



Thursday May 15, 2008

S&P/TSX Composite	+9.61	14626.31
Dow Jones	+66.20	12898.38
S&P 500	+5.62	1408.66
NASDAQ	+1.58	2496.70
S&P/TSX Venture	+11.73	2567.68
Philadelphia SOX	+4.98	411.29
Crude Oil (US\$/brrl)	-1.58	124.22
Gas (US\$/mmbtu)	+0.18	11.60
Copper (US\$/lb)	-0.06	3.71
Gold (US\$/oz)	-3.10	866.50
Nickel (US\$/lb)	+0.23	12.19
Palladium (US\$/oz)	+0.00	434.75
Platinum (US\$/oz)	-15.00	2034.50
Silver (US\$/oz)	-0.18	16.54
Uranium (US\$/lb)	-3.00	60.00
Zinc LME (US\$/lb)	+0.06	1.05
Canadian Dollar	-0.0001	0.9962
30 Year Canada	-0.02	4.052
30 Year U.S.	-0.03	4.609

### Some Ideas Just Stick



Plenty of products last for 50 years, but few have the staying power of Velcro fasteners. That signature sound of hook-and-loop tape being torn apart rippled along a parade route on Tuesday to mark half a century since the Velcro brand was trademarked in the U.S.

Former and current employees of Manchester, New Hampshire-based Velcro USA lined up for more than a kilometre and a half to rip apart 20-centimetre lengths of the company's famous fasteners.

The hook-and-loop tape has its roots with Swiss engineer George de Mestral, who came up with the design in the 1940s after studying burrs that stuck to his dog's fur and his wool pants during a walk in the woods. He named his invention Velcro, a combination of "velour" and "crotchet". Production began in France, but by 1958, manufacturing operations had moved to Manchester.

Although the company's products are virtually synonymous with hook-and-loop tape, Velcro USA's patent expired in 1978.

### CANADA

The S&P/TSX Composite pared most of its early gains but still posted another record high, with **Royal Bank (RY)** leading the way in a relief rally after it detailed current market conditions and the writedowns it expects to take in the second quarter. The bank said a big part of the \$855 million writedown reflects liquidity pressures on assets that it holds.

**Research In Motion (RIM)** climbed in early trade on positive analyst comments about its new mobile phone, dubbed the "BlackBerry Bold".

Oil edged up from session lows after crude oil stocks rose less than expected in top consumer the U.S. The latest weekly U.S. fuel inventory data was mixed, with a rise in crude oil and distillate stocks, but a surprise fall in gasoline.

**Inmet Mining (IMN)** weighed on resource stocks. Its targets and ratings were cut because of the suspension of a water permit at its Las Cruces project, its core asset, putting the mine's start date in doubt. **ING Canada (IC)**, the country's largest property and casualty insurer, traded lower after saying profit fell for the eighth straight quarter, missing analysts' estimates because of lower underwriting income and weak equity markets.

### UNITED STATES

Benchmark indexes advanced, led by financial shares, after consumer prices climbed less than economists forecast and **Freddie Mac (FRE)** posted a narrower-than-estimated loss. The second-largest U.S. mortgage-finance company rallied after saying it boosted market share and revenue.

**Hewlett-Packard (HPQ)**, **Home Depot (HD)** and **Intel (INTC)** led the Dow Jones to its second gain this week after the U.S. Labor Department's April prices report gave the Federal Reserve more to leeway to stimulate the economy.

**Macy's (M)** sparked a rally in retailers after the owner of Bloomingdale's and its namesake chain said first quarter sales fell less than analysts estimated and reiterated the company's annual forecasts.

**Deere (DE)** tumbled after the world's largest maker of tractors and combines warned that rising costs could dent its earnings over the next few quarters. **Electronic Arts (ERTS)** also slid after the biggest video-game maker reported a fourth quarter loss of \$94 million and said profit for the first half of fiscal 2009 probably will miss analysts' estimates as more of the games expected to be big hits, including "Spore," will be released later in the year.

**Whole Foods Market (WFMI)** had its steepest drop since November 2006. The largest U.S. natural-foods grocer said costs from its Wild Oats Markets acquisition cut earnings by 13%. The company's quarterly sales also missed the average analyst estimate.

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## ECON 101

**CANADIAN Data Today:** This morning, **Manufacturing Shipments** (Mar) are expected fall by 0.5%, after gaining 1.6% the previous month.

