

MONTHLY TECHNOLOGY COMMENT

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MIXED SIGNALS – BUT HANGING TOUGH WITH THE BULL

In this issue:

- *Lexmark and Unisys Look Especially Interesting though for different audiences*
- *Gateway Takes the First Step Back*

ECONOMIC REPORTS MIXED

Two of our cardinal beliefs as expressed in the last issue are not exactly coming to pass: one was that rate increases, such as that undertaken by the Fed, would be a catalyst on the upside for the market. This did not occur.

A second of our cardinal beliefs was that the May lows had a good chance of holding. At the time of this writing, the S&P 500 and the NASDAQ Composite are teetering on the edge.

We attribute these developments to several factors:

- Retail sales slowed in June.
- Job creation was less than half the previous month.
- A large number of pre-announced shortfalls, particularly tech, particularly software.

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.

There was clearly a pause in the economy in the second half of June, with uneven effect. Well constructed explanations are lacking.

Our best bet is that this was a short-term perturbation and not worthy of taking investment action. That seems to be the tack Alan Greenspan is taking, too.

From a stock market point of view, it made every bull in the place (including me) sit up and take notice. I know this is a fragile recovery, but, really, we don't need a wobbly one. This pause for reexamination had the effect of adding fuel to the existing fire, which already was being stoked by high oil prices, uncertainties and casualties in Iraq, and the now-uncertain presidential election.

We believe the best interpretation right now is that we have done nothing more than shift to a lower, more sustainable rate of growth. This means for us, the Bullish case remains the best. It also means we should temper our 2005 estimates just a touch and some of our target prices may be too ambitious. But on the whole, we remain **Buyers**.

FED-WATCHING

Chairman Greenspan, testifying before Congress, indicated that the economic expansion is self-sustaining and more broad-based, but also continued his theme of measured interest rate hikes under most likely circumstances. As usual, rapid inflation would be dealt with vigorously, but nobody is really worried about that. He offered a surprisingly optimistic forecast about growth, using 4.5-4.75% for 2004 with 1.785-2.00% inflation.

As to economic slowing evidenced by some of the indicators in June, he felt these were largely temporary (we have omitted this lengthy analysis in the interest of brevity).

CONCERNS REMAIN, HOWEVER

The Iraq war, the handling of it, the cost of it, the financing of it, and everything connected to it, is a background noise that continues to be of substance. This is unlikely to go away anytime soon, but we feel is factored into the market.

Although we feel Mr. Bush has a slight edge in the upcoming presidential election, the fact is most investors now consider the election for all practical purposes an uncertainty. This isn't good, because Mr. Kerry's tax policy is extremely upsetting to Wall Streeters. As the news develops on this issue, it could be a catalyst in either direction for the market!

Consumer spending seems to be slowing a bit (partly retarded by continued high oil prices) and we expect moderating news out of housing and related markets. We are not expecting the bursting of the residential real estate bubble yet. On balance, not a great concern to us, at least not yet.

ON BALANCE.....

If we sit back and contemplate everything that is happening, we still come out at the same place. We still feel the economic expansion is **undervalued in the marketplace. The other factors are known and arguably in the price.** From our point of view, July was an ugly month. Take advantage of it! Our recommendation is to be Net Buyers. We are attracted to (1) solid and/or exciting stories, and (2) quality. In our mind, a solid investment concept is tops on the priority list.

OTHER MATTERS OF INTEREST

Some other happenings of the month involved Intel and Microsoft.

Intel reported a humongous quarter, gave a bullish outlook, but said that margins would be less. Investors banged the stock severely on the news. We thought the news was GOOD.

And Microsoft, which declared a \$3 a share dividend and raised the regular dividend to \$1.10 per year, and adopted something like a \$30 billion stock buyback over the next few years, has essentially stood still in the market. While people could debate some parts of the program could be less or more, the fact is, isn't this news GOOD?

This market has to get in synch with reality, but we have no idea how long that will take.

