

MOVERS & SHAKERS

By Lauren Keyson

Three Hot Areas to Be in IT

Security, Compliance, and Service-Oriented Architecture

Exclusive TTB Interview with Greg Butterfield
President & CEO, Altiris, Inc.

Altiris (ATRS) is establishing service-oriented management solutions to help companies reduce the overall cost and complexity of managing IT. Service-oriented management is part of an evolution that has been occurring for the past couple of years. It takes the concepts of integrating people, process and products to align IT with business objectives. IT automation, integration and security are significant components of this strategy.

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KEEPING UP

By John Filar Atwood

Market Woes Drive Prices, Valuations Down

Trouble in the broader market has taken its toll on tech stocks. Many have suffered price declines in the past month, and it may take a while for them to climb back up. Lower stock prices mean lower valuations, which can be good news for bargain hunters. In some cases, however, valuations were a little rich to begin with, and the stocks are now more fairly valued. Here's a look at where analysts feel the new valuations have created buying opportunities and other news from around the industry.



Electronic Manufacturing Services

The recent weakness in the broader market could create some opportunities in this space. Brain White of Jefferies & Co. thinks that **Jabil Circuit's (JBL)** 18% decline since April makes it very attractive. He initiated coverage of JBL with a Buy rating based both on performance and valuation. He noted that JBL has gained more market share in the past five years than any other U.S.

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TECH POINTS

A Correction Finally Materializes

Past performance is no guarantee of future results. If you combine the lack of a 10% correction with the typical seasonal weakness, stubbornly high oil prices, political tensions with Iran, the worries over additional interest-rate increases and the upcoming earnings reporting season – in which S&P analysts project an 8% year-over-year increase in operating earnings for the S&P 500 (snapping the string of 16 straight quarters of double-digit increases) – some might question why it took so long for a correction to finally materialize.

Mark Arbeter, S&P's Chief Technical Strategist, believes the S&P 500 is putting in a near-bottom and will likely re-test the 1325 high within the next few months. One approach is to snap up the higher-ranked issues in the groups that have been beaten up and may rebound the sharpest should the market bottom and rally from here.

S&P 1500 Sub-Industries with the Worst Performances 5/9/06-6/6/06*

Sub-Industry Index	% Chg.	STARS
S&P Composite 1500	(5.0)	
Building Products	(12.5)	ASD (4*, \$40), MAS (4*, \$30)
Construction & Engineering	(14.2)	JEC (5*, \$76)
Construction Materials	(15.2)	VMC (4*, \$77)
General Merchandise Stores	(11.3)	FDO, (4*, \$24), TGT (4*, \$48)
Gold	(11.3)	NEM (4*, \$51)
HR & Employment Serv.	(11.2)	RHI (5*, \$40)
Inv. Banking & Brokerage	(10.0)	ET (5*, \$23), GS (5*, \$149), MER (5*, \$71)
Oil & Gas Drilling	(11.8)	NBR (5*, \$35), NE (5*, \$69)
Semiconductor Equipment	(14.3)	AMAT (5*, \$17)
Trading Comp. & Distributors	(14.4)	GWW (5*, \$72)

*That Include Positive STARS Recommendations

Source: Sam Stovall, Chief Investment Strategist,
Standard & Poor's



Economic Outlook

By Ira Gamm

Dow Fizzles on Fed Warning of Inflation Risk

The markets have been pretty dismal as major indexes retreated to close to year-opening levels. Federal Reserve Board Chairman Ben Bernanke made the appropriate noises for an inflation hawk, but he spooked the market by acknowledging that the economy is slowing. Traders aren't happy because, if indeed the economy is slowing and Bernanke keeps hiking rates to battle inflation, he'll stifle growth, causing stagflation (the economy slows but the inflation beast remains on the prowl).

You can bet the Federal Reserve will try to keep inflation from accelerating even as economic growth slows. Recent public comments from several Federal Reserve officials, including Bernanke, have led securities traders to increase their bets that the rate-setting Federal Open Market Committee will raise interest rates for the 17th time when it meets on June 28 and 29.

