NORTH AMERICAN MORNING RESEARCH SUMMARY

Wednesday, August 20, 2008

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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 7.

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										
Hewlett-Packard	HPQ	US$	-	RS-RS	unch	unch		unch		unch
TARGET PRICE CHANGES										
Analog Devices	ADI	US$	1-OW	unch	39.00	37.00	1.75	1.73	2.01	1.91
HealthExtras Inc.	HLEX	US$	1-OW	unch	32.00	34.00	1.20	1.17	1.47	unch
Hiland Partners LP	HLND	US$	1-OW	unch	54.00	50.00	2.32	0.95	3.33	1.99
ESTIMATE CHANGES										
Ford Motor	F	US$	2-EW	unch	6.00	unch	(2.19)	(2.15)	(0.54)	(0.27)
General Motors	GM	US$	2-EW	unch	11.00	unch	(14.51)	(15.68)	(5.25)	(7.55)
Saks Inc	SKS	US$	2-EW	unch	12.00	unch	0.35	0.20	0.50	0.35
Target Corp.	TGT	US$	1-OW	unch	65.00	unch	3.45	3.43	4.00	3.85
Wyeth	WYE	US$	2-EW	unch	45.00	unch	3.50	unch	3.70	3.66

* unch - no change

Analog Devices (ADI): Ests lower on weaker sales guide

Stock Rating:	1-Overweight
Sector Rating:	1-Positive
Price:	US$ 32.18
Price Target:	US$ 37.00
Current Year EPS:	1.73
Next Year EPS:	1.91
Market Cap:	US$ 9336 (m)

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- We are lowering our estimates and price target due to a slightly weaker sales forecast but continue to believe the stock should outperform on the basis of limited consumer exposure (<15% of sales) and solid free cash flow (30% of sales).
- We lower our October EPS (incl ESO) ests to $0.45 in vs. $0.46 prior on lower sales. We model C08 Revs/EPS at $2.62B/$1.76 vs. $2.64B/$1.80 prior. C09 now at $2.82B/$1.95 vs. $2.89B/$2.05.
- July revenues of $659M (+1.5% QoQ) in line with our $659.1M ests and slightly below street $660.5M. While book-to-bill is above 1, FQ4 revenue guide of flat to +3% is below consensus of 2% growth.
- GMs (61%) were flat QoQ due to mix. DOI declined sequentially to 110 days vs. 115 prior.
- Balance sheet remains healthy at $1.3B in cash ($1B overseas) and no debt. Mgmt may look at cash use alternatives if markets improve. Solid operating cash flow $196M with dividend yield now at 2.6%.
- ADI (3.2x C08 EV/sales, 16x C09) still trades at a discount to the HPA peer group (4.2x, 16x) and 3-year average of 3.7x and 20x.

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Autos & Auto Parts: LIQUIDITY REEXAMINED

Sector Rating: 2-Neutral

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- Having reviewed the 2Q08 10Q's, we have reexamined the cash flow position of Ford and GM. As before, we continue to believe that Ford presents the stronger liquidity position to survive through 2010 without the need to raise external capital or tap its revolver. GM, on the other hand, is likely to need to raise $7.3 bil in our base case to have adequate cash through 2009. GM also is more vulnerable to a global macro slowdown; should US SAAR stall at 12.5 mil for the remainder of 2008 and 13.0 mil in 2009, and rest of world weaken by 10%, GM would need to raise $12.2 bil (an additional $4.9 bil vs. our base case) while Ford would still be above minimum cash. Finally, GM faces a greater risk that GMAC, due to pressures at ResCap, may need to scale back its support of auto lending and leasing. Therefore, with stronger liquidity and a more focused business strategy, we continue to be more comfortable with the turnaround prospects at Ford.
- We expect in our base case (14 mil SAAR in 2008 and 14.5 mil in 2009) that GM will need to raise $7.3 bil to end 2009 with the required $14 bil of operating cash while Ford would end 2009 with $14.1 bil and no external capital raise. Moreover, GM would need to convince the independent VEBA trustees to defer cash payment of the $7 bil due to the VEBA to remain at the bottom range of its minimum cash levels in 2010.
- We examine several macro scenarios to stress test liquidity. If SAAR in the US stalls at 12.5 mil through 2008 and 13.0 mil in 2009, GM cash would fall to $7.4 bil, implying the need to raise $9.6 billion dollars (of which $3 bil is already included in our base case), while Ford's cash would fall to $12.5 bil, above its $10 bil minimum needs. If rest of world production falls by 5%, cash burn would increased by $0.9 bil for Ford and $1.3 bil for GM. Assuming a global slowdown, with US SAAR at 12.5 mil for the rest of 2008 and 13.0 mil in 2009, and rest of world weakening by 10%, GM would need to raise $12.2 bil (an additional $4.9 bil vs. our base case) while Ford would still be above minimum cash at $10.6 bil. In order for Ford to require additional liquidity, US SAAR would need to fall below 11 mil in 2009.
- GM faces additional risks from ResCap. While we do not expect additional GM cash contributions to GMAC or ResCap, the pressure on GMAC to support ResCap will continue, as well as the risk of a ResCap filing tying up GMAC capital - which could impinge on GMAC's ability to support GM retail and wholesale sales. On the other hand, we believe Ford Credit to be reasonably well capitalized. However, we do not expect dividends to be paid from Ford Credit to Ford Motor in the foreseeable future and there is some risk that Ford Credit will request cash from Ford Motor to cover leasing losses. Nevertheless, without a mortgage banking subsidiary and little need of an additional capital injection, we remain overall more comfortable with Ford Credit's ability to support Ford Motor's borrowing needs.

