

MONTHLY TECHNOLOGY COMMENT

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April 1, 2005
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WE REMAIN CAUTIOUS BUYERS

In this issue:

- *Economy acting a little better, we think*
- *Hewlett looks like it hit a home run*
- *IBM and Hewlett – Some Contrasts*
- *Reiterate Lexmark, EMC, Net App*
- *Upgrading rating on nVidia*

A FEW BULLISH SIGNS

In sum, in recent weeks we have seen:

- A good jobs report – 262,000 jobs added – some of the numbers underneath weren't all that great, but this is plenty good enough, we think.
- Commodity prices, particularly for industrial materials, have rallied strongly in 2005 and are hovering near highs – this is a traditional measure of recovering worldwide economies. The CRB/Reuters Index of commodities hit a 24 year high on March 8th. Strength has been ascribed to booming activity in Asian developing countries and to economic growth picking up around the world.
- Fed chairman Greenspan spoke on the 3rd and 4th of March and didn't upset the market – it actually went up – he even kind of blessed Bush's Consumption Tax proposal, which is very bullish.

Disclosure

I, Peter Labé, certify that (1) the views expressed in this report reflect my personal views on all of the subject companies and securities, and (2) my opinions are not affected by my compensation which is derived solely from brokerage trade commission(s) which may or may not be of securities discussed in this report.

The Fed's latest statements on inflation appear to us normal for this stage of the business cycle, i.e. some increase in inflationary pressure (business activity up, greater ability of corporations to exert pricing power).

- Corporate earnings have been fairly steady, with 4Q earnings up 19.9% per Thomson First Call.
- Geopolitical news has softened somewhat, the steady diet of bad news has been interrupted by some observers claiming the Bush spread-democracy campaign in the Middle East may actually be working.

Some have taken this one step further, and suggested we were seeing a handoff from the consumer economy to the capital spending economy, with connotations for growth and durability of the recovery. Not a lot of evidence yet.

Sounds good, though. In fact, we think the **only** case for stocks here has to be based on the economy.

OUR WORKING ASSUMPTIONS ON THE ECONOMY

We believe the economy in 2005 will be similar to that in 2004. Economist projections of 3.5% GDP growth, or so, like 2004, seem right on to us, while job growth of two million seems likely. The unemployment rate should decline somewhat and real wage gains get better. The economic recovery should become self-sustaining.

If this assessment is correct, a generally favorable climate for tech sales and earnings should exist. It is, though, a moderate recovery and tech spending is not expected to be anywhere near the rates of growth of the past (like, double-digit). We have been talking about this for two years and you would think this is not news. Tech spending growth at 4-6% a year for the next few years is probably industry consensus.

WHAT'S WRONG WITH THIS PICTURE FOR TECH STOCKS?

There should be nothing big-time wrong with this picture for tech. It should be an ok backdrop, not an ebullient one, but ok. As the stock performance year to date shows, however, there is something wrong but in our view it's not really the economy.

One of the biggest things wrong is that the **internals** of the tech stocks are in trouble.

We have pointed out for some time that the industry has kind of de-glamorized, in part because there is **no Next Big Thing**, and in part to more moderate growth prospects for IT spending (or viewed as increased maturity, whatever). This has been known for awhile, so we don't mean only this factor is at work.

More to the point is **market leadership**. Investors have looked ahead for the next few years and concluded that **OILS** and **GOLD** are in the best position (for obvious reasons) and this in fact is your leadership today, not Technology. It seems to me that of the last

number of up markets, tech was heavily involved in all of them. Not to be in the vanguard here is a negative.

So what is happening is this, we believe. People are **no longer overweighting** the group. They are not selling technology so much (the trading volumes are zilch) as they **are not buying**.

Stocks fall from an absence of bids, usually, not selling. Some amount of reduced weighting is taking place by the relative decline of the stocks.

So, in sum, we see competition from other securities as a problem for tech. Where will this end? It is difficult to pinpoint this right now. Tech has to get to a point considered “value” by the investor and/or alternative securities appear to be “expensive”. We are certainly much nearer than we were to this crossover, but it may be some time yet.

FIRST QUARTER REPORTS

Our take at this point in time is that first quarter reports are going to be pretty good, and on the whole not disappointing.

We take this survey as at least mildly encouraging. The key, though, is going to be second quarter guidance. This is a tough call, but I would think this has to be at least moderately favorable.

