

## *MONTHLY TECHNOLOGY COMMENT*

**Vol. IV, Issue #5**

May 3, 2004  
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### **SUFFERING, BUT STICKING WITH THE BULL**

*In this issue:*

- *EMC Re-visited*
- *Sun still hard to predict*

### **SLUGGISH MARKET AGAIN IN APRIL**

The market is struggling to surmount a series of worries on the one hand, while looking at good earnings reports and guidance on the other.

By way of background, we note that 300,000 jobs were created last month, which is one market hot button, and, needless to say, one could not ask for more accommodative fiscal and monetary policy than what we have. First quarter reports have met our expectations.

So, our best view then, is that the market is having **interest rate jitters** primarily, and maybe presidential **election** concerns secondarily.

#### 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.

## INTEREST RATES

Fed chairman Greenspan's latest pronouncements – fed-watching unfortunately is an integral part of the game today – have ruled out deflation, admitted to mild (but controlled or restrained) inflation, and continued to point to strong growth in the economy. He also said the banking system was well prepared for an increase in rates, if, as and when they developed. Some observers felt these remarks meant interest rates would be going up higher and/or faster than they expected, whatever that may have been.

However, since everyone knows about the economy, and knows rates have to go up from unrealistically low (actually negative interest rate) levels that we have now, what is the big deal? The big deal is leverage. (Even the author has to admit to some use of this facility!) A great many people have been taking advantage of these “super-low” interest rates to finance stocks, bonds, currency, commodities, real estate and so on down the list. Sharp rate increases, or a rapid succession could lead to unwinding some of these positions in a disruptive manner.

One can assume Mr. Greenspan is well aware of this, and will adopt the obvious solution: a *gradual* and limited upward pressure on rates. We are not close enough to the bond market to say, but I suppose the odds of a rate increase before the November election is somewhat increased – the point is it really shouldn't mean that much.

## THE ELECTION

President Bush has been having a few bad hair days recently. The casualty list from Iraq is the highest it's been since the fighting war was concluded a year ago. The 9/11 commission has been in the headlines enough to raise further questions. On top of all this, the Woodward book comes out with a new series of allegations – only a timid voice or two has mentioned the book has a lot of holes filled in with what *probably* was said, or *possibly* was said.

The effect of all this is to make the election almost a one-issue election – the conduct of the war. What Mr. Bush may have on his side is time – there is still time for some recovery on the war issues. Deep down, though, we have the feeling the problems over there are insoluble. If so, this may or may not be held against Mr. Bush.

## THE MARKET DISCOUNTS

The market is a pretty good discounting mechanism. Interest rates and the war-election questions appear to us to be largely in the market already. Many of the things we had suggested could cause a second half '04 market correction (all these related to interest rates) have already happened! We are convinced Mr. Greenspan will go very slowly indeed, and maybe this is not in the market.

## **TECHNOLOGY IN THE ECONOMY/MARKET**

*The New York Times* (April 5) carried an interesting story sort of to the effect of tech used to grow 2.5 times GDP, and now makes the case for size, maturity, No Next Big Thing new, etc. to go down to a 1.5 times the economy growth rate now (we have liberally sprinkled our interpretation in this).

We have actually thought about this for a long time. There is, of course, some truth to this argument. The reason we have not gone along with a (downward) valuation re-set, is that (1) there's not a lot out there that's really better than tech, and (2) there are few areas so subject to change, volatility, new things, and sheer dynamics, as technology.

Another thought we have, is that for those few areas of tech that have high growth and favorable investment attributes, there could be especially high multiples to go with it. Tech has been tracking the general market pretty well in '04, suggesting there is no special illness in tech.

We turn next to our sector review.

## **DATA STORAGE**

### **EMC (\$11.16 – Strong Buy)**

This company reported first quarter results, which in our view was another dazzling quarter.

