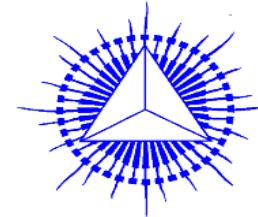


# Atlantis Research Summary Report 3Q09

A Service of Atlantis Investment Co., Inc.



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July 17, 2009

## Buy

**Activision Blizzard**  
**Amazon.com**  
**Changyou.com**  
**Express Scripts**  
**Digital River**  
**Google**  
**Health Net**  
**IMAX**  
**Netflix**  
**McAfee**

## Sell

**Accenture**  
**Dendreon**  
**KLA-Tencor**  
**Microsoft**  
**Yahoo!**

### Positioning for Rebounding Markets

We see opportunity for investors in selected growth stocks, despite ongoing concerns over lower consumer incomes and tight controls on expenditures by corporations. We think investors should seek the most powerful Internet franchises, as online spending gains share from traditional markets for advertising and retail. Such Internet franchises as **Google**, **Amazon.com** and **Netflix** meet our criteria for unique Internet capabilities with dominant market share. **Yahoo!**, in contrast, is clearly losing market share. Stay-at-home consumers will be spending more on entertainment, driving our interest in **Activision Blizzard**, **Changyou.com** and **IMAX**.

Investors should also focus on opportunities in defined markets undergoing change. Timing of Windows 7, the next PC operating system from Microsoft, provides opportunity for **McAfee** and **Digital River** to sell updated applications and peripherals to PC buyers upgrading to Windows 7. Introduction of Google's Chrome OS in 2010 may also drive opportunity for software vendors. **Microsoft**, however, may disappoint, as we think fewer PC users will opt to upgrade than during previous years.

New drivers for health care will emerge over the next 12 months. For now, it seems clear that **Health Net** will benefit from expansion of Medicaid, despite pending loss of TRICARE North contract to Aetna. **Express Scripts** should deliver accelerated growth on merger with NextRx, to be divested by WellPoint. **Dendreon** faces difficult FDA review of Provenge in 2010, despite investor enthusiasm.

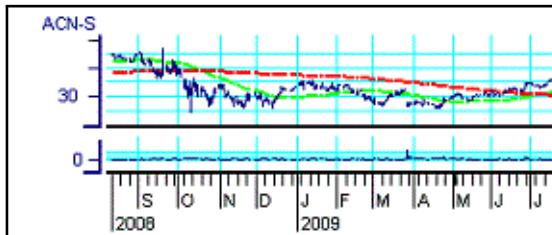
We see negative trends continuing to disappoint investors in **KLA-Tencor** and **Accenture**. IT spending for 2009 is restrained, forcing guidance adjustments from **Accenture**. **KLA-Tencor** appears to be losing market share to Applied Materials, preventing rapid rebound when semiconductor demand is restored.

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**Accenture Ltd (ACN \$34)****SELL**

	<u>EPS</u>	P/E
08/31/2008	\$2.65	12.3X
08/31/2008	\$2.67	13.3X
08/31/2009	\$2.75	12.7X
08/31/2010		

Projected Growth Rate:	8%
2010 P/E/Proj. Growth	158%
Market Cap:	\$26,952M
Market Cap/Ann. Rev.	1.3X

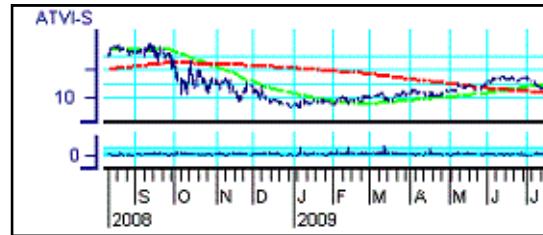


Reduced guidance for bookings in a range of \$23-\$25 billion for FY 2009 (ending August, 2009) indicates decline of as much as **(14%)** from FY 2008. Share repurchase is the only significant driver for EPS growth, as recession impacts demand for IT services. Revenues are below expectations due to currency impact, leaving room for additional disappointment as customer IT spending reductions take effect for 2009. Unbilled revenues may be subject to dispute or tied to achievement of specific milestone objectives that may never be reached. We question sustainability of Accenture's trends.

