

## *MONTHLY TECHNOLOGY COMMENT*

**Vol. V, Issue #5**

May 2, 2005  
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### **ECONOMIC CONCERNS IMPROVING TECH VALUES**

*In this issue:*

- *Shortfall stocks – Lexmark and IBM – go to the head of the list*
- *First Quarter reports tracking pretty well, guidance seems ok*
- *Investor concerns over economy coming to the fore*
- *Tech stocks fallen behind, look a little better now*
- *Revising Monitor List – Add Data Services, Drop Outsourcing*

### **BUY/ADD INTO THE “SOFT PATCH”?**

Early on last month we saw some cross-current economic numbers – for example, some sluggish retail sales numbers that were less than expected, job creation was not as good as expected, a record \$61 billion in the balance of trade, more concern over inflation and some initial worry that maybe Mr. Greenspan is going too far too fast with his interest rate hikes. Then there is the gasoline price, the economic “tax” dragging the economy.

We really didn’t see “soft patch” arrive as a theme until **International Business Machines** reported. Not only was there an earnings shortfall, but revenue performance was poor. January revenue was up 7%, February was up 5%, but March was basically

#### 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.

zero. IBM was impacted by what appears to be widespread Services shortfall, particularly short-term signings, a longer selling cycle in several product areas, product transitions, and late availability of storage products. Internationally, revenues from France, Germany and Italy, were down

Investors viewed these issues as industry-wide, not company specific. Accordingly, it contributed to a significant fall in all the stock averages, a downside breakout. Wall Street was immediately started calling this development in the economy a soft patch.

As other reports filtered in, however, things didn't seem so bad. **EMC's** call made you wonder if they were in the same industry. A few perturbations in February but March was good, results were at the high end of the range of expectations and the international rundown didn't single out those countries.

This in part has triggered a strong rally in the market. One day stocks rose the highest percentage in over 3 years. No question stocks were oversold, but there's always the worry we are seeing a "dead cat bounce."

The last step in the monthly review is what we are calling "Fear of the Economy."

## **FEAR OF THE ECONOMY**

At the end of the month the Commerce Department delivered the killer: GDP growth in the first quarter was 3.1%, well below expectations, and below the 3.8% figure of the fourth quarter. The oil price clearly was a factor. Final demand was up 1.9%, the rest was inventory accumulation. Also released was the price index for personal consumption less food and energy, which rose to an annual rate of 2.2%.

So, the combination of lower-than-expected economy and higher-than-expected inflation is something the market will have to cope with. Some fear we are in for "stagflation", others backsliding into recession, others working our way into a stall, and so on. This is a key issue right now.

*We think the odds favor some slowing of economic growth and not the other dire outcomes being discussed. **We are buyers into the "soft patch."***

## **ARE THERE ANY POSITIVES?**

Yes, but the biggest one is *investor sentiment*. We find it hard to remember a period when we have heard such bearish/bearish-neutral as the one we have been in. On the theory you have to lean into the wind to make money, we lean into this one.

## WORKING ASSUMPTIONS

We said last time, our economic assumption is that 2005 will be substantially similar to 2004 in terms of GDP growth, or roughly 3.5%, and that prospects were good for adding two million jobs. The unemployment rate should go down slightly. Today we would soften this a little, maybe to GDP growth in the 3.3% – 3.4% growth range.

We also believe the current account trade/payment deficit and the federal deficit pose potentially large concerns, but not near term (the bond market will tell us very quickly). On a lesser scale, oil remains an issue, inflation perhaps, but no major new developments. We read the current stock rally as having a little stronger legs than people are thinking.