MACRO WORRIES

Heading our list continues to be (1) the current account trade/payment deficit, and (2) the federal deficit. These are background issues right now, but a concern. We do not believe investors can do anything with their tech holdings about this risk, but many seem to be doing other things, like buying gold.

We have felt that oil/energy is an adverse factor for tech – the higher these costs go, the more drag on the economy – but the issue is well known and in the open. We counsel patience, higher energy prices are here to stay and will eventually be absorbed.

We have one slightly new factor this month: the Federal Reserve’s raising the voice level on inflation. On March 21, the Fed Open Market Committee raised the federal funds rate $\frac{1}{4}$ point to $2\frac{3}{4}\%$. The statement accompanying the change pointed out that the fed’s stance still remained **accommodative** (emphasis supplied). It also said, “though longer-term expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident.” If we emphasize **pricing power**, the release is pretty favorable for corporate earnings.

Our checks around the industry do not show a lot of inflationary pressure (maybe we cover the wrong industry!) For the moment, we are not going to worry too much about this one.

PORTFOLIO RECOMMENDATIONS

We have the same cautious stance we had last month and make no changes.

Lexmark is still number one. We continue to like IBM here. Lexmark is growth-value, IBM value-growth. Investors should be accumulating EMC and Net App at present levels, in our view, growth and technology leadership. nVidia may not be a household name, but we continue to like the stock and in this issue we are upgrading it from Buy to Strong Buy (discussed in text).

The rest of our favorites are specialties. We are sticking with Gateway a little while longer, as a Speculative Buy. We carry a Long Term Buy at Unisys, on the basis some may wish to look through the short term (very, very poor) and bet that things will look a lot better a year from now if not before.

Although not an official recommendation, with Hewlett under 20, we believe it can be bought for moderate objectives as discussed in the text.

Our sector reviews follow.

DATA STORAGE

EMC Corporation (\$12.32 – Strong Buy)

Not a lot of new input at EMC this month. Our sources in the field say business is going well. We are not concerned with the tight supply of Seagate disk drives – their standard line is transitioning from 73 and 146 GB to 300 GB – EMC had factored in to their guidance for the first quarter very conservative supply figures – moreover, the situation should improve over the balance of the year with improving yields. We'll have better information on business trends shortly. The first quarter report will be **April 19**.

Meanwhile, we have gotten a number of inquiries on the company's acquisition of VMware a year and a half ago, hence these comments.

- VM was roughly a \$75 million sales company (growing at a high rate) that EMC paid approximately \$600 million for. Well, since then the company had sales of \$220 million last year, and for 2005, we think \$375 million is achievable. The last four quarters have been, sequentially most recent last, \$39 million, \$47 million, \$61 million, \$71 million. This record is **remarkable!**

- VMware is the acknowledged leader in virtual infrastructure software for industry-standard systems. Its software for partitioning, consolidating and managing systems in mission-critical environments saves users money through server consolidation, fast provisioning and disaster recovery.
- At 3 to 5 times forward sales, the imputed value of VMware is \$1.1 - \$1.8 billion (\$0.45 - \$0.73 per EMC share.) EMC still has a large war chest, don't forget, with cash of \$7.5 billion (\$2.98 per share) and no debt.

We are holding our \$0.52 per share estimate for 2005 and \$0.65 for 2006. The stock looks solid to us at \$12-13, and we maintain our Strong Buy rating.

Network Appliance Inc (\$27.66 – Buy)

At a recent investor webcast, CEO Dan Warmenhoven made several key points:

Macro trends in storage

1. The movement of storage away from an extension of server electronics has been underway a long time, and has a long time to go ahead of it. The server companies will continue to lose share.
2. Data protection increasingly important - simplify, business continuity.
3. Storage infrastructures will need to be very flexible.
4. Administrative support for storage must be minimized.

Role of iSCSI

This protocol is not proprietary (anyone, literally, can do it) but as it happens Net App has been the lead provider, the foremost proponent, and in some applications iSCSI favors Net App.

- SAN/NAS/iSCSI now can relate to block data transfer, NAS and iSCSI can relate to Internet Protocol.
- In 3-4 years iSCSI should be suppressing fibre channel sales.
- iSCSI is cheaper and performs as well as fibre channel.

Competition

- Over time, the industry boils down to a 2 team horserace – EMC and NetApp.
- EMC has 4 architectures and is not interoperable, drawbacks, BUT has a complete solution set – no one else has but Net App.
- Net App's inherent advantages are simplicity (and lower cost) and being the same throughout, fully interoperable.

