RBC Wealth Management
PRIVATE CLIENT EQUITY RESEARCH
RBC Wealth Management, a division of RBC Capital Markets Corporation, Member NYSE/FINRA/SIPC.

A Quarterly Report of Dividend Growth Recommendations

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All values in U.S. dollars unless otherwise noted.

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For Important Disclosures, see pages 18-19.

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Guided Portfolio: Dividend Growth

Introduction

The objective of the Guided Portfolio: Dividend Growth is to provide investors current income with the potential for growing cash flow plus long-term capital appreciation. This portfolio may be appropriate for investors who have an average risk tolerance and who are able to withstand volatility in its value. Portfolio selections are based on the universe of companies followed by our fundamental research sources (Argus, Credit Suisse, RBC Capital Markets, RBC Wealth Management, and Standard and Poor's). Companies are selected for the strength of their business models, breadth of their management teams, defined policies to return cash flow to investors, a history of strong free cash flow generation, and a commitment to dividend growth. The portfolio is limited to twenty stocks and managed for tax efficiency. Stocks chosen should be eligible for the 15% dividend taxation rate for U.S.-based investors. For additional details on methodology, please turn to page 16.

Flush with Cash, Corporations Increase Dividends, Fund Share Buybacks

According to work done by RBC's Myles Zyblock, cash levels at S&P 500 companies (excluding financials) have reached levels not seen post-WWII. With cash and cash equivalents at $707 billion (or 7.6% of assets), many corporations have balance sheets that garner envy from their state and local government peers.

According to the Fed Flow of Funds data for the fourth-quarter 2010, debt/equity ratios for nonfarm, non-financial firms fell to 55.0% in the fourth quarter of 2009, below the cycle high of 79.5%, and down four quarters in a row—an impressive improvement by nearly any measure. The S&P Technology sector, with $163 billion in cash, has accumulated the largest stockpile, followed by Health Care and Industrials. This cash is finding its way into both dividends and share buybacks.

- Year-to-date, 136 companies have initiated or raised dividends, notably Starbucks and Viacom initiating dividend policies. Only two S&P 500 companies eliminated their dividends, with BP the most notable. This compares to 2009 when 158 companies initiated/raised their dividends, but 78 firms also either suspended/eliminated their dividends, resulting in $37 billion in lost payments.
- In general, S&P companies have increased dividend payments by $11 billion to date, according to S&P. Corporate share repurchases have also rebounded from 2009—to $48 billion from $24 billion. While the bounce is nice, the absolute levels are still nearly one-third lower than record levels set in 2007.
- According to a study done by Oppenheimer, over the past 40 years, "in the first year after dividend recoveries, stocks have returned 10.6%, on average…second years of such rallies have had smaller gains, of 3.4% on average, followed by gains of 10.8% in the third year and 20.1% in the fourth…since 1970, the S&P 500 has returned an average 9.7% annually during periods of dividend recoveries".

Consumer Staples, Consumer Discretionary, and Information Technology Provide Bulk of Dividend Cash Flows. The industry sectors responsible for growing dividend cash flows within the S&P 500 continue to shift from payers

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Guided Portfolio: Dividend Growth

Symbol	Company Name	Price 6/30/10	52- Wk. Range	Performance Entry Date	Performance Entry Price #	EPS (Calendar) 2009A	EPS (Calendar) 2010E	EPS (Calendar) 2011E	P/E 2010E	P/E 2011E	Annual Div.	Div. Yield	Payout Ratio	5-Year Hist. Div. Gr.	3-Year Est. EPS Gr.
Consumer Discretionary															
MCD	McDonald's Corp.	$65.87	72 - 54	2/13/09	$56.81	3.98	4.50	4.86	14.6x	13.6x	$2.20	3.34%	51.2%	31.72%	10%
VFC	VF Corp.	$71.18	89 - 54	7/06/06	$67.71	5.16	5.90	6.64	12.1x	10.7x	$2.40	3.37%	50.5%	20.28%	9%
Consumer Staples															
PEP	Pepsico Inc.	$60.95	68 - 54	2/13/09	$52.57	3.71	4.15	4.63	14.7x	13.2x	$1.92	3.15%	48.2%	16.55%	8%
PM	Philip Morris International	$45.84	54 - 17	3/31/08	$50.58	3.31	3.76	4.12	12.2x	11.1x	$2.32	5.06%	67.8%	11.80%	9%
PG	Procter & Gamble Co.	$59.98	65 - 39	7/06/06	$56.45	4.19	4.05	4.18	14.8x	14.4x	$1.93	3.21%	50.8%	11.97%	9%
Energy															
CVX	Chevron Corp.	$67.86	83 - 61	7/06/06	$63.98	4.84	8.62	10.16	7.9x	6.7x	$2.88	4.24%	43.5%	12.07%	11%
COP	Conocophillips	$49.09	61 - 39	5/26/10	$49.57	3.65	6.06	7.39	8.1x	6.6x	$2.20	4.48%	53.8%	16.41%	16%
Financials															
CB	Chubb Corp.	$50.01	54 - 39	12/29/09	$49.40	6.14	5.23	5.55	9.6x	9.0x	$1.48	2.96%	22.2%	13.26%	9%
Health Care															
ABT	Abbott Laboratories	$46.78	57 - 43	2/13/09	$54.94	3.72	4.16	4.64	11.2x	10.1x	$1.76	3.76%	51.5%	8.84%	10%
JNJ	Johnson & Johnson	$59.06	66 - 56	7/06/06	$60.52	4.63	4.82	5.22	12.3x	11.3x	$2.16	3.66%	44.9%	12.00%	7%
LLY	Eli Lilly & Co.	$33.50	38 - 32	7/06/06	$56.67	4.42	4.49	4.44	7.5x	7.6x	$1.96	5.85%	50.5%	6.82%	-4%
Industrials															
MMM	3M Co.	$78.99	91 - 58	7/06/06	$81.39	4.69	5.59	6.18	14.1x	12.8x	$2.10	2.66%	41.1%	6.81%	12%
EMR	Emerson Electric Co.	$43.69	54 - 30	2/13/09	$32.02	2.33	2.68	3.24	16.3x	13.5x	$1.34	3.07%	58.3%	11.39%	12%
Information Technology															
ADP	Automatic Data Processing	$40.26	46 - 26	2/13/09	$37.17	2.39	2.46	2.64	16.4x	15.3x	$1.36	3.38%	50.7%	19.78%	11%
MCHP	Microchip Technology, Inc.	$27.74	31 - 21	3/22/10	$28.79	1.15	1.81	2.15	15.4x	12.9x	$1.37	4.93%	75.6%	41.64%	14%
MSFT	Microsoft Corp.	$23.01	32 - 22	6/23/09	$23.34	1.87	2.18	2.46	10.6x	9.4x	$0.52	2.26%	26.7%	-0.85%	9%
Telecommunication Services															
T	AT&T Inc.	$24.19	29 - 23	7/06/06	$27.66	2.12	2.26	2.45	10.7x	9.9x	$1.68	6.95%	74.3%	6.09%	6%
RCI	Rogers Communications, Class B	$32.76	37 - 24	3/22/10	$34.69	2.51	2.84	3.13	11.5x	10.5x	$1.27	3.87%	53.8%	114.63%	9%
Utilities															
AGL	AGL Resources Inc.	$35.82	40 - 30	11/09/07	$38.01	2.88	3.01	3.14	11.9x	11.4x	$1.76	4.91%	57.1%	8.59%	8%
NST	NSTAR	$35.00	38 - 30	7/06/06	$28.22	2.35	2.52	2.67	13.9x	13.1x	$1.60	4.57%	63.7%	6.31%	5%

Avg. Yield: 3.98%

	Most Recent Quarter (2Q10)	Year to Date Through 6/30/10	Last 12 Months Through 6/30/10	Since Inception Through 6/30/10
GPDG Cumulative Performance:	-8.0%	-5.3%	14.5%	-9.4%
S&P 500 Cumulative Performance:	-11.4%	-6.7%	14.3%	-11.5%

The **entry price** has been adjusted for a stock split, stock dividend or business spin-off that would change the cost basis of the holding.