QUICK SUMMARY

Our opinions assume the following environment the next 1-2 months:

Growth Stocks – Neutral

Large Cap Stocks – Neutral

Tech Stocks – Neutral

The Buy-rated stocks in our Rating System are as follows:

Strong Buy

Lexmark*

EMC**

Network App.***

Unisys**

Buy

**Gateway
Hewlett-Packard*****

- * estimates raised this issue
- ** estimates moderated and target lowered, this issue
- *** target lowered, this issue

From here we move to our sector commentary.

DATA STORAGE

EMC Corporation (\$10.97 – Strong Buy)

EMC reported a really good second quarter, very solid. We also got solid guidance looking ahead. We did not get any over-performance but all things considered we were very pleased.

- Reported revenue growth was 33%, but adjusting to remove the impact of the three software acquisitions, core growth was 19%. We believe EMC can grow at this kind of rate fairly **consistently**. Software and services are now 53% of revenues. Gross **margins rose** to 50.6%, from 50.1% last quarter. We see **room on the upside** here. Cash was \$6.7 billion (\$2.74 per share).
- The question is, now that we think the stock has bottomed, what's next? We believe industry growth projections for storage (consistent with our own studies) support a 6-7% kind of figure. Since direct attached store is steadily declining, networked store is growing much faster than that – this is one of EMC's long suits. Large storage systems are more mature but EMC has done well in mid-range. Competition, present or expected, does not bother us. We think the growth rate should come out around 20%. Taking into account management projections and a more moderating economy leads us to a more conservative 19% growth rate for 2005; we had previously been over 20%.
- Consensus earnings estimates fall roughly into \$0.35 for 2004 and \$0.48 for 2005. We have been at \$0.36 for 2004 and \$0.55 for 2005; we stay for 2004 but consider \$0.50 a more conservative and we think more realistic appraisal for 2005. This is not a change in fundamentals but rather the view that a 56% gain next year would be challenging.

So, at \$10 or so, the stock is 20x. This says to us we have much **LESS** than market **RISK**, and good opportunity to **OUTPERFORM**. This stock should sell at 35x in our

opinion, so our target is now \$18 (previously we were at \$20). This stock continues to be a **Strong Buy** in our opinion.

Network Appliance (\$19.29 – Strong Buy)

The only news this month was that late in the month, when the company reconfirmed earlier guidance. Management felt compelled to review this in anticipation of the proxy statement and discussions with stockholders.

- To review, that guidance was for first fiscal quarter earnings of \$0.12-0.13 on sales growth of 35-37% (to be reported August 17). For the full year, the company still expects **revenue growth of 30-32%** with EPS of \$0.52-0.54 per share.

The stock sells for 35x earnings, using our estimate of \$0.54. The goal investment-wise here would be to maintain the multiple on our \$0.71 per share estimate one year out (which gives a target of \$25) as a minimum. We would hope for even better, like 1.3 times the PEG rate, assuming 30% growth a year (target price \$28). A new target range of \$25-28 is down from our previous \$30, but still attractive relative to the current price. It follows from this discussion that we are maintaining our **Strong Buy** rating.

SERVERS

Sun Microsystems (\$3.95 – Hold)

Sun reported once again a quarter that did not arouse much excitement. Revenue rose 4.3% for the first time in three years. Without special gains and charges, Sun said it would have posted a loss of \$0.05 per share (consensus was a loss of \$0.04).

Reported profit of \$0.24 per share, which included, for example, \$1.6 billion from the Microsoft settlement, should probably be ignored.

Sun is a very cheap stock, and has a ton of cash following the Microsoft settlement. But apart from being cheap, which is not good enough a rationale by itself, we don't see a compelling reason to recommend it now. We maintain our **Hold** rating.

Hewlett-Packard (\$20.15 – Buy)

There isn't any particular news we want to single out at H-P this month. Month in, month out, Hewlett continues to carry a very low multiple. However, we feel the stock should have done better. The printer business, the backbone of the company, has held up and performed quite well. But this business also must subsidize a very large PC business and a large computer business, both of which are marginally profitable. A smaller services business is ok and rounds out the mix. Given the strength of the economy and

the business cycle outlook, Hewlett's weaker businesses have improved and the stock should be doing better.