**U.S. Data Today:** This morning, **Initial Jobless Claims** (May 10) are expected to come in at 370K, up from 365K the previous week, while **Continuing Claims** (May 3) should come in at 3,035K, up from 3,020K before that.

**Leading Indicators** (Apr) are expected to come in unchanged, after gaining 0.1% the previous month, while **Industrial Production** (Apr) should fall by 0.3%, after gaining 0.3% previously.

## MARKET MOVERS

### Technical Indicators:

	TSX	TSX-V	NYSE	NASDAQ	AMEX
Advancers	776	501	1819	1417	691
<u>Decliners</u>	<u>817</u>	<u>548</u>	<u>1277</u>	<u>1440</u>	<u>448</u>
Net	-41	-47	+542	-23	+243

### Notable 52-Week Highs:

ARC Resources	ARX	\$ 68.94	Nexen	NXY	\$ 39.79
BG Advantaged S&P/TSX	BAI.UN	\$ 15.02	Oil Sands Sector Fund	OSF.UN	\$ 10.65
Birchcliff Energy	BIR	\$ 13.38	Mulvihill Pro-AMS 100	PRC.UN	\$ 19.54
Burmis Energy	BME	\$ 4.33	ProEx Energy	PXE	\$ 22.25
Bankers Petroleum	BNK	\$ 2.15	Research In Motion	RIM	\$144.52
Baytex Energy Trust	BTE.UN	\$ 28.53	Storm Exploration	SEO	\$ 16.14
Boyd Group Income Fund	BYD.UN	\$ 3.23	SNC-Lavalin Group	SNC	\$ 58.30
Chemtrade Logistics Inc Fd	CHE.UN	\$ 14.50	Sentry Select Commodities	SSJ.UN	\$ 10.50
Cinch Energy	CNH	\$ 1.67	Exploration Sulliden	SUE	\$ 0.87
Canadian Natural Resources	CNQ	\$ 98.67	Vermilion Energy Trust	VET.UN	\$ 42.64
Endev Energy	ENE	\$ 1.32	Vero Energy	VRO	\$ 9.50
Fording Canadian Coal Trust	FDG.UN	\$ 72.90	Western Canadian Coal	WTN	\$ 6.43
Mercator Minerals	ML	\$ 12.80	Wex Pharmaceuticals	WXI	\$ 0.68
NAL Oil & Gas Trust	NAE.UN	\$ 15.59			

### Notable 52-Week Lows:

Amerigo Resources	ARG	\$ 1.90	Keystone North America	KNA.UN	\$ 6.22
Brainhunter	BH	\$ 0.38	Liberty Mines	LBE	\$ 0.71
BioSyntech	BSY	\$ 0.15	Liquor Stores Income Fund	LIQ.UN	\$ 17.50
Caldera Resources	CDR	\$ 0.04	Linear Gold	LRR	\$ 1.85
CanWest Global Communications	CGS	\$ 3.85	Marathon PGM	MAR	\$ 3.40
Chesswood Income Fund	CHW.UN	\$ 2.00	Moydow Mines	MOY	\$ 0.16
Cargojet Income Fund	CJT.UN	\$ 11.00	OceanaGold	OGC	\$ 1.38
Medical Facilities Corp.	DR.UN	\$ 9.55	Orbus Pharma	ORB	\$ 0.15
easyhome	EH	\$ 17.50	Olympus Pacific Minerals	OYM	\$ 0.27
Extendicare REIT	EXE.UN	\$ 10.41	Parkland Income Fund	PKI.UN	\$ 11.26
First National Financial	FN.UN	\$ 12.30	Sterling Shoes Income Fund	SSI.UN	\$ 11.50
Gitennes Exploration	GIT	\$ 0.20	Turbo Power Systems	TPS	\$ 0.05
Innergex Renewable Energy	INE	\$ 9.96	TimberWest Forest	TWF.UN	\$ 11.61
Kaboose	KAB	\$ 0.88	Vasogen	VAS	\$ 0.34
Katanga Mining	KAT	\$ 10.22	World Heart	WHT	\$ 0.08
Kingsway Financial Services	KFS	\$ 9.66	Yorbeau Resources	YRB.A	\$ 0.16

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## CANADIAN EQUITIES OF INTEREST