## PORTFOLIO THOUGHTS

Fear of the economy may dampen all tech stocks for a time (we don't have any stocks in this group that tend to go up when the market goes down.) We can't tell exactly when the market has discounted these factors, *but in principle we are buyers as they go down. As suggested, we are buyers now.*

At this juncture, looking ahead to the rest of the year, we think two good bets to possibly outperform the market are the stocks that are down due to disappointments. In particular we would stress **IBM** and **Lexmark**. Conditions that have driven these stocks down will likely continue over the short term, but we believe that they are basically temporary and the stocks recovery potential is significant. Risk relative to the market now seems much lower. We carry Lexmark as a **Strong Buy** and in this issue are raising IBM to **Strong Buy**. These should fit in most portfolios.

It could be argued that **Unisys** is in that class but it's really not. It is true that the stock is down because of disappointment but in this case there have been a string of disappointments, the balance sheet is not as powerful, and investors probably need more time to build confidence. Nevertheless, we consider the stock a **Long Term Buy** because the recovery potential is substantial and the stock price in our view quite depressed.

We continue to support the data storage leaders, **EMC** and **Network Appliance**, as buys for quality and growth, appropriate for most portfolios. We carry EMC as a **Strong Buy** and Net App as a **Buy** based on the P/E structures for each stock. These would be ideal candidates if worries about the economy reach very high levels.

We continue to support **nVidia** as a Strong Buy, based on its leadership in the current generation of graphics processors and developing new markets, and expect estimates to rise in this and future quarters. **DON'T BE FOOLED BY WHAT APPEARS TO BE A SECOND-TIER INVESTMENT.** nVidia has **powerful** fundamentals that in our opinion should overwhelm the market, the economy, etc.

We keep **Gateway** as a **Speculative Buy**. The stock has performed poorly in this environment, but at about \$1.3 billion cap value (half in cash) for a \$4 billion sales enterprise it probably pays to exercise more patience.

We continue to be hypnotized by the appeal of **Hewlett-Packard** under new leadership but for the moment we make no official rating changes.

Our sector comments follow.

## **DATA STORAGE**

### **EMC Corporation (\$13.12 – Strong Buy)**

EMC had a world class earnings report and conference call. Revenues were up 20% to \$2.24 billion and EPS up 93% to \$0.11 per share. Both figures were at the upper end of the guidance range. Moreover, guidance for the quarter ahead and the year ahead was all top-of-the-range type numbers, resulting in \$0.50-0.51 per share earnings for the year (we are \$0.52). Our opening line for 2006 remains at \$0.65.

- We don't want to get bogged down in the details of the quarter but we liked the balance. Systems revenue grew 15%, software 26%, and services 26%.
- Operating margins at 14.4% were the highest since Q1 2001. For the year we see this figure rising to 16%, and for 2006, to the 18% range. We think margin expansion will tend to level out there as the company balances growth vs. investment. These are quality numbers. Hardware gross margins are not reported, but by our calculation was 30.7% compared with 29.2% the year before. There is room to expand here.
- EMC has \$7.5 billion cash (\$3.13 per share) and no debt. This is an awfully large pile of money for a \$9.7 billion sales company.

At current prices EMC is trading at 25x and 20x estimates for 2005 and 2006, respectively. This constitutes reasonable value to us with room for appreciation, e.g. we can visualize 16 to 20 without much of a stretch. Maintaining the stock as a **Strong Buy**.

### **Network Appliance (\$26.67 – Buy)**

No new news on Net App this month. But this is a very, very powerful situation as discussed many times before. Here we are talking 30%-35% growth rates (near to intermediate term at the upper end of that range). Hard to get a good buy opportunity in this stock, tends to always look expensive (why we have it rated only **Buy**.)

## **SERVERS**

### **Sun Microsystems (\$3.62 – Hold)**

Like last quarter, Sun sounds like they think they are doing everything they can to grow the company and restore profitability, and as before, the analysts are not so sure. Once again the quarter wasn't very impressive. Revenues were down 1%, and the company had a loss of \$0.02 per share. Service revenue was up slightly, computer systems were up 2%, and storage was down 16%.

We see the stock has merit for its value, but its customer set and technology issues make it hard to warm up to. We haven't played Sun in this cycle, and continue to rate it a **Hold**.