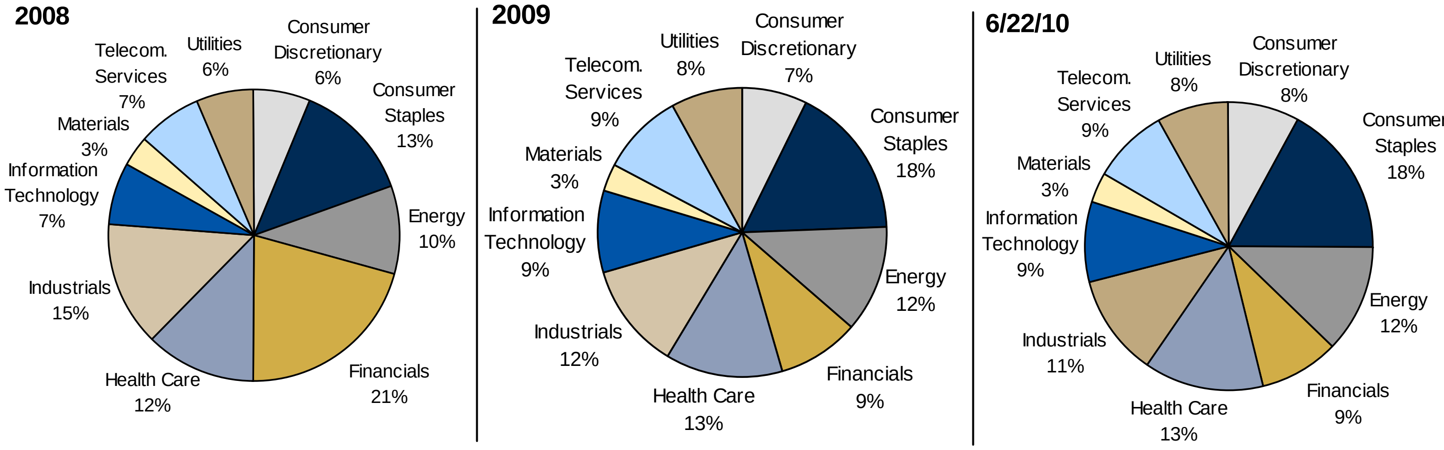
Inception date is July 6, 2006.

A stands for actual earnings, E stands for estimated earnings based on First Call Consensus estimates. Information regarding returns is presented as total return and therefore includes dividends as well as capital appreciation and presumes reinvestment of dividends. Return is calculated on an equal-weighted, total return basis, and includes dividends, which are assumed to be reinvested. Return calculations do not include the deduction of commissions, advisory program fees, interest charges or other expenses that would be associated with an investment in the securities mentioned that are paid to RBC Wealth Management will reduce the client's overall return. Return calculations for the Guided Portfolio: Dividend Growth include securities that have been removed from the portfolio. Performance information on removed stocks is available upon request. Prices utilized for performance calculation purposes are closing prices one full trading session following additions to or removals from the Guided Portfolio: Dividend Growth. S&P 500 index in an unmanaged index of 500 widely held common stocks and Real Estate Investment Trusts (REITS) of domestic operating companies traded on the New York Stock Exchange, American Stock Exchange or NASDAQ National Market List and is often used as a measure of large capitalization-weighted common stock performance in the United States. An investment cannot be made directly into an index. S&P 500 P/E ratios are based on First Call Consensus estimates, excluding figures that haven't been updated within 90 days. Payout ratios are calculated based on current dividend divided by estimated fiscal year 2010 EPS, unless otherwise indicated. Past performance should not be viewed as an indicator of future results. Portfolio P/E ratios are derived from a simple average of individual stock P/E ratios.

Source: FactSet and our national research correspondents.

(Continued from page 1)

Shift in S&P 500 Dividend Contribution, by Industry Sector



Source: Standard and Poor's

seen in prior periods. On an absolute dollar basis, Consumer Staples, Health Care and Energy contribute the most in dividend cash flows, while Financials have seen a 54% decrease in dividend cash flows to the index since 2008. However, it's interesting to note where dividend cash flows have grown. Consumer Staples companies provide the best blend of dividend growth and absolute yield—cash flows have grown 31% since 2008, and the sector stocks yield an average of 3.07%. Information Technology now represents 9.01% of dividend cash flows, a 29% increase over 2008, with an absolute yield of 1.36%.

Year-to-date, Consumer Discretionary stocks have seen some of the largest dividend increases. Target, Nordstrom, Lowe's, and Tiffany's all have had greater than 20% increases in their annual dividends; it's also notable that both Starbucks and Viacom, noted above for their dividend initiations, are also Consumer Discretionary stocks. We believe the durability of the cash flows in the Telecom Services and Utilities sectors are responsible for the modest growth in dividend cash flow contributions combined with attractive absolute yields, providing sector dividend cash flows of 19% and 27%, respectively, with attractive average absolute yields of 5.57% and 4.51%, respectively. We continue to target a mix of companies that have a compelling blend of growth and absolute yield for the Guided Portfolio: Dividend Growth.

Dividend Increases for the Guided Portfolio Average 6.78% Year to Date. Our pace of dividend growth accelerated into the second quarter, now averaging 6.78%, right in the middle of our expected dividend growth range. In the most recent quarter, two companies raised their dividends 10%: ConocoPhillips and Johnson & Johnson. Procter & Gamble raised its dividend 9.50%, just under the 10% increase in 2009. Microchip Technologies nudged its dividend up again in May, after a raise in February, as cash flows continued to expand slightly more than expected. The yield on the Guided Portfolio: Dividend Growth is now 3.98%, compared to 1.99% for the S&P 500. In general, S&P estimates dividends for the S&P 500 will rise 5.6% in 2010 to $23.67, higher than the $22.41 rate paid in 2009, a level comparable to dividends paid on the index in 2006. We continue to believe the stocks in the Portfolio have the earnings power and the commitment to grow dividends in a range of 6% to 8%, on average, in 2010.

The tragedy of the oil spill in the Gulf of Mexico and the subsequent litigation and political turmoil caused us to remove BP plc from the Guided Portfolio: Dividend Growth on May 25, 2010. On June 16, BP announced the interruption of its regular dividends for all of 2010 and took the unusual step of rescinding its already-declared first-quarter dividend, which was to be paid on June 21, 2010. In place of these shares, we have added what we view as a strongly improving cash flow story in the energy sector, ConocoPhillips, Inc. We find the shares attractive as Conoco divests non-core assets and redeploys the cash to pay down debt and support a growing dividend policy. We keep our weighting in Energy at 10% of the Portfolio. In our view, oil could trade down closer to the bottom end of the $60-$80/bbl WTI range we have in place, but the long-term outlook for pricing remains positive. Importantly, we view the integrated oil companies such as Chevron and ConocoPhillips as trading at some of the best valuations we've seen in years. We continue to monitor the Portfolio for best ideas in light of the slowing economic environment but to date remain comfortable with our defensive posture in the market.

