NORTH AMERICAN MORNING RESEARCH SUMMARY

Friday, August 22, 2008

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This summary is compiled from research published by Lehman Brothers.

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MORNING MEETING FOCUS

Company / Industry	Headline	Analyst	Ratings
Lawson Software (LWSN)	Reinstating 2-EW/Establishing $9 PT	Israel Hernandez	2-EW / 1-POS

COMPLETE LIST OF TODAY'S PUBLICATIONS

Company Publications		
Gap Inc. (GPS)	ShoreTel Inc. (SHOR)	Verigy Ltd. (VRGY)
ICON plc (ICLR)	Targa Resources Partners LP (NGLS)	
Lawson Software (LWSN)	Varian Semiconductor Equip (VSEA)	

Industry Publications		
Beverages & Tobacco	Oil & Gas: E&P (Large Cap)	
Major Pharmaceuticals	Power and Regulated Utilities	

LATE INTRADAY PUBLICATIONS FROM PREVIOUS BUSINESS DAY

Company / Industry		
Burger King Holdings, Inc. (BKC)	Evercore Partners Inc. (EVR)	Health Care- Managed Care

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										
Lawson Software	LWSN	US$	RS-RS	2-EW	N/A	9.00		unch		unch
ShoreTel Inc.	SHOR	US$	1-OW	2-EW	9.00	6.00	0.17	0.22	0.15	0.12
TARGET PRICE CHANGES										
Burger King Holdings, Inc.	BKC	US$	1-OW	unch	32.00	31.00	1.35	1.38	1.55	1.54
Gap Inc.	GPS	US$	2-EW	unch	20.00	23.00	1.35	1.40	1.20	1.45
ICON plc	ICLR	US$	1-OW	unch	90.00	45.00	2.55	1.28	3.16	1.58
ESTIMATE CHANGES										
Targa Resources Partners LP	NGLS	US$	1-OW	unch	30.00	unch	1.88	2.36	1.53	2.29
Verigy Ltd.	VRGY	US$	2-EW	unch	25.00	unch	1.37	1.20	1.56	1.21

* unch - no change

Beverages & Tobacco: AC Nielsen US beer data solid

Sector Rating: 2-Neutral

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- AC Nielsen US beer data for four weeks to 9 August showed volume growth +0.7% (vs. weak comps of -1.2%) with price/mix remaining strong +3.3%. Domestic beer volumes were +1% with price/mix +3.3%, although the newly formed Millercoors lost share while Anheuser gained share. Imports were weak for the month with volumes -0.8% and price/mix +0.4%. Total Heineken volumes were up owing to Femsa volumes, but core Heineken was in line with the market.
- Total industry volumes were +0.7% (vs. comps -1.3%) with price/mix of +3.3%.
- Domestic beer volumes were marginally better with volumes +1% (vs. comps -0.7%) and price/mix +4.3%. Anheuser Busch volumes were strong for the month +3% (vs. weak comps of -2.5%) with price/mix +4.3%. Although the data for SABMiller and Molson Coors is still reported separately, our combination of the two to review the combined MillerCoors entity shows volumes for the month were -0.6% with price/mix +1.5%.
- Imports were weak for the month with volumes -0.8% (vs. comps -4.8%) with price/mix +0.4%. Heineken was strong with volumes +3.2% (vs. comps +2.6%), core Heineken brand volumes -1.1% and price/mix weak at -1.2%.
- Coolers continued to be weak, with volumes for the month declining -7% (vs. weak comps of -11.7%), although price/mix remained positive at +1.6%.
- Next news in Beer - Heineken H1 results on 27 August.

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Burger King Holdings, Inc. (BKC): 4QF08 Soft…But 15% 09 EPS Achievable

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 25.50
Price Target:	US$ 31.00
Current Year EPS:	1.38
Next Year EPS:	1.54
Market Cap:	US$ 3438 (m)