### **International Business Machines (\$76.38 – Strong Buy)**

IBM was one of the big shortfall stories of the first quarter. Revenues were light, and EPS was at least \$0.10 per share short of expectations. Although IBM left guidance for the second half intact, it pointed out it would be done with less revenue and more cost savings. Investors were not happy with this report, big time.

The Services business is not immune to the economy or IT spending trends, and right now this is the key business for IBM. We consider the March slowdown temporary, but doubt it is going to get better right away. But the stock is now 75, not 95, and that makes a difference. By yearend this should be a better looking picture.

One other comment on IBM: it began to expense equity compensation, which basically means stock options. While virtually all companies will have to do this next year, IBM put the issue behind them. It resulted in \$0.55 per share additional expense for 2004, and looks like about \$0.50 per share for 2005. This is about 10% of reported earnings, which is where we feel a lot of companies will wind up. We do not expect this accounting to affect IBM stock, for most companies investors will pay an extra multiple.

Consensus estimates for IBM are now \$4.85 for 2005 and \$5.41 for 2006. The P/E is 17x and 16x, respectively. It is attractive for defensive strength with now some recovery prospects. We are rating it as a **Strong Buy** even though we doubt the stock can sell as high as a 20x multiple.

### **Hewlett-Packard (\$20.47 – Hold)**

Hewlett was among the few really strong stocks in our universe in April, and is the best performer year to date. We recognize the stock is down for the month, and down year to date, we are speaking relatively.

One wonders if this once fine company can be rebuilt under good management, which it has lacked for so long. Mark Hurd has a big reputation, now let's see what he can do.

## PC AND RELATED

### **nVidia Corporation (\$21.93 – Strong Buy)**

This was not a reporting month for nVidia. The next report is due May 12. We guess there will be another round of estimate increases at that time. From our vantage point, nVidia's business is *on fire*.

- The *nForce 4* chipset is rolling, with now a high adoption rate for SLI (twin processor) technology products. nVidia now has a 55% share in the AMD processor market (48% last quarter) – gaining share in a business that's bigger (SLI sets are a lot more in price). This is becoming a major product in the nVidia line; remember, nVidia is alone in the SLI market.
- nVidia is re-defining the high end of the market. SLI technology has *permanently changed* the marketplace in high performance graphics – and nVidia is alone on the market with this technology. Studies show two *GeForce 6* family chips in SLI achieve just about double the performance of any single graphics processor. This is the most profitable sector of the market.
- Two weeks ago Hewlett-Packard signed on for a workstation procurement, utilizing two *nForce 4* chipsets with two *Quadro GeForce* graphics processors.

Our estimates, above consensus, are \$1.22 for this year and \$1.78 for next. We think this a 30x multiple stock, which gives large potential from present levels.

### **Gateway, Inc. (\$3.41 – Hold)**

Gateway had an excellent quarter, at least as far as investor expectations. Revenue of \$838 million and a loss of \$0.01 per share were right in line. Gross margins held (at a low level) and the overhead accounts were kept firmly in line. Company policy changed: no quarterly guidance but rather it would issue full year expectations. Revenues of over \$4 billion and EPS of \$0.15 - \$0.17 (untaxed) was suggested for 2005. This represents no change from the previous quarter's outlook.

- Retail sales were 57% of the total and increased market share. Direct sales were 18% and lost some share. Professional sales were 25%, no share data available.
- We think Gateway is doing an excellent job considering the difficult market background, but in our view it's going to be tough for the stock to do well in a market concerned with the economy and consumer spending. At only a \$1.3

billion market cap and half of that cash, it doesn't make any sense to reduce the rating, which is **Speculative Buy**. We also think that Gateway needs to furnish investors a better insight into exactly what kind of a complex the company is building.

- We further note that Gateway is going to receive \$150 million in cash over four years from Microsoft in settlement of Gateway claims (some of which go back for years!). Gateway will also do some product development in support of Microsoft products. Not a big item, but a plus.