Key takeaways:

1. The company's message to the market, "information life cycle", is the right one, and assuming appropriate investments by EMC, should propel double-digit growth for years to come.
2. Customer acceptance has been improving, and the fact EMC is being "loved again" as one of our friends put it, has positive long-term implications.
3. The three new software acquisitions are performing beautifully, which points to growth and much greater profitability in 2005 when they are integrated and shaken down.
4. Broadening into new incremental markets, such as the low end of the disk array market where we expect new products imminently, and getting people like Dell and Tech Data involved, i.e. third party distribution.
5. Despite all of the moves in the past year and the three acquisitions, the company still has no debt and \$6.2 billion cash (\$2.71 per share). For an \$8 billion sales company, this is impressive.

Random highlights for the quarter:

- Revenue for the quarter was at the high end of the range, or even a little above. EPS of \$0.06 after a penny non-recurring charge, was where it was supposed to be. Forward guidance for next quarter again shows revenue at the high end if not a little beyond, and conservative EPS of \$0.08, which looks light by at least a penny. Good report.
- Gross margin of 50.1% was also a pleasant number, showing the effects of software, and volume. This compared with 43.2% a year ago. *By our calculations (not a company figure) hardware gross margins were 29.2% against 24.5%.*
- We liked software performance, shown below (remember seasonal in this business is 1Q is fallback from 4Q).

	Revenue in \$ millions	
	4Q03	1Q04
EMC-only platform s/w	\$251	\$251
Multi-platform rev. + Maintenance revenue		
EMC	228	226
Legato	74	79
Documentum	81	111
VMware	31	87

Documentum and VM are not valid comparisons because they were not consolidated for much of 4Q03, but we believe would have showed meaningful growth. Legato is a valid compare, and to us shows the increased credibility in the market by being part of EMC.

So, for the company as a whole, we see:

#### Quarterly revenue and earnings

	(Rev. in \$ mill., EPS in cents per share)									
	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04E	3Q04E	4Q04E	2004E
Rev.	\$1.38	\$1.48	\$1.51	\$1.86	\$6.24	\$1.87	\$1.97	\$2.05	\$2.25	\$8.09
EPS	0.02	0.04	0.05	0.10	0.21	0.06	0.09	0.10	0.12	0.37

Source: Company reports and NSL estimates

Perceived limitations for the stock:

- IBM and Hitachi (HIT - \$71.20 – Not Rated) will be out in the second half with new products and will do some damage to EMC's outlook. In our view, this is to be expected, otherwise IBM and Hitachi will quietly go out of business. Damage to EMC? Remember the truism in the industry, all unannounced new products run unbelievably fast, are unbelievably cheap, and never breakdown. Once

announced, of course, they don't run that fast, they're expensive, and they break down.

- Valuations are still not that cheap. In our view, for the class of merchandise here, they are cheap.

*EMC stock sells for about \$9, if one deducts cash from the market price, inasmuch as this is a positive cash flow business. With estimates of \$0.37 this year and \$0.56 next, the stock has excellent upside in a little better market. No change in our \$20 one-year target; reaffirm Strong Buy rating. (Our target calculated on the basis of 35x estimated 2005 EPS, but can be derived other ways as well.)*

### **Network Appliance (\$18.61 – Strong Buy)**

There are no particular news items to report. The stock is suffering a little from some of EMC's problems, namely, in a corrective phase of the market it is not likely to perform due to perceived high valuation. *The company has the quality and high growth rates to remain among the elite in the computer hardware industry. We are keeping our \$30 target and Strong Buy rating.*

## **SERVERS**

### **IBM (\$88.17 – Hold)**

The principal event we noted this quarter was the quarterly report and conference call. There are not a lot of takeaways to report.

Key takeaways:

1. The quarter EPS was "in line" with consensus, revenue a shade higher – but guidance for the rest of the year was left as it was, unaffected. Probably a mild disappointment.
2. In IBM's view, business is "improving." Customers have worked off excess capacity of the '90s and are buying. Consider this a foundation to a broader recovery.
3. Subsequent to the conference call, at the annual meeting, IBM indicated worldwide economic growth was occurring, and raised the cash dividend 12.5%.

