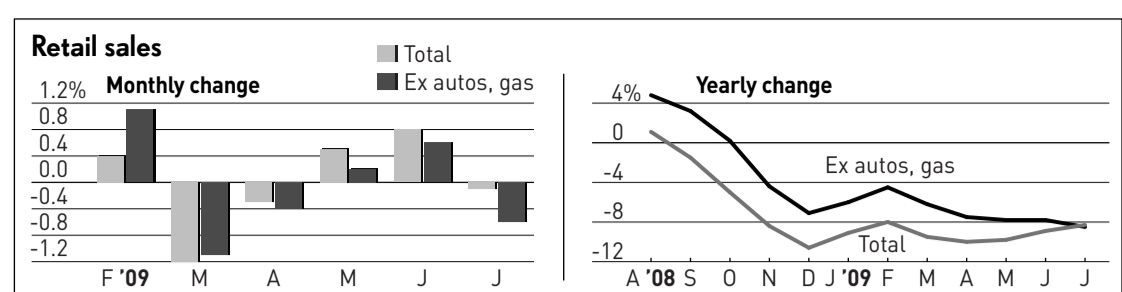


VITAL SIGNS
July Retail Sales Dip Despite Clunkers Program
 Sales unexpectedly fell 0.1% vs. June as demand for goods, ex autos, edged down 0.6%. Auto sales rose to a seven-month high, driven by Cash for Clunkers. But Americans cut back on furniture, electronics, building materials and food. The 1.6% drop in department store sales was the biggest this year.



Sales by category

| Category | Monthly change | Yearly change |
|-------------|----------------|---------------|
| Apparel | 0.6% | -7.6% |
| Automobiles | 2.5 | -7.3 |
| Dept. store | -1.6 | -12.0 |
| Electronics | -1.4 | -15.0 |
| Food | -0.3 | -0.8 |
| Furniture | -0.9 | -13.0 |
| Gas station | -2.1 | -32.5 |

TO THE POINT

BUSINESS BRIEFS

TECHNOLOGY

China won't force Internet filter

China is scaling back plans to require filtering software on all PCs in China, according to published reports. The gov't now says all public computers must have the software, but citizens can choose whether to install it on their own PCs. The U.S. said requiring filters could violate world trade rules.

■ **Microsoft** began accepting pre-orders for its new touch-screen Zune HD media player Thu., priced at \$220 for the 16 gigabyte model and \$290 for 32 gigabytes — vs. \$299 and \$399 for comparable Apple iPod Touch players. The Zune hits shelves Sept. 15.

■ **Microsoft** said it'll include Outlook, the e-mail program that's ubiquitous on Windows PCs, in the next version of its Office suite for Apple's Mac PCs, replacing the Entourage program. The new version will be available for the 2010 holiday shopping season.

■ **IBM** said its analytics business will grow 10% this year and 15%-20% in 2010 and beyond. The tech giant has shifted its focus to more profitable software and services in recent years. The analytics division is part of its global services unit. Shares edged up.

■ **Doubleday**, the book publisher, said the electronic edition of Dan Brown's "The Lost Symbol" will come out on Sept. 15, the same day as the hardcover.

BEVERAGES

InBev's profit grows, sales dip

The beer giant's Q2 profit rose 13% to \$1.1 bil, helped by cost cuts and sales of its stakes in brewers. Sales fell 9.5% to \$9.5 bil. Anheuser-Busch InBev cautioned that the recession was hurting beer consumption in key markets. InBev said it'll focus sales and marketing on flagship brands like Bud Light, Stella Artois and Brahma, which saw sales grow in Q2.

Dr Pepper tops, lifts '09 outlook

The beverage maker's Q2 EPS rose 3.3% to 62 cents, 27% over views. Sales slipped 4.1% to \$1.48 bil, below views. Dr Pepper Snapple was spun off last year from British-based Cadbury. A stronger dollar and the loss of Hansen product distribution hurt. The firm sees full-year earnings of \$2.03-\$2.11, above views of \$1.77. Shares jumped 6%.

MEDICAL

Medco jumps into U.K. venture

The pharmacy benefit-management services firm formed a joint venture with Dublin-based United Drug to provide home-based pharmacy services in the U.K. The move expands Medco Health Solutions' international footprint. The venture will operate in the U.K. as Medco Health Solutions and work with patients covered by the nation's National Health Service. Shares rose 2%.