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Brokers & Asset Managers: Weekly Credit Call Highlights

Sector Rating: 2-Neutral

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- Last week the markets saw a couple of positive and a couple of negative developments. On the positive side, the strength in the dollar and weakness in commodity prices suggest that inflation pressures have come off and may free the Fed to reduce interest rates as necessary to support economic growth. Weakness continued through the mortgage and securitized products space, evidenced by notable widening in CMBS and FNMA spreads which are now at or even through the mid-March wides. Broadly, the investment grade cash credit market remains under pressure from funding issues at the front end of the curve and a heavy issuance calendar. The team believes that credit spreads will widen due to its relative richness when compared to other spread asset classes (notably residential and commercial assets) in addition to the sizeable upcoming issuance. Lastly, our credit team believes that the rise in bank funding costs will likely lead to a further reduction in credit availability which has negative implications for the broader economy.

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Ford Motor (F): FORD - LIQUIDITY REEXAMINED

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 4.89
Price Target:	US$ 6.00
Current Year EPS:	(2.15)
Next Year EPS:	(0.27)
Market Cap:	US$ 11058 (m)

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- Having reviewed the 2QO8 10Q's, we have reexamined the cash flow position of Ford and GM. As before, we continue to believe that Ford presents the stronger liquidity position to survive through 2010 without the need to raise external capital or tap its revolver. Please refer to our industry note "Liquidity Reexamined," published concurrently, for the full cash flow analysis.
- Under our base case of 14.0 mil SAAR in 2008 and 14.5 mil SAAR in 2009, we believe Ford will not need to raise external capital through 2010. We estimate that Ford will end 2008 with $21.6 bil of cash and end 2009 with $14.4 bil of cash, which remains above the company's $10 bil minimum cash needs.

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General Motors (GM): GM - LIQUIDITY REEXAMINED

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 10.36
Price Target:	US$ 11.00
Current Year EPS:	(15.68)
Next Year EPS:	(7.55)
Market Cap:	US$ 5865 (m)

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- Having reviewed the 2QO8 10Q's, we have reexamined the cash flow position of Ford and GM. As before, we continue to believe that Ford presents the stronger liquidity position to survive through 2010 without the need to raise external capital or tap its revolver. Please refer to our industry note "Liquidity Reexamined," published concurrently, for the full cash flow analysis.
- Under our base case of 14.0 mil SAAR in 2008 and 14.5 mil SAAR in 2009, we believe GM will need to raise $7.3 bil to have adequate cash through 2009.
- In addition, GM faces risk that GMAC, due to pressures at ResCap, may need to scale back its support of auto lending and leasing.

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HealthExtras Inc. (HLEX): "CONTINUING TO EXECUTE": C'FIRM '09

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 33.52
Price Target:	US$ 34.00
Current Year EPS:	1.17
Next Year EPS:	1.47
Market Cap:	US$ 1381 (m)

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- Following Q2 results on 8/6 with conf call and additional mgmt interaction, we are moderating our C08 EPS estimate, confirming C09, lifting our price target, but cautioning that stock, in our view, a bit ahead of itself given recent lift with qtr.
- 1) Co's plans of further market expans. & mail capacity addition are on track, with good news with the AvMed addition and with the acq. of the IPS mail facility;'
- 2)In addition, we now look for reported margin expansion for the next two years after three years of margin compression, with HospiScript acqu. and with mail move to own higher margin capacity by 2009;
- 3)cash generating record remains very good, w/ its operating efficiencies and low capital intensity;
- 4) Nonetheless, our C09 EPS est. somewhat lower than current consensus, given what we see to be further invest. opp'ys next year and our est. of mail conversion;
- 5) With share appreciation expected in '09, now back to trading at clear premium to peers, at 22.5x our C09 expectations. We look for periods of share weakness to become more aggressive again here.