Listed Alphabetically by Symbol

### **Birchcliff Energy\* (BIR : TSX : \$13.17), Net Change: 0.85, % Change: 6.90%, Volume: 3,121,634**

*On a warpath in Peace River.* Shares rallied on first quarter results. Canaccord Adams Energy Analyst Wendy Liu viewed production results as being roughly in line with expectations, while financial results were a bit below due to slightly higher costs and losses on commodity contracts. The company also announced an increase in the 2008 capital program to \$150 million from \$105 million. Recent drilling success has increased the company's proven Montney-Doig lands, and extended the Worsley pool to the north. The incremental capital this year will be primarily directed to expand the drilling programs in these two resource play areas. The company has provided 2008 exit production guidance of between 12,500-13,000 boe/d. This was below her current estimates, notwithstanding the capital increase. The combined effect of delayed tie-ins of wells from the first quarter program, scheduled turnarounds midyear, and normal production declines has resulted in the anticipated volume growth later in the year being added to a slightly lesser base. Liu downgraded the stock given the strong share price appreciation.

### **Bankers Petroleum\* (BNK : TSX : \$2.00), Net Change: 0.10, % Change: 5.26%, Volume: 10,160,574**

*My American/Albanian Cousin.* Bankers plans to split into two separate public companies. One company will have a continued focus on heavy oil in Albania and the other company, to be called BNK Petroleum (BNK-US), will be a North American shale gas resource company. Every Bankers shareholder will receive one share in BNK-US for every 10 common shares held in Bankers, as at the record date to be set for early July. BNK-US's principal asset is its interest in the Tishomingo gas field in the Ardmore Basin in Oklahoma. In its Q1/08 report this week, Bankers highlighted that in the U.S., its average gas production was 762 mcf/d compared to 462 mcf/d for Q4/07, an increase of 65%; average condensate and NGL production was 107 bopd compared to 37 bopd for the previous quarter, an increase of 189%. The new company will be run by Bankers' existing U.S. management team. The restructuring will allow Abby Badwi and his management team to focus its efforts and financial resources on developing the 2.5 billion barrels of original-oil-in-place in the Patos Marinza and Kucova oil fields, as well as exploring additional oil and gas investment opportunities in Albania.

### **Breakwater Resources (BWR : TSX : \$0.85), Net Change: 0.00, % Change: 0.00%, Volume: 4,509,463**

### **HudBay Minerals (HBM : TSX : \$18.20), Net Change: 0.46, % Change: 2.59%, Volume: 4,284,070**

*Zinc don't stink, but it sure smelts.* China's strongest earthquake in more than half a century has temporarily affected its annual zinc smelting capacity by as much as 500,000 tonnes, or roughly 11% of the country's total. Some zinc smelters in the earthquake hit region were shut down, including Gansu Baohui Zinc Corp. and its 60,000-tonne capacity. It is hard to predict how long this production halt will last but one analyst said long-term closures may account for less than 100,000 tonnes a year, while "a fair amount" of capacity may have been closed pending safety checks. Canaccord Adams still expects the global refined zinc market to be in significant surplus of 263,000 tonnes in 2008 and 184,000 tonnes in 2009, allowing for disruptions accounting of about 3% of global mine supply. Canadian companies that are highly-levered to zinc include Breakwater and HudBay while **Lundin Mining (LUN)** and **Teck Cominco (TCK.B)** are less levered.

### **Cardiome Pharma\* (COM : TSX : \$9.30), Net Change: -0.37, % Change: -3.83%, Volume: 371,802**

*Champagne gets better with age, right?* Cardiome wasn't looking too healthy after **Sanofi-Aventis (SNY)** announced that it expects to file for FDA approval its atrial fibrillation drug Multaq in June. Multaq, of course, is a potential competitor to Cardiome's vernakalant oral. Cardiome also reported its Q1/08 results this week, which in Canaccord Adams' view, was a non-event. Of greater interest was management's update on the timing of a potential deal announcement. Due diligence with a number of prospective parties is complete, and active negotiations have begun, with conclusion of the process expected in the summer. Phase 2b vernakalant oral data is anticipated to be available in 6-8 weeks (late-June), with an announcement of partnering (or take-out) to follow (early-July). The market continues to await the FDA decision on Kynapid; an FDA response is pending but there is still no additional clarity on a timeline. The dossier remains under review at the Office of Drug Evaluation, although on the positive side, no further data has been requested.