Highlights of the quarter:

- The Services business, about half of revenue, grew 9% – adjusted for currency the figure was 1%. This is in the range as we see it of competitor's performance.
- Hardware sales were up 16%, 10% ex currency, with the key part the traditional z-series mainframes.
- Software, ex currency, grew 3%.
- Personal systems up 18% driven by laptops, lost \$11 million (loss was \$59 million last year).
- Cash flow strong, \$8.5 billion cash.

*We see nothing in this picture to get investors aroused. The stock's backbone strength is in a difficult market. In general, IBM is a good defensive stock. Here, we rate it Hold given the moderate multiple, we are not ready for all out defense..*

### **Sun Microsystems (\$3.90 – Hold)**

Sun had a busy month, first, announcing a restructuring; second, announcing a broad agreement and settling litigation with Microsoft; and third, pre-announcing, then announcing, second fiscal quarter earnings.

#### Key takeaways:

1. The restructuring to us may be as long as two years overdue, makes us less confident about the short term earnings outlook, and is an unnecessary concession to Wall Street at this point in time.
2. While \$2 billion cash is nice to have, and Microsoft has agreed to technical collaboration, Windows certification for certain Sun servers, certain support for Java, and settlement of patent and other litigation, we have the impression that it is Sun who has caved in.
3. The quarterly report was less than we were expecting. – revenues were down 8% sequentially, 5% down year-on-year, gross margin was off a point and a half, and non-GAAP EPS was a loss of \$0.08 against breakeven a year ago.
4. Despite these criticisms, we would also have to say the company's viability has probably been enhanced by the steps taken.

#### Highlights:

- The restructuring, a layoff of 3,300 people, should have come long ago, in our view. The only response to the recession up to now has been a reduction in force of 1,000 people. This is more like it. The savings will be more than \$0.05 per share fully taxed in reported earnings. The appointment of Jonathan Schwartz as president and chief operating officer is another step long overdue. Coming now, rather than earlier, CEO McNealy has the appearance of bowing to investor pressure. Mr. Schwartz, age 38, had been executive vice president of Software. Heavily involved with Solaris System 10 and the Java systems strategy, the hope is this is a signal of a shift to more of a software company, which in the long run looks actually the most attractive option open to Sun.
- The Microsoft settlement came as a surprise to Wall Street, considering years of animosity and bitter disputes between the two companies. This was instigated by Sun, and must be interpreted, we think, as Sun seeing a hopeless task in owning the desktop, and the absolute necessity of Microsoft on smaller computer systems. The fact that Sun has given up is perhaps not all bad.
- Operating results continue under competitive pressure and not enough large systems in the computer room. Just how long a technological tail

UNIX has, and how rapidly and strong the Opteron program is going to be, are both hard to judge right now.

*In sum, we see a lengthy process of transition. This is not inconsistent with the Long Term Buy rating we had been carrying.*

### **Hewlett-Packard (\$19.70 – Strong Buy)**

We have no new news to report. *As discussed in our last issue, the stock is a combination of pretty good defense with some offense. The lowest multiple in our universe adds to the appeal. Maintain our Strong Buy, should be a fairly good stock in this kind of market.*

## **PC-SPACE**

### **Dell Computer (\$34.78 – Hold)**

In several investor presentations Dell has suggested that it is ahead of schedule in driving revenue to a \$60 billion goal in 2006 (15% CAGR) and that the current quarter looked to be about \$200 million more in revenue than expected. While we have not changed any estimates, Dell continues to do well.

*Our principal problem is that everybody already knows that, and the market cap is nearly \$100 billion. It is an excellent defensive stock, but hard to beat the market with it in an up market. No change in our Hold rating for now.*

### **Gateway (\$4.82 – Buy)**

Gateway had a slew of announcements along with the quarter, as expected, on April 29. We have adjusted our estimate for 2004 (loss of \$0.63 per share) but are suspending our 2005 estimate pending re-study of the new company structure. With the second and third quarters admittedly “transition” quarters, we have softened our rating on the stock from Strong Buy to Buy. Even our “Buy” is conceptual, because the necessary steps to sustained profitability are only being talked about and are not in place. We think it highly likely these steps will be completed in the next few months.