We are inclined now to the view the PC and computer businesses are not going to be considered the pluses we thought. Even though the printer business valuation (based on Lexmark multiples) might encompass the whole company, we think investors may pay less for the other businesses than we thought. We also believe investors do not like the prospect of facing Dell in the PC business, now Dell again in the printer business, and maybe even a little Dell in the computer business. We are now thinking lower target prices for the stock, like \$25-28, rather than \$30 as before, and rate the stock **Buy** rather than **Strong Buy**.

IBM (\$87.07 – Hold)

IBM was one of the bright spots for this quarter. The company reported revenue in line with expectations and earnings per share well above expectations. A lot of the overage, however, came from intellectual property, which perhaps we shouldn't count. In that event, IBM was in line all around, which is an ok achievement this quarter.

But the real excellence was the guidance. Looking ahead, the outlook was painted as firm with no reservations, hesitation, etc. in what amounted to a strong endorsement of the environment. In fact, this should have held tech stocks, but in this climate it did not.

As we said in the last issue, we have gained some warmth for IBM stock, with improving fundamentals and a moderate multiple. However, if we get a turn in the tech stocks, IBM is not likely to be the fastest horse. Our bet is still on a turn, so we hold off on IBM.

PC AND RELATED

Lexmark International (\$88.50 – Strong Buy)

Lexmark reported a good quarter, with sales as expected, and earnings well above expectations. The stock sold off, however, apparently based on:

- Guidance for the third quarter was not increased.
- Moderate rise in inventory.
- Hewlett, the industry's largest factor, is about to do a major product line refresh.

We are comfortable with the guidance, management has good reasons for the inventory, and we don't see anything abnormal in Hewlett's once a year refresh.

Analyzing the numbers has led us to increase our 2004 estimate from \$3.94 to \$4.05, and 2005 from \$4.36 to \$4.50.

Salient features of Lexmark include:

- The consumable supplies business, with its very large profit margins, is no longer reported by Lexmark but was 53% of revenue in the last reported quarter (last year). Given the recurring nature of this revenue stream and limited competitive threat, this is a key investment attribute.
- The company has put together four quarters of double-digit revenue growth in printers (as nearly as we can tell) which bodes well for supplies revenue second half 2004 and beyond.
- The average pages printed per printer is increasing, particularly printing off the Internet. To the extent this trend continues, it will accelerate the consumption of supplies.
- The company's execution over time has been excellent, and there is good financial strength, with \$1.4 billion cash and no debt.
- Lexmark has a strong manufacturing/marketing alliance with Dell. Dell does not account for 10% of revenues as yet, but is a powerful ally. Since Dell is focused on this market, it is better to be with them than against them.
- Hewlett is the largest competitor with 50%+ of the market (Lexmark generally credited with 15-16%). Hewlett is restrained we think by the necessity of financing Hewlett's other businesses. There are several Japanese competitors as well, but they have foreign currency translation issues right now and their record is irregular. Lexmark has a solid competitive position, we think.

We retain our **Strong Buy**, using a target of \$113 (25x our \$4.50 per share estimate for next year)

Gateway (\$4.50 – Buy)

Gateway reported for the quarter with sales short of expectations, but a loss of \$0.13 per share was within the range. However, the guidance was good and the company announced its first agreement with the big retailer, Best Buy. We consider these “the first steps back” towards a successful and profitable company. By the same token, what's been announced so far is nowhere near enough to get back to a bona fide company status.

- Revenue declined sequentially and at \$838 million was less than investor expectations perhaps as high as \$900 million. This came from the effect of the Gateway store closures, partly offset by eMachines sales and a seasonal pickup in professional sales.
- Gross margins of 9.2% fell 4.5% sequentially, due to a higher mix of third-party retail sales, closure of the stores, higher retail rebates and excess inventory sales.
- SG&A was down \$87 million sequentially, which saved the bottom line, to a relatively small loss.
- Cash declined as expected, to \$780 million, principally from restructuring and transformation expense.

- Third quarter guidance of sales from \$900 to \$950 million, and a loss of \$0.07 per share to a loss of \$0.09 was offered, which looks good.
- We now see breakeven operations for Q4, a loss of \$0.42 for the year, on sales of \$3.6 billion. Our opening line for 2005 is \$4 billion revenues and a profit of \$0.23 per share (no tax provision). Q4 should see some gross margin improvement (not Q3) and further reduction in SG&A.

