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MONTHLY TECHNOLOGY COMMENT

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CONTINUE TO HOLD IN STRONG MARKET, BUT FASTEN SEAT BELTS

In this issue:

- *Hewlett-Packard scores a "10" for the quarter*
- *Is IBM as near death as price says it is?*
- *The temptations of Dell*
- *nVidia just keeps rolling – an "8" for the quarter*

IF IT LOOKS LIKE A DUCK……

There's an old Wall Street saw, that if it looks like a duck, acts like a duck, and quacks like a duck, it probably *is* a duck. As applied here, if it looks like a Bull Market, acts like a Bull Market, quacks like a Bull Market, maybe it *is* a Bull Market. This is relevant because whatever one does, one does not *ever* want to get caught in the position of fighting the tape.

But the seeds are there to cause trouble in the market. For one, there are clear indications from the Federal Reserve now that more interest rate hikes are on the way. While this may help stocks in the short term (by making bonds less attractive) in the long run they do not help any financial instrument. And, they could cause a deeper hit on real estate than now visualized.

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.

We read in the media that once the Fed stops raising rates, it will be a catalyst for the market to go up. We think when that happens, the market will go **down.** That is because the following move will be anticipated as lower, which would be good for bonds and bad for stocks.

More than anything though it is business conditions in the second half that are uncertain. We are still seeing mixed signals! A cool down in the economy can't be ruled out. We think this is a time to be very cautious. We are not lightening up, but need a compelling rationale when we Buy.

SHORT TERM – LONG TERM

Short term we are pretty well prepared for a breather, or even correction.

Longer term, we point to the February 26 issue of *The New York Times.* The lead story is on the workforce at Caterpillar Tractor. Basically as the older, highly paid workers retire, they are replaced by vastly lower paid personnel. It was also pointed out that in U.S. industry, if companies looked shaky or were in trouble, large wage concessions were accepted. Today, all industries are putting pressure on lowering costs even if they are doing very well. How this plays out long term is not clear to us, but it is an adverse development for the economy.

OUTLOOK FOR TECH STOCKS

We think tech has proven, at least selectively, that it can survive, and in some cases thrive, in this environment. There is no reason we can see for underperforming the market.

CURRENT THINKING ON THE GROUP

We are holding to our narrow buy list, with strong defensive overtones.

Our two Strong Buys are IBM and Hewlett-Packard. The former is a value stock with some hope of getting better; the latter is part value part growth, but with considerable protection from diversification of earnings and businesses.

Our two Buys are Lexmark and Unisys. These are knocked down, battered and abused stocks with little expectation left in them. We could see these holding in a tough market and growing as the fundamentals return.

For the moment, this is all we feel like doing.

We turn next to our sector comments.

DATA STORAGE

Network Appliance ($33.16 - Hold)

Net App reported this month, and put up yet another dazzling quarter. Revenues were up 30% year over year and non-GAAP EPS up 35% – both blew away Wall Street estimates. Only one quarter guidance was given, up around 30% again. The product driver was the new FAS3000 mid-range line, the market driver expanding presence in data centers – customers are increasingly of the view they should have two storage vendors and correspondingly the number and size of engagements has increased dramatically. Although only 2% of revenue, the company was clearly helped by the OEM agreement with IBM kicking in, and the well-accepted security products offered by Decru, a recent acquisition.

For those who don't know it, Net App is one of the Great Companies in the technology business. Apart from squabbles from time to time about the growth rate, the investment issue at Net App really boils down to what do you want to pay for it. The stock at $36 is 36x our estimated earnings of $1.01 per share for the fiscal year to 4/30/07. To us this is reasonable value and justifies holding the stock.

The feature of the quarter was the FAS3000 mid-range, relatively new products. These were more than 40% of all systems sold and grew 40% in units. The new high end product, the Excelsior, began shipping to large accounts under an early adopters program. The company also remarked on a significant increase in add-on storage shelves, and the increase in disk utilization rates made possible by Net App FlexVol technology. This permits almost a doubling of current utilization rates. Also mentioned was the next generation operating system, known as ONTAP GX. The aim here is high performance environments, and support of true grid architecture.