Key takeaways:

1. Cost-effective distribution continues to appear the major driving force behind the merger with eMachines. Gateway has now closed all 188 of its stores and talks are under way with major retailers to carry Gateway consumer electronics lines.
2. Gateway PC may now be offered in stores as a premium brand complementing eMachines, although such positioning is yet not firm. Gateway will continue to operate its 800 number and web selling.
3. Management indicated a cut in staff to 2,000 by yearend from 3,500 currently and over 7, 000 at the beginning of the year (which included store personnel). We

would guess Gateway will be shrinking PC into a limited number of standard configurations and possibly more outsourcing to do this.

4. Costs are coming out of this operation like a rocket ship. The key question is what volume can be derived.

Highlights:

- Gateway was doing \$300 million a quarter in the stores with \$60 million a quarter overhead. Either Gateway had to get a 30% gross margin or a \$600 million a quarter business just to break even.
- Cash was \$932 million, down \$157 million, included were \$60 million of the eMachines acquisition cost. Restructuring and transformation costs will be high the next few quarters, the cash portion of which is hard to judge. We would guess cash will bottom out around \$700 million, which would be quite acceptable.
- PC's shipped were 604k, up from 506k a year ago – eMachines in one month added enough units to offset a decline in Gateway. ASP declined to \$1,006 from \$1,155 in Q4 due to inclusion of eMachines.
- Nothing was said about Gateway's two preferred issues, which will apparently be addressed later in the year.

Gateway's plans seem to be to have enough agreements signed, such as Best Buy and Circuit City, to get PC products in the stores in time for back-to-school season and electronic products for the fourth quarter. If Gateway's traditional business over the phone and the web holds up, then this new combination could be off to the races.

*There are a lot of "ifs" in this situation, but we think it will probably work out. Mr. Inouye, our new CEO, came from Best Buy, and would look to be the right man to put major retailer agreements in place. Buy.*

**nVidia Corporation ( \$20.52 – Strong Buy)**

This was not a reporting month for nVidia, due to a different (January 31) fiscal. However, we believe the **quarter** is going as planned, PC demand is holding up nicely, and market reports show very little change in market share vis a vis ATI of Canada, the company's principal competitor.

Incidentally, we are doing background work on ATI and expect to **add it to our coverage** list perhaps as early as next month.

Anyway, there was a major event this month, the announcement of the GeForce 6800 Ultra and the 6800 graphics processors.

Key takeaways from this announcement:

1. This new family is the official name for the code-name NV-40 series – and is represented to be the largest generation leap ever made.
2. On average, performance is up 2x over the previous line.

3. Brand new design, with 16 superscalar pipelines (previous models had 4 pipelines).
4. Fully supports Microsoft Direct X9 Shader 3.0, a vast improvement over Shader 2.0 which will permit elaborate things with very long instructions; so far as is known the nVidia product is the *only* chip on the market offering this feature.
5. Technology is 220 million transistors on a chip with 0.13 micron technology from IBM Microelectronics. The mid-life kicker, the 0.11 micron, is being developed by Taiwan Semiconductor, presumably IBM is to follow that with 0.9micron. The product plan is well thought out.
6. Reviews have been highly favorable, e.g. from *PC Perspective*: “Nvidia has made tremendous progress in image quality and has managed to raise the performance bar to new heights at the same time.”
7. Arch rival ATI’s spring announcement is not expected to offer 32-bit color, 3.0 Shading, or have nearly as many pipelines. More on this later, as available.

So, the situation at nVidia boils down to this – significant acceleration in sales and earnings beginning the second half this year.

Revenue in \$ millions, EPS in cents per share  
(fiscal years ending 1/31, data actual through FY04)

	1Q04	2Q04	3Q04	4Q04	FY04	1Q05	2Q05	3Q05	4Q05	FY05
Revenue	\$405	\$460	\$486	\$472	\$1,823	\$468	\$480	\$550	\$590	\$2,088
EPS	0.12	0.14	0.11	0.14	0.50	0.14	0.14	0.21	0.26	0.75

Source: Company reports and NSL estimates.