Apart from the finances, Gateway announced a deal with Best Buy stores. Gateway “thin and light” and several other models of portables will appear in Best Buy momentarily, and desktops next week. Best Buy is also going to buy 3 of the 6 plasma large-scale TV systems, and “convergence” products. Not as broad a lineup as one might hope, but it’s a start. Management indicated it was talking with other large outlets, and apparently some of Q3 volume will come from these unannounced buyers. The range of products each new retailer takes is up to the individual negotiations.

Although highly speculative, we still think Gateway merits a **Buy** rating at current prices.

Dell Computer (\$35.47 – Hold)

The principal news at Dell this past month was a round of relatively small estimate increases. In a press release, Dell held the quarter sales estimate at \$11.7 billion but raised earnings estimates by \$0.02 per share, \$0.01 from margin improvement and \$0.01 from a lower tax rate.

We believe the margin improvement was at the gross margin line, where we have adjusted by 0.2 points. We have flowed this through future quarters too, since we do not believe Dell would take this margin if it were needed competitively.

Lowering the tax rate does not do a lot for remaining quarters, but next year we took one full point off the rate – and it could be more. Dell management has stated that with more and more business being done abroad, the pressure on the tax rate is going to be down – we just don’t know how much yet.

As a result of these changes, our revised estimates for Dell are \$1.32 per share (\$1.26 previously) for the current fiscal year, and \$1.56 per share for next fiscal year (from \$1.44). About half the adjustment next year is tax rate.

While we feel these changes are positive, they are not enough to change our opinion. We think Dell like IBM will do well in weak markets, but at current valuations will not provide enough offense. Our rating remains at **Hold**.

nVidia (\$15.42 – Hold)

We have downgraded nVidia stock from Strong Buy to Hold. We expect earnings estimates to come down at nVidia, but we don’t know how much yet. It can be argued

the stock has come quite far down already and may have discounted this, perhaps so. The company's quarterly earnings release and conference call is August 5, and we believe many of these issues will be resolved.

Mercury Research has reported a meaningful decline in graphics processors in Q2, which, if accurate, would affect the first two months of nVidia's quarter. Distributor business is also reportedly under pressure. July is usually a strong month, but it may not be enough this year.

The first half at nVidia has been known to be weak for a long time, but the strength of the recovery in the second half (which we take firmly for granted) is a little unclear given recent market statistics.

Other groups of investors are worried about Intel. The issue is does the Grantsdale chip architecture Intel just came out with raise Intel's opportunity for an integrated graphics solution at low cost and increase its market share. This may be a greater or lesser factor than feared, but unfortunately it cannot be resolved quickly. At the time of this writing we are engaged in some due diligence research on this topic.

The other aspect worth touching on is valuation. We have traditionally carried a high multiple for a high risk stock like nVidia. However, in the difficult markets of 2004, that combination is unlikely to fly. We were going to have to take the target price down substantially in any event. We are going to rate this stock **Hold** for awhile and see how it plays out.

OUTSOURCING

Unisys (\$10.24 – Strong Buy)

As we wrote in our note on July 19, an interesting opportunity has developed in Unisys stock. The company first pre-announced a shortfall for Q2, then on the conference call indicated there would be a weak 3Q (EPS compares will be adverse) and a marginal 4Q, with EPS flat or up slightly. Analyst estimates have been reduced to \$0.66-0.72 for 2004 (we are at \$0.67), down from the \$0.85 per share area (all figures exclude pension accounting). The stock was in the \$13-14 range, now is around \$10.

The interest is in 2005. We think the range of estimates is likely to be \$0.85-1.00, and more like the latter than the former (we are opening with \$0.91). If we apply a traditional multiple of 16x, this will be a \$15 stock. We believe this to be true, but recognize the penalty to the investor is time – we have some dull months to slog through near term.

Features worth noting:

- By yearend, will be looking at a year of easy compares.
- Pension cost will be less of an issue.