Fed watchers are now expecting the Fed to lift its overnight rate to 5.25% from 5% and then stand pat for the rest of the year. During the last two years, the Fed has boosted interest rates 16 times, each in quarter-point moves. Rates may continue to rise, depending on how inflation unfolds.

Interest-rate anxiety helped send the Dow Jones Industrial Average to its first sub-11,000 finish since March 9. The Nasdaq Composite Index, whose many technology stocks have suffered during the past month's pullback, hit a seven-month low.

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MOVERS & SHAKERS

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Lauren Keyson (The Tech Briefing): How is this working for you?

Greg Butterfield (Altiris): Systems management vendors have a bad habit of releasing poorly integrated products that lack built-in methodologies and processes. Altiris has built its technology to be service-oriented architecture ready. In other words, an integrated, modular and standards-based approach to IT management makes our customers more effective at solving their most pressing business needs.

LK: You are also involved in "virtualization" for the enterprise. Can you tell us a little about that?

GB: Virtualization is another hot trend that's taking place in IT, and we have a compelling, new offering that moves virtualization to the level of software applications. Altiris Software Virtualization Solution helps our customers by improving the overall productivity of their systems through application conflict elimination. Altiris is clearly a leader in software virtualization, while, at the same time, we have developed capabilities to help IT organizations manage the rapidly expanding use of virtualized servers.

LK: What other trends do you see happening within your particular niche?

GB: Another key trend would be security and the integration of security with systems management. Today, the IT organizations we address are typically divided into two different groups: 1) Security. This group is looking for technology weaknesses, vulnerabilities, threats, worms, and 2) Operations. This group is tasked with security remediation and general systems management. Altiris is pioneering the convergence of security and systems management within the context of service-oriented management. Altiris gives its customers the ability to identify weaknesses and then remediate and solve the problems.

Another trend is service-oriented architectures or the ability for companies to dynamically link technologies to create highly interoperable Web services that reduce the overall cost and complexity of software usage. Altiris has defined service-oriented management through the development of systems management and security capabilities that are ready for today's service-oriented architectures.

LK: So how is your company doing overall?

GB: Our company continues to do very well. We now have seven years of consecutive year-over-year growth. We have grown from \$3 million just seven years ago to \$187 million last year. We went public in May 2002, and, at that time, we were the first software company to go out in the previous 18 months.

LK: So do you think information technology currently is a good place for investors to put their money?

GB: Yes. I think the strongest IT companies today are focused on delivering rapid value, while aligning IT with business objectives. Technology for technology's sake won't make the grade these days. That said, there are IT segments that have slowed down, but, overall, we believe there are several strong areas in the IT industry. We believe that Altiris continues to drive and pioneer innovative technology that presents opportunities for significant growth going forward.

LK: You mentioned that there are a number of areas in IT that you think would be a good place for investors to put their money. What are some of those areas?

GB: Security continues to be a key problem and a key driver, and companies that provide security solutions continue to experience good growth. So I would look for companies that help make systems more secure. Governance and compliance is another hot topic and will continue to be hot. Altiris continues to deliver solutions that automate and help reduce the cost and complexity of compliance. And finally, the emergence of service-oriented architectures, which help reduce the cost and complexities of technology, is another hot area. And the key thing here is that Altiris is in all three of those different categories!

Greg Butterfield is chairman of the board of directors and the president and CEO for Altiris. Since joining Altiris in February 2000, he has provided the vision behind a sales model that has produced six consecutive years of revenue growth, while growing the company from 60 to 878 employees in the face of a discriminating economy. In Mr. Butterfield's first year with Altiris, annual revenues were \$10 million. 2005 annual revenues were \$187.6 million. In May 2002, Altiris completed a successful initial public offering (IPO). Greg was invited to the 2006 World Economic Forum as a Technology Pioneer. Greg has more than 20 years of executive-level experience in the software industry. ♦

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Your Key to IT Investing

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KEEPING UP

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EMS provider. Outsourcing trends favor the company, he said, as does its recent expansion into China and India.