*Acceleration of growth in the second half this year and all of next year, rising margins, entry into interesting new markets, plentiful cash, all suggest a strong performing stock and in our view a high multiple stock. With prospects for over \$1 in EPS a year out, nVidia should be a \$30-plus stock. One caveat: because of generous option plan, the company will be found on any list showing “victims” of expensing stock options. If this becomes the law of the land, we expect nVidia to make adjustments (size, type, etc.) in their option plan to minimize the effect.*

### **Lexmark International (\$90.46 – Strong Buy)**

Lexmark’s quarterly report was the principal news item this month. Sales and earnings exceeded expectations. This is always well received, and estimates are going up.

Key takeaways:

1. Lexmark is an outstanding company in a growth industry.
2. Performance is overcoming valuation concerns, with the expectation of a higher, growth multiple to come.

Highlights:

- Revenue was \$1.26 billion, up 13%. The key Supplies category grew 14%.
- EPS rose 25% to \$0.91 per share. Gross margins improved, and operating expenses improved slightly.
- “All-in-One” printers and single function printers were both very strong.
- Consumer business strong, business use mixed, with double digit unit growth but less in revenue.
- Replacement rate at consumers traditionally 3 years, tending to shorten some; corporate replacement rate typically 5 years, tending to lengthen some.
- \$1.4 billion cash, channel inventory looks good.
- Guidance next quarter high single-digit to low double-digit growth, EPS broad range \$0.88-0.98.

On a quarterly basis, the comparisons look like those below, we think:

(Revenue in \$ millions, EPS in cents per share)

	1Q03	2Q03	3Q03	4Q03	yr03	1Q04A	2Q04	3Q04	4Q04	Yr04	Yr05
Rev	\$1108	\$1120	\$1157	\$1370	\$4755	\$1236	\$1240	\$1290	\$1550	\$5316	\$5900
EPS	0.73	0.77	0.79	1.05	3.34	0.91	0.93	0.95	1.15	3.94	4.36

Source: Company reports and NSL estimates.

*Lexmark is a good combination of growth, defensive strength, and quality. The record is superb. The overseas competitors are hampered by currency exchange, Hewlett is restrained by the need to finance its total business, and Dell is not against us, it is a business partner. Remains a Strong Buy.*

## OUTSOURCING

### Unisys (\$13.03 – Strong Buy)

This month, Unisys reported the first quarter results and announced some management changes.

Key takeaways:

1. CEO Larry Weinbach remains as CEO and chairman through January 2005, then becomes chairman through January 2006, while Joe McGrath becomes CEO. This is an orderly succession, and McGrath, who runs Services, appears a good choice. *Our take is that Larry has cast a long shadow over this stock and the elevation of McGrath could turn out very beneficial to holders in giving investors a fresh chance to look at the company that Larry spent so much time rebuilding.*

2. Results were “in line” with revenue and earnings expectations (ex pension accounting).
3. Orders appeared to be down – but were not really – orders at virtually all the key services operations were up, and technology was up – only outsourcing had a big contract last year not present this year.
4. Some \$850 million in large outsourcing contracts are in house but were not counted in orders or backlog since funding has not yet been firming up.

Highlights of the quarter:

- Revenue in Q1 was up 5% year to year, but would have been down 2% without currency. This is the general range competitors have been reporting. EPS was \$0.13 vs. \$0.10 – if we exclude pension accounting (as we are). In-line.
- Some interesting new business: \$110 million five year deal with Interpay of the Netherlands for payment processing, and a potential \$345 million five-year deal with DOD for Counterintelligence Field Activity (only an initial \$11 million has been funded so far).
- \$116 million positive cash flow, vs. usage of \$65 million a year ago. This is very unusual, since for many years Unisys has been a cash consumer in Q1.
- Guidance unchanged: Q2, revenue up mid-single digit, EPS \$0.14-0.17, for the year mid-single digit for revenue, \$0.83-0.87 in EPS (all EPS figures are ex pension accounting).