EMC Corporation ($14.02 - Hold)

The other company in the storage business to watch and own is EMC. **There are no new developments we wish to single out at this time. We are carrying $0.57 per share for this year and $0.72 per share for next, on an expensing stock options basis. The stock is excellent value here, and we recommend Holding existing positions.**

SERVERS

Hewlett-Packard ($32.81 - Strong Buy)

H-P is just coming off what we consider the best quarterly report for a company in years, which we have called a "10" (scale 1 to 10, we mean). What did it have? Let's see how many boxes we can check:

- [X] Blew away Wall Street sales and earnings forecasts
- [X] Delivered strong revenue performance
- [X] Raised guidance
- [X] Growth well balanced across the various businesses
- [X] Growth balanced across geographies
- [X] Strong cash flow
- [X] Restructuring still only half complete

We are not going to review the whole quarter (which would take pages) but rather just highlight one area – the product line balance.

Operating Earnings (from Segment Information)

($ millions)	1Q 2006	1Q2005
Enterprise Storage and Servers	$326	$69
Personal Systems	293	147
Imaging & Printing	973	932
HP Services	293	281
HP Financial Services	38	45
Software	9	(38)

Source: Company reports.

This is progress. **However, the stock has risen fairly dramatically and at 35, has reached many people's targets. We are holding our 40 target and not changing the rating yet. At 35, the stock sells for 18x the company's forecast of $1.95 per share (non-GAAP). This is essentially only a market multiple. We think Hewlett-Packard and Mark Hurd are a lot better than that. We are keeping our Strong Buy.**

International Business Machines ($80.24 - Strong Buy)

IBM stock is acting as sick as any patient in Indian River Memorial Hospital here, and yet we have it rated Strong Buy. This is not forever, but rather a bet on the Services business coming back strong after two years in the doghouse. If we're right, IBM is not near death. We should see soon.

Sun Microsystems ($4.17 - Hold)

We have no new thoughts or opinions here.

PC'S AND RELATED

nVidia Corp. ($47.13 - Hold)

nVidia issued another dream report for the quarter this month. Once again, sales and earnings blew through Wall Street estimates, guidance was raised for the quarter and year ahead, record margins were reported, and on down the list. Our current estimates are now $1.72 per share for this year (fiscal year to 1/31 following) on revenues of $2.375 billion and $2.55 per share on revenues of $2.795 billion for next year. This blow-away report we have graded an "8", lacking only a discussion of maintaining forever the record new gross margins. The stock, however, has been a dazzler in performance so that for now we feel like sitting back and enjoying the ride.

Tidbits to think about:

- Revenue for the first quarter was guided *up* (customarily this quarter is sequentially down)
- Gross margins over 40% again – *indicia of monopoly*
- The new year should be lead by notebook chips and chipsets, but we expect growth from every business
- The company is admirably positioned for *Windows Vista*
- Workstations are getting involved with HD video creation
- Handheld design wins doubled (but a small business)
- Sony should be a range of $70-100 million in royalties and licenses

Keep it a **Hold** for now.

Gateway Inc ($2.36 - Hold)

Gateway reported it's fourth later than usual, in early February. We have reviewed the performance in some detail and concluded it was **awful**. Profitability just isn't there! Our present estimate is $0.08 per share on $4.2 billion revenue, with most of the earnings coming from the Microsoft agreement of some months back.

Then, a week later, Wayne Inouye, the CEO, announced he was departing and Rick Snyder, long time director and former Gateway senior exec took the post of interim CEO. This is a major, key change. Wayne never had a plan or a vision for the company that we could see. Rick is capable of developing one, if he chooses to stay on the job. Advice: wait a few months and see what happens.

Hold rating maintained. **Maybe the key development of all is that this stock should be put on the watch list again. It could be a "Big Stock" from this price level if something good happens.**

Dell Computer ($29.00 - Hold)

Dell had a quarter of beating Wall Street estimates for sales and earnings, first in three or so quarters. However, Dell is subject to the criticism that it put the barrier too low when it issued guidance a quarter ago. Forward guidance was not exceptional. Statements of management have raised issues on margins, and how they trade off with volume. We are in a period of uncertainty for Dell, as to growth and margins, and confidence. We are not afraid to recommend into this picture, but continue to believe it is early. Hold.

For the quarter, Dell had slower growth this quarter than last – one extra week in the quarter added $400 million in revenue. Growth has decelerated through 2005. Management several times talked about adjusting margins in the margin-volume tradeoff. This has spooked Wall Street but this could settle down after the analyst meeting April 5.

The reason to own Dell, in our opinion, is pure and simple Microsoft *Vista* and *Office 12*. Commentary on the conference call suggested that these products and the new Intel line of processors would provide a powerful catalyst. Dell expects a consumer-led drive to upgrade office computers 6-9 months after introduction. Earnings will start to be in periods of easy comparisons with the weak performance of 2005. So we like Dell, just not yet. Let the Wall Street debates go on and the uncertain short-term outlook filter through.