None of these represent new developments, but it is good to hear these basic positive factors are still in place. We basically support his arguments. The stock is not cheap on our estimates of \$0.78 for fiscal 2006 (April 30) and \$1.03 for the fiscal ending 4/30/07,

But the 30-35% growth rates are so high and the story so strong we continue to rate the stock Buy.

SERVERS

Hewlett-Packard (\$21.94 – Hold)

Recently came the revelation (I believe started with *Business Week*) that influential director Dick Hackborn had turned and was a driving force in the ouster of Carly Fiorina as CEO. He was an original vocal supporter, and an advocate of the Compaq acquisition.

Mr. Hackborn is a legendary powerhouse at Hewlett behind the scenes, as everyone knows. We are not particularly interested in the Fiorina story but rather where Hewlett might be going. What we know of his views suggest maybe two implications:

- Raise the bar in the CEO search.
- The computer businesses are too weak to stand on their own, don't spin off the printer business.

With this background, on March 29, Hewlett announced that Mark Hurd was hired as the new CEO. This is an **exciting selection** even though this is a clear vote against a breakup of the company. I think Mr. Hackborn got his wish, considering Mr. Hurd's reputation as a solid operations guy with a strong track record. If a strong operations guy was what we needed, Hewlett looks like it hit a home run.

The stock can be held or even bought for modest objectives, in our opinion. At 13x estimates for 2005, it has the cheapest valuation of any of the majors. We expect Mr. Hurd to have a honeymoon period, so short term the stock has room. Longer term, the issue is can anyone save Hewlett, but maybe we have postponed that issue at least a year and, who knows, maybe it can be done.

International Business Machines (\$91.38 – Buy)

- The news at IBM this month is the acquisition of Ascential Software for \$1.1 billion. Ascential makes data-integration software, programs that translate between different data formats. In the past three years, annual sales have been \$113 million, \$186 million, and \$272 million for Ascential. The purchase price seems fair given these numbers, and IBM's likely ability to further integrate the software and expand the market presence.
- If one accepts the premise that computer hardware is becoming more and more commodity-like each day with corresponding pressure on margins, then the profits have to be in Software and Services. And Services have a number of areas of greater competition today. Software is one of the key places to go.
- **In the bigger picture, IBM is facing the same issues as Hewlett but is coming out very different.** IBM has gotten rid of its PC unit by sale to

Lenovo of China. It is even getting paid something to get out! Hewlett has yet to face this issue. IBM sees an opportunity in Software, and acts on it. It can be argued Compaq is still being digested, but the fact is, Hewlett has made no such strategic move.

Our view is IBM has not been given enough credit. At 16x consensus estimates for 2005, IBM sells for one less than the market multiple, and its size and stability should help in the rocky tech markets we have been having.

Sun Microsystems (\$4.04 – Hold)

We have no new news or opinions regarding Sun this issue.

PC AND RELATED

nVidia Corporation (\$23.76 – Strong Buy)

We knew the stock was a buy at \$9.50 when we raised it from Hold to Buy, but what is unusual is that at \$24, we are raising from Buy to Strong Buy. This is not customarily what we do!

To begin with, we believe all the estimates are going to be raised again when the company reports the first fiscal quarter to April 30 (expected report date: **May 12**). Our current estimates are \$1.22 per share for this year, \$1.75 next year. The company has \$670 million in cash (\$3.78 per share) and no debt.

The business is taking off almost everywhere you look.

- The new *GeForce 6* family of graphics processors has been a howling success, in the huge desktop market but also in the notebook market. The use of nVidia's SLI technology, to enable two graphics processors, developed for a prior generation, has been dazzling in the performance sector of the market. In fact, in the first million chips built, 400,000 went out using SLI. No one has this, and still no one but nVidia has the new Shader 3.0 technology. nVidia is not just taking share, it is *expanding the market*.
- The *nForce* chipset business *is on fire*. This technology series has only been used in the AMD line of microprocessors. But, the AMD 64 is ramping nicely, and nVidia is the only one who can supply SLI and the only one with support for the PC Express bus. nVidia must have 50% or more of the AMD market. Our estimate for \$300 million-plus this year comes off a \$59 million quarter last quarter.
- This same technology is applicable to the Intel processor market, but because of patents nVidia has been unable to compete. The cross-license with Intel several months ago allows nVidia to use the front side bus patents and develop a product for the integrated graphics market. Such a product has been developed and should

be on the market in three weeks. We believe there is pent-up demand for nVidia's product.