We are taking our estimate for 2005 down to \$0.15 per share from \$0.25. In the kind of year this is starting out to be, we think their insight may be better than ours right now. We are reviewing 2006.

### **Dell Computer (\$34.83 – Hold)**

The news items this past month came from the company's Analyst Day. Guidance for the first fiscal quarter was reiterated, and the prediction of \$80 billion sales in 3-4 years was re-stated. The company will continue to push servers, data storage, printers, consumer electronics and technology services to grow and to offset any decline in traditional desktop PC's. In sum, everything is pretty much on track.

We make no changes in estimates of \$1.56 this fiscal and \$1.79 per share next. We consider the stock adequately valued, and a \$99 billion market cap pretty fully reflective of the company's position. Continue to rate **Hold**.

### **Lexmark International (\$69.45 – Strong Buy)**

Lexmark had a shortfall, a terrible report, and weak guidance. The stock, which has been eroding slowly for months, took another resounding fall of over 10%.

- The quarterly report showed an 8% revenue gain to \$1.36 billion, composed of a 7% gain in printer revenue and an 11% gain in supplies. Earnings per share were \$0.99 per share before special items or \$0.96 after special items, compared with \$0.91 a year ago.
- Wall Street was expecting the high end of the guidance range, \$1.03 on \$1.38 billion sales. The company blamed the shortfall on soft consumer demand and aggressive pricing. The inkjet products largely sold to retail consumers were the affected products and Hewlett-Packard was the price initiator with cuts in the 15%-20% range. Laser printers were generally unaffected.
- Guidance for the upcoming quarter assumed current market conditions were likely to continue, was revenue growth in mid-single digits, with EPS \$1.01 to \$1.11. Last year the company earned \$1.02. Wall Street estimates prior to the call were \$1.11 per share on sales of \$1.38 billion. We think the new range for the year will

be \$4.30 to \$4.45, and probably less than \$5 for next year until conditions improve.

- The company took a charge of \$0.05 per share for estimated losses due to inappropriate conduct of a former employee in Spain. This has raised a few question marks as well.

On the positive side, the laser market was stable, and Lexmark appears to have done well and gained share. Even in the inkjet business, the market was estimated to be down mid-single digits but we think Lexmark was flat and gained share.

Historically, the kind of business climate Lexmark is in has proven temporary, and the accompanying downdraft in stock price has been a buying opportunity. While we see no immediate relief, we are betting that the same kind of phenomenon occurs this year. We admit the change in management at Hewlett adds a complicating factor but these price changes have got to have a depressing effect on Hewlett results (which we may get some insight to in the Hewlett report later this month) without any market share improvement.

## DATA SERVICES

### Unisys Corporation (\$6.49 – L.T. Buy)

- Unisys had a weak report, with revenue down 7% and a reported loss of \$0.04 per share excluding pension accounting. The services business had declines in all segments, and the key outsourcing sector declined 5%. The hardware business was down 3%, most of it due to declines in specialty equipment.
- Also burdening the company are the three outsourcing contracts that came to light in the fourth quarter. Unisys will have meaningful extra expense the first two quarters of 2005 on two of these contracts. Unisys will also have meaningful expense throughout 2005 on the third contract. Unisys has **not** disclosed the amounts of extra expense.
- Guidance for the second quarter is flat revenues year to year and approximately breakeven results (we have figured a slight loss). For the year the company held to earlier guidance of \$0.50 to \$0.60 per share, but suggested the low end of that range (we are at \$0.48).
- The stock has recovery potential. In essence management is forecasting something like \$0.50 in just the last two quarters, with presumably favorable implications for 2006. One problem may be that it will take time to rebuild confidence even if these results are achieved. For that reason we rate it a **Long-term Buy**.