Mylan: FDA clears W.Va. plant

The generic drugmaker rose after it said the FDA completed a probe into the company's manufacturing plant in W.Va. and found no deficiencies. In July, the Pittsburgh Post-Gazette reported that Mylan's employees at the facility regularly ignored warnings about problems in the manufacturing process. Shares rose 4.5%.

■ **Abbott Labs**, the drug giant, is expanding a study of its top-selling, already-approved Xience V heart stent by more than 2,000 patients. These patients also may be put in a second stent study meant to find the best way to prevent potentially fatal blood clots. Shares edged up.

COMMODITIES

China to halt new steel mills

China says it will ban new steel mills for 3 years to curb iron ore demand and gain more leverage over prices. A Chinese minister complained that disorderly competition has caused a surge of steel production capacity, pushing up iron ore supply costs and sparking big losses. China's steel industry is the world's largest, but it has failed to translate that into clout in negotiating iron ore prices.

Sour forecast for sugar supply

Large U.S. food firms including Kraft and General Mills have been pushing the Obama administration to ease sugar import curbs, citing forecasts for unprecedented sugar shortages that may result in higher retail prices and possible job cuts. The situation has eased a bit in the last week or so because of increased beet sugar and cane sugar production.



A TYPHOON SURVIVOR carries his mother as they look back at their hometown in Baolai, Taiwan. As the death toll reached 108, Taiwan's military mounted a rescue Thursday to save hundreds of stranded villagers after Typhoon Morakot created the country's worst floods in 50 years. AP

BUILDING

Lennar hiked after rival surprises

Homebuilder Lennar was upgraded to outperform by Raymond James, which cited the surprisingly strong Q3 results posted by rival Toll Bros. on Wed. Raymond James called Toll's report more evidence of big improvements in housing. Also, Raymond James cut KB Home to underperform, saying the builder may not be able to sustain momentum as competitors launch rival products. Lennar rose 2%. KB Home fell 2.5%.

■ **DR Horton**, a homebuilder, fell 4% after Citi Investment Research downgraded the stock to sell from hold, saying there's a disconnect between stock price and fundamentals.

URS falls on weak '09 outlook

The engineering company's Q2 EPS rose 1.4% to 73 cents, 11% over views. Sales fell 9% to \$2.3 bil, below views. URS said its backlog of orders fell to \$18.1 bil from \$19.6 bil three months ago, but the figure was above the \$17.2 bil it had at the beginning of '09. URS expects '09 EPS of \$3.20-\$3.35, above views of \$3.01. Shares fell 6%.

FINANCIAL

BofA sues to block Colonial sales

Bank of America wants a court to stop Colonial Bank from selling or disposing of over \$1 bil in cash Colonial got from Freddie Mac for mortgage and other loans owned by Ocala Funding LLC. BofA was the trustee for the loans. Colonial faces a criminal probe and possible receivership.

■ **BofA shares rose 4.5%** after SEC filings revealed that newly hired exec Sallie Krawcheck bought \$1 mil in shares Wed. and hedge-fund manager John Paulson bought \$2.67 bil worth in Q2.

AFTER THE CLOSE

■ **DEVRY**, the for-profit educator, said Q4 EPS jumped 50% to 51 cents, meeting views. Sales grew 43% to \$396 mil, above estimates. Shares rose.

■ **NORDSTROM** said Q2 EPS fell 26% to 48 cents, in line with forecasts. Net sales slid 6% to \$2.145 bil, just above views. The luxury retailer hiked its '09 EPS target to \$1.50-\$1.65, above views of \$1.48. Shares rose.

■ **BOEING** agreed to pay the gov't \$25 mil to settle claims that it performed defective work on military refueling planes used in Iraq and Afghanistan.

■ **AMGEN** received a mixed endorsement from an FDA advisory panel for a bone drug. The panel said denosumab benefits osteoporosis patients but should not be used to prevent the disease because of long-term safety questions. Shares fell.

■ **AUTODESK**, the maker of design software, said Q2 EPS slid 57% to 24 cents ex items, beating views by 26%. Sales fell 33% to \$415 mil, topping forecasts. Shares rose.

APPLIANCES

Middleby misses, shares down

The maker of food-service equipment under the TurboChef and Toastmaster brands fell a bit after reporting Q2 EPS fell 25.3% to 74 cents, 9% below views. Sales slipped 9% to \$258.6 mil, above views. Middleby said "the business environment may continue to be challenging" for the rest of the year.