SEMICONDUCTORS

After attending a PC conference in Taiwan, John Lau of Jefferies & Co. believes a quiet revolutionary change is underway in PC hardware. Intel (INTC) and Advanced Micro Devices (AMD) are battling to produce better-performing microprocessors and are largely even at this point. With their products performing similarly, Lau believes, the two companies are headed for a price war. He thinks INTC has a slight manufacturing advantage and rates it a Buy. He rates AMD a Hold, based on expected gross-margin pressure later this year.

Home Entertainment Software

Electronic Arts (ERTS) has lost more than 21% of its value this year. The company's valuation is now well below where it should be, according to Wedbush Morgan's Michael Pachter. He thinks investors have lost confidence in ERTS management, owing to rising operating costs. He thinks sales will exceed the company's recent guidance, and he upgraded the stock to Strong Buy from Buy. The stock trades at a 17x multiple right now, but he thinks it will climb to 30x earnings within the next year.

IT Consulting and Other Services

After meeting with certain industry representatives, Timothy Willi of A.G. Edwards has more confidence in the outlook for Western Union and, consequently, for **First Data (FDC)**. He expects growth to accelerate at Western Union, with no meaningful near-term competition in sight. He also thinks the domestic merchant business is starting a 12- to 18-month turnaround. As a result, he thinks the shares of FDC are undervalued, and he maintains his Buy rating on them.

Technology Distributors

Anixter International (AXE) reported that it has acquired IMS, Inc. for \$28.5 million in cash. IMS is a wire and cable distributor that generated \$36 million in sales in 2005. As a result of the acquisition, Jeffrey Beach of Stifel Nicolaus raised his 2006 EPS estimate to \$3.06 from \$3.05 and his 2007 estimate to \$3.57 from \$3.54. He reiterated his Buy rating on AXE, with a \$56 price target. Beach assumes a 15x forward EPS multiple, which is in line with AXE's historical levels.

Electronic Equipment Manufacturers

Data storage spending is helping out

Veeco Instruments (VECO), which appears to be on track for a solid June quarter. Spending by the top manufacturers, including **Seagate (STX)** and **Hitachi (HIT)**, has been strong, according to David Duley of Merriman Curhan Ford. He believes that the company's LED business could continue to grow given the increased spending on Taiwan, Korea and China on PC back lighting. He expects VECO to improve margins for the remainder of the year, and he reiterated his Buy rating.

Application Software

Parametric Technology (PMTC) has put substantial effort into turning around its Asia operations, including bringing in a new sales management team. A downturn in business in Japan had hurt the company in the last two quarters. Oppenheimer's A. Sasa Zorovic thinks PMTC will see a rebound in Asia in the second half of the year, and he reiterated his Buy rating. He said that resellers are reporting that product lifecycle management software is becoming a higher priority for customers and that average deal sizes are growing.

Systems Software

BMC Software (BMC) rode cost-cutting measures to a solid fourth quarter, with revenue and earnings both slightly ahead of consensus estimates. The company also provided guidance of 3% to 5% growth in license bookings after two consecutive years of double-digit declines. Kevin Buttigieg of A.G. Edwards thinks that continued cost cuts will help improve margins into fiscal 2007. However, he maintained a Hold rating until there is evidence that BMC's revenue growth initiatives are succeeding.

Communications Equipment

ADC Telecom (ADCT) reported a strong second quarter, beating revenue estimates with \$365.5 million in sales. The report was overshadowed by the news that ADCT will purchase rival **Andrew (ANDW)** for \$2 billion in stock. George Notter of Jefferies & Co. thinks the combination makes strategic sense but is wary of the integration risks posed by the deal. He maintained his Hold rating while ADCT's management works through the operational challenges presented by the merger.

Computer Hardware

Sun Microsystems (SUNW) released the details of a new restructuring plan that includes cutting about 5,000 employees. The company also will focus its efforts on its core products, such as the Open Solaris

and Java platforms. Deutsche Bank's Chris Whitmore likes the moves but thinks the market had already priced in significant cost cuts from SUNW. He maintained his Hold rating. He thinks 10% long-term operating margins will still be difficult for SUNW to achieve.