- The Microsoft X-box game platform will be superceded by a new game player not using nVidia chips. However, nVidia is required to service the X-box market as long as there is demand for the product. Whether due to the popular Halo 2 game or not, the fact is Microsoft sold out in the Christmas quarter, and again in the first quarter. So, even this business is good.
- nVidia has, however, gained the chip award for the industry's leading game player, Sony Corporation's Playstation series. People in the industry call it Playstation 3 but the official name hasn't been announced. Announcement is scheduled for May. Sony would like to have some for the market at Christmas, even if it is only Japan. nVidia will benefit through a licensing and royalty deal for the next 4 years.

Although this stock looks like an aggressive stock in a non-aggressive market, we think the fundamentals are such that we can recommend it as a Strong Buy anyway.

Gateway Inc. (\$4.03 – Speculative Buy)

Gateway has been a disappointment (as shown in the stock price) and has two principal problems, as we see it: (1) the stock needs a **second sentence**, and (2) it needs real earnings.

What we mean by "second sentence" is the following. The first sentence is, the stock is cheap etc etc etc, and the second sentence is, "and we want to own it because _____." Why do we want to own Gateway? Management is going to have to furnish some of this framework – the potential is not nearly as great if it's just an earnings story.

Speaking of earnings, this is what probably has to happen first. This appears to us to be highly dependent on volume, since the overhead costs give the appearance of being rock-bottom. The volume in turn may require gains in market share. We think the stock will be highly sensitive to changes in market share in the all-important consumer market.

We think the Gateway-eMachines combination has some pretty good opportunity here. This is why we have continued the Speculative Buy rating. We do not see IBM-Lenovo as harming Gateway, and Hewlett right now is an unknown, if anything perhaps some opportunity.

Consensus estimates are a profit in the high teens for this year; we are somewhat more optimistic at \$0.25 per share. If we are right, the stock will go.

Lexmark International (\$79.97 – Strong Buy)

Not much new at Lexmark, but we believe the quarter is proceeding satisfactorily. We will add a few comments nevertheless.

Lexmark's consumer business over Christmas was "satisfactory" in the U.S., but weak in Germany, France, and the UK. Lexmark market share gains overcame softness.

One bright spot is digital camera photo printers, a "white hot" market for all participants. Lexmark introduced its line in the fourth quarter; its basic strategy in this market is to provide "ease of use." One key thing: photo printers consume more ink than regular printers do! In this business, that's a big thing.

Dell and Wal-Mart traditionally have been tough with suppliers, but Lexmark has always been competitive and traditionally will not be priced out of any market.

This is still our number one stock for growth and value. We see long-term growth in the low double-digits, only a market multiple, and a gorgeous balance sheet (\$1.6 billion, or \$12 per share, cash and no debt). Reiterate Strong Buy.

Dell Computer (\$38.42 – Hold)

We have no new news or views on Dell this issue.

OUTSOURCING

Unisys Corporation (\$7.06 – Long Term Buy)

All quiet at Unisys, while investors wait out what is likely to be a very difficult first half, as previously announced. The hardware business has been slow and the services quite competitive. In addition to that, Unisys has three outsourcing contracts in trouble. Two of them will burden first half results but not the year. The amount of cost involved here has not been disclosed, but at least they are tracking plan so far. The third contract is a much larger one and very complex. This will be a drag for the full year; Unisys is attempting to renegotiate with the customer with unknown outcome. The size of this loss also is undisclosed.

Outsourcing is the right business for Unisys to emphasize, and the best prospect for sustained profitability. Presumably the experience gained above will introduce more selectivity. A year from now, in a decent economy, Unisys could look very different. For this reason we carry it as a Long Term Buy.

PERFORMANCE AND RATING CHANGES

We made one rating change this month: we raised nVidia from Buy to Strong Buy. Estimate changes have been relatively minor. Readers are reminded that our current quarterly and annual estimates are carried on First Call.