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Henry Schein (HSIC): "GLOBAL GEAR": HQ VISIT H'LIGHTS OPPS..

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 59.42
Price Target:	US$ 63.00
Current Year EPS:	3.00
Next Year EPS:	3.45
Market Cap:	US$ 5341 (m)

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- We are providing some takeaways from our visit to Henry Schein last Friday, after meeting with CEO Stanley Bergman, COO, Jim Breslawski, and CFO Steve Paladino.
- 1)The biggest takeaway for us - HSIC's international footprint continues grow meaningfully, and acts as an important source of supplier clout for the co.;
- 2) Camlog investment "credit" goes to Norman Weinstock, former head of co's Zahn Dental lab supply business - also behind move to invest in D4D w/ Ivoclar, 3M;
- 3) Dental trends source of good confidence, though Q2's year-over-year result and sense of acceleration was slightly muted to some;
- 4) "Stay tuned" message around medical business, where we've seen new manager named earlier this year, with oppy's for supplier exclusiveness;
- 5) More runway for dental eqipmment, driven by supplier relationships, helped by global footprint;
- 6) E4D we see still very modest this year, as not surprise, in our view, w/ flu variability possibly moderated vs. 2007;
- 7) Recent stock lift gets us win 10% of tgt.

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Hewlett-Packard (HPQ): Solid Guidance Given Currency Fears

Stock Rating:	RS-Rating Suspended
Sector Rating:	2-Neutral
Price:	US$ 43.69
Price Target:	N/A
Current Year EPS:	
Next Year EPS:	
Market Cap:	US$ N/A (m)

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- Lehman Brothers is acting as financial advisors to Hewlett Packard (HPQ) in its potential acquisition of Electronic Data Systems (EDS). The rating and target on Hewlett Packard are suspended due to Lehman Brothers' role in this transaction. The estimates and commentary do not incorporate this potential transaction.
- HP reported revenue and EPS upside to 3Q08 ($0.86 vs. $0.83 & $28B vs. $27.4B expected) given strong execution in PC's and services.
- The clear positives vs. expectations were re-acceleration in the US, strong cash flow & upside in PC's, services and software. The negative was that printer unit growth turned negative (-2% y/y) due to weakness in lasers.
- Despite over-hyped currency fears heading into the call, HP raised 4Q08 EPS guidance to $1.01-$1.03 vs. consensus of $1.00 (HP guided 4Q08 revenue in line with consensus at $30.2-30.3B).
- For 4Q08 we now estimate non-GAAP EPS of $1.02 from $1.00 based on 7% y/y revenue growth. For FY09, we are raising our non-GAAP EPS estimate to $4.05 from $4.00, given prospects for higher margins.

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Hiland Partners LP (HLND): DCF Hit by Bad Debt Exp, FY Guid Intact

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 44.00
Price Target:	US$ 50.00
Current Year EPS:	0.95
Next Year EPS:	1.99
Market Cap:	US$ 410 (m)

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- While we reduce our PT to $50 due to capital market volatility, we believe HLND offers attractive total return prospect given 8% current yield and solid distribution growth prospect. We believe HLND can grow distribution at a 4-year CAGR of 9% driven by acquisitions and organic projects. We assume $45 MM/yr organic growth investment and $50 MM/yr acquisition spending in 2009-2011.
- Q2 Adjusted EBITDA reached $20 MM vs our est of $18 MM driven by volume, margins and lower exp. DCF reached $6.1 MM vs $11.8 MM due to bad debt expense on SemGroup affecting Q2 by $8 MM and Q3 by $5 MM. Mgmt sees little impact on FY distribution growth and capex target.
- 2008 total capex increased to $60 MM including $54 MM growth capital driven by 2 new project additions in Kinta and Anadarko basin, which requires multi year spending. LT organic invest opps robust given CLR activity in key shale plays.
- Q2 distribution of $0.8625 or $3.45 annualized, represents 4% growth QoQ, 18% YoY.
- Our $50 PT is based on 12-month distribution run rate of $3.72 and target yield of 7.5%. Our previous PT of $54 was based on $3.52 distribution run rate and 6.5% yield.