Our current estimates, which *include* expensing stock options, are $1.65 per share this year (+6%) on revenue of $60.9 billion (+9%) but next year – $67 billion (+11%) in revenue and $1.85 per share (+13%). Tempting !!! but too soon to see if we are right.

Lexmark ($47.09 - Buy)

Not a word out of this company last month. One wag has suggested they are in a quiet period 365 days a year but this may be a little unkind. In any event the company seems to be quietly working on its problems and the stock is holding up well. We continue to like the value proposition here (even knowing all the problems!) and continue our **Buy** rating.

DATA SERVICES

Unisys ($6.68 - Buy)

No new news this month. As far as we can see, everything is tracking on schedule. This stock is another down-and-outer where the bad news is out and we are waiting for something good. The company has not issued guidance for 2006 as yet, but we do not visualize as being the case indefinitely. We are carrying $0.17 per share (including pension expense) pending more information. We like the stock here and maintain our **Buy** rating.

PERFORMANCE AND RATING CHANGES

During the month, the market was flat, the NASDAQ Composite down about 1%. EMC and Net App were up around 5% and 6%, respectively, the group was strong. In servers, Hewlett was up 5%, IBM down more than 1%, and Sun down 7%. In PC/related, nVidia was up 5%, Dell down 1% and Lexmark down about 3%. Gateway declined 13%. In services, Unisys was flat.

We have made estimate changes at EMC, Net App, Dell, nVidia, and Unisys. We remind readers that we carry current quarterly and annual estimates on First Call. There were no rating changes 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 4 stocks (25%) and no sell rating (0%). 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

		Price	52-week			E.P.S.				P/E		
Company (FY)	Symbol	2/28/2006	Range	2004A		2005E		2006E	2007P	2005E	2006E	Rating
S&P 500*	SPX	1281	1276 1136	$67.10		$75.09		$81.17		17	16	
NASDAQ Composite	COMP	2281	2278 1890									
Storage												
EMC Corp. (Dec)	EMC	14.02	15 - 11	$0.37		$0.53	A	$0.57	$0.72	26	25	HOLD
Network Appl. (Apr)	NTAP	33.16	35 - 23	$0.62		$0.80		$1.01	u/r	41	33	HOLD
Servers												
Hewlett-Packard (Oct)*	HPQ	32.81	30 - 19	$1.34		$1.62	A	$1.95	$2.22	20	17	STRONG BUY
IBM Corp. (Dec)*	IBM	80.24	99 - 72	$4.50	R	$5.32	A	$5.80	$6.31	15	14	STRONG BUY
Sun Micro. (Jun)*	SUNW	4.17	6 - 3	($0.02)		($0.16)		($0.06)	$0.07	NMF	NMF	HOLD
Personal Computers												
ATI Technologies (Aug.)*	ATYT	15.88	20 - 10	$0.78		$0.07	A	$0.54	$0.99	227	29	HOLD
Dell (Jan fol.)	DELL	29.00	42 - 28	$1.28		$1.53		$1.56	$1.85	19	19	HOLD
Gateway (Dec)	GTW	2.36	6 - 2	($0.40)		$0.12		$0.08	u/r	20	30	HOLD
Lexmark (Dec)	LXK	47.09	87 - 39	$4.13		$3.35	A	$3.00	$3.60	14	16	BUY
nVidia (Jan fol.)	NVDA	47.13	39 - 20	$0.57		$1.72		$2.55	u/r	27	18	HOLD
Wireless												
palmOne (May)*[2]	PALM	41.30	37 - 21	$1.54		$1.62		$1.88	$1.92	25	22	HOLD
Res. in Motion (Feb)*[1]	RIMM	70.53	85 - 51	$2.10		$2.63		$3.36	$3.87	27	21	HOLD
Services												
Accenture (Aug)*	ACN	32.66	30 - 21	$1.23		$1.46	A	$1.56	$1.79	22	21	HOLD
Affiliated Computer (June)*	ACS	62.92	61 - 46	$3.12		$3.38		$3.92	$4.27	19	16	HOLD
First Data (Dec)*	FDC	45.13	45 - 37	$2.16		$2.25	A	$2.39	$2.74	20	19	HOLD
Unisys (Dec)[3]	UIS	6.68	10 - 4	$0.31		($0.46)		$0.17	u/r	NMF	NA	BUY

Notes: [1]Research in Motion split 2-for-1 on June 4, 2004.

[2]Palm became palmOne and PalmSource which started trading October 29, 2003.

