

MORNING NEWS CALL

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TOP STORIES

- IPC accepts sweetened US\$1.65 bln bid from Validus
- June rains, penny pinching dampen U.S. retail sales
- EMC wins Data Domain as NetApp drops out
- G8 eyes climate, emerging powers seek concessions
- BoE surprises by keeping QE total steady

BEFORE THE BELL

Toronto's main stock index could open higher as data showed housing starts rose 8 percent in June amid rising commodity prices. Wall Street is also seen to open higher after a better-than-expected results by Alcoa late on Wednesday, giving a positive tone to the start of the second-quarter earnings season. European stocks bounced back from the last session's 10-week lows, led by mining and energy shares. The Bank of England surprised markets by announcing no expansion of its quantitative easing scheme as it left interest rates unchanged at a record low of 0.5 percent for a fourth month running. Asian markets were mixed, with Japan's Nikkei average falling to a seven-week closing low, weighed down by exporters. Oil rose about US\$1, halting a six-session losing streak which has seen prices decline by 15 percent on concerns about the timing of any economic recovery. Gold rebounded from the last session's eight-week low, as the weak dollar prompted buying of the metal as a currency hedge.

COMPANIES REPORTING EARNINGS

- **Richelieu Hardware Ltd.** (RCH). Expected to report Q2 earnings of 35 cents a share, according to Reuters Estimates

STOCKS TO WATCH THIS MORNING

- **Air Canada** (ACa). The cash-strapped airline is finding some support from lenders as it struggles to solve its financial Rubik's Cube, the company's CEO said on Wednesday.
- **Astral Media Inc.** (ACMa). The company on Thursday reported third-quarter earnings of 79 cents a share, on consolidated revenue of 232.5 million.
- **Birchcliff Energy Ltd.** (BIR). The company said on Thursday it increased its 2009 capital expenditure to \$105 million with continued focus on the expansion of Montey/Doig. The company said average production for second-quarter as estimated from field data was 11,150 boe and revised 2009 capex program is expected to result in a 2009 average production rate of about 11,300 boe/d.
- **Boralex Inc.** (BLX) and **Gaz Metro Ltd.** (GZM_u). The companies said on Wednesday they have received an environmental green light from the province of Quebec for two wind power projects they plan to develop. The companies said they can now apply for construction permits and seek financing for the projects, which will be built on one site 60 kilometers northeast of Quebec City. They will have a total installed capacity of 272 megawatts.
- **ConjuChem Biotechnologies Inc.** (CJB). The company said on Wednesday it raised \$5 million in non-dilutive financing, which involves corporate reorganization to transfer its assets and liabilities to a newly incorporated subsidiary

INSIGHT

Google-Microsoft war may bring down PC prices

Google Inc's bid to compete with Microsoft Corp's Windows operating system may help lower the cost of personal computers at a time when prices are already being pinched by inexpensive netbooks. Google said it will offer its just-announced Chrome operating system for free when it is launched in the second half of 2010, a move that could force Microsoft into a price war.

Although Windows is the dominant operating system -- installed on 90 percent of the world's PCs, Microsoft won't take Google's challenge lightly, analysts said. Its new Windows 7 operating system will be available in October.

"Microsoft's strategy is likely to be to compete on price," said Brent Williams, an analyst with the Benchmark Co. "Now there's a competitor with the muscle and the brand recognition. Google is that company."

Google said Chrome OS, which is based on the open-source Linux code, is being designed for all PCs but will debut on netbooks. It makes sense for Google to initially target the stripped-down, Web-centric netbooks, one of the only segments showing any growth in a PC market that is contracting.

Netbooks generally sell for US\$300 to US\$400, but prices are dropping as new offerings flood the market and wireless carriers offer subsidies with the purchase of a data plan.

Kaufman Bros analyst Shaw Wu noted that while the prices on nearly all PC components have been falling, "the one thing that has not been coming down is the cost of the operating system. This is going to put some pressure on Microsoft."

Microsoft doesn't say how much it charges PC brands for Windows, but analysts estimate it gets US\$20 to US\$40 for the older XP system used in the vast majority of netbooks, and at least US\$150 for the current Vista system.

Wu said price competition could ultimately give a bump to PC makers' margins.

"I think overall it should improve the profitability for PC vendors. It's really a ques-

company.

- **Firan Technology Group Corp.** (FTG). The aerospace and defense electronic products supplier late on Wednesday reported second-quarter loss of 3 cents a share, on revenue of 14.6 million.
- **Kinross Gold Corp.** (K). The company said on Wednesday unionized employees strike launched at its La Coipa mine would affect gold production equivalent to about 300 oz per day.
- **Manulife Financial Corp.** (MFC). The Canadian top life insurer plans to keep building capital to shield it from volatile markets, and could use those reserves for expansion or acquisitions down the road, the CEO told analysts on Wednesday.
- **Sandvine Corp.** (SVC). The network equipment maker posted a wider loss for the second quarter, partly on increased expenses.
- **Uranium One Inc.** (UUU). The company on Thursday reported a second-quarter production of 833,900 pounds, which is an 18 percent increase on sequential basis.
- **Viterra Inc.** (VT). The Canadian grain-handling company said on Wednesday its acquisition of ABB Grains Ltd remains on track, a day after the Australian company cut its profit view hurt by lower demand.

CORPORATE EVENTS

- 08:30** Sandvine Corp. (SVC). Q2 earnings conference call
- 10:30** Astral Media Inc. (ACMa). Q3 earnings conference call
- 11:00** Advantage Energy Income Fd (AVN_u). Annual general and special meeting of unitholders
- 14:30** Richelieu Hardware Ltd. (RCH). Q2 earnings conference call

ANALYST RECOMMENDATIONS

- **Saputo** (SAP) coverage started with buy rating; price target of \$28 at Genuity
- **Research in Motion** (RIM) rating raised to buy from hold at Canaccord Adams

EXDIVIDENDS

- **Saputo Inc.** (SAP). Amount \$0.14

Note: All values in Canadian currency, unless otherwise stated

tion of how much they pass on to the customers," he said.

REWRITING THE RULES

Between 20 million and 30 million netbooks are expected to be shipped this year, and the devices continue to rewrite the rules for the PC industry.

Even as heavyweights such as Hewlett-Packard Co and Dell Inc roll out new netbooks, analysts expect new players, including Taiwan-based equipment manufacturers and carriers such as AT&T Inc, to release branded netbooks running on either Intel Corp's x86 chip platform or ARM chips.

Google said Chrome will work on either architecture.

The company said its Chrome team is working with PC makers including HP, Lenovo, Acer and Asustek, and chipmakers such as Qualcomm and Texas Instruments to design and build devices.

Dell did not return a call seeking comment. Microsoft has not commented on Google's move.

Collins Stewart analyst Ashok Kumar was skeptical that Chrome poses any near-term threat to Microsoft, but he expects the company to react nonetheless. "I think Microsoft will be flexible in pricing to respond to any challenge," he said.

"Over time I think that Linux will gain traction, and as more carriers jump on this netbook opportunity, Google might provide them a way to differentiate their platform. But this is just the first stage of a marathon," he added.

Gartner analyst Michael Silver said Google's move does present some risk to Microsoft, but he was doubtful the software giant would cut the price of Windows any time soon.

"Microsoft is a bit limited because what they do for one they have to do for everybody If they see it as a threat they'll respond. But netbooks have been shipping with Windows XP for a while and have actually been doing quite well compared with Linux, even though they're more expensive."

--- Gabriel Madway, Reuters News

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