*Unisys is a cheap stock with a good story, we think. Good services opportunities with the banks under Check 21, good opportunity in homeland security. Multiple around 13-14x what we think can be done in 2005, plus some potential visibility from a new management. Maintain Strong Buy. Drawback needs to be mentioned: some investors will look at Unisys including negative figures from pension accounting – we think looking at operating results will prevail, otherwise we'll just have to work through a couple more quarters absorbing it.*

## PERFORMANCE IN OUR UNIVERSE

Again in April the overall markets declined with the S&P 500 Index down 1.7% and the NASDAQ Composite down 3.7%. The majority of our names declined more than the market with storage stocks EMC and Network Appliance down 18% and 14%, respectively. In the server segment, Hewlett-Packard was down 14% while IBM declined 4% and Sun decreased by 7%. nVidia was down 22% in April, ATI declined 11% and Gateway 9%; Lexmark was down in line with the overall market at 1.7% and Dell was actually up 4% during the month. Wireless stocks had mixed performance as palmOne declined 24%, Research in Motion was down 7% and PalmSource was up 15%. Performance of the outsourcing stocks was also mixed with Jabil down 10%, Taiwan Semi and Unisys each declining 9% and Flextronics down 6% while Celestica increased 7% and Globix was up 4% in the month.

## **ESTIMATE AND RATING CHANGES**

The principal estimate changes we made were meaningful increases in '04 and '05 at Lexmark and an increase in the Gateway loss for 2004. Other changes were fine tuning and small. We changed the rating on Sun Microsystems from Long Term Buy to Hold and moved Gateway from a Strong Buy to Buy. We have added ATI Technologies with an initial rating of Hold.

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 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 4/30/2004	52-week Range	2003A	E.P.S. 2004E	2005E	P/E 2004E 2005E		Rating
S&P 500*	SPX	1107	1163 903	\$54.71	E \$61.19	\$66.43	18	17	
NASDAQ Composite	COMP	1920	2154 1451						
<b>Storage</b>									
EMC Corp. (Dec)	EMC	11.16	16 - 9	\$0.22	\$0.37	\$0.56	30	20	STRONG BUY
Network Appl. (Apr)	NTAP	18.61	27 - 14	\$0.40	\$0.57	\$0.74	33	25	STRONG BUY
<b>Servers</b>									
Hewlett-Packard (Oct)*	HPQ	19.70	26 - 16	\$1.16	\$1.44	\$1.63	14	12	STRONG BUY
IBM Corp. (Dec)*	IBM	88.17	100 - 79	\$4.34	\$4.95	\$5.52	18	16	HOLD
Sun Micro. (Jun)*	SUNW	3.90	6 - 3	(\$0.10)	(\$0.15)	\$0.05	NMF	NMF	HOLD
<b>Personal Computers</b>									
ATI Technologies (Aug.)*	ATYT	14.57	18 - 6	\$0.42	\$0.78	N/A	19	NMF	HOLD
Dell (Jan fol.)	DELL	34.78	37 - 29	\$1.01	\$1.26	\$1.44	28	24	HOLD
Gateway (Dec)	GTW	4.82	7 - 3	(\$0.96)	(\$0.63)	u/r	NMF	NMF	BUY
Lexmark (Dec)	LXK	90.46	97 - 59	\$3.34	\$3.94	\$4.36	23	21	STRONG BUY
nVidia (Jan fol.)	NVDA	20.52	28 - 15	\$0.48	\$0.75	\$1.10	27	19	STRONG BUY
<b>Wireless</b>									
palmOne (May)*	PLMO	16.19	28 - 9	(\$1.65)	\$0.49	\$1.15	33	14	HOLD
PalmSource (May)*	PSRC	20.83	48 - 16	u/r	\$0.24	u/r	87	N/A	u/r
Res. in Motion (Feb)*	RIMM	87.10	111 - 16	\$0.33	\$2.70	\$3.61	32	24	HOLD
<b>Outsourcing</b>									
Celestica Inc. (Dec)*	CLS	17.58	22 - 12	(\$0.11)	\$0.41	\$1.26	43	14	HOLD
Flextronics Intl. (Mar)*	FLEX	16.07	20 - 9	\$0.35	\$0.59	\$0.80	27	20	HOLD
Globix (Sep)	GBXX	3.43	5 - 2	u/r	u/r	u/r	N/A	N/A	HOLD
Jabil Circuit (Aug)*	JBL	26.39	32 - 18	\$0.80	\$1.11	\$1.36	24	19	HOLD
Taiwan Semi. Mfg. (Dec)*	TSM	9.53	13 - 8	\$0.34	\$0.59	\$0.72	16	13	HOLD
Unisys (Dec)	UIS	13.03	17 - 10	\$0.78	\$0.85	\$1.04	15	13	STRONG BUY