**Activision Blizzard (ATVI \$12)****BUY**

	<u>EPS</u>	P/E
12/31/2008	\$0.59	19.8X
12/31/2008	\$0.70	16.7X
12/31/2009	\$0.80	14.6X
12/31/2010		

Projected Growth Rate:	20%
2010 P/E/Proj. Growth	73%
Market Cap:	\$15,900M
Market Cap/Ann. Rev.	5.5X

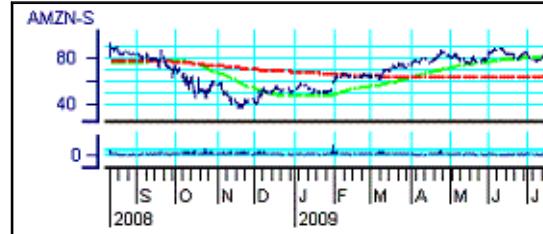


Now the largest and most successful videogame company, merger of Activision with Blizzard united the #1 console franchise, Guitar Hero, with the #1 PC game, World of Warcraft. Growth is driven by new titles released in 2009 based on popular films (including TRANSFORMERS, X-Men, and Ice Age), release of a new IP title, and a new upcoming release from Guitar Hero franchise. Addition of NetEase as operator of World of Warcraft in China, with pending approval of Revenge of the Lich King, could drive massive international growth, with more than 3.5 million of 11.5 million World of Warcraft subscribers located in China.

**Amazon.com (AMZN \$86)****BUY**

	<u>EPS</u>	P/E
12/31/2008	\$1.91	44.9X
12/31/2008	\$2.25	38.2X
12/31/2009	\$2.70	31.8X
12/31/2010		

Projected Growth Rate:	18%
2010 P/E/Proj. Growth	177%
Market Cap:	\$37,516M
Market Cap/Ann. Rev.	1.9X

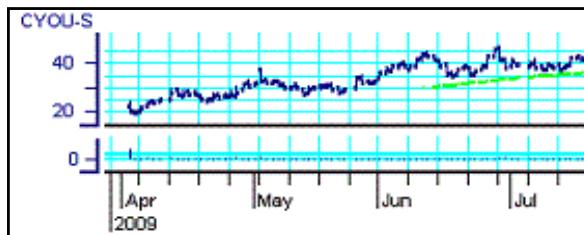


Amazon.com blew away expectations for 1Q 2009, with revenue growth of 18% despite currency impact. Consumer electronics, up 38%, contributed much of this growth. Operating cash flow of \$1.8 billion for trailing 12 months increased more than 80%. Kindle creates a new category for sales of "ebooks", with a loyal and affluent customer base. While traditional retailers suffer from lower customer traffic, Amazon.com gains market share through expanded product lines and reliable service. As recession impacts consumer discretionary spending, convenience of online retailing should increase frequency of spending.

**Changyou.com (CYOU \$41)****BUY**

	<u>EPS</u>	<u>P/E</u>
12/31/2008	\$2.27	18.2X
12/31/2008	\$2.80	14.8X
12/31/2009	\$3.50	11.8X

Projected Growth Rate:	25%
2010 P/E/Proj. Growth	47%
Market Cap:	\$2,170M
Market Cap/Ann. Rev.	8.8X

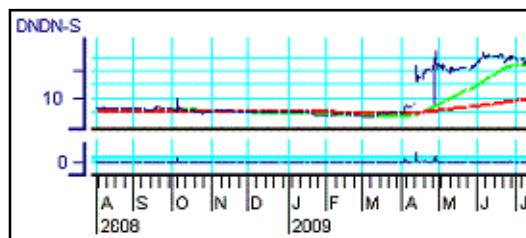


Offering investors an attractive pure play on Chinese online gaming, Changyou.com provides exceptional growth opportunity as an ADS. Changyou.com is an online game developer and operator in China, 68.5% owned by Sohu.com. With a hit game, Tian Long Ba Bu, Changyou.com is seeing 50% increase in aggregate quarterly active paying accounts to 2.3 million. Influx of new gamers supports revenue growth of more than 30% for 2009. Revenue momentum drives stock price performance, as stock price doubled from IPO price of \$16 per share in only 2 months.

**Dendreon (DNDN \$23)****SELL**

	<u>EPS</u>	<u>P/E</u>
12/31/2008	(\$0.93)	NM
12/31/2008	(\$0.78)	NM
12/31/2009	(\$0.39)	NM

Projected Growth Rate:	NM
2010 P/E/Proj. Growth	NM
Market Cap:	\$2,258M
Market Cap/Ann. Rev.	NM

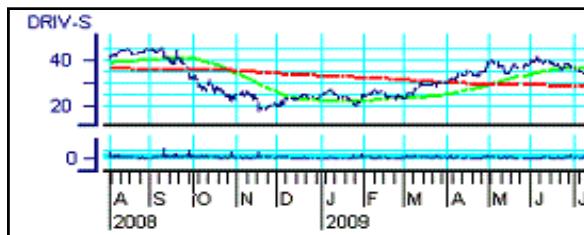


Now that Dendreon presented positive Provenge results and completed a \$221 million stock offering, investors must await FDA action on an amended BLA. IMPACT trial demonstrated that while Provenge may be an important alternative to chemotherapy, Provenge is not a cure for prostate cancer, nor does it shrink tumors or cause prolonged stabilization of disease. FDA will weigh survival benefits of Provenge against open questions including the vaccine's mechanism of action, as well as power of IMPACT's results.

