

MORNING NEWS CALL

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TOP STORIES

- Costco June sales down 6 pct, in line
- EMC wins Data Domain as NetApp drops out
- Alcoa's quarterly loss smaller than expected
- G8 eyes climate, emerging powers seek concessions
- BoE surprises by keeping QE total steady

BEFORE THE BELL

U.S. stock index futures point to a higher start on Wall Street today after a better-than-expected results by Alcoa late on Wednesday, giving a positive tone to the start of the second-quarter earnings season. On the macro front, investors will be closely watching the data release on jobless claims and wholesale inventories. European stocks rose, as a rebound in oil prices boosted shares of energy companies. Asian markets were mixed, with Japan's Nikkei average falling to a seven-week closing low, weighed down by exporters. Oil rose about \$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

- **3Com Corp.** (COMS). Expected to report Q4 earnings of 5 cents a share, according to Reuters Estimates
- **Adams Express** (ADX). Expected to report Q2 earnings
- **Chattem Inc.** (CHTT). Expected to report Q2 earnings of \$1.21 a share
- **Chevron** (CVX). Expected to report interim Q2 earnings of \$1.26 a share
- **Helen of Troy Ltd.** (HELE). Expected to report Q1 earnings of 35 cents a share
- **Lawson Software Inc.** (LWSN). Expected to report Q4 earnings of 10 cents a share
- **Shaw Group Inc.** (SGR). Expected to report Q3 earnings of 60 cents a share

STOCKS TO WATCH THIS MORNING

- **Alcoa Inc.** (AA). The company posted a third consecutive quarterly loss on Wednesday, but cost cuts helped the aluminium maker beat Wall Street estimates by a large margin.
- **Amazon.com** (AMZN). The online retailer has cut the price of its standard Kindle electronic reader by 17 percent to \$299, the company said on Wednesday, the latest salvo in the war for digital readers.
- **American International Group Inc.** (AIG). The insurer has resumed talks to sell its American Life Insurance Co unit to **MetLife Inc** (MET) in a transaction that could help the company raise more than \$15 billion, FT said on Wednesday.
- **Archer Daniels Midland** (ADM). Europe's highest court on Thursday reduced by 10.29 million euros a fine slapped on the U.S. food processing company for its role in a citric acid cartel. The European Court of Justice cut the fine to 29.4 million euros from 39.69 million euros, saying the firm had been

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 \$300 to \$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 \$20 to \$40 for the older XP system used in the vast majority of netbooks, and at least \$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 question of how much they pass on to the

unfairly classified as a leader of the cartel.