Guided Portfolio Dividend Growth Companies: Dividend Growth Record

Security	Stock Symbol	Historical Action Month	Type of Action	Current Rate	Prior Rate	2009 Percentage Change	2010 Percentage Change
Consumer Discretionary							
*McDonald's	MCD	SEP	TBD	2.20	2.00	10.00%	TBD
*VF Corp.	VFC	DEC	TBD	2.40	2.36	2.00%	TBD
Consumer Staples							
*Pepsico, Inc.	PEP	MAR	Increase	1.92	1.80	6.00%	6.67%
Philip Morris Inc.	PM	SEP	TBD	2.32	2.16	7.40%	TBD
*Procter & Gamble Co.	PG	APR	Increase	1.93	1.76	10.00%	9.50%
Energy							
ConocoPhillips	COP	OCT	Increase	2.20	2.00	6.40%	10.00%
Chevron Corp.	CVX	JUN	Increase	2.88	2.72	4.60%	5.90%
Financial Services							
*The Chubb Company	CB	FEB	Increase	1.48	1.40	6.10%	5.71%
Healthcare							
*Abbott Labs	ABT	FEB	Increase	1.76	1.60	11.00%	10.00%
*Johnson & Johnson	JNJ	APR	Increase	2.16	1.96	6.50%	10.20%
*Eli Lilly & Co.	LLY	DEC	TBD	1.96	1.96	0.00%	TBD
Industrial							
*3M Co.	MMM	FEB	Increase	2.10	2.04	2.00%	2.94%
*Emerson Electric	EMR	NOV	TBD	1.34	1.32	1.50%	TBD
Information Technology							
*Automated Data	ADP	NOV	TBD	1.36	1.32	3.00%	TBD
Microchip Technology	MCHP	FEB/MAY	Increase	1.368	1.356	5.90%	0.89%
Microsoft, Inc.	MSFT	SEP	TBD	0.52	0.52	0.00%	TBD
Telecom Services							
AT&T Inc.	T	DEC	TBD	1.68	1.64	2.40%	TBD
Rogers Communications	RCI	FEB	Increase	1.28	1.16	16.00%	10.34%
Utilities							
AGL Resources	AGL	FEB	Increase	1.76	1.72	2.38%	2.30%
NSTAR	NST	NOV	TBD	1.60	1.50	6.70%	TBD
Portfolio Average Dividend Increase 2009:				**4.48%**		**2010^:**	**6.77%**
S&P 500 Average Dividend Decrease 2009:				**-21.60%**			
Dividend Yield for the Portfolio as of 6/30/10:				**3.98%**			

*Members of the S&P Dividend Aristocrats, companies that have increased their dividend in each of the past 25 years.
^Average announced dividend increase for stocks on the portfolio through 6/30/10
Source: RBC Wealth Management

Changes to the Guided Portfolio Dividend Growth Portfolio

We make changes to the Guided Portfolio Dividend Growth Portfolio based primarily on fundamental changes in the underlying business, such as balance sheet deterioration, declining cash flows, rising dividend payout ratios, or other changes that could negatively impact the company's ability to pay its dividend. We also take into consideration market activity and valuation. Removal from the list does not necessarily imply investors should sell a stock. We state our justification for removal and immediately provide appropriate follow-up information via a published report and also through our internal communication systems.

Additions

We added ConocoPhillips (COP) shares to the Guided Portfolio: Dividend Growth on May 25 because the company's on going restructuring efforts are paying off for shareholders. The company's aggressive cost cutting efforts combined with the divestiture of non-core assets is allowing the company to pay down debt and repurchase shares. Cash flows are expected to improve dramatically and we believe that will turn into dividend increases for shareholders over the long run. The shares are also attractively priced. See the body of this report for more details.

Deletions

We removed BP p.l.c. (BP) from the Portfolio on May 25. The issues clouding future activity in the GOM plus choices on cash flow decisions by the firm put a cap on intermediate-term dividend growth. Political and headline risk will continue to weigh on the shares until the GOM oil leak is capped and the damages better quantified. On June 16, the company announced it was suspending its dividend for at least 2010 and would set up a $20 billion recovery fund for victims of the Gulf of Mexico disaster.

Guided Portfolio: Dividend Growth Companies

Consumer Discretionary

McDonald’s Corp (NYSE: MCD)

McDonald’s Corp. is the dominant global player in the $157 billion quick-service food industry. It operates nearly 32,000 stores in over 100 countries and serves more than 60 million people every day. More than 70% of its stores are owned by independent franchisees. Its international operations contributed 53% of operating earnings in 2008. System-wide revenues reached $72.4 billion in 2009 vs. $70.7 billion in 2008. Nearly 53% of operating income is generated outside the United States. McDonald’s Corp. is a member of the S&P Dividend Aristocrats, a group of companies that has raised its dividends in each of the past 25 years. Over the past 10 years, the dividend has grown at a CAGR of 22%.

- McDonald’s reported first-quarter results that were better than expected. The company reported $1.03 in earnings, which was $0.07 higher than the consensus estimate. Revenues in the quarter were $5.61 billion compared to the consensus estimate of $5.52 billion. Global comp sales were up 4.2%, and U.S. same-store sales rose 1.5%; both figures exceeded expectations. The company returned approximately $1.0 billion to shareholders in the quarter through dividends and share repurchases. Management continues to target long-term, top-line growth in the 3%-5% range, operating income growth in the 6%-7% range, and return on incremental invested capital in the high teens. Management also remains committed to returning free cash flow to its shareholders through share buybacks and dividend increases.
- In 2010, management expects commodity costs in the United States to be down 2%-3% and flat to down slightly in Europe. The company is targeting 2% unit growth, a tax rate in the 29% to 31% range, and capital expenditures of $2.4 billion. Foreign currency exchange rates should benefit the company in the $0.05 area, down from the prior range of $0.06-$0.08. Management is targeting for flat SG&A expenses, and interest expense should increase only slightly. April and May comp sales were above plan, and June appears to be tracking well. This could bode well for the company when it reports its second-quarter results in late July.
- For 2009, the company returned $5.1 billion to shareholders, bringing the three-year total to $16.6 billion under the company’s $15-$17 billion cash return to shareholders targeted for 2007-2009. On June 15, the company paid its normal $0.55 quarterly dividend to shareholders.

VF Corporation (NYSE: VFC)

VF Corporation is the world’s largest apparel manufacturer and offers a broad portfolio of branded products. It maintains a dominant position in denim, work wear, and daypacks. Major brands include Lee, Wrangler, Nautica, and North Face. Its heritage brands in denim provide strong and stable cash flow with solid profitability, giving VF Corporation a tool with which to build its brand portfolio. VF Corporation has successfully acquired unique brands that provide a lifestyle identity that can be extended across multiple product categories. VF Corporation is a member of the S&P Dividend Aristocrats. Over the past ten years, VF Corporation increased its dividend at a CAGR of 10.7%.

- VF Corp. reported first-quarter results that were better than expected—$1.46 in earnings, $0.30 higher than the consensus estimate. Sales of $1.75B were better sequentially, and gross margins improved 450 basis points and were the star of the quarter. SG&A expenses were also in line with expectations. Gross margins reached 46.7%, a record for the company. The company's four biggest brands, Wrangler, North Face, Lees, and Vans, which represent over 60% of the company's total revenue, continue to perform well. These brands continue to gain and hold market share, giving management confidence it can navigate through these more difficult times. For 2010, management is guiding earnings in the $5.90 area, up from the prior range of $5.60-$5.70.
- A healthy balance sheet and strong cash flow continue to be hallmarks of VF Corp. At the end of the quarter the company had $719 million in cash and cash equivalents. Inventories were down 15%. The company generated $184 million in cash flow from operations in the quarter and now expects cash flow could exceed $800 million in 2010. The company bought back 1.5 million shares in the quarter and is on track to repurchase 3 million shares in the first half of the year.
- The VF Corp. paid its normal quarterly dividend of $0.60 to shareholders on June 18, 2010, which marked the 37th year the company increased its dividend payout to shareholders. We believe management's track record of execution and significant growth for the newer lifestyle brands bodes well for VF's long-term outlook.