**Digital River (DRIV \$39)****BUY**

	<u>EPS</u>	<u>P/E</u>
12/31/2008	\$1.86	20.8X
12/31/2008	\$1.90	20.3X
12/31/2009	\$2.10	18.4X

Projected Growth Rate:	15%
2010 P/E/Proj. Growth	123%
Market Cap:	\$1,436M
Market Cap/Ann. Rev.	3.5X

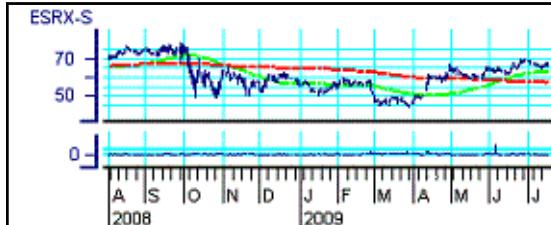


As outsourced manager for more than \$3 billion online sales of software, videogames, and consumer electronics, Digital River should see revenue momentum restored with shipment of Microsoft Windows 7, scheduled for October, 2009. Windows 7 should drive demand for new versions of Symantec's security software, as well as applications software, peripherals, and new generations of PC and online video games, with momentum continuing through 2010 and 2011. Guidance for 2Q 2009 indicates a flat comparison that we think may be exceeded. Digital River's expertise in outsourced B2B internet services may attract attention from potential acquirors.

**Express Scripts (ESRX \$66)****BUY**

	<u>EPS</u>	P/E
12/31/2008	\$3.10	21.3X
12/31/2008	\$3.75	17.6X
12/31/2009	\$4.45	14.8X

Projected Growth Rate:	15%
2010 P/E/Proj. Growth	99%
Market Cap:	\$16,466M
Market Cap/Ann. Rev.	0.8X

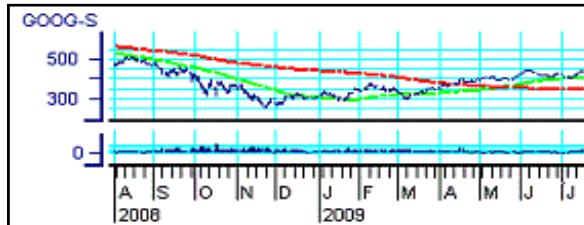


Acquisition of WellPoint's NextRx adds \$1.0 billion to Express Scripts' EBITDA annually, while adding 50% to claims volume and increasing stature to #2 in the PBM industry. We think Express Scripts faces less exposure to recession than Medco Health Solutions, due to Medco's large exposure to the automotive sector, including both Ford and GM. Despite flat revenues for 1Q 2009, pro forma EPS increased 23% on improved profitability. Strong cash flow provides flexibility for more acquisitions or share repurchase.

**Google (GOOG \$430)****BUY**

	<u>EPS</u>	P/E
12/31/2008	\$19.49	22.1X
12/31/2009	\$22.00	19.6X
12/31/2010	\$24.00	17.9X

Projected Growth Rate:	20%
2010 P/E/Proj. Growth	90%
Market Cap:	\$136,389M
Market Cap/Ann. Rev.	8.4X

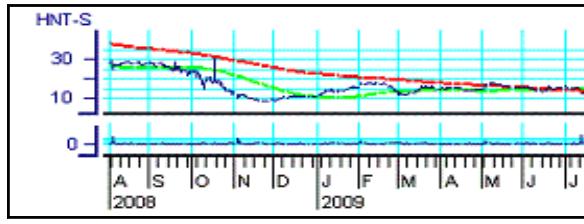


Dominant market share of paid search worldwide drives exceptional financial returns. Leading market share in Internet search (still more than 65% worldwide) gives Google the fastest growth for Internet ad spending, with revenue (excluding TAC) up 5% for 2Q 2009, despite currency impact. Aggregate paid clicks increased 15% from the previous year. Pro forma operating margin exceeding 30% highlights the phenomenal profitability of Google's franchise. Announcement of Chrome OS for 2010 delivery places Google as an aggressive competitor to Microsoft at the low end of the PC market.

