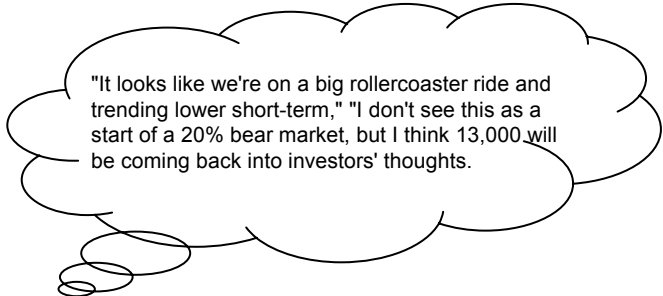


The U.S. markets ended the week lower as the Dow decreased 4.2%, the Nasdaq dropped 4.7% and the S&P 500 fell 4.9%. The Dow dropped nearly 440 points during intraday trading on Thursday, its lowest decline since February's drop of 416 points. The sell-off triggered trading curbs on the NYSE prohibiting certain types of computerized index arbitrage trading. Weighing on the markets were several announcements this week that renewed credit concerns, various signs of a continued weak housing market, mixed corporate earnings and an increase in energy prices. Oil ended the week at \$77.02 per barrel, up 1.6%, a penny off its record high in July 2006, following a third-weekly decline in U.S. crude supplies during a season of peak demand.



Frederic Dickson, chief market strategist at D.A. Davidson

### Credit Concerns

**Corporate Impact:** On Tuesday, Countrywide Financial Corp. reported Q2 earnings declined 33% while revenue decreased 15% year-over-year, missing analysts' expectations and confirming that losses had spread to higher-quality loans. In a statement, CEO Angelo Mozilo highlighted that "During the quarter, softening home prices continued to affect many areas of the country and delinquencies and defaults continued to rise across all mortgage product categories as a result...the Company incurred increased credit-related costs in the quarter, primarily related to its investments in prime home equity loans."

**Private Equity Impact:** On Wednesday, a group of banks announced they were postponing the sale of \$12 billion in debt related to the Cerberus buyout of Chrysler due to a lack of investor demand. This is the first reported case in which banks have been forced to take loans instead of passing them on to outside investors. With over \$200 billion in deals waiting for funding, this sparked concerns about major acquisitions not being able to find financing and that the buyout boom was coming to an end. Additionally, "the 'private-equity put' that has been underpinning a lot of stocks may be disappearing," said Brian Barish, president of Cambiar Investors, referring to some stocks for which prices have run-up in recent months on buyout speculation.

### Housing Sector

**Economic Data:** On Thursday, the Commerce Department reported a 6.6% decline in new homes sales in June, below expectations while sales from June 2006 were down 22.3%. Previously on Wednesday, the National Association of Realtors reported U.S. existing home sales in June fell 3.8% to its lowest rate since November 2002, also below expectations. On a positive note, inventories of unsold homes fell 4.2% while the median sales price increased 0.3% from June 2006.

**Corporate Impact:** Also on Thursday, homebuilders D.R. Horton and Beazer Homes both reported weaker-than-expected earnings. Heads of both companies issued statements that painted a bleak picture for the housing sector. Beazer Homes' President and CEO Ian J. McCarthy said "Most housing markets across the country continue to be characterized by an oversupply of both new and resale home inventory, reduced levels of consumer demand for new homes and aggressive price competition among home builders. These factors, together with a pronounced credit tightening in the mortgage markets, particularly for credit challenged home buyers, are likely to lead to continued difficult market conditions for Beazer Homes and other home builders."

### Corporate Earnings

Earnings were mixed this week as various industry bellwethers reported. Beating expectations, Boeing reported increased Q2 earnings and a 14% surge in revenue due to higher volume and productivity. American Express also reported that Q2 earnings increased as profit from international and global commercial services increased 22%. Amazon.com reported net income more than tripled as earnings increased 257% on a 35% increase in revenue on strong sales in the U.S. and higher demand for Amazon Prime.

Apple reported earnings increased 73% on a 24% increase in revenue, beating analysts' expectations. The company attributed the earnings to strong sales of the iPod and Mac computer; however, analysts were focused on iPhone sales. Apple noted that sales were 'off to a great start -- we hope to sell our one-millionth iPhone by the end of its first full quarter of sales.' The stock took a hit a day earlier as investors reacted negatively to AT&T's reported activation numbers for the iPhone of 146,000, below expectations of between 200,000 and 700,000.

Missing expectations, Exxon Mobil suffered a 17% drop in its exploration and production division, reflecting lower natural gas prices, while Texas Instruments reported Q2 revenue decreased 7% due to lower demand for its chips used in cell phones and other electronics.

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