Semiconductor Equipment

Novellus (NVLS) provided a mid-quarter update in which it increased its estimates on orders, revenue, shipments and earnings. Healthy near-term industry fundamentals are behind the improved outlook, says Patrick Ho of Stifel Nicolaus. While he is taking a more positive view of NVLS, he remains neutral on the equipment industry in general. He maintained a Hold rating on NVLS, based on his industry view and on concerns about the company's market-share position.

Internet Software and Services

Google (GOOG) recently held its first Q&A conference call with Wall Street and reiterated its confidence in its growth potential. Youssef Squali of Jefferies & Co. believes that product innovation should continue at GOOG, and he maintained his Buy rating and \$500 price target. He thinks the company will benefit significantly from its recent partnership with **Dell (DELL)**. He also believes that demand from advertisers is so strong that there is room for GOOG and several competitors in the space.

COMPUTER STORAGE AND PERIPHERALS

A solid storage spending environment drove **Network Appliance's (NTAP)** \$584 million Q4 revenues and slight earnings outperformance. The company said that it expects 2% to 4% revenue growth in the coming quarter. Needham's Glenn Hanus was impressed by NTAP's quarter, noting that the company is successfully expanding its business to software, services, SAN support and IP-based storage. He likes NTAP's strong management and reiterated his Buy rating. He raised his target price to \$37 from \$35.

Data Processing and Outsourced Services

Convergys (CVG) is likely to lose some revenue from **Sprint Nextel (S)** in the coming year but is replacing it with employee care contracts. A 13-year \$1 billion contract with **DuPont (DD)** has already begun to contribute to CVG's top line. Peter Jacobson believes employee care contracts will be a key driver of growth for CVG. He expects this portion of the business to grow 33% in 2006 and 50% in 2007. He provides a Buy rating for CVG. ♦

Economic Outlook

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Fed Chairman Bernanke said that recent rises in measure of inflation were “unwelcome,” and he would ensure that the trend was not sustained. Atlanta Federal Reserve Bank President Jack Guynn echoed Bernanke’s worries, reinforcing fears that the Fed plans more interest-rate increases to cool down the economy. Core inflation levels, excluding food and energy costs, have “moved into the upper end of – or beyond – the range I consider acceptable over time,” Guynn said.

Susan Schmidt Bies, a Federal Reserve governor, also said recently, “We have high current inflation, and we are going to have some slowdown in some sectors in the months ahead. We are trying to balance that out.” She added, “The question is, have we given enough tightening that it is going to start to

put some pressure and pull inflation down with a lag, or do we still need to apply more pressure? Inflation in the high 2% range is above what I am comfortable with.”

The president of the Federal Reserve Bank of St. Louis, William Poole, who participates in Fed meetings but does not vote, said it would be “a lot safer strategy to err on the side of going a little too far” with interest rates and keep expectations of future price increases low.

Fed policymakers face a tricky situation with slowing economic growth and an uptick in inflation. Increased interest rates could stall growth and drive the economy into a recession, while not raising interest rates threatens to increase inflationary pressures. Bernanke, in his public comments, made it crystal clear that fighting inflation is the Fed’s No. 1 job right now. ♦



TECH SPOTLIGHT

By Shannon Swingle

Corel Offers Investors the Value Proposition

Courting the value proposition in consumer software, Ottawa, Ontario, Canada-based **Corel (CREL)**, with a market cap of nearly \$270 million, has returned to the public markets with a significant opportunity for investors. Analysts believe that Corel’s business model will allow it to maintain market share, while continuing to generate value.

Remember Word Perfect, CorelDRAW and Paint Shop Pro? Multimedia and graphics software producer Corel has a substantial leadership position in the “alternative” software that serves the low-cost and emerging markets.

Founded in 1985, Corel was taken private in 2003, and then returned to the public markets via a six-and-a-half million common share IPO at \$16 per share on May 2 of this year. Corel’s software products are benefiting from growth in the under-\$500 PC market, one of the fastest-growing segments of the PC industry. The company has an estimated installed base of more than 20 million users. Corel’s products are sold in more than 75 countries through OEMs, Corel’s websites, and a global network of resellers and retailers.