**Health Net Inc (HNT \$13)****BUY**

	<u>EPS</u>	P/E
12/31/2008	\$1.85	7.3X
12/31/2009	\$2.25	6.0X
12/31/2010	\$1.80	7.5X

Projected Growth Rate:	8%
2010 P/E/Proj. Growth	94%
Market Cap:	\$1,405M
Market Cap/Ann. Rev.	0.1X



Proposed expansion of Medicaid eligibility should enable Health Net to deliver renewed growth, despite pending loss of TRICARE North contract to Aetna. Health Net is one of the largest Medicaid managed care providers in California, with Medi-Cal coverage for 842,000 Medicaid beneficiaries. Although facing decline in recession-impacted commercial enrollment, a trend that pressures profitability, Health Net appears better positioned than most managed care companies to benefit from health care regulatory change. Higher Medicare deductibles would drive enrollment for Medicare Advantage.

**IMAX Corp. (IMAX \$8)****BUY**

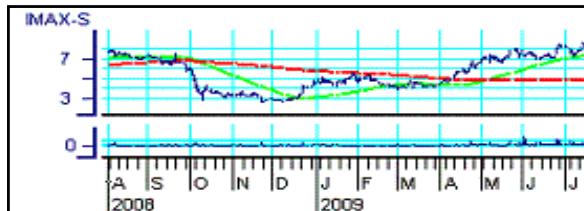
12/31/2008	<u>EPS</u>	P/E
12/31/2008	(\$0.70)	NM
12/31/2009	\$0.19	42.8X
12/31/2010	\$0.40	20.4X

Projected Growth Rate:

2010 P/E/Proj. Growth

Market Cap:

Market Cap/Ann. Rev.



NM	
NM	
\$356M	
2.6X	

IMAX provides a cheap form of entertainment even during difficult economic times. Strong box office performance, premium ticket price, and 'event-type' movie-going contribute to IMAX appeal. IMAX expects to return to profitability during 2009, as successful digital projection and JV revenue sharing strategies reduce capital costs for studios and exhibitors, resulting in IMAX's rapid network expansion. Remaining 2009 releases includes expected blockbusters Harry Potter and Avatar. Strong cash position, available credit, and operating cash flow provide necessary funding to continue digital rollout without the need for additional capital.

**KLA-Tencor Corp (KLAC \$30)****SELL**

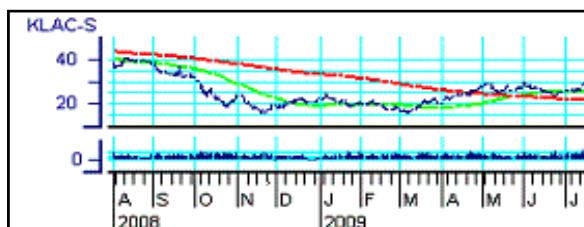
06/30/2008	<u>EPS</u>	P/E
06/30/2008	\$2.78	20.2X
06/30/2009	(\$0.40)	NM
06/30/2010	\$0.00	NM

Projected Growth Rate:

2010 P/E/Proj. Growth

Market Cap:

Market Cap/Ann. Rev.



10%	
%	
\$5,041M	
4.1X	

Shuttered foundries and idle memory plants for KLA-Tencor customers signal abysmal sales decline will continue throughout 2009. Profitability cannot be maintained in this environment. Visibility for the rest of FY 2009 (ending June, 2009) is so bad that management assumes orders and revenues may decline as much as (35%)-(50%) from the previous year, with only logic and solar customers continuing to spend. As investors digest the implications of more than half of the traditional semiconductor industry closed down for the duration of the economic downturn, KLA-Tencor stock should continue to trade down.

**McAfee, Inc. (MFE \$43)****BUY**

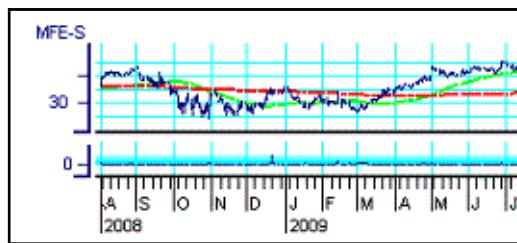
12/31/2008	<u>EPS</u>	P/E
12/31/2008	\$2.01	21.4X
12/31/2009	\$2.30	18.7X
12/31/2010	\$2.60	16.5X

Projected Growth Rate:

2010 P/E/Proj. Growth

Market Cap:

Market Cap/Ann. Rev.