### **Gabriel Resources (GBU : TSX : \$2.52), Net Change: -0.18, % Change: -6.67%, Volume: 1,854,363**

*Is George Soros setting up to look like an environmental star and make a few more bucks along the way?* As listed on Bloomberg, **Newmont (NEM)** owns 18.38% of Gabriel while New York-based superstar hedge fund manager John Paulson

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owns 18.04% in one of his companies, having increased his share ownership by 15% recently. Paulson earned a bonus of over \$3 billion last year (the largest in Wall Street history) after making about \$15 billion shorting the housing bubble. According to the Wall Street Journal, Soros was so impressed that he invited him to lunch to discuss how Paulson did it (Paulson wouldn't give details). It is not inconceivable that Paulson now runs some money for Soros, perhaps explaining how the contrarian Paulson became so interested in Gabriel of late. Electrum Strategic Holdings owns 13.47%, having gained their entire position in 2008. Thomas Kaplan of Apex Silver fame is the founder of Electrum. George Soros and his brother owned up to 30% of Apex at one time when Soros was bullish silver. William Natbony is also behind Electrum via GRAT Holdings and was also involved with Apex. Is Soros involved with either or both investors? He certainly knows these two major holders, not to mention having been an investor in Newmont. Bucharest is struggling to clean up the corruption among the political ranks, prompting diplomats of the EU to question if the country joined prematurely. Unfortunately, the EU has more power to make demands before it grants membership to a country than after. The lethargic, corrupt Communist mentality tends to take generations to fade away and according to Transparency International, Romania is the most graft-prone EU member. The fact that Gabriel's environmental permit process was stopped for no reason and against Romanian law illustrates how politically charged this project is. For alternate views you won't likely read from analysts, google "Is Soros Using Environmental Scare Tactics to Gain Control of Gold Mine?" and "Apex, Soros and Others".

### **Intrinsyc Software\* (ICS : TSX : \$0.56), Net Change: -0.13, % Change: -18.84%, Volume: 2,775,888**

*Who doesn't love averaging down?* This maker of handset software reported Q1 results that showed revenues which handily beat estimates. Sales came in at US\$5.6 million vs. consensus of US\$4.7 million. The higher-than-expected revenues were due to a particularly strong services quarter based on a newly signed Symbian contract. Additionally, Soleus contributed almost US\$0.5 million this quarter vs. less than US\$0.2 million last quarter, which is higher than what Canaccord Adams Technology Analyst Peter Misek had forecast. GAAP earnings for the quarter was in line with consensus at US\$0.03. The revenue overachievement was somewhat soured by the disclosure that one of the company's design wins was cancelled and the MOU with a Japanese OEM had not yet transitioned into a full software engagement. The quashed design win pertains to Intrinsyc's March 2008 announcement that it had secured a third device with an existing Soleus licensee. The customer, due to cost factors, had apparently elected to rationalize its product roadmap, thereby focusing resources on developing two handsets instead of three. Management believes that the volumes from the cancelled the third handset would shift over to the remaining two handsets, thus causing minimal change in overall volumes, although Misek was hesitant to concur at this stage. In regards to the Japanese OEM, Misek believes the delayed MOU could be related to a potential increase in scope of the project. As such, he is not overly concerned by this delay. While Misek was a bit disappointed with the contract cancellations/delays he maintains his bullish outlook on the stock as it is now trading at about 0.8x his 2009E revenue forecast and as more than 40% of its market cap is cash.

### **Imnet Mining (IMN : TSX : \$67.50), Net Change: -9.49, % Change: -12.33%, Volume: 1,681,417**

*Watered down...*Imnet disclosed yesterday that the Spanish Water Authority, Confederacion Hidrografica del Guadalquivir (CHG) has suspended the authorization for the dewatering and re-injection system (DRS) used at the Cobre Las Cruces, S.A. (CLC) project in Spain. The DRS is a system of wells around and within the Las Cruces open pit that removes water from the surrounding aquifer and re-injects it into adjacent wells in order to prevent water flowing into the pit, thereby protecting the regional aquifer. Without the DRS system, mining would not be possible in the open pit. CHG has indicated that CLC should not expose the ore in the pit during the period of suspension hence delaying the direct ore shipping in June. Imnet had anticipated copper production of around 27,000 tonnes this year (100% basis). The project has a nameplate capacity of 74,000 tpy of cathode. Separately, Imnet was appointed as manager of the Petaquilla Copper Project – a precursor of more to come? On March 26, Imnet and **Teck Cominco (TCK.B)** announced an agreement to extend Teck's deadline for making a commitment to fund the Petaquilla Project. **Petaquilla Copper (PTC)** has since commenced arbitration proceedings against Teck.