Consumer Staples

Pepsico, Inc. (NYSE: PEP)

Pepsico, Inc. is a global producer and marketer of branded beverages and food snacks organized into four business segments. Frito-Lay North America (FLNA) produces the top-selling line of snack foods. Brands include Lay's, Ruffles, Doritos, Cheetos, Rold Gold, SunChips, Grandma's cookies, Quaker Oats bars, and Cracker Jacks. Pepsi Bottling North America (PBNA) manufactures/contracts beverage concentrates including: Pepsico, Mountain Dew, Gatorade, Tropicana, Sierra Mist, SoBee Life Water, Propel, and Izze. PepsiCo Int'l (PI) manufactures, sells, and distributes branded snack foods and beverages outside of North America. Quaker Foods North America (QFNA) manufactures and distributes staples and ready-to-eat cereal including Captain Crunch, Life, Rice-A-Roni, Pasta Roni, Near East rice products, and Aunt Jemima mixes/syrups. Pepsico is a member of the S&P Dividend Aristocrats, a group of companies that has increased its dividends in each of the past 25 years. Over the past 10 years, Pepsico's dividend has grown at a CAGR of 10.5%.

- Pepsico reported first-quarter results that were in line with expectations. The company reported earnings of $0.76, $0.01 higher than consensus. SG&A costs were also in line with expectations. As the company looks further into 2010, it is still targeting earnings growth in the range of 11%-13% and low double-digit growth for 2011 and 2012. For 2010 management is targeting $4.17 in earnings. The company has a $15 billion share repurchase plan and expects to repurchase $4.4 billion of stock in 2010. It repurchased $735 million worth of stock in the quarter. Our research sources believe at the current pace of stock repurchases, the company could exceed that level before the end of the year.
- After the closing of the bottling acquisitions, the company inked a deal to manufacture and distribute certain Dr. Pepper Snapple Group products. The DPS brands showed strength in the first quarter with 2% volume increases, and according to the company, momentum continues. The company also recently announced it plans to invest $2.5 billion in China over the next three years. The company plans to open new farms for potatoes and oats, and invest in new beverage and food plants in the country. This is another area that should provide good growth potential for the company.
- On May 4, the board announced a 7% dividend increase to $1.92 from $1.80. This increase represents the 38th straight year the company has increased its dividend to shareholders. The new dividend was paid to shareholders on June 30. Pepsico is one of only 25 companies in the S&P 500 that has increased its dividend to shareholders every year for at least 37 straight years.

Management remains committed to enhance shareholder value through dividend increases and share buybacks.

Philip Morris International (NYSE: PM)

Philip Morris International (PMI) represents the international tobacco operations of Altria. PMI is the world's largest tobacco products company outside of China. The company produces, sells, distributes, and markets a wide range of branded cigarettes and tobacco products. PMI is a member of the S&P 500 Index.

- PMI reported first-quarter results that were lower than expected. The company reported earnings of $0.90, missing the consensus estimate of $0.93 by $0.03. The earnings miss—the first in the company's history—was primarily the result currency translation. Free cash flow for the quarter was a respectable $1.8 billion. During the quarter the company bought back 36.1 million shares of common stock at a cost of $1.8 billion. Management is targeting $4 billion in share repurchases in 2010 as part of its $12 billion authorization plan.
- For 2010, management is now guiding earnings in a range of $3.70-$3.80 from the prior $3.75-$3.85 versus $3.24 for 2009. Excluding currency, reported diluted earnings are projected to increase by roughly 10%-13% in 2010, in line with the company's 10% to 12% longer-term earnings growth target.
- On June 9, the board declared its normal $0.58 quarterly dividend, which is payable to shareholders on July 9. Management remains committed to its dividend and share buyback programs.

Procter & Gamble Company (NYSE: PG)

Procter & Gamble (P&G) develops and markets 300-plus branded products in more than 160 countries. Of these branded products, 22 generated at least $1 billion sales each. Product innovation is superior, driving $5 billion in sales over the past five years in categories in which it did not previously operate. The acquisition of The Gillette Company in late 2005 positions P&G as the world leader in grooming products for both men and women and also provides a leading share in batteries and toothbrushes. These products fit well within the company's family framework, given its dominant market presence and industry-leading margins. Well-known brands include: Tide, Bounty, Crest, Iams, Cover Girl, Pantene, Secret, and Pringles. In fiscal 2009, North America contributed 43% of sales, Western Europe 21%, and Asia 4%, with developing markets accounting for 32%. P&G is a member of the S&P Dividend Aristocrats and has raised its dividend over the past ten years at a CAGR of 9.6%.

- Procter & Gamble reported fiscal 2010 third-quarter results that were better than expected. The company reported core earnings of $0.89, which was above management's guidance of $0.77-$0.82 and the consensus $0.82 estimate. The beat was primarily margin driven since sales were slightly below plan. Organic sales growth was 4%, at the low end of management's 4%-6% range and last quarter's 5%.
- For the fourth quarter, management is guiding for organic sales growth of 4%-5%, which would place earnings in the $0.68-$0.74 range. For 2010, management is raising its core earnings guidance in the range of $3.62-$3.68 (from $3.53-$3.63). Diluted net earnings should be in the range of $4.06-$$4.12, a $0.04 increase on the low end of guidance. Management is still targeting organic sales growth in the range of 3%-5% for 2010.
- On April 19, the board announced it will increase its $0.44 quarterly dividend to $0.48, which was paid to shareholders on May 17. This represents a 9.5% increase over the prior dividend. The company has paid a dividend without interruption since it was incorporated in 1890. This year marks the 54th consecutive year in which the company increased its dividend. With the company's strong balance sheet and steady cash flows, combined with an enviable level of profitability versus its peer group position, we believe P&G should be able to continue to grow its dividend over time.

Energy

Chevron Corporation (NYSE: CVX)

Chevron Corporation is the second-largest U.S.-based integrated oil company and the fourth largest in the world, based on reserves. Through its subsidiaries and affiliates, Chevron is engaged in fully-integrated petroleum operations, refining, chemical operations, power, and energy services. Chevron operates in the United States and about 180 other countries worldwide. The company closed its acquisition of Unocal in August 2005. Of the integrated oil companies, its exploration and production and refining and marketing assets have the strongest leverage on the North American region. Chevron has also increased its pace of dividend growth over the past five years, with a CAGR of 9.6%, while achieving a CAGR of 6.4% over the past ten years.

- Chevron recently reported better-than-expected results with first-quarter operating earnings of $2.36, $0.42 higher than the consensus estimate of $1.94. The upside to expectations was the result of much better–than-expected results from the company's International Upstream segment, an increase of 4.5% in upstream production volumes due to major start ups in the Gulf of Mexico (GOM), Nigeria, and Angola. Even the downstream segment turned a profit in the quarter. According to our research sources, Chevron is showing the best volume growth in its peer group. Reserve replacement for 2009 was 112%. For 2010, management targets $21.6 billion in capex projects. Management maintains its top priorities for its cash are sustaining the dividend, funding the capital program, and maintaining financial strength and flexibility.
- Despite having a large cash balance, management said it wouldn't start a share repurchase program until it felt better about the overall global economic and energy market outlook. It doesn't want to get into a situation where it starts and stops on its repurchase program once it is initiated. Overall, our research sources believe it was a very solid quarter for the company. On April 28, the board declared a 5.9% increase in the quarterly dividend to $0.72, or $2.88 annually. This dividend was paid to shareholders on June 10.
- Chevron recently reported it stopped operations at one deepwater well in the GOM to comply with the U.S. six-month moratorium on deepwater drilling. The company had previously stopped drilling at another site before the extension of the ban. Management stated the six-month ban could have a significant impact on the company's drilling program. Chevron isn't the only oil company affected by the moratorium. We will continue to monitor the Gulf of Mexico events as they play out.