Note: Globix now trading post-bankruptcy. New Symbol GBXX.

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 April	2004 year to date
	12/31/2002	12/31/2003	1/30/2004	2/27/2004	3/31/2004	4/30/2004		
S&P 500	879	1112	1131	1145	1126	1107	-1.7%	-0.4%
NASDAQ Composite	1335	2003	2066	2030	1994	1920	-3.7%	-4.2%
<b>Storage</b>								
EMC Corp. (Dec)(1)	6.14	12.92	14.04	14.32	13.61	11.16	-18.0%	-13.6%
Network Appl. (Apr)	10.00	20.44	22.38	21.66	21.53	18.61	-13.6%	-9.0%
<b>Servers</b>								
Hewlett-Packard (Oct)	17.36	22.97	23.79	22.71	22.84	19.70	-13.7%	-14.2%
IBM Corp. (Dec)(1)	77.50	92.68	99.23	96.50	91.84	88.17	-4.0%	-4.9%
Sun Micro. (Jun)	3.11	4.47	5.29	5.31	4.17	3.90	-6.5%	-12.8%
<b>Personal Computers</b>								
ATI Technologies (Aug)	4.65	15.12	16.32	15.60	16.36	14.57	-10.9%	-3.6%
Dell (Jan)	26.74	33.98	33.38	32.65	33.62	34.78	3.5%	2.4%
Gateway (Dec) (1)	3.14	4.60	4.72	5.43	5.28	4.82	-8.7%	4.8%
Lexmark (Dec)	60.50	78.64	82.89	82.29	92.00	90.46	-1.7%	15.0%
nVidia (Jan)	11.51	23.20	22.25	22.25	26.40	20.52	-22.3%	-11.6%
<b>Wireless</b>								
palmOne (May)	15.70	11.75	10.30	10.03	21.40	16.19	-24.3%	37.8%
PalmSource (May)		21.77	18.50	19.35	18.17	20.83	14.6%	-4.3%
Res. in Motion (Feb)	13.12	66.83	87.02	98.90	93.33	87.10	-6.7%	30.3%
<b>Outsourcing</b>								
Celestica Inc. (Dec)	14.10	15.07	17.15	17.93	16.40	17.58	7.2%	16.7%
Flextronics Intl. (Mar)	8.19	14.80	19.00	18.01	17.09	16.07	-6.0%	8.6%
Globix (Sep) (1)(2)		4.00	3.95	3.02	3.29	3.43	4.3%	-14.3%
Jabil Circuit (Aug)	17.92	28.30	29.60	27.98	29.43	26.39	-10.3%	-6.7%
Taiwan Semi. Mfg. (Dec)(1)	7.05	10.24	11.18	10.39	10.44	9.53	-8.7%	-6.9%
Unisys (Dec)	9.90	14.85	13.84	14.13	14.28	13.03	-8.8%	-12.3%

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

Globix stock quoted is post-bankruptcy stock.

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 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	Globix Spec. Buy 10/31/2001 at \$.056 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	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
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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