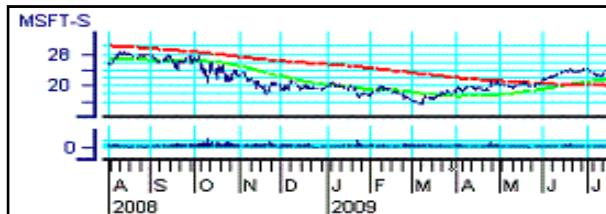


McAfee should benefit from shipment of Windows 7, scheduled for October, 2009, as sale of upgrades and new features drive purchase of application software to run on the new operating system. Divergent stock price performance for McAfee and Symantec indicates investors now appreciate McAfee's success in capturing security software market share from Symantec. Revenue growth of 20% for 1Q 2009 highlights McAfee's ability to build on recurring revenue. Acquisitions drive enterprise growth, supported by powerful marketing.

**Microsoft (MSFT \$24)****SELL**

	<u>EPS</u>	<u>P/E</u>
06/30/2008	\$1.87	12.9X
06/30/2008	\$1.70	13.9X
06/30/2009	\$1.70	13.9X
06/30/2010	\$1.90	12.1X

Projected Growth Rate:	8%
2010 P/E/Proj. Growth	152%
Market Cap:	\$216,278M
Market Cap/Ann. Rev.	4.0X

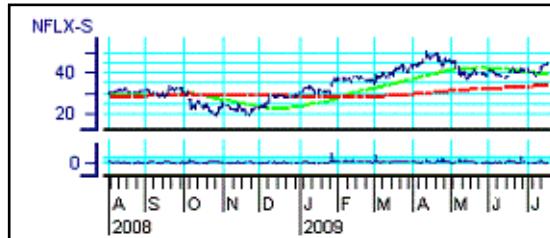


Efforts to compete with Google with new search engine Bing appear less important than loss of revenue momentum due to PC market shift to low end netbooks, where Windows has little advantage. Potential loss of market share to Google Chrome OS, starting in 2010, adds to Microsoft's market share loss to Apple already evident at the high end of PCs, while server virtualization and Linux desktop alternatives provide other alternatives for low end enterprise computing. Impact of Windows 7 should help results for the first 6 months of 2010, but consumers and enterprise customers now appear less committed to upgrade than previously.

**Netflix Inc. (NFLX \$44)****BUY**

	<u>EPS</u>	<u>P/E</u>
12/31/2008	\$1.45	30.4X
12/31/2008	\$1.84	24.0X
12/31/2009	\$2.15	20.5X
12/31/2010		

Projected Growth Rate:	20%
2010 P/E/Proj. Growth	47%
Market Cap:	\$2,679M
Market Cap/Ann. Rev.	1.7X

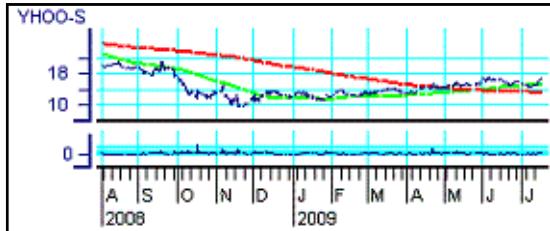


There appears to be no better positioned company than Netflix for video rentals, whether via Internet subscription service or in the emerging market for Internet VOD (video on demand). Bundled service of DVD-by-mail and instant Internet viewing drives penetration despite increased competition from kiosks and positions Netflix for exceptional long term growth. Growth is projected to continue through 2009 with as many as 12 million subscribers generating revenues of \$1.7 billion, up 25% from 2008, with pro forma EPS up 27%. Netflix should gain market share from competitor Blockbuster due to focus on customer satisfaction and service expansion.

**Yahoo! (YHOO \$15)****SELL**

	<u>EPS</u>	<u>P/E</u>
12/31/2008	\$0.47	31.8X
12/31/2008	\$0.36	41.5X
12/31/2009	\$0.40	37.3X
12/31/2010		

Projected Growth Rate:	8%
2010 P/E/Proj. Growth	467%
Market Cap:	\$21,021M
Market Cap/Ann. Rev.	4.5X



New CEO fails to restore investor confidence after loss of Microsoft's takeover offer. Icahn's representation by board members ensures additional unrest. Slower revenue growth concerns investors, impacting stock price. While Yahoo! leads in developing media and wireless alliances to provide new markets for online advertising, we expect the stock to trade lower on disappointing online advertising revenues, as key segments, including finance, auto and travel, decline.