- **AT&T (T).** The telecom giant struck back on Wednesday at Sen. Herb Kohl, chair of a congressional antitrust panel, saying the lawmaker's concerns about a lack of competition in the wireless industry were unfounded.
- **Autoliv Inc. (ALV).** The Sweden based automotive safety systems supplier said on Thursday it appointed Mats Wallin as the CFO of the company. He currently heads corporate control of the company.
- **Bank of America Corp. (BAC) and JPMorgan Chase & Co. (JPM).** The two major banks said on Wednesday they are switching some customers who have fixed-rate credit cards to potentially higher variable rates, acting before a new law takes effect that limits what card issuers can charge.
- **Bebe Stores Inc. (BEBE).** The women's apparel retailer said on Thursday fourth-quarter same store sales fell 29.2 percent and expects quarterly earnings per share to be at or below the low end of the range previously provided.
- **BlackRock Inc. (BLK).** The asset manager plans to raise between \$4 billion and \$5 billion through financing for a U.S. federal program that disposes of toxic assets, a spokeswoman said on Wednesday.
- **Buckle Inc. (BKE).** The retailer said on Thursday June same store sales rose 9.6 percent.
- **California Pizza Kitchen Inc. (CPKI).** The restaurant operator raised its forecast for second-quarter earnings on Wednesday, as the company said it kept a tight control on its expenses to offset falling revenue.
- **Children's Place Retail Stores Inc. (PLCE).** The children's clothing retailer on Thursday a fall of 12 percent in June same-store sales.
- **ConocoPhillips (COP).** The Abu Dhabi National Oil Company and the energy company signed a deal on Thursday for a multi-billion dollar project to develop the Shah gas field in the United Arab Emirates, ADNOC said in a statement.
- **Costco Wholesale Corp. (COST).** The warehouse club operator on Thursday reported an in-line 6 percent fall in sales, hit by a slide in demand during the recession for higher ticket items such as cameras and cell phones.
- **Deluxe Corp. (DLX).** The printer of checks said on Wednesday it expects to report higher second-quarter earnings than it previously forecast, due partly to lower spending and tax rates.
- **DynCorp International Inc. (DCP) and Flour Corp. (FLR).** The two logistics contractor have been chosen over incumbent **KBR Inc (KBR)** for five-year contracts worth up to \$7.5 billion each to support U.S. troops in Afghanistan, the U.S. Army said on Wednesday.
- **Eclipsys Corp (ECLP).** The health information technology company named Chris Perkins as the CFO of the company on Wednesday.
- **EMC Corp. (EMC).** The data storage equipment maker won the bidding war for specialty data storage technology company **Data Domain Inc (DDUP)** on Wednesday as rival **NetApp Inc (NTAP)** pulled out, saying it would not match EMC's \$2.4 billion bid. Data Domain, which previously resisted EMC's overtures, said it severed an agreement to sell itself to NetApp for \$1.9 billion and paid a \$57 million breakup fee.
- **Exactech Inc. (EXAC).** The maker of orthopaedic implant devices said on Wednesday its second-quarter results would be lower than expected and cut its 2009 revenue forecast, citing weak sales of its knee implant products.
- **Exelon Corp. (EXC).** The utility services holding company's 619-megawatt Oyster Creek nuclear power station in New Jersey ramped up to 90 percent power by early Thursday from 60 percent early Wednesday, the U.S. Nuclear Regulatory Commission said in a report.
- **First Community Bancshares Inc. (FCBC).** The bank holding company said on Wednesday it repaid all funds it obtained under the Capital Purchase Program from the U.S. Treasury, helped by the public offering of 5.3 million shares last month.
- **General Mills Inc. (GIS).** The consumer food manufacturer on Wednesday voluntarily recalled limited quantity of 'nut lovers', one of the flavours of Nature Valley Granola Nut Clusters product, citing an action taken as a precaution. No illness has been reported in relation to the product.