## **COVERAGE REVISIONS**

We had dropped “Wireless” from full-time coverage to monitoring status some time ago. This won’t change near term. The idea we had was that wireless was the closest to “The Next Big Thing.” Now, after the group has recovered, we wonder about size of market. We’ll continue to monitor.

With this issue we drop “Outsourcing” or contract electronics manufacturing. Coming out of a recession this looked like an interesting group. This looks less interesting now.

We have replaced this with three “data services” companies. We’ll see how this goes, but it relates more closely to our core universe.

## **PERFORMANCE AND RATING CHANGES**

In April, the market (S&P 500) declined 2%, and the NASDAQ Composite fell 4%. Our universe generally did much worse.

The only up stock we had was EMC, up nearly 7%. Other good relative performers were Net App down 4%, Hewlett down 7%, nVidia down 8% and Unisys down 8%. Dell declined 9%.

In servers, IBM fell 16% and Sun 10%; in PC Lexmark was down 13% and Gateway 15%.

The only rating change we made this month was to raise IBM from Buy to Strong Buy.

The important earnings changes were Gateway from \$0.25 to \$0.15 for 2005; Lexmark from \$4.55 and \$5.06 for 2005 and 2006, respectively, to \$4.44 and \$4.85; Unisys from \$0.53 and \$0.86 in 2005 and 2006, respectively, to \$0.48 and \$0.74.

## **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	E.P.S.				P/E		Rating
		4/29/2005	Range	2003A	2004E	2005E	2006P	2004E	2005E	
S&P 500*	SPX	1157	1229 1061	\$55.44	\$67.10	A \$70.50	\$77.08	17	16	
NASDAQ Composite	COMP	1922	2192 1751							
<b>Storage</b>										
EMC Corp. (Dec)	EMC	13.12	15 - 9	\$0.19	\$0.37	A \$0.52	\$0.65	35	25	STRONG BUY
Network Appl. (Apr)	NTAP	26.67	35 - 16	\$0.40	\$0.62	\$0.78	\$1.03	43	34	BUY
<b>Servers</b>										
Hewlett-Packard (Oct)*	HPQ	20.47	22 - 16	\$1.16	\$1.34	A \$1.51	\$1.69	15	14	HOLD
IBM Corp. (Dec)*	IBM	76.38	99 - 72	\$4.34	\$4.50	R \$4.85	\$5.41	17	16	STRONG BUY
Sun Micro. (Jun)*	SUNW	3.62	6 - 3	(\$0.24)	\$0.00	\$0.06	\$0.08	NMF	60	HOLD
<b>Personal Computers</b>										
ATI Technologies (Aug.)*	ATYT	14.80	21 - 13	\$0.27	\$0.78	A \$1.03	\$1.24	19	14	HOLD
Dell (Jan fol.)	DELL	34.83	43 - 33	\$1.01	\$1.28	A \$1.56	\$1.79	27	22	HOLD
Gateway (Dec)	GTW	3.41	7 - 3	(\$0.96)	(\$0.40)	A \$0.15	u/r	NMF	23	SPECULATIVE BUY
Lexmark (Dec)	LXK	69.45	98 - 66	\$3.34	\$4.13	A \$4.44	\$4.85	17	16	STRONG BUY
nVidia (Jan fol.)	NVDA	21.93	30 - 9	\$0.50	\$0.57	A \$1.22	\$1.78	38	18	STRONG BUY
<b>Wireless</b>										
palmOne (May)* <sup>3</sup>	PLMO	21.43	47 - 16	(\$0.11)	\$1.46	\$1.70	\$1.60	15	13	HOLD
PalmSource (May)* <sup>3</sup>	PSRC	8.89	27 - 8	\$0.10	\$0.29	\$0.17	\$0.25	31	52	HOLD
Res. in Motion (Feb)* <sup>2</sup>	RIMM	64.41	104 - 43	\$0.48	\$2.10	A \$2.47	\$3.35	31	26	HOLD
<b>Services</b>										
Accenture (Aug)*	ACN	21.70	28 - 21	\$1.05	\$1.23	A \$1.42	\$1.58	18	15	HOLD
Affiliated Computer (June)*	ACS	47.67	61 - 46	\$2.62	\$3.12	\$3.62	\$3.91	15	13	HOLD
First Data (Dec)*	FDC	38.03	46 - 37	\$1.96	\$2.16	A \$2.34	\$2.66	18	16	HOLD
Unisys (Dec) <sup>4</sup>	UIS	6.49	14 - 6	\$0.78	\$0.31	A \$0.48	\$0.74	21	14	L. T. BUY