In addition to completing its IPO, Corel, on the same day, announced that it had completed the acquisition of WinZip Computing, the maker of one of the most frequently downloaded software products on the Internet. Through this acquisition, Corel adds some of WinZip’s top products, including WinZip, WinZip Companion for Outlook and WinZip Self Extractor.

“Corel is very pleased to welcome WinZip as the newest member of our award-winning software portfolio,” said David Dobson, CEO of Corel. “With a large, loyal user base and a globally established brand, WinZip is an ideal complement to Corel’s productivity and graphics and digital imaging product lines.”

While analysts anticipate steady single-digit organic revenue growth, some analysts believe that strategic acquisitions in the consolidating software industry could strongly enhance those numbers.

“We expect Corel to be a solid performer, lacking the volatility that characterizes most software companies,” said Steven Frankel of Canaccord Adams. “However, the prospect of single-digit revenue growth and a lack at this point of a proven track record as a public company are likely to depress the valuation. Over time, as earnings growth accelerates and the company builds its track record, we’d expect some multiple expansion.”

Sterling Auty of J.P. Morgan adds, “Future organic revenue growth is expected to be 4% to 6%, but it’s Corel’s ability to be an intelligent acquisition machine that should deliver double-digit earnings growth as they buy

properties to leverage through their vast distribution platform.”

The Thomson/First Call consensus of analysts has a mean recommendation of 2.2 within a range of 1.0 (Strong Buy) and 5.0 (Strong Sell). Analysts have a mean target price of \$16.50, with a high of \$20 and a low target of \$14. On June 5, Corel received three initiations of coverage: Morgan Stanley provided an Overweight rating, while J.P. Morgan and Piper Jaffray offered a Neutral and Market Perform, respectively. On June 7, Canaccord Adams initiated coverage with a Buy. CIBC World Markets initiated coverage on June 12 with a Sector Outperformer rating.

With such significant opportunities ahead for Corel, its greatest challenges will be competition on the high and low ends of the market, as well as successfully integrating its most recent acquisition to yield the greatest shareholder value. ♦

TECH UPS AND DOWNS

The following companies received ratings changes between May 29 and June 9:

Upgrades

Company	Consensus Rating	Consensus Target Price
Semtech (SMTC)	Outperform	\$20.79
Wind River Systems (WIND)	Outperform	\$14.50
Diodes (DIOD)	Outperform	\$44.92

Downgrades

Company	Consensus Rating	Consensus Target Price
ADC Telecom (ADCT)	Hold	\$23.83
Credence Systems (CMOS)	Hold	\$7.16
Hummingbird (HUMC)	Hold	\$28.17

Source: Reuters Estimates

TECH IN THE NEWS

By Ira Gamm

Beware Some Emerging Markets, but India Appears to Be the Favorite

Dell to Upgrade Line of Server Computers

Dell (DELL) will begin shipping an upgrade to its line of server computers in hopes of grabbing market share from Hewlett-Packard (HPQ), the worldwide market leader, the *New York Times* is reporting. The upgraded systems, known as the PowerEdge series, represent a new approach for Dell, which focused on simplifying the task of installing and managing servers, not just selling them. The new servers, according to the company, are faster and more powerful than their predecessors, while offering a uniformity across systems that made them easier for corporate customers to manage. Dell trails H-P in the worldwide market for X86 servers, with a 24% market share, compared with H-P's 30%. IBM is third with 16% of the worldwide market. Dell holds the market lead in the United States but is outsold by H-P in every other major world region.

Russia Puts Motorola on Hold

When a shipment of 167,500 Motorola (MOT) mobile phones arrived in Russia last March, Russian authorities impounded the entire shipment, declaring the whole consignment as smuggled goods, according to a *Wall Street Journal* report. Motorola's recent Russia troubles highlight the risks for Western companies chasing profits in emerging markets, where legal protections aren't nearly as robust as in more mature economies. Russia is the biggest mobile phone market in Europe, with sales more than doubling since 2003 to top 33 million handsets last year. The phones, valued at \$15 million, are now sitting in a government warehouse near Moscow. Senior Motorola executives have been holding back-to-back meetings with Russian officials to try to get the phones returned.