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Life Time Fitness (LTM): Confidence showed at mgmt meetings

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 35.15
Price Target:	US$ 32.00
Current Year EPS:	2.06
Next Year EPS:	2.30
Market Cap:	US$ 1392 (m)

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- We had the opportunity to meet with several key members of LTM's executive management team this week, including Bahram Akradi, CEO, Mike Robinson, CFO, Mike Gerend, President and COO, David DeCou, VP of Real Estate and the newly hired Chief Marketing Officer, Scott Lutz.
- We left the meeting incrementally more positive. Mgmt articulated its confidence in the business and its ability to generate returns in excess of its cost of capital. It conceded that it is a tougher environment to both get and retain customers (given the weakness in the consumer), but LTM is doing all it can to improve the customer experience which should result in long term customer loyalty.
- Management also indicated it is looking at all different options for generating shareholder value, including doing additional sale-lease back transactions and potentially using the proceeds to buy back stock. The company feels it is not getting credit for its owned real estate portfolio at its current valuation.
- LTM feels comfortable with member prices at their current levels, however will focus on articulating the value proposition to customers.

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Paychex Inc. (PAYX): Detailed 10-K Review

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 34.40
Price Target:	US$ 37.50
Current Year EPS:	1.62
Next Year EPS:	1.79
Market Cap:	US$ 12398 (m)

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- Paychex recently filed its 10-K filing for fiscal year end May 31, 2008. Although there were no surprising disclosures in the filing, PAYX provided further evidence of strong cash flows, expanding return metrics, and solid financial conditions.
- Takeaways include:
- Cash flows remained strong with FY'08 free cash flow (before dividends) up 16% to $642 million.
- PAYX return on invested capital continues to increase, and now exceeds 58%, or more than 5x its ~10% cost of capital.
- Net client growth in F'08 increased 2%, falling shy of mgmt's long-term goal of 4%-5%. HR services up-sell strength helped offset the slower client growth. We believe significant opportunity remains for ancillary HR svcs given low penetration.
- PAYX plans for 5% salesforce headcount growth in FY'09, with the fastest growth for its insurance and Premier/PEO offerings.
- While NT prospects are challenged by a weak economy & lower int. rates, we retain 1-OW rating as we believe valuation is reasonable a strong franchise with high margins & ROIC, impressive cash flow, & solid growth opportunities.

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Saks Inc (SKS): Review of 2Q08

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 11.22
Price Target:	US$ 12.00
Current Year EPS:	0.20
Next Year EPS:	0.35
Market Cap:	US$ 1611 (m)

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- Saks reported 2Q08 EPS of $(0.22), ex. $0.01 in store closing expense, $0.04 below our estimate.
- A deteriorating environment contributed to weak sales (-3.6%) and comps (-4.0%). During the quarter, the company experienced a softening across nearly all geographies and merchandise categories, with widespread weakness in women's apparel.
- Despite a clearance event shift into Q1 from Q2 last year, gross margins declined 60 bps, with weak sales leading to higher than anticipated markdowns. The SG&A rate (+180 bps to 28.8%) rose on weak sales and comp results, as well.
- Total inventory (+1.4%) and comp store inventory (+1.9%) each rose above current and expected comp trends, reflecting purchases made six to nine months ago. We expect Saks to aggressively manage inventory to keep trends in line with sales, which, combined with a promotional environment, should continue to pressure 2H08 gross and operating margins.
- Given our expectations for weaker comps and margins for 2H08, we are lowering our FY08 and FY09 EPS estimates to $0.20 and $0.35, from $0.35 and $0.50, respectively.

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Sierra Wireless (SWIR): Steady Execution of Upgrade Cycle

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 12.28
Price Target:	US$ 17.00
Current Year EPS:	1.25
Next Year EPS:	1.40
Market Cap:	US$ 386 (m)

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- Despite broader macro headwinds, we believe SWIR's 2H08 upgrade cycle remains on track.
- Following meetings with mgmt, we emerged encouraged with SWIR's USB upgrade cycle opportunities moving into 2H08.
- We believe channel fill at key carriers (T) likely, with potential for share gains (VZ) following NVTL's announced product delays.
- Rising mix of the Compass line should support stable GMs - lower ASP to drive volume offset by lower device BOM.
- OEM biz could bottom in 4Q following share erosion at laptop vendors as vertical OEM biz ramps.
- Our ests factor in little to no return of laptop OEM sales given ERIC's aggressive mkt moves reinforced at recent analyst forum.
- While capital allocation (~$7/share) remains focused on acqs to diversify biz (M2M), believe mgmt is embracing share buyback strategy.
- Though broader investor concerns (Gobi, Huawei) unlikely to ease, steady execution in 2H08, share buyback, and potential accretive acqs could provide some relief on shares trading at 5x 09 ests ex cash.