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

- **General Motors (GMGMQ)**. The bankrupt automaker said on Wednesday it expects its vehicle sales in China to grow by more than 20 percent this year, as it remained hopeful of selling its struggling Hummer unit to a little-known Chinese firm. Separately, GM said on Thursday its sales in Europe reached a volume of 471,823 vehicles in the second-quarter, with a market share of 9.2 percent.
- **Google (GOOG)**. The internet giant said on Wednesday its Chrome Operating System, which will be in netbooks for consumer in the second half of 2010, will be available for free. The company also said the Chrome OS team is working with companies including **Hewlett Packard (HP)**, **Texas Instruments (TXN)**, Acer and **Qualcomm (QCOM)** to design and build devices.
- **Hot Topic Inc. (HOTT)**. The teen-clothing retailer widened its second-quarter loss forecast citing lower-than-expected sales performance till date, and posted a 7.9 percent fall in June sales at stores open at least a year.
- **Human Genome Sciences (HGS)**. An experimental antibody treatment helped rabbits and monkeys survive a deadly dose of anthrax bacteria and proved safe in humans, too, researchers at the biotechnology company said on Wednesday.
- **Lehman Brothers Holdings Inc. (LEHMQ)**. The bankrupt company has paid more than a quarter of a billion dollars in legal and consulting fees since it filed for bankruptcy protection last September.
- **NTT DoCoMo Inc. (DCM)**. The Japan's top wireless operator said on Thursday it is in talks with some Asian mobile carriers for possible capital investment as it aims to seek growth overseas to counter the maturing cellphone market at home.
- **ScanSource Inc. (SCSC)**. The technology distributor on Wednesday forecast fourth-quarter sales above Wall Street expectations, with sales expected at \$434 million to \$442 million, compared with \$554 million a year earlier.
- **Stryker Corp. (SYK)**. Medical technology firm Advanced Medical Solutions Group Plc said on Thursday it signed a deal with Stryker, a medical device maker, for the global marketing and distribution of its LiquiBand wound closure products for use in cranio-maxillofacial surgeries.
- **UMC (UMC)**. Monthly sales at the contract chipmaker hit the highest level in 11 months in June on growing demand that could have pushed the money-losing company into the black in the second quarter.
- **Validus Holdings Ltd. (VR)**. The company said on Thursday it is acquiring **IPC Holdings (IPCR)** in cash and stock deal, \$7.50 in cash and 0.9727 Validus common shares, with Validus shareholders owning about 62 percent of the combined company and IPC shareholders the rest.
- **Verigy Ltd. (VRGY)**. The semiconductor testing company said on Wednesday it plans to offer \$110 million of convertible senior notes due 2014, and reaffirmed its third-quarter revenue and gross-margin outlook.
- **VimpelCom (VIP)**. The Russian mobile phone firm is considering expanding in Asia and might be interested in assets in the region owned by Luxembourg-based telecom operator Millicom (MICC).
- **Volcano Corp. (VOLC)**. The medical device maker said on Thursday it expects 2009 loss per share of 38 cents to 43 cents and reaffirmed revenue in the range of \$218 million to \$223 million.
- **Walgreen Co. (WAG)**. The drugstore chain announced on Wednesday a 22.2 percent increase in its quarterly dividend, saying it is confident in its ability to generate strong free cash flow. The dividend was raised to 13.75 cents per share from 11.25 cents per share.
- **Watson Pharmaceuticals Inc. (WPI)**. The company on Wednesday received FDA approval for its fruit and cinnamon flavored coated nicotine gums and said will make them available to customers immediately.
- **WD-40 Co. (WDFC)**. The household lubricants and cleaning products maker posted a better-than-expected third-quarter profit helped by improved gross margins. Net income fell 15 percent to \$6.9 million, or 41 cents a share, from \$8.1 million, or 49 cents a share, a year earlier.
- **YRC Worldwide Inc. (YRCW)**. The struggling trucking company said on

Wednesday that Rothschild Inc has initiated discussions with several significant debt holders as a financial adviser to the company's restructuring.

• **Zumiez Inc.** (ZUMZ). The snowboarding-gear retailer reported a lower-than-expected 19.3 percent fall in June sales at stores opened for more than a year. The retailer expects July and August results to be hurt by a delayed start to the back-to-school season.

CORPORATE EVENTS

08:30 Chatterm Inc. (CHTT). Q2 earnings conference call
08:30 3Com Corp. (COMS). Q4 earnings conference call
11:00 Helen of Troy Ltd. (HELE). Q1 earnings conference call
15:00 Tidewater (TDW). Annual stockholders meeting
17:00 Shaw Group Inc. (SGR). Q3 earnings conference call
17:00 Lawson Software Inc. (LWSN). Q4 earnings conference call

ECONOMIC CALENDAR

08:30 Initial claims for w/e July 4: Prior 614,000 Expected 605,000
08:30 Continuing claims for w/e June 27: Prior 6.702 mln Expected 6.71 mln
10:00 Wholesale inventories for May: Prior -1.4% Expected -1.0%
10:00 Wholesale sales for May: Prior -0.4% Expected 0.0%
---- ICSC Monthly Chain for June: Prior -4.6%

ANALYST RECOMMENDATIONS

• **Chevron** (CVX) coverage started with buy rating; price target of \$78 at SocGen
• **ConocoPhillips** (COP) coverage started with sell rating; price target of \$35 at SocGen
• **Exxon Mobil** (XOM) coverage started with hold rating; price target of \$72 at SocGen

EXDIVIDENDS

• **Bebe Stores** (BEBE). Amount \$0.05
• **MFA Financial Inc.** (MFA). Amount \$0.25
• **Pep Boys** (PBY). Amount \$0.03
• **PNC Financial Services Group** (PNC). Amount \$0.10
• **Sovran Self Storage** (SSS). Amount \$0.45
• **Universal Corp.** (UVV). Amount \$0.46

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