ConocoPhillips (NYSE: COP)

ConocoPhillips (CP) is the world's fourth-largest integrated oil company. Formed through the merger with Phillips Petroleum in 2002 and further grown through the acquisition of Burlington Resources in 2006, CP is now the second-largest integrated oil company in the United States, based on oil and gas assets. CP has operations in nearly 40 countries, with its business organized into six segments. Exploration and production (E&P) accounted for 25% of sales (61% of net income) in 2009. Refining and marketing (R&M) accounted for 72% of sales (1% of net income), with ownership or interest in 17 refiners (12 U.S.-based), and marketing operations under the Phillips 66, Conoco, and 76 brands domestically. Midstream assets accounted for 3% of sales in 2009, and 5% of net income. Conoco currently maintains a 20% ownership interest in Lukoil (NA, 28%); chemicals (NA, 4%) and emerging businesses. The chemical sector is organized as an equal joint venture partnership with Chevron Phillips Chemical Co. LLC. Over the past 10 years, Conoco has grown the dividend at an average CAGR of 12.46%, with an average of 13.27% growth over the past 5 years.

- ConocoPhillips detailed at its March 2010 analyst meeting plans to reshape its asset portfolio to focus on higher growth and wider margins. We expect the company will divest $10 billion in assets, with 60%-80% of those assets based in North American E&P, with 20-40% coming from its downstream (R&M) portfolio. CP plans to sell half of its 20% ownership interest in Lukoil, using the proceeds to pay down debt and repurchase shares. Its 9.03% stake in the Syncrude Joint Venture is being sold to Sinopec for $4.65 billion, a price that was a bit higher than expected. The company has pulled out of a new refinery project with Saudi Aramco in

Yanbu City, Saudi Arabia, due to lower-than-expected returns. We expect other disposals to continue throughout the year, including the sale of its Flying J assets for $350 million. Bankers have been appointed for the sale of the REX pipeline interest. We expect more E&P assets to be evaluated and potentially come up for sale in the second half of 2010. With profitability metrics markedly below that of its industry peers, we applaud these moves and believe they set the stage for stronger returns in future years. The willingness to walk away from lower profitability projects and placing the emphasis on growing its investment in liquids-rich assets in the continental United States is also encouraging. In 2010, we expect production growth of 3%-5%. In general, the company's strategy in its upstream business is to convert resources into reserves, improve returns, and focus on "higher impact" exploration opportunities.

- We believe these strategic moves, combined with a $1.4 billion cost-cutting program already in place, should allow its ROCE (return on capital employed) to rise over the next few years. In 2009, the ROCE for CP was 7%, which lagged both that of Exxon and Chevron by nearly 6% points, according to our RBCCM Energy analyst, but with these strategic moves, RBCCM believes the ROCE gap should narrow to 4% in 2011. We also expect the company to return 10% of the cash flows raised from these assets sales and cost savings to shareholders through dividend increases and share repurchases. CP has announced a 10% dividend increase in 2010, and we expect the dividend can grow 5% to 10% over the next several years. Share repurchases have already started and could accelerate throughout 2010. On June 1, the company paid its recently increased $0.55 quarterly dividend to shareholders. Hurricane Alex caused Conoco to shut down its Gulf of Mexico production, but like Chevron, this is expected to have only a minimal impact at this time.
- With the shares trading at a 14% discount to its U.S.-based integrated peers and a 31% discount to its NAV of $74, as calculated by our national research source, we find the shares attractive for investors who wish to benefit from not only the turn in the underlying business, but also the growth of dividends over time. The recent price pullback in the shares affords us an attractive entry point, in our view.

Financials

The Chubb Corporation (NYSE: CB)

The Chubb Corporation is one of the largest property-casualty insurance companies in the United States. The company operates three major divisions. Personal Insurance (33% of 2008 written premiums) offers automobile and homeowners insurance, targeting upscale and affluent clients. Chubb Commercial (42%) offers a broad portfolio of policies targeted to workers' compensation, casualty, property, marine coverage, and multiple peril. Finally, Chubb Specialty insurance (25%) provides specialized executive protection and professional liability products for private and public corporations. Nearly 25% of its written premiums are generated outside the United States. Chubb has increased and paid its dividend in each of the past 26 years, making it a member of the S&P Dividend Aristocrats.

- Chubb reported first-quarter results that were much better than expected with earnings of $1.14, $0.19 higher than the consensus estimate and $0.23 higher than the RBCCM estimate. The upside to expectations was primarily the result of stronger–than-forecast revenues and better-than-expected combined ratios, according to RBCCM. The company's overall combined ratio was very solid at 93.6%. Book value for the company increased 2.2% to $48.17. The company bought back nearly 7 million shares in the quarter for $344 million and announced it will increase its share repurchase authorization by an additional 14 million shares. This increase means the company can repurchase up roughly to another 18 million shares. For 2010 management continues to guide for earnings in the range of $5.15-$5.55 and for 2011 an initial earnings target of $5.65.
- Over the past 10 years, Chubb has raised its dividend at an annualized rate of 7.6%. Despite the difficult financial environment when many firms cut or eliminated their dividends, Chubb continued to increase its dividend. The 5.7% increase in the annualized dividend to $1.48 in February marked the 28th straight year the company has increased its dividend to shareholders. The company will pay its normal $0.37 quarterly dividend to shareholders on July 13.

Health Care

Abbott Laboratories (NYSE: ABT)

Abbott Labs discovers, develops, manufactures, and sells a broad and diversified line of health care products and services. The company's products include pharmaceuticals, diagnostic products, medical devices, and nutritional products. The company markets its products worldwide through affiliates and distributors. The company is a member of the S&P Dividend Aristocrats, a group of companies that has raised its dividends in each of the past 25 years. Over the past 10 years, Abbott Labs has raised its dividend at a CAGR of 9.5%.

- Abbott reported first-quarter earnings that were better than expected. The company reported $0.81 in earnings for the quarter ($0.01 higher) on revenues of $7.7 billion, but revenues were a little light versus consensus. According to RBCCM, Humira and Vascular sales were much better than expected. Global Humira sales in the quarter of $1.4 billion exceeded expectations. Management is guiding for 20% growth in the Humira franchise in 2010.
- Management provided reduced guidance for 2010 earnings in the range of $4.13-$4.18, down from the prior$4.20-$4.25 range. This reduction is due to the expected impact of health care reform. The new guidance still represents about a 12% year-over-year earnings growth. The company has delivered double-digit earnings growth for its shareholders for the past six years, and we believe it is poised to continue this rate of growth for the next three years. The company's solid pipeline should continue to fuel earnings and dividend growth.
- On June 11, the board declared its normal $0.44 quarterly dividend. This dividend will be paid to shareholders on August 15. This is the 346th consecutive quarterly dividend Abbott has paid to shareholders since 1924. Abbott has increased its dividend for 38 consecutive years, a rather impressive record. Management believes it can increase the dividend at a double-digit growth rate, in line with the company's earnings growth for the foreseeable future.

Eli Lilly & Company (NYSE: LLY)

Eli Lilly & Company is a leading pharmaceutical firm with major franchises in depression, anti-psychotics, and diabetes care, plus animal health. In 2007, 46% of its sales were outside the United States. Lilly completed the acquisition of ICOS Corporation for $23 billion in cash, giving it full ownership of Cialis® for erectile dysfunction. It closed on the acquisition of Imclone in 2008. The company has joint research and development alliances with Takeda Pharmaceuticals, Boehringer Ingelheim, and several others. Spending on research and development reached $3.8 billion in 2008, one of the highest ratios in the industry. The company is a member of the S&P Dividend Aristocrats, raising its dividend in each of the past 42 years. Over the past ten years, the dividend has grown at a CAGR of 7.8%, handily outpacing the rate of inflation.