Chip Sales Forecasted to Grow by 10%

The Semiconductor Industry Association increased its projection for 2006 growth in chip sales to 10% from 7%, citing stronger-than-expected demand for cellular phones and other consumer electronics, the *Wall Street Journal* reported. The San Jose, Calif., trade group now expects sales of approximately \$250 billion this year, compared with the previous forecast of \$245 billion. About one billion cellular handsets will be sold worldwide in 2006, according to the association. It said cell phones are now second only to personal computers in terms of total chip consumption. Sales of flash memory are projected to increase 20% to \$22.3 billion in 2006, ahead of the group's earlier estimate of 15% growth.

IBM Seeks Bigger Footprint in India

International Business Machines (IBM) will triple its investment in India to almost \$6 billion in the next three years, according to a story in the *Wall Street Journal*. The investment pledge will expand the company's already large footprint in Bangalore. IBM will invest in new software labs and centers that develop products and services, as well as test and deliver them to customers. With 43,000 employees in India, IBM already is the biggest multinational company in the country, and it employs more people in the country than anywhere outside the United States, where it employs 125,000. The investments will build on the \$2 billion IBM has pumped into India in the past three years. IBM isn't the only U.S. technology company investing heavily in India. Cisco Systems (CSCO) said it will invest \$1.1 billion in research and training. Intel (INTC) and Microsoft (MSFT) have made investment commitments exceeding \$1 billion each. ♦



FinTECH FOCUS

FinTechs with Lots of Wall Street Coverage

Nineteen financial technology companies have coverage from at least 10 sell-side analysts. The group is made up mostly of the larger players in the sector. None of the representatives has a market cap of less than \$1 billion. In the last year, the companies have had solid returns. Analyst expectations point to potential for more growth as most EPS estimates for the current year are also positive, and some by a lot.

Company	Ticker	Sector	Market Value (\$M)	One Year Total Return (%)	# of Estimates	Projected EPS Growth for Current Year (%)
First Data Corporation	FDC	Payment Processors	34,949.6	15.64	25	18.81
Fiserv, Inc.	FISV	Outsourcing	7,878.4	2.49	21	-6.67
Affiliated Computer Services, Inc.	ACS	Outsourcing	5,337.7	-4.08	20	0.94
Global Payments Inc.	GPN	Payment Processors	3,568.6	28.60	19	27.35
CheckFree Corporation	CKFR	Payment Processors	4,214.8	24.29	18	244.00
Electronic Data Systems Corp.	EDS	Outsourcing	12,530.7	28.58	18	225.00
Computer Sciences Corporation	CSC	Outsourcing	10,673.5	25.48	17	6.51
Convergys Corporation	CVG	Outsourcing	2,621.3	39.51	16	27.91
ChoicePoint Inc.	CPS	Insurance/Healthcare Solutions	3,781.3	9.33	15	24.84
Total System Services, Inc.	TSS	Payment Processors	3,672.3	-22.50	14	5.05
Equifax Inc.	EFX	Outsourcing	4,551.5	3.04	13	6.99
Alliance Data Systems Corporation	ADS	Payment Processors	4,293.6	49.93	12	63.41
BISYS Group, Inc.	BSG	Investments Technology	1,740.7	-5.80	11	1,140.00
Digital Insight Corporation	DGIN	Banking Technology	1,097.2	41.16	11	40.00
Jack Henry & Associates, Inc.	JKHY	Banking Technology	1,783.1	5.16	11	17.28
CSG Systems International, Inc.	CSGS	Outsourcing	1,150.4	24.49	10	21.10
Fair Isaac Corporation	FIC	Outsourcing	2,287.1	-0.55	10	13.44
GTECH Holdings Corporation	GTK	Payment Processors	4,411.5	20.93	10	6.13
Intuit Inc.	INTU	Outsourcing	9,325.3	21.34	10	15.76

*as of 06/09/2006

**FinTech companies are those that use technology to support the operation of financial institutions and financially related processes.

Source: Eric Fitzwater, Senior Research Analyst, Financial Institutions Group, SNL Financial, www.snl.com/financial_svc