ECONOMY

U.S. mortgage rates rise this week

Rates on 30-year fixed mortgages rose 7 basis points in the week ended Aug. 13 to an average of 5.29%, Freddie Mac said. It was the 11th straight week above 5%. Still, that's below last year's 6.52%. Higher rates could hurt demand for home loans and slow a housing market recovery. Rates on 15-year fixed mortgages also rose to 4.68%, but rates on 1-year adjustables fell.

IMF to boost financial system

The Int'l Monetary Fund said it will inject \$250 bil into the foreign exchange reserves of member nations on Aug. 28 "to provide liquidity to the global economic system." It was the biggest injection since the IMF was established six decades ago. The move was part of a \$1.1 tril plan agreed upon at April's Group of 20 summit to combat the global financial and economic crisis.

■ **Swiss producer prices** were unchanged in July vs. June, but they plunged 6.1% vs. a year ago, the sharpest drop since Nov. '75, the gov't said, fanning deflation fears.

China may appeal WTO ruling

The Commerce Ministry said it may challenge a World Trade Organization ruling against China's restrictions on imported films and books, part of a battle with the U.S. over market access. Washington says China's trade barriers hurt publishers and movie producers. China says its markets are open, but has called for a separate standard for goods deemed politically sensitive.

India, Asean ink free-trade deal

The pact between India and the Association of Southeast Asian Nations is expected to boost annual trade to \$60 bil within 7 years, officials said. That's up from \$47 billion last year. Together, Asean and India comprise a market of 1.7 billion people. Asean is also seeking a free-trade pact with China.

COMING UP FRIDAY

- **Consumer price index** for July, 8:30 a.m. EDT (forecast: 0%; core: 0.1%).
- **Industrial production** for July, 9:15 a.m. EDT (forecast: 0.4%; capacity utilization: 68.4%).
- **Reuters/U. of Mich. consumer confidence index** for Aug., 9:55 a.m. EDT (forecast: 69).

IN BRIEF

■ **AutoZone** fell 2% after Wedbush Morgan downgraded the auto parts retailer to underperform, saying the do-it-yourself car repair business is showing signs of slowing. Wedbush noted rival Advance Auto Parts posted just a 0.7% gain in Q2 in its DIY business.

■ **Carnival**, the cruise operator, said some members of CEO Micky Arison's family and related entities plan to sell up to 8.5 mil common shares for tax planning, estate planning and diversification purposes. If all 8.5 mil are sold, these groups still will hold 220 mil shares. Shares fell a bit.

■ **Talbots**, the women's clothing chain, inked a deal making Hong Kong-based Li & Fung its exclusive global apparel sourcing agent. It said the move will speed time to market and help cut costs. Shares edged up.

■ **Youbet.com**, an online horse racing and betting company, said its Q2 EPS fell 40% to 3 cents, 50% below views. Sales rose 3% to \$30.2 mil, below views. Shares fell 6.5%

■ **For The Record**: The Aug. 13 Internet & Technology story, "Health Billing Company Emdeon Gets A Solid Reception For IPO," misspelled the name of Morningstar analyst Alex Morozov.

NATION

U.S., Mexico agree on ammo plan

U.S. fed'l agencies and the Mexico AG will share firearms trafficking information to help trace illegal weapons and prosecute arms smugglers, according to a new agreement signed Thu. in San Antonio. The announcement came on the heels of Mon.'s meeting between Pres. Obama and the leaders of Canada and Mexico, where a central focus was the fight against Mexican gangs dominating the drug trade over the 2,000-mile border with the U.S., often with U.S.-made weapons.

■ **Calif. financial officers** said that the state will stop issuing IOUs after reviewing the cash flow and assessing investors' appetite for buying Calif. bonds.

■ **Fed'l and state officials** visited a maximum-security prison in rural Standish, Mich., to begin assessing its suitability to house Guantanamo Bay detainees. A military penitentiary at Fort Leavenworth, Kan., is also being considered to house the prisoners if Gitmo is closed by 2010 as Pres. Obama has ordered.

■ **The remains of Navy pilot** Michael Scott Speicher returned to his Fla. home, 18 years after his FA-18 Hornet was shot down on the first night of the 1991 Gulf War.

WORLD

Lockerbie bomber may be released

Scottish officials Thu. said they were considering early release for Abdel Baset Ali al-Megrahi, the sole person convicted in the bombing of a passenger jet above Lockerbie in 1988. The news ignited a debate by victims' relatives over whether the terminally ill al-Megrahi should be allowed to return home to Libya on compassionate grounds.

