

Recommendation: **HOLD** ★★☆☆☆ 12-Month Target Price: **\$34.00** (as of November 01, 2005)

Sub-Industry Outlook

Our fundamental outlook for the S&P Computer Hardware sub-industry remains neutral. Year to date through February 3, the S&P Computer Hardware Sub Industry Index rose a modest 0.4%, underperforming the S&P 1500, which rose 1.8% during the same period. Indeed, the index underperformed in 2005, falling 2.2%, compared with a 3.8% rise for the broader market. We remain concerned that unit growth figures for the personal computer market will begin to face more difficult comparisons in 2006, and we see sustained pressure on pricing. However, we believe that many computer hardware vendors have taken costs out of their infrastructures over the past few years. Therefore, we believe that with a backdrop of steady demand for information technology (IT) products in 2006 and with cost cutting offsetting continued pricing pressure, the S&P Computer Hardware sub-industry index should perform in line with the performance of the overall market.

We see longer-term fundamentals in the computer industry remaining attractive, as we think that a global appetite for technology products should boost productivity and communications. We see global competition forcing companies to be more productive; we think this is being achieved largely

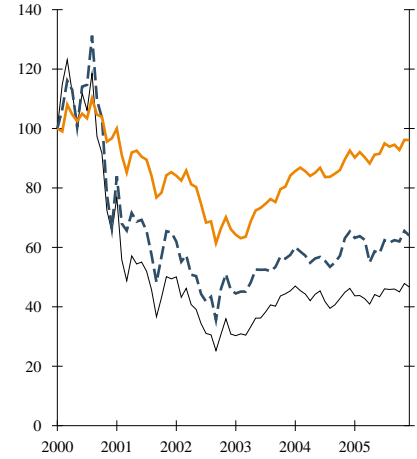
through technology. Many vendors have also streamlined operations during the industry's downturn, and we see this boosting longer-term profit potential.

We believe the benefits of Internet-related computing for the computer industry may be in the early stages. Demand for Internet-based applications is growing; we think this is because they offer companies opportunities to reduce costs and improve customer service. Although some initial deployments have been made to capitalize on this opportunity, we think the evolution of the platforms could produce another wave of investment as Internet use matures. For example, we think the growing complexity of computing infrastructures could lead to investments in hardware that have self-management features and eventually on-demand or automated computing. In addition, as price pressures in the PC industry have remained intense, we think that hardware vendors have been seeking to offset the negative impact on profits by offering wider-margin services, servers and storage.

--Megan Graham-Hackett

Stock Performance

GICS Sector: Information Technology
Sub-Industry: Computer Hardware
Based on S&P 1500 Indexes
Month-end Price Performance as of 01/31/06



Note: All S&P & Sub-Industry Information is based on Global Industry Classification Standard (GICS)

Sub-Industry: Computer Hardware *Peer Group: Computer Hardware - Large System Vendors

Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-Mo. Div. Yield	30-Day Price Chg(%)	1-year Price Chg.(%)	Beta	Yield (%)	Quality Ranking	Stk. Mkt. Cap. (Mil. \$)	Ret. on Equity (%)	Pretax Margin (%)	LTD to Cap. (%)
Dell, Inc.	DELL	29.00	20	1.46	-1%	-28%	1.07	Nil	B+	68,252	47.7	9.0	7.2
Hewlett-Packard	HPQ	36.26	36	0.92	5%	58%	1.78	1.0	B+	93,103	6.4	4.1	8.4
Intergraph Corp	INGR	10.24	10	0.89	-3%	22%	0.72	Nil	B-	1,054	38.4	42.4	0.2
International Business Machines	IBM	6.18	12	4.89	-1%	-13%	1.56	1.0	A	126,740	29.3	12.5	33.3
NEC Corp.	NIPNY	5.18	22	0.30	-6%	-4%	1.60	0.6	NR	11,903	9.0	3.1	43.7
Palm Inc.	PALM	4.30	17	5.79	9%	73%	2.35	Nil	NR	2,083	12.4	6.3	5.7
Silicon Graphics	SGID	0.11	NM	-0.38	18%	-63%	NA	Nil	C	109	NM	NM	370.0
Sun Microsystems	SUNW	4.17	NM	-0.09	-3%	-1%	NA	Nil	C	14,432	NM	NM	14.4

NA-Not Available NM-Not Meaningful NR-Not Rated *Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.