- Eli Lilly reported first-quarter results that were better than expected. The company reported earnings of $1.18, which were $0.08 higher than consensus, and revenues of $5.49 billion, up 9% year over year. Higher cost of goods was offset by better expense control in the quarter. Management is now guiding for 2010 earnings in a range of $4.40-$4.55, down from $4.65-$4.85. This is due to the expected impact of health care reform.
- Eli Lilly's management believes the company is well prepared to deal with upcoming patent expirations and their impact on sales. The company has its largest new-product pipeline in its history. The company has a diversified product portfolio, so it isn't too dependent on just one or two drugs. As a matter of fact, the company had eight different products exceed $1 billion in annual sales for 2009. The company is targeting to launch 15 new products in China in the next 5 years, and according to management, also plans to invest heavily in China.
- Eli Lilly has a long track record of dividend increases, raising its dividend in each of the last 42 years. We find the shares attractive, given their low payout ratio, steady earnings and revenue profile, and historical commitment to dividends. On April 19, the company declared its normal $0.49 quarterly dividend and paid it to shareholders on June 10.

Johnson & Johnson (NYSE: JNJ)

Johnson & Johnson (J & J) is one of the largest and most diversified health care companies in the world. The company has over 100,000 employees and more than 200 operating companies. Operations are divided into three segments: Pharmaceutical (36% of 2009 sales), Medical Devices & Diagnostics (38%), and Consumer Products (26%). The company's Pharmaceutical division has been the primary driver of growth over the past 15 years, with several blockbuster drugs used in treating a range of ailments, including cancer, arthritis, Crohn's disease, schizophrenia, and bacterial infections. Its Medical Devices & Diagnostics segment is the world's largest, with specialties in minimally invasive surgery, orthopedics, and blood glucose monitoring. Johnson & Johnson's Consumer Products division manufactures a wide range of well-known products, including dental, skin care, and allergy products. The company is a member of the S&P Dividend Aristocrats. Over the past ten years, Johnson & Johnson has raised its dividend at a CAGR of 12.7%

- Johnson & Johnson reported first-quarter results that exceeded expectations. Top-line revenues of $15.6 billion were better than expected, and diluted earnings of $1.29 were $0.02 higher than the consensus estimate and $0.05 higher than the RBCCM estimate. Strong Medical Device sales helped offset some weakness in Pharmaceutical and Consumer. The short fall in Pharmaceutical was attributed to health care reform related issues according to our research sources. To reflect the impact from currency translation and health care reform, management lowered guidance to revenue in the range of $63.5-$64.5 billion from the prior $64-$65 billion range and lowered earnings to a range of $4.80-$4.90 from the prior range of $4.85-$4.95. This was viewed negatively by the Street as it thought prior guidance was conservative given the strong results the company posted to finish out 2009.
- At the company's annual investor's day meeting, management highlighted the continued strength in Medical Device & Diagnostic. Management projects 6.1% annualized growth for this division through 2014 compared to only 5% growth for the group. RBCCM expects the MD&D division will be able to deliver mid- to high-single-digit growth in 2010 and beyond.
- On April 22, the board announced a 10.2% increase in its quarterly dividend to $0.54 from $0.49 and paid it to shareholders on June 15. This dividend increase represents the 48th consecutive year the company has increased its dividend to shareholders.

Industrials

3M Company (NYSE: MMM)

3M Co. has a global presence in seven major market sectors: health care, specialty chemicals, electronics, industrial products, consumer and office products, telecommunications, and safety and security. Brands familiar to customers in 200 countries include Scotch, Post-it, Scotchgard, Thinsulate, Scotch-Brite, Filtrete, Command, and Vikuiti. The company is a member of the S&P Dividend Aristocrats. Over the past ten years, 3M has raised its dividend at a CAGR of 5.7%.

- 3M posted first-quarter results that were considerably higher than expected. The company reported earnings per share of $1.40, beating the consensus estimate of $1.20 by $0.20. Besides $0.05 being the result of a lower tax rate, the increase was rather broad based, with better-than-expected top-line results and operating margins accounting for the earnings surprise. Sales were up 24.7% and operating margins of 22.8%, both exceeding expectations. Better operating cost controls were responsible for the margin improvement.
- Management now is guiding 2010 earnings to a range of $5.40-$$5.60 from the prior range of $4.90-$5.10. Management expects organic sales volumes to grow 10%-12%, up from the prior 5%-7%, and currency translation could add another 1% to 2% to sales for the year. Management now believes operating margins will exceed 22% for the year and that year-over-year growth will come from volume improvements, better utilization rates, and more favorable FX. Free cash flow in the quarter was $925 million. For 2010, management is guiding free cash flow in the range of $5.0-$5.5 billion and expects to pay out $1.5 billion on dividends and $500-$700 million on share repurchases.

- On May 11, the board announced its normal $0.525 quarterly dividend and paid it to shareholders on June 12. This continues 3M's consecutive quarterly dividend payment streak to 375 quarters, and 2010 represented the 52nd consecutive year the company increased its dividend. We are encouraged by the way 3M continues to return more cash to its shareholders. We believe 3M, with its diverse product portfolio and global presence, offers investors a solid total return investment vehicle.

Emerson Electric Co. (NYSE: EMR)

Emerson Electric Company is a diversified industrial conglomerate, organized in five distinct divisions: Process Management, Industrial Automation, Network Power, Climate Technologies, and Appliances/Tools. Leading products include the design, manufacture, and sale of backup power equipment for telecommunications and internet firms, climate control devices, meters, sensors and analyzers, motors and drives/controls, and electrical motors and tools. End markets include energy services, the food/beverage industry, pulp/paper industry, pharmaceutical manufacturers, utility companies, and municipal water suppliers. Emerson Electric is a member of the S&P Dividend Aristocrats, a group of companies that has raised its dividends in each of the past 25 years. Over the past 10 years, the dividend has grown at a CAGR of 6.5%.

- Emerson reported earnings from continuing operations of $0.54 for its second-quarter 2010 ended March 31. Earnings results were basically in line with expectations on revenue of $5.4 billion. Operating margins increased 320 basis points to 16.0%. Management's outlook for 2010 is improving since it now guides revenues flat to down 3% from the prior down 3%-6% range and expects margins to be up slightly to a range of 15.7%-16.0% from 15.1%-15.6%. The company is guiding earnings in the range of $2.40-$2.55, up from $2.20-$2.40. The recent Avocent acquisition is expected to be $0.05 dilutive to 2010 earnings, according to management. Emerson has made a bid for Chloride Group plc for just over $1.billion GBP (sterling). The secure power systems business should help secure its position as an industry leader and would gives Emerson a European hub for its operations. We will monitor developments over the next few months are more information is released.
- Management once again reiterated that with its proactive management team and solid balance sheet, the company should emerge stronger from this downturn. For 2009, the company generated $2.6 billion in free cash flow and returned 56% of its operating cash flow to shareholders through $998 million in dividends and $718 million in share repurchases. On May 4, the board announced its regular quarterly dividend of $0.335 and paid it to shareholders on June 10. This year represents the 53rd year of dividend increases for the company.

Information Technology

Automatic Data Processing (NYSE: ADP)

Automatic Data Processing (ADP) provides computerized transaction processing, data communications, software, and information services. The company also provides payroll services and human resource information systems as well as offering securities transaction processing and investor communications services. ADP is a member of the S&P Dividend Aristocrats, a group of companies that has increased its dividends in each of the past 25 years. Over the past 10 years, ADP's dividend has grown at a CAGR of 14.0%.