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- 4QF08 missed Street on elevated op costs while F09 growth guidance surprised to upside though back-end loaded. While we would have preferred more cautious guidance, comfortable at lower end; believe stock compelling on more modest growth. Buyers on significant pullback. Mntn 1-OW
- Guidance; F09 EPS of $1.54-1.59, +16-20% y-y, off of $1.33 in F08 (ex tax lift), with 3-4% comps driven by price, 3% unit growth, 5-7% commodity inflation & Flat rest mgns. Would have preferred more cautious guidance vs assuming 2H uptick. We're at $1.54, with rising food costs pressuring mgns. Expect aggressive repo with excess cash
- 4QF08 EPS; $0.32, +10% y-y, ex $0.05 tax lift, lower end of $0.32-0.34 implied guidance & Street at $0.34. US comp 5.5% vs our 4% view while Int'l segments both ~5%. Co rest mgn 14.0%, -80bp ex re-imaging cost, with commodity costs +160bp. Delta's vs our view; higher other operating income, occupancy & COGS partly offset by lower SG&A
- Big picture; 4QF08 soft despite strong US comps & we're cautious on F09 guidance. With that said, believe mid-teens F09 EPS growth justifies current valuation. With growth potential still above peers & yet trading at discount, attractive for LT investors

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Evercore Partners Inc. (EVR): EVR Obtains Attractive Growth Financing

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 13.37
Price Target:	US$ 16.00
Current Year EPS:	0.69
Next Year EPS:	1.35
Market Cap:	US$ 156 (m)

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- This morning, EVR announced a deepening of the relationship with Mizuho including a $120mm investment by Mizuho in EVR, up to a $150mm investment by Mizuho in Evercore investment products over time, and an expansion of its existing cross-border M&A agreement. We believe this long-growing relationship bore fruit for EVR by providing very attractive financing (5.2% debt) for the company's growth opportunities in its investment management segment.
- Mizuho is investing $120mm in Evercore Partners (EVR). For this investment, Mizuho will receive $120mm of senior unsecured notes due 2020, carrying a 5.2% coupon. It will also receive warrants for 5.5mm shares with a $22 strike (up 71% from yesterday's close, 12 year expiration). These warrants would represent about a 15% ownership of EVR. In terms of accounting treatment for the warrants, since the strike price ($22) is well in excess of the current share price ($13.57), there is no impact on the share count. Dilution to existing shareholders begins to occur gradually at share prices above the $22 strike, calculated via the treasury stock method.
- Continued below...

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Gap Inc. (GPS): New CEO Really Starts to Impress

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 19.02
Price Target:	US$ 23.00
Current Year EPS:	1.40
Next Year EPS:	1.45
Market Cap:	US$ 13770 (m)

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- We're bumping our price target up to $23 and taking our 2008 EPS estimate to $1.40 - a nickel above the high end of mgmt's guidance - on the heels of an operationally strong 2Q.
- Merch margins rose 560 bps in 2Q with better regular price selling as well as lower markdowns.
- Inventory for 3Q is planned down similar levels as 2Q - suggesting stronger gross margins than guidance implies, in our view. Old Navy remains an issue but much of the inventory reduction is centered there, and will come through reduced orders and early cancellations.
- Expenses, meanwhile, remain very well controlled.
- CEO Glenn Murphy has proved very capable with initiatives to optimize expenses and inventory while remaining pragmatic about marketing spend.
- Shifting to a sales driven model (with higher invty) will be a major test in '09 - hence our 2-EW rating.
- Yet the near term trend likely favors earnings upside into 3Q. Invty is well controlled and the October launch of a new Old Navy assortment ushers in product under a new creative chief.
- Our new price target of $23 is 16x our new '09 EPS est of $1.45. Our former price target was $20, 16x our former '09 EPS est of $1.20.

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Health Care- Managed Care: Managed Care Weekly-You're Raskin For It

Sector Rating:	2-Neutral

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- "You're Raskin For It!" - What do we know about the board of directors and board committee members of the companies within the managed care universe?
- Our coverage universe was down 2.3% vs the S&P 500 down 1.2% for the week. YTD group is down 29% with S&P down 13%.
- Hot topics of the week include:1) WellCare reports progress on settlements with Florida agencies. 2) Judge fails to suspend legislation in California 3) CMS announcements of regional benchmarks and August membership last week.
- Recent Notes & Reports: 1) Mgd Care: 'Lehman HC Services CSR Monthly Update." 2) Mgd Care: "Lehman HC Services Weekly Calendar." 3) Mgd Care: "CMS Releases August 2008 Enrollment Data." 4) Mgd Care: "PDP Bids a First Step to 2009 Rebound?" 5) Mgd Care: "CPI Managed Care- Monthly Pricing Review."
- Stat of the Week: "Total health-care spending reached $2.3 trillion in 2007, or $7,600 per person. That number is expected to nearly double by 2016 when spending will reach $4.2 trillion, or 20 percent of the gross domestic product.
- Source: National Coalition on Health Care
- Upcoming Events: LA Stories Field Trip, September 3-4, 2008. Please see below for details.