Performance of the universe has been difficult for this month. The overall market, as measured by the S&P 500 Index, was down 1.9% while the NASDAQ Composite was down 2.6% in March. EMC declined about in line with the NASDAQ Index at 2.7%, but Network Appliance was down almost 8%. Hewlett-Packard rallied on the announcement of the new CEO and ended the month up 5.5%; IBM declined 1.3% and Sun was down 4.3%. In the personal computer group, nVidia declined 18%, Gateway was down 14%, Dell was off 4%, ATI declined 1% and Lexmark was just about unchanged. Research in Motion and palmOne were up 16% and 7%, respectively; PalmSource declined 11%. The outsourcing stocks were a mixed bag, as well, with Jabil up 11% and Celestica up 5%, while Flextronics declined 10%, Taiwan Semi was down 7% and Unisys lost 8% during the month.

REGULATORY COMPLIANCE

Nutmeg Securities, Ltd. has implemented rules that conform to published SEC rules to address analyst conflicts. Accordingly, we note for the record that we have not acted as manager or co-manager for any equity offering, nor received investment banking fees from, any of the companies mentioned in this review. Further, we have footnoted in Table II where the analyst has a position in any of these securities. Next, we have some kind of Buy rating on 7 stocks (37%) but no sell ratings. We consider this somewhat unusual, but not in a case of an attractive investment sector. Finally, we note our investment performance can be gauged by comparing our recommendations which appear in Table I along with the prices at the time, with the NASDAQ Composite Index, which also appears in Table I.

Table I - Price, P/E and Rating

Company (FY)	Symbol	Price		52-week Range	E.P.S.				P/E		Rating
		3/31/2005			2003A	2004E	2005E	2006P	2004E	2005E	
S&P 500*	SPX	1181	1229	1061	\$55.44	\$66.22	\$69.92	\$75.19	18	17	
NASDAQ Composite	COMP	1999	2192	1751							
Storage											
EMC Corp. (Dec)	EMC	12.32	15 - 9		\$0.19	\$0.37	A \$0.52	\$0.65	33	24	STRONG BUY
Network Appl. (Apr)	NTAP	27.66	35 - 16		\$0.40	\$0.62	\$0.78	\$1.03	45	35	BUY
Servers											
Hewlett-Packard (Oct)*	HPQ	21.94	24 - 16		\$1.16	\$1.34	A \$1.51	\$1.69	16	15	HOLD
IBM Corp. (Dec)*	IBM	91.38	99 - 82		\$4.34	\$5.07	A \$5.62	\$6.16	18	16	BUY
Sun Micro. (Jun)*	SUNW	4.04	6 - 3		(\$0.24)	\$0.04	\$0.10	\$0.13	NMF	40	HOLD
Personal Computers											
ATI Technologies (Aug.)*	ATYT	17.29	21 - 13		\$0.27	\$0.78	A \$1.03	\$1.25	22	17	HOLD
Dell (Jan fol.)	DELL	38.42	43 - 33		\$1.01	\$1.28	A \$1.56	\$1.79	30	25	HOLD
Gateway (Dec)	GTW	4.03	7 - 4		(\$0.96)	(\$0.40)	A \$0.25	\$0.40	NMF	16	SPECULATIVE BUY
Lexmark (Dec)	LXK	79.97	98 - 78		\$3.34	\$4.13	A \$4.55	\$5.06	19	18	STRONG BUY
nVidia (Jan fol.)	NVDA	23.76	30 - 9		\$0.50	\$0.57	A \$1.22	\$1.78	42	19	STRONG BUY
Wireless											
palmOne (May)* ³	PLMO	25.38	47 - 16		(\$0.11)	\$1.46	\$1.70	\$1.60	17	15	HOLD
PalmSource (May)* ³	PSRC	9.04	27 - 9		\$0.10	\$0.29	\$0.33	\$0.60	31	27	HOLD
Res. in Motion (Feb)* ²	RIMM	76.42	104 - 43		\$0.48	\$2.04	\$2.81	\$3.46	37	27	HOLD
Outsourcing											
Celestica Inc. (Dec)*	CLS	13.51	20 - 12		(\$0.11)	\$0.42	A \$0.79	\$1.06	32	17	HOLD
Flextronics Intl. (Mar)*	FLEX	12.04	19 - 10		\$0.42	\$0.67	\$0.86	\$1.11	18	14	HOLD
Globix (Sep) ¹	GBXX	3.70	4 - 2		(\$2.00)	u/r	u/r	u/r	N/A	N/A	HOLD
Jabil Circuit (Aug)*	JBL	28.52	31 - 19		\$1.02	\$1.23	\$1.56	\$1.72	23	18	HOLD
Taiwan Semi. Mfg. (Dec)*	TSM	8.48	10 - 7		\$0.30	\$0.60	A \$0.48	\$0.53	14	18	HOLD
Unisys (Dec) ⁴	UIS	7.06	15 - 7		\$0.78	\$0.31	A \$0.53	\$0.86	23	13	L. T. BUY

Notes: ¹Globix now trading post-bankruptcy. New Symbol GBXX. ²Research in Motion split 2-for-1 on June 4, 2004.