■ **PHILIPPINES**: Troops overran 2 jungle camps of al-Qaida-linked militants in their deadliest clash in years, with 23 soldiers and 31 guerrillas killed in what a top commander described as a "slugfest."

■ **YEMEN**: Warplanes bombed a northern province bordering Saudi Arabia for a second straight day as a protracted conflict with Shiite rebels threatened to turn into an all-out war at a time when the U.S. ally is already facing a resurgent al-Qaida in the south.

■ **BELGIUM**: The EU says it is expanding its sanctions against Burma after the country sentenced pro-democracy leader Aung San Suu Kyi to an additional 18 months of house arrest.

COMPANY INDEX

| | | | |
|----------------------|--------|----------------------|----|
| Advance Auto Parts | B3 | Koninlijke Philip | A4 |
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| Amazon.com | A4 | Marvell Tech. | A4 |
| Apple Inc. | A9, B1 | NetEase.com | B3 |
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Should U.S. Government Remain Top Backer Of Home Mortgages?

MORTGAGE MARKET FROM A1

These disclosures will boost investor confidence, ASF says, and help ratings agencies assess assets underlying a security.

"We think an integral part in restoring the market is to restore confidence in ratings," said George Miller, ASF's executive director. "If you improve the underlying data, you in turn improve all the processes that rely on that data."

Legislators are weighing in too. The House passed a bill backed by Rep. Barney Frank, D-Mass., the powerful chairman of the Financial Services Committee. The measure would require, among other things, that firms securitizing mortgages retain a 5% stake to encourage sound lending practices.

Many experts also have called for lenders to keep skin in the game by holding loans rather than selling them.

The government has poured hundreds of billions of dollars into rescuing banks and other lenders. It also has assumed Freddie and Fannie's huge and ongoing losses.

"We will eventually pay for this in

weakness in the dollar, weakness in Treasury bonds, which means higher interest rates, and deterioration in the value of currency (inflation)," said John Hussman, chairman of Hussman Econometrics Advisors.

Hussman says private mortgage securitization won't recover until housing stabilizes. There are signs that home starts, sales and prices may have bottomed.

But foreclosures remain a huge problem. Rick Sharga, senior vice president of foreclosure data firm RealtyTrac, says 20%-25% of all mortgages are "upside down," meaning the principal owed is greater than the home's market value.

"There's continuing concern about where foreclosures and delinquencies are going to peak," said Michael Fratantoni, a Mortgage Bankers Association vice president.

The FHA recently announced a program to defer up to 30% of struggling borrowers' unpaid principal to lower their mortgage payments. It's the latest aggressive government move to encourage lenders and borrowers to rework loans. But banks haven't modified that many loans.

TRENDS & INNOVATIONS

India may face water shortages

Excessive irrigation and the unrelenting thirst of millions of people are causing groundwater levels in northern India to drop dramatically, a problem that may lead to severe water shortages, says a NASA study based on satellite data. Experts say water availability could hurt economic activity in a nation trying to return to 9%-10% growth. The study says groundwater across 3 Indian states fell 1.6 inches a year between Aug. '02 and Oct. '08, an amount that's double the capacity of India's largest reservoir and 20% higher than past estimates.

Weight training eases swelling

Weightlifting could ease lymphedema, according to a study by the Univ. of Pennsylvania. Many breast cancer survivors suffer from lymphedema, an uncomfortable swelling of the arm or hand, when lymph nodes are removed in breast cancer surgery. The study found women who did weight training after surgery were less likely to get flare-ups. Weightlifting increased their muscle strength and cut the number and severity of arm and hand symptoms, the study said.

■ **Shrimp shells** may help improve biodiesel production, says a study by scientists at China's Hua Zhong Agriculture Univ. The study says the shells can help convert organic oils into biodiesel as fast and efficiently as traditional catalysts. Plus the shells can be reused up to 10 times and are biodegradable, so they won't harm the environment when discarded.

■ **Heart attack survivors** who eat chocolate two or more times per week cut their risk of dying from heart disease by threefold vs. those who never eat chocolate, a study by the Karolinska Institute in Stockholm found. Researchers said antioxidants in cocoa seem to have lifesaving properties.

■ **Catholic religious orders** are becoming more ethnically diverse than in the past. Of those now in training to join an order, about 58% are white, 21% are Hispanic, 14% are Asian or Pacific Islander and 6% are African or African-American, says a Georgetown Univ. study. That stands in contrast with the current 94% white ethnic makeup of such orders. The median age of those now in orders is the mid-70s for women and late-60s for men.