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ICON plc (ICLR): TGT, EST ADJUSTED FOR STOCK SPLIT

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 41.00
Price Target:	US$ 45.00
Current Year EPS:	1.28
Next Year EPS:	1.58
Market Cap:	US$ N/A (m)

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- We are adjusting our price target and EPS estimates for ICLR to reflect the stock split that occurred on August 14.

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Lawson Software (LWSN): Reinstating 2-EW/Establishing $9 PT

Stock Rating:	2-Equal weight
Sector Rating:	1-Positive
Price:	US$ 7.96
Price Target:	US$ 9.00
Current Year EPS:	
Next Year EPS:	
Market Cap:	US$ 1385 (m)

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- We are reinstating a 2-EW rating and establishing a $9 price target on midmarket applications vendor Lawson. We are encouraged by improving execution on key sales initiatives such as cross selling M3 into North America and a renewed focus on the SI channel. Also, measures taken to achieve cost savings should continue to drive healthy margin expansion (250 bps in FY08). However, we believe that the slowing macro is likely to mute license growth in 2H FY09, given the more discretionary nature of apps spending.
- We estimate 10% license growth in FY09 and FY10, below mgmt's long term target of mid teens, due to slowing macro expected to impact 2H09.
- We estimate operating margin improvement of 290 bps and 250 bps in FY09 and FY10, largely driven by continued efficiency gains in the consulting business.
- We are Introducing our FY09 revenue and non-GAAP EPS estimates with revenue of $917M (+7.4%) and EPS of $0.42 (+28%), below consensus ($922 million and $0.46), reflecting our concern for near term macro headwinds. Our Q1 estimates are $198.5M (+6%) $0.06 (-9%), inline with guidance.

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Major Pharmaceuticals: Ship of State, Meet SEAS

Sector Rating:	1-Positive

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- Investor attention has returned to MRK/SGP's cholesterol-lowering drugs Vytorin and Zetia following various media reports that Congress is now investigating its most recently reported clinical trial. SEAS, the trial in question, was the second Vytorin/Zetia clinical trial to report this year, but unlike the earlier ENHANCE study, results did not cause a reduction in the number of prescriptions for the two drugs. We urge investors to look beyond election-year actions and focus on fundamentals - in the weeks since the SEAS trial was released, the number of new prescriptions has actually increased.
- We believe that the Congressional investigation will most likely have no effect on scripts of Vytorin or Zetia. We continue to believe lowering LDL will remain a cornerstone of cardiovascular care.
- The FDA has said patients should not stop taking the drug. While the SEAS trial showed a slightly higher incidence of cancer for patients on the drug, two other studies currently underway, SHARP and IMPROVE-IT, have shown no increased risk, while testing a much larger population.
- While we believe MRK to be range-bound until the company reinstates guidance, we would be buyers of top-pick SGP today.

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Oil & Gas: E&P (Large Cap): YoY Deficit Drops 20%