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

<sup>3</sup>Palm became palmOne and PalmSource started trading October 29, 2003.

<sup>4</sup>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)	Prices						% chg April	2005 year to date
	12/31/2003	12/31/2004	1/31/2005	2/28/2005	3/31/2005	4/29/2005		
S&P 500	1112	1212	1181	1204	1181	1157	-2.0%	-4.5%
NASDAQ Composite	2003	2175	2062	2052	1999	1922	-3.9%	-11.7%
<b>Storage</b>								
EMC Corp. (Dec)	12.92	14.87	13.10	12.66	12.32	13.12	6.5%	-11.8%
Network Appl. (Apr)	20.44	33.22	31.84	30.01	27.66	26.67	-3.6%	-19.7%
<b>Servers</b>								
Hewlett-Packard (Oct)	22.97	20.97	19.59	20.80	21.94	20.47	-6.7%	-2.4%
IBM Corp. (Dec)	92.68	98.58	93.42	92.58	91.38	76.38	-16.4%	-22.5%
Sun Micro. (Jun)	4.47	5.39	4.36	4.22	4.04	3.62	-10.4%	-32.8%
<b>Personal Computers</b>								
ATI Technologies (Aug)	15.12	19.39	17.33	17.54	17.29	14.80	-14.4%	-23.7%
Dell (Jan)	33.98	42.14	41.76	40.09	38.42	34.83	-9.3%	-17.3%
Gateway (Dec)	4.60	6.01	4.73	4.70	4.03	3.41	-15.4%	-43.3%
Lexmark (Dec)	78.64	85.00	83.35	80.13	79.97	69.45	-13.2%	-18.3%
nVidia (Jan)	23.20	23.56	22.92	28.99	23.76	21.93	-7.7%	-6.9%
<b>Wireless</b>								
palmOne (May)	11.75	31.55	25.88	23.82	25.38	21.43	-15.6%	-32.1%
PalmSource (May)	21.77	12.74	10.34	10.12	9.04	8.89	-1.7%	-30.2%
Res. in Motion (Feb)	33.42	82.42	71.29	66.11	76.42	64.41	-15.7%	-21.9%
<b>Services</b>								
Accenture (Aug)	26.32	27.00	26.05	25.55	24.15	21.70	-10.1%	-19.6%
Affiliated Computer (June)	54.46	60.19	54.19	51.70	53.24	47.67	-10.5%	-20.8%
First Data (Dec)	41.09	42.54	40.74	41.02	39.31	38.03	-3.3%	-10.6%
Unisys (Dec)	14.85	10.18	7.85	7.68	7.06	6.49	-8.1%	-36.2%

*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

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

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

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

Lexmark International  
Hold 1/5/04 at \$78.64  
Strong Buy 3/31/04 at \$92.00

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

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

Accenture  
Hold 5/2/05 at \$21.70

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

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

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

Network Appliance  
Strong Buy 10/31/01 at \$13.30  
Buy 9/1/04 at \$20.07

PalmSource  
u/r 10/31/03 at \$38.17

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

Affiliated Computer  
Hold 5/2/05 at \$47.67

EMC  
Buy 10/31/01 at \$12.32  
Strong Buy 3/28/02 at \$11.92

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

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

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

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

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

First Data  
Hold 5/2/05 at \$38.03

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