³Palm became palmOne and PalmSource started trading October 29, 2003.

⁴Unisys estimates non-GAAP and exclude pension accounting.

* First Call consensus estimates.

u/r = under review

Source: Nutmeg Securities estimates, except as noted.

Table II - Price History

Company (FY)	12/31/2002	12/31/2003	12/31/2004	Prices			% chg March	2005 year to date
				1/31/2005	2/28/2005	3/31/2005		
S&P 500	879	1112	1212	1181	1204	1181	-1.9%	-0.1%
NASDAQ Composite	1335	2003	2175	2062	2052	1999	-2.6%	-3.1%
Storage								
EMC Corp. (Dec)	6.14	12.92	14.87	13.10	12.66	12.32	-2.7%	-6.0%
Network Appl. (Apr)	10.00	20.44	33.22	31.84	30.01	27.66	-7.8%	-13.1%
Servers								
Hewlett-Packard (Oct)	17.36	22.97	20.97	19.59	20.80	21.94	5.5%	12.0%
IBM Corp. (Dec)	77.50	92.68	98.58	93.42	92.58	91.38	-1.3%	-2.2%
Sun Micro. (Jun)	3.11	4.47	5.39	4.36	4.22	4.04	-4.3%	-7.3%
Personal Computers								
ATI Technologies (Aug)	4.65	15.12	19.39	17.33	17.54	17.29	-1.4%	-0.2%
Dell (Jan)	26.74	33.98	42.14	41.76	40.09	38.42	-4.2%	-8.0%
Gateway (Dec)	3.14	4.60	6.01	4.73	4.70	4.03	-14.3%	-14.8%
Lexmark (Dec)	60.50	78.64	85.00	83.35	80.13	79.97	-0.2%	-4.1%
nVidia (Jan)	11.51	23.20	23.56	22.92	28.99	23.76	-18.0%	3.7%
Wireless								
palmOne (May)	15.70	11.75	31.55	25.88	23.82	25.38	6.5%	-1.9%
PalmSource (May)		21.77	12.74	10.34	10.12	9.04	-10.7%	-12.6%
Res. in Motion (Feb)	6.56	33.42	82.42	71.29	66.11	76.42	15.6%	7.2%
Outsourcing								
Celestica Inc. (Dec)	14.10	15.07	14.11	13.05	12.86	13.51	5.1%	3.5%
Flextronics Intl. (Mar)	8.19	14.80	13.82	14.15	13.35	12.04	-9.8%	-14.9%
Globix (Sep) (2)		4.00	3.60	3.54	3.60	3.70	2.8%	4.5%
Jabil Circuit (Aug)	17.92	28.30	25.58	23.57	25.71	28.52	10.9%	21.0%
Taiwan Semi. Mfg. (Dec)	7.05	10.24	8.49	8.75	9.12	8.48	-7.0%	-3.1%
Unisys (Dec)	9.90	14.85	10.18	7.85	7.68	7.06	-8.1%	-10.1%

Palm Had a 20-1 reverse split in October 2002.

Globix stock quoted is post-bankruptcy stock.

Research in Motion split 2-for-1 on June 4, 2004.

Palm became palmOne and PalmSource started trading October 29, 2003.

Notes: (1) The author has a position in the common stock. (2) The author has a position in the debentures.

Source: Reuters.

DEFINITION OF OUR RATING SYSTEM

In general, we have three basic ratings of followed securities: Buy, Sell and Hold (Not Rated is a term we use where a security is not followed, or if followed, where not enough information is currently available to base an opinion).

BUY – is our rating for a stock that we consider currently attractive for purchase for most technology investors. It is a stock that we believe will outperform the market, as measured by the NASDAQ Composite, in a six to eighteen month timeframe. The recommendation could be based on industry or company fundamentals, on equity prices, or any one of a host of other factors, as assessed by the analyst.