Sector Rating: 2-Neutral

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- Last week's 88 bcf storage injection reduced the YoY deficit by 20% (66 bcf) from -330 bcf to -264 bcf. Storage now stands at 2,567 bcf, 26 bcf above the 5-year average. The weather last week was milder than the 5-year average. There were 53 CDDs compared to the 5-year average of 74 along with 4 HDDs compared to the 5-year average of 2. The EIA 914 report shows a preliminary production estimate for May of 61.82, indicating 8.3% YOY growth. The Aug STEO update upwardly revised '08 and '09 dry gas production to imply YOY growth rates of 7.9% and 3.7%. Company provided data also confirms 9.2% production growth for Q2 YoY.
- Natural gas injections of 88 bcf were less than the weather adjusted average of 96 bcf, but more than the consensus estimates of 82 bcf. Storage now stands at 2,655 bcf, a 26 bcf surplus to the 5-year average. The weather was milder than the 5-year average. The YOY deficit decreased by 66 bcf to -264 bcf, representing a 20% drop. Tropical storm Fay did not cause any shut-ins for this week.
- EIA 914: May preliminary production estimate shows +8.3% growth YOY. April 2008 estimates revised slightly upward (0.1%) to 61.62 gross bcfpd (+8.5% YOY). The 8.3% YOY growth for May was lower than the 9.0% YTD increase; the decline in growth rate is entirely due to a 1.0 bcfpd drop in GOM volumes over the past 2 months.
- STEO Aug estimates: 2008 dry gas production estimates up by 1.4% (800 mmcfpd), implying a 7.9% YOY increase. 2009 estimates raised by 3.6% (3.7% YOY growth). 2008 LNG import estimates reduced by 18.9% (49.3% YOY decline). Total net imports estimated to decline 18.3% YOY for 2008. 2009 LNG imports to rise 23.4% YOY while total net imports are expected to drop by 5.4% in 2009.
- Company reported data for Q2 2008 reinforces the strong production growth reported on the EIA-914 report. For our sample, YoY production growth for Q2 2008 was 9.2% (Fig 8 and 9).
- The US Waterborne LNG report (8/14/08) estimates August imports at 33.8 bcf. It estimates September imports to be ~35 bcf.
- If storage injection rates equal 5-year averages over the next 8 weeks, the YOY storage gap would decrease by ~ 40% by the end of September. If weather-normalized injection rates exceed 5-year averages by 1-2 bcfpd, then the storage gap would decline by 55-70% by the end of September. This assumes that both temperatures and hurricanes this year will be comparable to 5-year averages (Fig 2).
- Figure 4 illustrates that we believe that an estimated 4.0 bcfpd increase in YOY production this year has been partly offset by falling LNG imports, severe early season weather (cold up north and hot in the south), rising demand, and other smaller factors.
- According to NEB, the Canadian net pipeline imports to US in May fell to 7.02 bcfpd from a previous month 8.69 bcfpd (19.2% decline). This also represents a 14.7% decline YoY. Canadian production for May also fell by 6% YoY. Canada has had harsher weather this May - 191 HDDs compared to a 5-yr av. of 176, while the Canadian storage levels have continued to grow towards 5 year avg. levels.
- EIA, in its 2008 outlook for hurricanes, further emphasized that NOAA predicted above-normal hurricane activity and projected 2 to 16 named storms, including 6 to 9 hurricanes (2-5 intense). EIA expects a total of about 11.3 million barrels of crude oil and 78 bcf of natural gas to be shut in during the 2008 hurricane season. There is a less than 1% probability of experiencing outages similar to 2005, when Hurricanes Katrina and Rita struck the Gulf Coast (cumulative shut-in production of more than 100 million bbls of crude oil or 600 Bcf of nat gas). Also, this time GOM produces 14% of the total US gas production, compared to the 20% when Katrina and Rita struck (fig 7).

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Power and Regulated Utilities: Power & Regulated Utilities Weekly

Sector Rating: 0-Not Rated

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- We are previewing the calendar of events for the week of August 25th - 29th

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ShoreTel Inc. (SHOR): Strong F4Q; Earnings Levrg May Take Time

Stock Rating:	2-Equal weight
Sector Rating:	1-Positive
Price:	US$ 5.42
Price Target:	US$ 6.00
Current Year EPS:	0.22
Next Year EPS:	0.12
Market Cap:	US$ 228 (m)

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- Healthy F4Q revenue and EPS beats demonstrate SHOR's ability to deliver operating leverage, although its decision to invest in growth limits further leverage. Assume coverage w/2-EW rating.
- Revenue of $34.7M (+20% YoY, +10% QoQ) solidly ahead of $28M-$33M guidance; N. America good, but int'l below expectations (-27% QoQ).
- Gross margin stable at 63%, inline w/guidance; op margin improved to 5% from -2% last qtr. helped by opex ~$1M below midpt of guidance.
- SHOR posted $0.04 EPS vs. LEH/cons -$0.01, driven by ~$0.04 revenue beat, and ~$0.02 in opex savings, partially offset by higher tax rate.
- Expects mkt to grow at least 10% in 2009, w/SHOR to exceed this; we model 19% in CY09. Guided Sep rev $32M-$36M, inline w/cons $33M.
- Guidance implies ongoing opex growth over next several qtrs as the company pursues growth. Our FY09 EPS declines from 15c to 12c. Our $6 target is 1.0 EV/sales or ~16x tentative CY10 EPS.
- Kvaal Call: Investing for growth appears a sound strategy given SHOR's strong technology and lack of scale. However, we believe the significant EPS expansion required to drive the shares is now pushed into 2010.

