\$ 22.00
<b>Current Year EPS:</b>	1.58
<b>Next Year EPS:</b>	1.85
<b>Market Cap:</b>	US\$ 31877 (m)

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- This note is a part of our recent report "Summary Model Book" which was published on 06/06/08. Please refer to the report for further details.

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**Stock Rating**

**1-Overweight** - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**2-Equal weight** - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**3-Underweight** - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

**RS-Rating Suspended** -The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

**Sector View**

**1-Positive** - sector coverage universe fundamentals/valuations are improving

**2-Neutral** - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating

**3-Negative** - sector coverage universe fundamentals/valuations are deteriorating

**Distribution of Ratings**

Lehman Brothers Global Equity Research has 2046 companies under coverage.

42% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating. 39% of companies with this rating are investment banking clients of the Firm.

41% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating, 27% of companies with this rating are investment banking clients of the Firm.

12% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating, 22% of companies with this rating are investment banking clients of the Firm.

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