### **Liquor Stores Income Fund\* (LIQ.UN : TSX : \$17.72), Net Change: -0.78, % Change: -4.22%, Volume: 260,927**

*How couldn't you make money in this business?* Since reporting its Q1 last week, shares of this liquor retailer have been going down like a jug of apple crantinis at a Sex in the City pre-movie party (one of 'em dies, by the way). Same-store sales for Liquor Depot and Liquor Barn combined, on a pro-forma comparative basis, rose by 1.5% from a year earlier. The overall sales improvement from a year earlier would have been even more significant, but for a decline from a year ago of 5.0% on a pro-forma comparison basis for sales at 66 Liquor Barn stores. The pro-forma Liquor Barn sales decline is primarily attributable to the harmonization of retail prices with Liquor Depot stores. The fund acquired 81 Liquor Barn stores in June 2007. A similar situation occurred in first quarter of 2005 when the Fund reported a 2.53% decrease in same store sales from a year earlier as a

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result of price harmonization between the fund's Liquor Depot and Liquor World stores. The company's growth strategy is focused on acquisitions in British Columbia and the development of new stores in Alberta. As well, the company is monitoring opportunities in other provinces and in the U.S., where more than 30 states permit private retail distribution of alcoholic beverages. Management is currently negotiating to acquire several stores in the US. For the first quarter of 2008 distributable cash before non-recurring items was \$0.19 per unit, down 5.0% from \$0.20 per unit a year earlier. Non-recurring items of \$500,000 or \$0.02 per unit refer to recruitment and relocation expenses, as well as extraordinary professional fees. After non-recurring items, the company reported distributable cash of \$0.17 per weighted average unit.

**North American Gem (NAG : TSX-V : \$0.27), Net Change: 0.06, % Change: 25.58%, Volume: 38,648,841**

*Diamond, emerald, ruby, sapphire - and coal?* While North American Gem's name may not exactly lead one to think the company is in the coal business, its most recent press releases certainly do. Several times earlier this month, North American Gem announced that it had submitted coal permit applications for potential land positions in proximity to the recent **Goldsource Mines (GXS)** discovery in east-central Saskatchewan, which has attracted a large amount of interest in the area. Then on Wednesday, the junior mineral explorer announced that it had signed an agreement with Adamas Minerals of Prince Alberta, Saskatchewan to grant North American Gem exclusive rights to coal, oil shales and or all hydrocarbon discoveries on a land package on which coal permit applications have been submitted for, West of Hudson Bay, Saskatchewan. Included in this new potential land package acquired from Adamas, the company has also submitted coal permit applications for another 578,234 acres, in addition to the previous acreage applied for previously. The current total land staking is now approximately 927,613 acres. Like Goldsource, Adamas was also exploring for diamonds when it hit coal back in 2007. During this exploration program Adamas discovered a coal seam in the Cretaceous rock (Mannville Group Rocks) sequence containing coal similar to Goldsource. This four-metre intercept is currently on a rush assay to the lab. The terms of the agreement are as follows: 1) North American Gem will pay \$7,500 and 500,000 common shares of the company to Adamas upon signing of the agreement; and 2) North American Gem will pay an additional 500,000 common shares of the company once drilling has commenced.

**Oilexco\* (OIL : TSX : \$16.20), Net Change: -0.60, % Change: -3.57%, Volume: 2,378,605**

*Millholland's Opus...* The U.K. oil and gas exploration company released its first quarter with mixed reviews. On one hand, CEO Arthur Millholland reported a successful quarter, with revenue of \$172.4 million compared to \$2 million for the same quarter last year, but on the other, Canaccord Adams Oil & Gas Analyst Frederick Kozak stated that Oilexco's first quarter fell short of expectations. Production for the quarter was 20,714 boe/d, which is 16.5% lower than Canaccord Adams' forecast of 24,803 boe/d. Cash flow for the company was lower than expectations as well, by 22%, as the company's realized cash flow was US\$141.7 million instead of the estimated \$182.4 million. Kozak believes that "while we do not view the production shortfall as a major negative, the market may choose to do so." The company's stock, which has appreciated more than 25% in the past month, still has a few more near-term catalysts, including the maximization and upgrades of the Balmoral Floating Production Vessel, which was acquired before the end of 2007. The facility, prior to Oilexco's production and upgrades was designed to approximately process 65,000 bbl/d of throughput, was only processing less than 5% of this capability. Also, the next exploration well (Moth prospect) is anticipated to being completed at the end of May. As well, there is further exploration drilling around the Shelley and Balmoral area on farm-in prospects as well as signing several agreement that should provided the company greater presence in the U.K. North Sea.