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Targa Resources Partners LP (NGLS): Strong Q2, Adjusting for Hedge Reset

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 20.93
Price Target:	US$ 30.00
Current Year EPS:	2.36
Next Year EPS:	2.29
Market Cap:	US$ 755 (m)

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- We maintain 1-OW rating and $30 PT given Targa's strong and visible distribution growth prospect driven by asset drop downs by parent. We think NGLS can grow distribution at 4-year CAGR of 13%, assuming $600 MM/yr acquisition run rate and $40 MM organic spending/yr.
- Q2 EBITDA reached $55.5 MM vs our est of $51.4 MM, driven by favorable commodity prices, solid volume growth, partially offset by higher operating expenses. DCF reached $40.1 MM vs our est of $36.1 MM supported by lower interest expense partially offset by higher maintenance capex.
- Mgmt re-set commodity hedges at a higher strike price up to 2010 to achieve greater cash flow stability at higher margin. Net cash flow benefit appears minimal given $87.4 MM re-hedge cost, financed through borrowing from credit facility.
- NGLS announced Q2 distribution of $0.5125 or $2.05 annualized, which represents 23% increase QoQ and 52% increase YoY.
- Our PT of $30 is based on 12 month distribution run rate of $2.16 (up from $1.77) and a target yield of 7.25% (up from 6%). An increase in distribution run rate offset by higher target yield due to capital market volatility.

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Varian Semiconductor Equip (VSEA): Still The Best Alpha in Semi Equipment

Stock Rating:	1-Overweight
Sector Rating:	2-Neutral
Price:	US$ 33.29
Price Target:	US$ 50.00
Current Year EPS:	1.30
Next Year EPS:	1.57
Market Cap:	US$ 2418 (m)

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- We continue to view VSEA as offering best alpha in equipment and view $4+ in earnings power by 2010/2011 as intact, suggesting meaningful stock upside potential from current levels.
- Varian hosted its annual Analyst Day yesterday. Major focus was on (1) driving share in traditional beamline implant (mgmt suggested on track for ~80% share) and (2) solving next generation problems at 32nm and below nodes through both electrical and material modification that should meaningfully grow VSEA's TAM.
- Major takeaway is growing conviction that implant can outgrow WFE led by implant challenges that require damage engineering and more physical implants (key focus was leakage). Add in a doubling of service revs over the next 4yrs and targeted revs from new applications of >$125M by 2010 and we continue to believe VSEA can earn $4+ in EPS by 2010/2011 timeframe.
- Near term, mgmt reiterated view that Dec revs/ orders would grow from Sep and that early view on Mar suggests seq growth there as well. For 2009, mgmt sees capex higher y/y (didn't quantify magnitude) but possibly 2H weighted.

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Verigy Ltd. (VRGY): Macro Uncertainty Hitting SoC Test

Stock Rating:	2-Equal weight
Sector Rating:	2-Neutral
Price:	US$ 21.90
Price Target:	US$ 25.00
Current Year EPS:	1.20
Next Year EPS:	1.21
Market Cap:	US$ 1317 (m)

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- While we had come into the quarter expecting a modest guidance miss, macro uncertainty has taken a toll on SoC testing. Though the shares will be supported by sizeable ~$6 in net cash, we do not see positive catalysts in the near term until investors gain confidence on the end demand picture and we therefore reiterate our 2-Equal weight rating.
- While July Q revs/EPS of $179M/$0.31 beat our est of $175M/$0.28 and cons of $176M/$0.28 aided by slightly higher revenues and much higher other Income, October guide came well below cons ($155-165M/$0.12-0.17, cons $179M/$0.31) led by weakness in SOC business.
- Mgmt suggested widespread SOC order pushouts in the last few weeks as customers take a more cautious wait and see approach to end demand.
- We are lowering our CY08 revenue/EPS ests to $666M/$0.88 from $687M/$1.12 (cons $706M/ $1.19) and CY09 to $739M/$1.45 from $765M/ $1.70 (cons $785M/$1.88).
- At an after market level of ~$20, the shares trade at 14x our new CY09 EPS, 2.1x book, and 1.6x EV/Sales.

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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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