- The lower the stock goes, the more people talk of it as an acquisition target.
- The key Services operation has special strength in federal government, homeland security, Check 21, and a good position in the growing area of Business Process Outsourcing (BPO).

Although there are some near-term issues, we think Unisys is a very good **Strong Buy**.

PERFORMANCE IN OUR UNIVERSE

July was a difficult month. The NASDAQ Composite was down 7.8% (we can't remember a month like this in maybe two years) and the overall market down 3.4% (measured by S&P 500).

As might be expected, defensive stocks fared best. IBM and Dell were down only 1%. An exception was Gateway, which was unchanged for the month.

The two stocks investors raised issues off the quarterly report were Lexmark, down 8%, and Unisys, down 26%. Both look interesting here. nVidia and ATI Technologies, were down 25% and 15% respectively; both are high risk issues where earnings questions seem evident.

EMC is bottoming, we think, and was down only 3.8%, and Hewlett was down only 4.5%. Sun was down close to 9%.

The wireless group was mixed. PalmOne was up about 16%, Research in Motion down 10%.

ESTIMATES AND RATING CHANGES

Rating changes this month include Hewlett-Packard from Strong Buy to Buy, and nVidia from Strong Buy to Hold. Principal earnings estimate increases were at Lexmark and Dell, principal reductions were at Unisys. Many other estimates were re-balanced, but changes are really of the fine tuning type.

Readers are reminded that our current quarterly and annual estimates are carried on First Call.

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 6 stocks (33%) 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 7/30/2004	52-week Range	2003A	E.P.S. 2004E	2005E	P/E 2004E 2005E		Rating
S&P 500*	SPX	1102	1163 961	\$55.44	\$64.74	\$69.76	17	16	
NASDAQ Composite	COMP	1887	2154 1641						
Storage									
EMC Corp. (Dec)	EMC	10.97	16 - 10	\$0.19	\$0.36	\$0.50	30	22	STRONG BUY
Network Appl. (Apr)	NTAP	19.29	27 - 15	\$0.40	\$0.54	\$0.71	36	27	STRONG BUY
Servers									
Hewlett-Packard (Oct)*	HPQ	20.15	26 - 19	\$1.16	\$1.43	\$1.64	14	12	BUY
IBM Corp. (Dec)*	IBM	87.07	100 - 79	\$4.34	\$4.97	\$5.51	18	16	HOLD
Sun Micro. (Jun)*	SUNW	3.95	6 - 3	(\$0.10)	(\$0.15)	\$0.05	NMF	79	HOLD
Personal Computers									
ATI Technologies (Aug.)*	ATYT	16.10	19 - 11	\$0.42	\$0.85	N/A	19	NMF	HOLD
Dell (Jan fol.)	DELL	35.47	37 - 31	\$1.01	\$1.31	\$1.56	27	23	HOLD
Gateway (Dec)	GTW	4.50	7 - 4	(\$0.96)	(\$0.42)	\$0.23	NMF	20	BUY
Lexmark (Dec)	LXK	88.50	98 - 60	\$3.34	\$4.05	\$4.50	22	20	STRONG BUY
nVidia (Jan fol.)	NVDA	15.42	27 - 14	\$0.50	\$0.74	\$1.06	21	15	HOLD
Wireless									
palmOne (May)*	PLMO	40.22	42 - 10	(\$1.65)	\$1.06	\$1.62	38	25	HOLD
PalmSource (May)*	PSRC	20.26	48 - 15	u/r	\$0.29	\$1.14	70	18	u/r
Res. in Motion (Feb)*	RIMM	61.67	72 - 11	\$0.17	\$1.56	\$2.08	40	30	HOLD
Outsourcing									
Celestica Inc. (Dec)*	CLS	17.15	22 - 13	(\$0.11)	\$0.44	\$0.89	39	19	HOLD
Flextronics Intl. (Mar)*	FLEX	12.57	20 - 11	\$0.35	\$0.66	\$0.91	19	14	HOLD
Globix (Sep)	GBXX	3.20	5 - 2	(\$2.00)	u/r	u/r	N/A	N/A	HOLD
Jabil Circuit (Aug)*	JBL	21.75	32 - 21	\$0.80	\$1.07	\$1.36	20	16	HOLD
Taiwan Semi. Mfg. (Dec)*	TSM	7.12	13 - 7	\$0.34	\$0.60	\$0.61	12	12	HOLD
Unisys (Dec)	UIS	10.24	17 - 10	\$0.78	\$0.67	\$0.91	15	11	STRONG BUY

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

Palm became palmOne and PalmSource started trading October 29, 2003. PSRC 52-week range includes "when issued" trades.