- The company reported third-quarter 2010 operating earnings that exceeded expectations. The company reported earnings of $0.79, which bested the consensus estimate by $0.01 on revenues of $2.44 billion, which were a little higher than expected and were up 3% year over year. The upside to expectations was due primarily to better margins, which came in at 25.9%. Management raised the lower end of its fiscal 2010 guidance and now targets revenue to be flat with last year from down 1% to 2%. Management is now targeting fiscal 2010 earnings target in the range of $2.36-$2.38, up from $2.34-$2.39.
- As it heads further into its fiscal year, the company believes it will continue to face some headwinds from a difficult economic environment. However, management is confident the strength of the company's business model, the company's product set and global breadth, and its depth and reach in the marketplace (which has never been stronger) will allow the company

to emerge from this recession a stronger company. ADP could also benefit from the economic stimulus package, should the job-creation goals of the package be achieved. The company ended the quarter with over one billion dollars in cash on its balance sheet.

- The company remains one of a select group of companies with a AAA-rated balance sheet. It ended the quarter with approximately $1.8 billion in cash and cash equivalents. Year to date, the company has bought back over 6.5 million shares of its stock at a cost of $280 million. For 2010 management expects to generate $1.5 billion in cash flow and repurchase $300-$400 million in stock. On April 29, the board declared its normal $0.34 quarterly dividend and paid it to shareholders on July 1. This is the 35th consecutive year of dividend increases for the company, a very impressive track record.

Microsoft Corporation (NASDAQ: MSFT)

Microsoft Corporation is the world's largest software company. Its Windows operating system is run on more than 90% of all PCs. Its business office productivity software has more than 400 million users. Microsoft's Xbox game console has increasingly positioned itself as a leading force in video game architecture. Under the leadership of Steven Ballmer and Ray Ozzie, the company's core strategy is to position software as a service rather than a transactional event and provide a seamless user experience across all electronic device platforms, from cell phones to PCs to home entertainment centers.

- Microsoft reported another solid quarter, with third-quarter 2010 revenues of $14.5 billion and earnings of $0.45 per share, both exceeding the consensus estimates of $14.39 billion and $0.42.The upside was the result of strong demand for Windows 7 to go along with the company's excellent cost controls. The company posted operating margins of 35.7%, considerably higher than the RBCCM analyst's estimate of 33.9%. Management expects to remain focused on spending and cost controls throughout 2010.
- Given the continued difficult operating environment, management is now targeting fiscal 2010 operating expenses in the range of $26.1-$26.3 billion from $26.2-$26.5 billion. Our research sources believe this spending is in line given the number of new products hitting the market, including Windows 7, Office 2010, and Bing. Management also believes the company's more efficient operating model should allow the company to show significant leverage as the economy improves. Management continued its share buyback program this quarter, and the company bought back 67 million shares at a cost of roughly $2.0 billion.
- In 2003, Microsoft initiated an annual dividend of $0.08, growing it to $0.52 today, for a CAGR of 30%, excluding a special $3.00 dividend paid in 2004. We believe the substantial free cash flow generation should help support a growing dividend policy as well as share repurchases. *Value Line* estimates dividend growth could reach 13% annually through 2012-2014. On June 16, the board declared its normal $0.13 quarterly dividend, and will be paid to shareholders on September 9.

Microchip Technology, Inc. (NASDAQ: MCHP)

Microchip Technology Inc., based in Chandler, Arizona, develops and manufactures specialized semiconductor products for usage in a large number of product applications. Its microcontrollers (computers on a chip) come in 8-bit, 16-bit, and 32-bit PIC sizes. Microchip also offers a breadth of high-performance linear, mixed-signal, power management thermal management, battery management, and interface devices, as well as EEPROMs. The microcontroller market reached $14 billion in calendar 2008. Applications are included in a wide array of end markets, including automotive, medical, consumer appliances, robotics, security, and handheld tools. Customers are diverse and number more than 63,000. Foreign sales accounted for 75% of net sales in Fiscal 2009, with 46.2% of those sales coming from Asia, 28.5% from Europe, and 25.3% from the Americas. Nearly 64% of net sales in fiscal 2009 were made through distributors. The company has two wafer plants in Arizona, a fabrication plant in Oregon, and an assembly/probe and test site located in Thailand.

- Microchip Technology reported better-than-expected first-quarter results with $278 million in revenue, up 11% sequentially, and earnings of $0.40, $0.03 higher than the consensus estimate of $0.37. Gross margins improved 220 basis points to 60.6%. For the second quarter, management is now guiding $318 million in revenues for 14% quarter-over-quarter growth and $29 million above the previous consensus estimate. All in all, it was a solid quarter with a bullish outlook.
- The company had $1.532 billion in cash and cash equivalents on the balance sheet at the end of the quarter. Its inventory management is also good, with days of inventory having fallen two days to 138 days, which is only slightly above the company's 7-year low of 131 days and is below its historical range of 140-150 days.
- On May 5, the board announced it increased its quarterly dividend to $0.342 from $0.341 and was paid to shareholders on June 2. This increase followed a similar dividend increase in the February period. Since the company announced its first dividend in the third quarter of fiscal 2003, it has increased the dividend 25 times. This is a trend our research sources believe will continue, given the strong free cash flow generation and strong profitability metrics exhibited by the company.

Telecommunication Services

AT&T Inc. (NYSE: T)

AT&T Inc. is one of the world's largest communications companies and is the largest in the United States. Operating globally under the AT&T brand, AT&T companies are recognized as the leading worldwide providers of IP-based services to business and as the leading U.S. provider of high-speed DSL Internet, local and long-distance voice, directory publishing, and advertising services. AT&T Inc. recently re-branded Cingular Wireless as AT&T Mobility; it is the leading U.S. wireless service provider with more than 65 million wireless customers. Over the past ten years, AT&T raised its dividend at a CAGR of 4.2%.

- For the first quarter, AT&T reported results that exceeded expectations. The company reported $0.59 in earnings, exceeding the RBCCM and consensus estimates of $0.54. EBITDA of $10.8 billion was also better than expected, with wireless EBITDA strong at $5.7 billion with 44.5% margins. Wireless added 1.86 million net subscribers in the quarter, surpassing the RBCCM estimate of 1.52 million. iPhone continues to help drive the company's wireless growth. On the wireline side, net losses were less than anticipated. U-Verse also posted decent results, and combined with the consumer side of the business, revenue generated per household was up 5.5% year over year to roughly $67. In the quarter AT&T generated $3.9 billion in free cash flow and used a portion of it $2.6 billion to repurchase some debt and to pay out $2.5 billion in dividend payments. Management indicated that its priority was to meet its dividend obligations but would also buy back shares when deemed appropriate.
- AT&T is a company we will continue to monitor closely because the bear story remains focused on the company's deteriorating wire-line business and the potential for shrinking margins in its wireless business. While these concerns are not new issues, they seem to have received more attention lately. It is clear that AT&T isn't the same company it was years ago, since the operating environment has gotten much more competitive with a greater number of platforms of communication channels that now compete with each other. The company still generates sufficient free cash flow to pay its dividend. AT&T management understands the importance of the dividend to its shareholders, and because of that, we believe the dividend is safe for the next couple of years. However, should competition continue to increase, the company could eventually be forced to re-evaluate its dividend policy.
- On March 26, the company declared its normal $0.42 quarterly dividend and paid it to shareholders on May 3. AT&T has increased its common share dividend for 26 straight years, and we hope to see this trend continue.

Rogers Communications, Inc. (NYSE: RCI)
Rogers Communications, Inc. is a diversified Canadian communications and media company. The company's businesses include wireless voice and data communications services over its national GSM and HSPA networks; cable television, telephony, and high-speed internet access services over its broadband networks and radio. Rogers also owns radio and TV broadcasting stations, televised shopping, magazines, and sports entertainment assets, including the Toronto Blue Jays. The non-voting RCI.B shares trade on the NYSE. The Rogers Control Trust holds a majority of the RCI.A shares and maintains voting control. The RCI.A shares trade on the Toronto exchange.