[3]Unisys 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)	12/31/2003	12/31/2004	11/30/2005	12/30/2005	1/31/2006	2/28/2006	% chg February	2006 year to date
	Prices							
S&P 500	1112	1212	1249	1248	1280	1281	0.0%	2.6%
NASDAQ Composite	2003	2175	2233	2205	2306	2281	-1.1%	3.4%
Storage								
EMC Corp. (Dec)	12.92	14.87	13.83	13.62	13.40	14.02	4.6%	2.9%
Network Appl. (Apr)	20.44	33.22	29.12	27.00	31.20	33.16	6.3%	22.8%
Servers								
Hewlett-Packard (Oct) (1)	22.97	20.97	29.67	28.63	31.18	32.81	5.2%	14.6%
IBM Corp. (Dec) (1)	92.68	98.58	88.90	82.20	81.30	80.24	-1.3%	-2.4%
Sun Micro. (Jun)	4.47	5.39	3.77	4.19	4.50	4.17	-7.3%	-0.5%
Personal Computers								
ATI Technologies (Aug)	15.12	19.39	16.36	16.99	17.85	15.88	-11.0%	-6.5%
Dell (Jan)	33.98	42.14	30.15	29.95	29.31	29.00	-1.1%	-3.2%
Gateway (Dec)	4.60	6.01	3.04	2.51	2.72	2.36	-13.2%	-6.0%
Lexmark (Dec)	78.64	85.00	47.62	44.83	48.57	47.09	-3.0%	5.0%
nVidia (Jan)	23.20	23.56	36.15	36.56	44.96	47.13	4.8%	28.9%
Wireless								
Palm, Inc. (May)	11.75	31.55	28.38	31.80	39.48	41.30	4.6%	29.9%
Res. in Motion (Feb)	33.42	82.42	61.13	66.01	67.53	70.53	4.4%	6.8%
Services								
Accenture (Aug)	26.32	27.00	28.44	28.87	31.53	32.66	3.6%	13.1%
Affiliated Computer (June)	54.46	60.19	55.78	59.18	62.60	62.92	0.5%	6.3%
First Data (Dec)	41.09	42.54	43.27	43.01	45.10	45.13	0.1%	4.9%
Unisys (Dec)	14.85	10.18	6.15	5.83	6.69	6.68	-0.1%	14.6%

Research in Motion split 2-for-1 on June 4, 2004.
Palm became palmOne and PalmSource which 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

Celestica
Hold 8/30/02 at $22.97
Ended coverage 5/2/05 at $11.50

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
Sell on 7/1/05 at $39.46
Hold on 9/1/05 at $35.60

EMC
Buy 10/31/01 at $12.32
Strong Buy 3/28/02 at $11.92
Buy 8/1/05 at $13.69
Hold 1/3/06 at $13.62

Flextronics
Hold 8/30/02 at $9.47
Ended coverage 5/2/05 at $11.15

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
Hold 6/1/05 at $3.46

Globix
Spec. Buy 10/31/01 at $.0.56
Hold 1/31/02 at $0.06
Ended coverage 5/2/05 at $3.55

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
LT Buy 7/1/05 at $23.51
Strong Buy 8/1/05 at $24.62

IBM
Hold 10/31/01 at $108.77
Buy 1/5/05 at $98.58
Strong Buy 5/2/05 at $76.38

Jabil
Hold 8/30/02 at $18.71
Ended coverage 5/2/05 at $27.60

Lexmark International
Hold 1/5/04 at $78.64
Strong Buy 3/31/04 at $92.00
Hold 11/1/05 at $41.52
Strong Buy 12/1/05 at $47.62
Buy 2/1/06 at $48.57

Network Appliance
Strong Buy 10/31/01 at $13.30
Buy 9/1/04 at $20.07
Strong Buy 6/1/05 at $28.76
Hold 1/3/06 at $27.00

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
Hold 2/1/06 at $44.96

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

PalmSource
u/r 10/31/03 at $38.17
Acquired 11/14/05 at $18.50

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

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
Sell 7/1/05 at $3.73
Hold 1/3/06 at $4.19

Taiwan Semi Mfg.
Hold 8/30/02 at $8.17
Ended coverage 5/2/05 at $8.61

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
Buy 6/1/05 at $7.24
Long Term Buy 8/1/05 at $6.47
Strong Buy 11/1/05 at $5.11
Buy 2/1/06 at $6.69

Accenture	Affiliated Computer	First Data
Hold 5/2/05 at $21.70	Hold 5/2/05 at $47.67	Hold 5/2/05 at $38.03