**Royal Bank of Canada (RY : TSX : \$49.85), Net Change: 1.23, % Change: 2.53%, Volume: 3,889,808**

*A \$855 million writedown - why WOULDN'T the stock be up?* The bank announced that its results for the second quarter ended April 30, 2008 will include writedowns relating to market conditions of approximately \$855 million pre-tax (\$420 million after-tax and reflecting compensation adjustments). Approximately \$715 million of this relates to capital markets and approximately \$140 million relates to corporate support – whatever THAT means. Management believes a significant portion of the writedowns reflect liquidity pressures on assets that they continue to hold, rather than underlying credit quality. RBC also expects a gain of approximately \$50 million pre-tax (\$20 million after-tax) on the change in fair value of its liabilities designated as held-for-trading as a result of its credit spreads widening over the second quarter. In its structured credit business, management took valuation adjustments of approximately \$200 million based on credit default spreads on exposures to a subsidiary of **MBIA (MBI)** and net writedowns of approximately \$90 million related to retained positions in U.S. sub-prime collateralized debt obligations of asset-backed securities and other structured credit trading positions. Market liquidity issues have also impacted their U.S. Auction Rate Securities and U.S. Municipal GIC businesses. Although the vast majority of their U.S. ARS are backed by student loan collateral that is largely government-insured, the bank took writedowns of approximately \$185 million based on market prices and a models-based approach to valuations. The fair value of their investment portfolio

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supporting our U.S. Municipal GIC business also reflects writedowns of approximately \$140 million based on market prices. This portfolio consists primarily of agency (**Freddie Mac (FRE)/Fannie Mae (FNM)**) and non-agency mortgage-backed securities, discount bonds and notes. Other trading portfolios incurred writedowns of approximately \$175 million, primarily related to market liquidity. Additional disclosure will be provided in the second quarter results, which are expected to be released on May 29.

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**UTS Energy (UTS : TSX : \$5.77), Net Change: 0.27, % Change: 4.91%, Volume: 5,249,909**

*"It isn't pollution that's harming the environment. It's the impurities in our air and water that are doing it."* - Al Gore. This Fort-Hills oil-sands project developer released its Q1 results. As the company is in the early stages of developing its assets, there is no operating income. However, the company did report working capital of \$347 million. The \$14.1 billion Fort Hills project, which UTS has a 20% working interest in, is progressing with its front-end engineering and design (75% completed), but remains in the regulatory approval stage. Along with approval of the Sturgeon County Upgrader and project sanctioning in the fourth quarter, the company is also seeking financing from pensions and sovereign funds to finance its share of the project. Canaccord Adams Oil & Gas Analysts Richard Wyman and Arthur Grayfer report that the preference is to obtain as much project debt financing as possible to minimize equity dilution. It is anticipated that the funding arrangements will be resolved either late this year or early in 2009. Also, UTS has commenced a number of studies to reduce their environmental footprint, including developing better practices in bitumen extraction and tailings management, reducing natural gas demand at their projects, reducing CO2 emissions as well as water usage.

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## U.S. EQUITIES OF INTEREST

*Listed Alphabetically by Symbol*

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**Deere & Co. (DE : NYSE : US\$81.25), Net Change: -8.94, % Change: -9.91%, Volume: 32,223,984**

*Feelin' like Dick Cheney's lawyer...*Income in the second quarter rose to \$1.74 from \$1.36 per share a year ago but analysts expected \$1.75, disappointing the market. Farmer subsidies, as always, are alive and well. The problem is the U.S. construction slowdown (expected to and commodity inflation, which is driving up the cost of materials for these giant hunks of steel on wheels). The company expects global sales to drop 3% for the year, down from its previous estimate of flat sales. Worse, they see Q3 EPS of \$1.25-1.30, well below their previous estimate of \$1.60 and the Street's \$1.50 guess. Full-year EPS estimates are now \$5.00, down from \$5.50.