We have also formed additional sub-categories of “BUY” rated stocks to make more clear our position. The most common of these are listed below:

- **STRONG BUY** – where the analyst feels a stock is especially attractive, in some cases due to recent price declines, in some where conventional wisdom on prospects is viewed as wrong, in some where there is a visible catalyst that will call attention to the security.
- **LONG-TERM BUY** – where the analyst considers the stock as fundamentally attractive but where fruition appears extended over a longer than normal period of time, or where the stock price currently is higher than levels where the analyst would rate the stock “BUY”.
- **SPECULATIVE BUY** – where the analyst considers the stock as very attractive on the price and the fundamentals but where well above average risk must be assumed by the investor.

HOLD – is our rating for a stock where prospects appear more or less in line with the market, or where we feel a compelling case cannot be made either for Buy or for SELL.

SELL – is our rating for a stock that in our opinion is likely to underperform the market as measured by the NASDAQ Composite in a six to eighteen month time frame.

Additional information on subjects in this report is available upon request.

Our recommendation changes on the securities mentioned in this report are as follow:

ATI Technologies Hold 4/30/04 at \$14.57	Dell Hold 10/31/01 at \$23.89 LT Buy 3/28/02 at \$26.11 Buy 8/9/02 at \$25.59 Hold 11/29/02 at \$28.60	EMC Buy 10/31/01 at \$12.32 Strong Buy 3/28/02 at \$11.92
Celestica Hold 8/30/02 at \$22.97	Gateway Value Buy 10/31/01 at \$5.65 Strong Buy 1/31/02 at \$5.21 Buy 2/28/02 at \$5.60 Strong Buy 3/25/02 at \$6.45 Buy 12/31/02 at \$3.14 Strong Buy 7/31/03 at \$5.11 Buy 4/30/04 at \$4.82 Speculative Buy 9/1/04 at \$4.39	Globix Spec. Buy 10/31/01 at \$0.56 Hold 1/31/02 at \$0.06
Flextronics Hold 8/30/02 at \$9.47	IBM Hold 10/31/01 at \$108.77 Buy 1/5/05 at \$98.58	Jabil Hold 8/30/02 at \$18.71
Hewlett-Packard Sell 10/31/01 at \$16.83 LT Sell 12/31/02 at \$17.36 Hold 1/8/03 at \$19.65 Buy 5/5/03 at \$16.65 Strong Buy 5/30/03 at \$19.50 Buy 8/2/04 at \$20.15 Hold 9/1/04 at \$17.89	Network Appliance Strong Buy 10/31/01 at \$13.30 Buy 9/1/04 at \$20.07	nVidia LT Buy 10/31/01 at \$42.75 Buy 1/31/02 at \$65.74 Strong Buy 2/28/03 at \$52.01 u/r 6/28/02 at \$17.18 Buy 7/25/02 at \$15.07 Strong Buy 8/9/02 at \$9.42 Buy 5/30/03 at \$ 26.17 Strong Buy 6/30/03 at \$22.91 Buy 8/29/03 at \$18.17 Hold 9/30/03 at \$15.91 Strong Buy 1/5/04 at \$23.20 Hold 8/2/04 at \$15.42 Buy 8/9/04 at \$9.43 Hold 10/29/04 at \$14.47 Buy 3/1/05 at \$28.99 Strong Buy 4/1/05 at \$23.76
Lexmark International Hold 1/5/04 at \$78.64 Strong Buy 3/31/04 at \$92.00	PalmSource u/r 10/31/03 at \$38.17	Res. In Motion Buy 10/31/01 at \$16.01 Strong Buy 2/28/02 at \$23.89 LT Buy 4/15/02 at \$20.39 Hold 2/28/03 at \$12.70
palmOne Sell 10/31/01 at \$48.60 Hold 1/31/02 at \$74.80 Sell 5/31/02 at \$31.80 Hold 8/30/02 at \$15.20	Taiwan Semi Mfg. Hold 8/30/02 at \$8.17	Unisys Value Buy 10/31/01 at \$8.93 Buy 1/31/02 at \$12.50 Strong Buy 8/9/02 at \$7.82 Buy 7/31/03 at \$12.26 Strong Buy 8/29/03 at \$12.98 Buy 10/29/04 at \$10.62 Long Term Buy 1/5/05 at \$10.18
Sun Microsystems Hold/LT Sell 10/31/01 at \$10.17 LT Buy 11/29/02 at \$4.29 Buy 1/8/03 at \$3.75 Hold 9/30/03 at \$3.31 LT Buy 1/5/04 at \$4.47 Hold 4/30/04 at \$3.90		

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