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Specialty Pharmaceuticals: The Silver Bullet-In

Sector Rating:	2-Neutral

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- We highlight key events in the Specialty Pharmaceutical sector in the past week and provide sector outlook.
- Sector Performance: The mid-cap brand group rose 4.3% last week vs the S&P 500, up 0.1% and the DRG, flat. Top performers in the group included Elan, up 31.7% and King Pharmaceuticals, up 6.0%. The generic group rose 2.2% for the week. Top generic performers included Par Pharmaceuticals, up 7.2% and Watson Pharmaceuticals, up 6.8%.
- Company Updates: Novo Nordisk - Byetta Safety Alert - Increased Risk for All GLP-1s; Watson - Fundamentals Face Headwind Issues.
- Company News In Brief: Recap of a round-up of news in the specialty pharma sector over the past week.
- "Earnings Corner": Round-up of Jun-08 quarter specialty pharma earnings reports & outlook.
- Patent Challenges: Roche Sues Multiple Generic Filers Again, Over Newly-Issued Boniva Patent.
- FDA & Washington Watch: New Paragraph IV ANDA Filings.
- ANDA Approvals: Summary of final & tentative ANDA approvals (Rx only) granted to-date in August 2008.
- Specialty Pharma Potential Catalysts: Summary of upcoming events expected to impact on industry and/or move stocks.
- ***Save the Dates: Lehman Brothers 12th Annual Global Healthcare Conference, March 10-12, in Miami, FL (health@lehman.com)***

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Target Corp. (TGT): Review of 2Q08

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 49.76
Price Target:	US$ 65.00
Current Year EPS:	3.43
Next Year EPS:	3.85
Market Cap:	US$ 38738 (m)

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- Target reported 2Q08 EPS of $0.82.
- Revenue increased 5.8% to $15.47B. Retail sales increased 5.7% to $14.97B and comps fell 0.4%.
- Gross margin declined 40 bps to 31.2% as the company was able to partially offset a 60 bps negative impact from the sales mix shift with solid supply chain and inventory flow performance.
- Bad debt expense increased to 12.0% and charge-offs increased to 8.7%. While we expect charge-offs to remain at this level in the short term given heightened credit risks, we believe that a tightening of underwriting standards and recent changes to credit card terms could begin to improve the portfolio's profitability as early as 4Q08. We expect y/y receivable growth to remain in the double digits through 4Q08 as avg. payment size per dollar of balance carried has declined.
- Given challenging trends in the company's credit card operations, we are decreasing our 2008 and 2009 EPS estimates to $3.43 and $3.85 from $3.45 and $4.00, respectively.
- On the call, Target also noted that the penetration of aggregate credit cards among consumer spending declined during the quarter, which is a factor impacting comp store sales.

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Wyeth (WYE): WYE Model Update

Stock Rating:	2-Equal weight
Sector Rating:	1-Positive
Price:	US$ 42.94
Price Target:	US$ 45.00
Current Year EPS:	3.50
Next Year EPS:	3.66
Market Cap:	US$ 57258 (m)

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- We have made a few changes to our WYE model related to the company's P&L and product pipeline. The product changes follow a review of the "project listing" data found on the company's website that provides information on WYE's pipeline products. The changes to our forecast P&L are limited to changes in our forecasted gross margins and the SG&A expense line items.
- In light of the company's focus on biologics/vaccines (i.e. Prevnar 13) and with more established, higher margin, small molecule products facing patent expirations (Effexor XR) we have tempered our gross margin forecasts and decreased the SG&A improvement in 2009 and beyond.
- The changes to the company's bottom line performance are driven primarily by the changes in gross margin and SG&A. Our EPS estimates are unchanged in 2008 but have been reduced to $3.66, $3.78, $3.80, and $3.91 for 2009 through 2012 from $3.70, $3.88, $3.92, and $3.99.

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In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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.

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