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**Electronic Arts (ERTS : NASDAQ : US\$52.78), Net Change: -1.79, % Change: -3.28%, Volume: 8,837,170**

*Luckily, they can count on that Grand Theft Auto acquisition....oops.....*The world's largest video-game maker wasn't getting much play after reporting a wider fourth quarter loss, as the company spent more to develop new titles. EA lost \$94 million in Q4, worse than last year's loss of \$25 million, on sales that rose 84% to \$1.13 billion thanks to demand for "Rock Band," "Army of Two" and "Burnout Paradise." But CEO John Riccitiello said costs on game development increased 23% to \$316 million. EA also had costs from acquisitions including the BioWare and Pandemic studios. The company's 2008 sales outlook of \$4.90-5.15 billion compares favourably with the consensus full-year estimate, but analysts are expecting more in the way of profits than EA's figure of \$1.30-1.70 per share. On average, revenues for the current year are expected to total \$4.57 billion, while earnings are expected to total \$1.73 per share. Note that EA is still trying to buy **Take-Two Interactive Software (TTWO)**, the maker of uber-hit "Grand Theft Auto IV". The company's hostile \$2 billion ( \$25.74 a share) tender offer expires May 16. Take-Two management has resisted the bid, saying the company is worth more.

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**Freddie Mac (FRE : NYSE : US\$27.25), Net Change: 2.29, % Change: 9.17%, Volume: 21,817,749**

*"But, you now, we spent two years putting our act together."* - Freddie Mercury. The second-largest mortgage provider in America lost \$0.66 per share in Q1 (\$151 million), vs. consensus of \$-0.84. The loss was less than analysts guessed but that's because accounting rule changes avoided no less than \$2.6 billion in losses. The new rules are expected to significantly reduce the volatility of the company's \$738 billion in mortgage holdings (representing about a fifth of all US households) from now on. "They put a lot of lipstick on this pig including several accounting changes that have given them a one time step-up," said one analyst. Freddie also announced plans to sell \$5.5 billion worth of common and preferred shares "in the near future" to better deal with loan delinquencies.

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**Fuel Systems Solutions (FSYS : NASDAQ : US\$25.72), Net Change: 1.66, % Change: 6.90%, Volume: 812,103**

*Much more than just hot air.* Shares of this maker of alternative fuel components have been on a tear since the company announced that its first quarter profit ballooned more than sixfold to widely beat Wall Street expectations, raising full-year guidance in the process. Fuel Systems reported its net income soared to \$6.2 million, or 40 cents per share, from \$1 million, or seven cents per share, a year ago. Revenue jumped 73% year-over-year to \$94.6 million from \$54.8 million. The Street was expecting a more modest profit of 18 cents per share on revenue of \$74.8 million. Fuel Systems attributed its strong quarter to demand for its conversion kits and systems that allow internal combustion engines to operate on gaseous fuels. The company posted improved results from its transportation business, which more than doubled, and a 7% increase in sales from its industrial business. Looking ahead, the company also increased its 2008 consolidated sales outlook to \$320 million from April's forecast that it would have sales of at least \$290 million. The Street had been expecting full-year sales of \$304.8 million.

**Macy's (M : NYSE : US\$24.93), Net Change: 0.87, % Change: 3.62%, Volume: 11,641,175**

*This year's Thanksgiving Day parade will be BYOF: Bring your own float.* Given the challenging U.S. retailing environment, Macy's Q1 results were surprisingly good. Excluding restructuring costs, the second-largest U.S. department store chain earned two cents a share, compared with a two-cent loss forecasted by the analysts. Same-store sales were also better than peers, declining 2.6% versus a 7.4% drop at **J.C. Penney (JCP)** and a 6.5% decline at **Nordstrom (JWN)**. The outperformance is a result of management successfully executing their turnaround strategies, including adding exclusive private labels and hiring new district managers to tailor offerings to local tastes. In contrast to competitors' cautious forecast, Macy reiterates earlier guidance and calls May sales getting off to "a very good start." But some analysts are sceptical, pointing out the risk in their credit portfolio. As consumer bad debt may go higher, Macy is exposed to additional bankruptcy exposure. Macy is working with **Citigroup (C)** to address the risk.

**Sony (SNE : NYSE : US\$49.93), Net Change: 3.87, % Change: 8.40%, Volume: 2,939,586**

*"The PlayStation 3 is a computer. We do not need the PC."* - Phil Harrison (Sony Worldwide Studios). Consumer electronics giant Sony was rock solid yesterday after posting healthy quarterly results and announcing plans to increase its annual cash dividend. The company reported Q4 EPS of \$0.28, handily beating Street estimates of \$0.13 and reversing a loss from the year-ago period. Earnings strength was marked by the payment of a special, one-time dividend of \$0.25/share, as well as an increase in the annual dividend to \$0.40/share. While overall revenues were down approximately 6%, they increased by nearly 10% in the U.S. due to favourable currency translations. Sony saw strength in sales of its flat-screen TVs, personal computers, and digital camera units despite a weakened demand for luxury technology goods on general economic conditions. The company had previously witnessed a decrease in sales of mobile-phones, CRTs (boob-tubes), and gaming consoles, which was further emphasized over Q4. Even still, performance for the quarter was much better than expected. Guidance for the year remains relatively mixed, with Sony forecasting sales to grow by just 1%, but operating earnings to climb by as much as 20%.