- Rogers Communications reported first-quarter results that were better than expected. The company reported adjusted EBITDA of $1.163 billion, up 16% year over year and ahead of the $1.08 billion consensus estimate. Operating results were solid across the board, with wireless margins hitting 52.6%, the second highest in company history, according to RBCCM. EBITDA exceeded expectations across the major business lines wireless, cable, and media. The only negative in the quarter was the weaker–than-expected wireless net adds, according to RBCCM. The company bought back 9 million shares of stock in the quarter for roughly $302 million and has enough cash to continue to buy back shares and potentially complete its $1.5 billion authorized buyback over the next three quarters, according to RBCCM.
- Rogers initiated a dividend in 2003 at $0.05C, which has grown to the present $1.28C annualized dividend. Over the past five years the company's dividend CAGR has been 53.5%; however, over the past two years the dividend CAGR has declined to 13.1%, still an impressive pace in our view. On April 29, the company declared its normal $0.32C quarterly dividend and paid it to shareholders on July 2. RBCCM estimates the company can continue to grow its dividend 10% annually over the next five years and still have enough free cash flow to repurchase $1.5 billion in stock annually.

Utilities

AGL Resources (NYSE: AGL)
AGL Resources serves 2.2 million gas customers, is the largest gas utility in the southeastern United States, and is the third-largest pure gas distribution utility in the country. In addition, the company has small investments in marketing and trading, retail gas marketing, and last-mile telecommunications.

- AGL Resources reported first-quarter net income of $1.34, a 12% year-over-year increase. The better–than-expected results were the culmination of better-than-expected results from its distribution operations, retail energy operations, and wholesale service segments.
- Management was excited about AGL's start to the new year and indicated the company continues to make progress on completing its major capital projects and in executing its regulatory strategy to recover investments made in the company's utility business. Management is still guiding 2010 earnings in the range of $2.95-$3.05.
- According to our research sources, AGL is one of the lowest-cost providers in the industry, on an operational basis, which should allow the company to post solid returns for the next several years. On April 28, the board declared its normal $0.44 quarterly dividend and paid it to shareholders on June 1. This dividend payment represented the 250th consecutive quarterly dividend paid by the company since 1948.

NSTAR (NYSE: NST)
NSTAR is an energy delivery company with revenues of approximately $3 billion and assets of $6 billion. NSTAR serves 1.4 million customers in Massachusetts, including approximately 1.1 million electric customers in 81 communities and 300,000 gas customers in 51 communities. NSTAR also conducts non-utility, unregulated operations. Its non-utility segment engages in steam distribution, telecommunications, an energy IT company, and five real estate trusts. Over the past ten years, NSTAR has grown its dividend at a CAGR of 3.6%.

- NSTAR recently reported first-quarter results that were slightly disappointing to the Street with earnings of $0.56, $0.01 below consensus. Management, however, felt good about the quarter and indicated it is off to a good start in 2010. It is happy with its results, given the mild weather, and was more optimistic regarding its future since it is starting to see more signs of economic recovery taking hold in its regions.
- The company's board of trustees recently authorized the company to repurchase up to $200 million of its common shares after the company sold its district energy operations for $343.7 million. As a result of the transaction, the company will make about $109 million (or $1.02 per share). Management maintains its 2010 guidance for earnings in the range of $2.45-$2.55. We view NSTAR as a low-risk utility with a high percentage of regulated businesses, a conservative payout ratio, and solid earnings and dividend growth potential
- With over 96% of its revenue stream coming from regulated electric and natural gas businesses, we expect NSTAR to deliver stable earnings growth and dividend increases for the foreseeable future. The company paid its $0.40 quarterly dividend to shareholders on May 1. NSTAR has made 484 consecutive dividend payments, representing one of the longest, consistent dividend-payment records on the NYSE. Fiscal Year 2009 represented the 12th consecutive year the company has increased its dividend. Methodology to the Guided Portfolio: Dividend Growth

Methodology to the Guided Portfolio: Dividend Growth

The Investment Committee, noted on the front page of this report, selects and monitors the companies included in the Guided Portfolio: Dividend Growth. Members of the Investment Committee are also members of the Private Client Research Group. The universe of companies for selection encompasses the stocks under fundamental research by Argus, Credit Suisse, RBC Capital Markets, RBC Wealth Management, and Standard & Poor's. The Portfolio will be limited to 20 stocks, with concentration of no greater than 25% in any one of Standard & Poor's major industry sectors, as noted by its GICS methodology. For diversification, we seek a minimum of four S&P GICS sectors for representation in the portfolio. This portfolio will exclude REITs, MLPs, and other investment structures that do not qualify for the preferential 15% dividend tax rate. We reserve the right to highlight and add eligible foreign companies (as long as those companies trade on a U.S. exchange, Nasdaq, or are otherwise blue-sky cleared in all U.S. states and territories) we deem attractive that also have an outstanding track record of returning cash flow to investors through dividends, despite the 15% withholding imposed by foreign governments.

Companies chosen for inclusion in the Portfolio will be evaluated with emphasis placed on balance-sheet strength, low business risk, strong dividend coverage, industry average, or lower payout ratios and an investment-grade debt rating. We prefer to select companies with a strong track record of dividend increases. "Strong" by definition may include some, but not all, of the following: (1) historical track record of dividend increases for at least five years, (2) current inclusion in the S&P Dividend Aristocrat List, (3) companies with a free cash flow yield above the current dividend level, plus a demonstrated desire that the management team is committed to return a meaningful portion of its cash flow to investors through dividends, or (4) renewed commitment by management to a consistent dividend policy.

Given the desire to create a Portfolio and not a list of companies, we reserve the right to tailor a mix within the Portfolio that may meet some, but not all, of the above criteria. For example, we may include slower-growing, dividend-paying companies with above-average yields and also include faster-growing but lower-yielding companies that are expected to return a sizable percentage of their cash flow to investors over the business cycle. We remain committed to including companies of the highest quality and potential.

Changes to the Guided Portfolio: Dividend Growth

The Investment Committee for the Guided Portfolio: Dividend Growth will make changes to the Portfolio for the following reasons: (1) The fundamentals and cash-flow generation potential of the included company appear to be diminished compared with prior expectations; (2) a meaningful shift of prior dividend policy; (3) the Investment Committee deems the current valuation of the shares as above our fundamental valuation and suggests a switch to another company with more compelling fundamentals; (4) a fundamental downgrade in opinion by our research sources (noted in the prior paragraph) that warrants removal in the estimation of the Investment Committee; and (5) the desire to include a company whose fundamentals are superior to that of a company currently included in the Portfolio. Stocks will be monitored on these criteria. While we strive for tax efficiency with this Portfolio, targeted toward dividend growth and long-term capital gains, we cannot assure investors this objective will be met consistently.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

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References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Prime Opportunity List (RL 3), a former list called the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Wealth Management's ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

			Investment Banking	
Rating	Count	%	Count	%
Buy (TP/O)	641	51.16	188	29.33
Hold (SP)	557	44.45	126	22.62
Sell (U)	55	4.39	8	14.55

Definitions of Rating Categories

An analyst's “sector” is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector, but does not attempt to provide the analyst's view of how the stock will perform relative to: (i) all companies that may actually exist in the company's sector, or (ii) any broader market index.

Ratings:
Top Pick (TP): Represents analyst's best ideas in Outperform category; expected to significantly outperform sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers:

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; and/or fairly liquid.

Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; and/or low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; and/or risk of being delisted.

Valuation and Price Target Impediments

When RBC Wealth Management assigns a value to a company in a research report, FINRA Rules and NYSE Rules (as incorporated into the FINRA Rulebook) require that the basis for the valuation and the impediments to obtaining that valuation be described. Where applicable, this information is included in the text of our research in the sections entitled “Valuation” and “Price Target Impediment” respectively.

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