* First Call consensus estimates.

u/r = under review

Source: Nutmeg Securities estimates, except as noted.

Table II - Price History

Company (FY)	Prices						% chg July	2004 year to date
	12/31/2002	12/31/2003	4/30/2004	5/28/2004	6/30/2004	7/30/2004		
S&P 500	879	1112	1107	1121	1141	1102	-3.4%	-0.9%
NASDAQ Composite	1335	2003	1920	1987	2048	1887	-7.8%	-5.8%
Storage								
EMC Corp. (Dec) (1)	6.14	12.92	11.16	11.24	11.40	10.97	-3.8%	-15.1%
Network Appl. (Apr)	10.00	20.44	18.61	19.80	21.53	19.29	-10.4%	-5.6%
Servers								
Hewlett-Packard (Oct)	17.36	22.97	19.70	21.24	21.10	20.15	-4.5%	-12.3%
IBM Corp. (Dec) (1)	77.50	92.68	88.17	88.59	88.15	87.07	-1.2%	-6.1%
Sun Micro. (Jun)	3.11	4.47	3.90	4.17	4.33	3.95	-8.8%	-11.6%
Personal Computers								
ATI Technologies (Aug)	4.65	15.12	14.57	16.45	18.86	16.10	-14.6%	6.5%
Dell (Jan)	26.74	33.98	34.78	35.24	35.82	35.47	-1.0%	4.4%
Gateway (Dec) (1)	3.14	4.60	4.82	4.05	4.50	4.50	0.0%	-2.2%
Lexmark (Dec) (1)	60.50	78.64	90.46	94.32	96.53	88.50	-8.3%	12.5%
nVidia (Jan)	11.51	23.20	20.52	23.45	20.47	15.42	-24.7%	-33.5%
Wireless								
palmOne (May)	15.70	11.75	16.19	21.23	34.77	40.22	15.7%	242.3%
PalmSource (May)		21.77	20.83	20.25	17.14	20.26	18.2%	-6.9%
Res. in Motion (Feb)	6.56	33.42	43.55	59.97	68.45	61.67	-9.9%	84.6%
Outsourcing								
Celestica Inc. (Dec)	14.10	15.07	17.58	18.80	19.95	17.15	-14.0%	13.8%
Flextronics Intl. (Mar)	8.19	14.80	16.07	17.56	15.95	12.57	-21.2%	-15.1%
Globix (Sep) (1)(2)		4.00	3.43	2.49	2.90	3.20	10.3%	-20.0%
Jabil Circuit (Aug)	17.92	28.30	26.39	28.31	25.18	21.75	-13.6%	-23.1%
Taiwan Semi. Mfg. (Dec) (1)	7.05	10.24	9.53	10.15	8.31	7.12	-14.3%	-30.5%
Unisys (Dec)	9.90	14.85	13.03	13.56	13.88	10.24	-26.2%	-31.0%

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.

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	EMC Buy 10/31/01 at \$12.32 Strong Buy 3/28/02 at \$11.92
Celestica Hold 8/30/02 at \$22.97	Buy 8/9/02 at \$25.59 Hold 11/29/02 at \$28.60	
Flextronics Hold 8/30/02 at \$9.47	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	Globix Spec. Buy 10/31/01 at \$0.56 Hold 1/31/02 at \$0.06
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	IBM Hold 10/31/01 at \$108.77	Jabil Hold 8/30/02 at \$18.71
Lexmark International Hold 1/5/04 at \$78.64 Strong Buy 3/31/04 at \$92.00	Network Appliance Strong Buy 10/31/01 at \$13.30	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
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	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	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

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