**ReneSola (SOL : NYSE : US\$22.30), Net Change: 0.63, % Change: 2.91%, Volume: 12,191,678**

*A perfect (solar) storm.* Solar companies have a lot going for them right now (record high oil prices, increased environmental pressure and government mandates, potentially positive U.S. ITC news on the way) and Chinese solar wafer maker ReneSola took advantage of the current market sentiment by posting impressive first quarter results. Shares surged after it said its first quarter profit nearly tripled, boosted by increased production. The company also raised its 2008 revenue outlook. Profit came in at \$17.7 million, or 28 cents per ADS, for the three months ended March 31, compared with \$6.8 million, or 14 cents per ADS, in the year-ago quarter. Of note, there were about 124.5 million shares outstanding in the 2008 quarter, versus 100.8 million in the same period in 2007. As for the top-line, revenue jumped to \$123 million from \$35.9 million a year earlier; the Street was expecting revenue of \$105.9 million. Quarterly production soared to 66.5 MW, compared with 15.3 MW in the first quarter of 2007. ReneSola expects wafer production capacity to increase to 1,000 MW by the end of 2009. Looking ahead, the company lifted its 2008 revenue outlook to \$570-590 million from its earlier view of \$530-550 million. Also, the company mentioned that the May 12 earthquake that struck China's Sichuan province did not damage its facilities and construction remains on schedule. They added, "ReneSola does not expect the earthquake to have a material effect on its operations in Sichuan province." Separately on Wednesday, ReneSola said it signed a six-year 525 MW wafer supply agreement with Taiwan-based solar cell maker Gintech Energy.

**Whole Foods (WFMI : NASDAQ : US\$28.96), Net Change: -4.68, % Change: -13.91%, Volume: 27,440,210**

*Washed up and gettin' rocked.* Whole Foods' profit dropped 13% due to higher costs related to the Wild Oats takeover. EPS

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came in at \$0.29 (a penny below consensus) while same-store sales grew 5.1%, down from a previous growth rate of 6.9% and well off the 12% rate two years ago. Is the high-end organic food retailer running out of pretentious, snobby, Porsche-driving, Rolex-wearing customers? That's part of it, yes. But the general trend in retailing has been toward more thrift, as illustrated by the recent strength of **Wal-Mart (WMT)** and weakness of over-priced, calorie-stuffed **Starbucks (SBUX)** coffee. When the economy is sluggish and the home's equity is negative, insisting on organic is simply not a priority for many folks - especially when food inflation is running wild. To make matters worse, some of the big-box discounters are offering more and more organics (albeit still relatively little). For example, **Costco (COST)** sells three-packs of organic soy (Silk's plain flavour) for \$6.99. That's less than half of what designer food retailers charge. Happy Planet two-packs sell for the same price as a single bottle in regular stores. Furthermore, Whole Foods doesn't sell four-packs of car washing mitts for \$10 or Guitar Hero for \$89.

**Yahoo! (YHOO : NASDAQ : US\$27.14), Net Change: 0.58, % Change: 2.18%, Volume: 62,834,928**

*Wise Men and Jerry.* Analysts at Jefferies highlighted Yang & Co. yesterday, saying that with the deadline to submit a new slate of directors approaching quickly, and the spectre of an activist shareholder, Carl Icahn, hovering over their heads, Yahoo! is likely to try to play its best hand yet to derail any attempt to sell the company. Moves could include the announcement of its much-anticipated search deal with **Google (GOOG)**, the re-start of its negotiations for a combination with **AOL (TWX)** and/or MySpace, or an increase to Q1 and FY08 guidance. Jefferies says raising its estimates is unlikely this early in the quarter and given the macro-picture, probably unwise. They also believe that negotiations with AOL and/or MySpace are non-starters as neither one provides a better alternative. The firm says a deal to outsource its search traffic to Google would be immediately accretive to Yahoo! estimates but would be negative long-term.

**THE LAST DROP:** We are having some liquidation now, it will accelerate, but it will not be until early 2009 that we will get close to having eliminated most of the excess home inventory.

– Alan Greenspan yesterday at a conference in Singapore 

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