

ANNEX BULLETIN

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INDUSTRY TRENDS

Updated 8/03/06, 7:30PM PDT

Analysis of EDS and CSC 2nd (Calendar) Quarter Results

Ebb Tide Lowers Most Boats

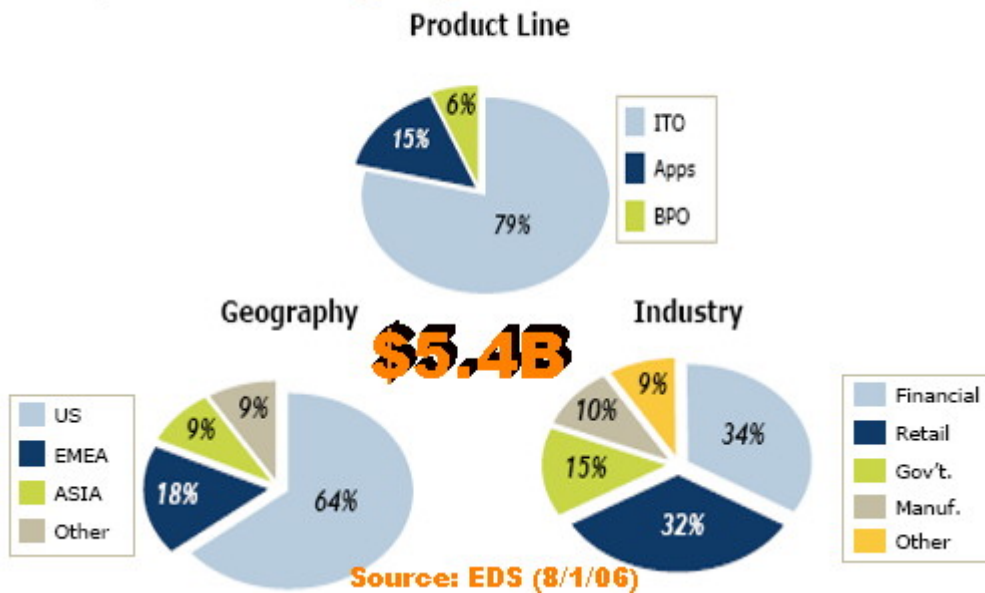
EDS: Even Best Quarter in Three Years Not Enough; CSC Continues Its Virtual Free Fall

NEW YORK, Aug 2 - Electronic Data Systems (EDS) used to be known as ["The Titanium Stock"](#) (Dec 2004). Nothing could scratch it. Not even a litany of bad news. Scratch that notion now. The Plano, Texas-based IT services company's stock is now just like the rest of the Street girls. A Wall Street ebb tide lowered most boats yesterday, including EDS'. Even the best quarter in three years could not reverse that.

If there was ever a time to stand up and applaud the best results the Michael Jordan administration produced since he took over in March 2003, it was yesterday. Its quarterly profit quadrupled to \$104 million, or 20 cents a

share, from \$26 million, or 5 cents a share, a year earlier, as EDS continued to keep costs in check.

2nd Quarter 2006 Signings Performance



And the company booked twice as much new business in the latest period - \$5.4 billion versus \$2.6 billion in last year's second quarter. Revenues also rose more than Wall Street had expected, up 4% to \$5.2 billion. Free cash flow was \$362 million, rising \$244 million from the same period of last year. EDS' operating margin jumped from 1.7% to 3%,

Ebb tide pulls down all boats

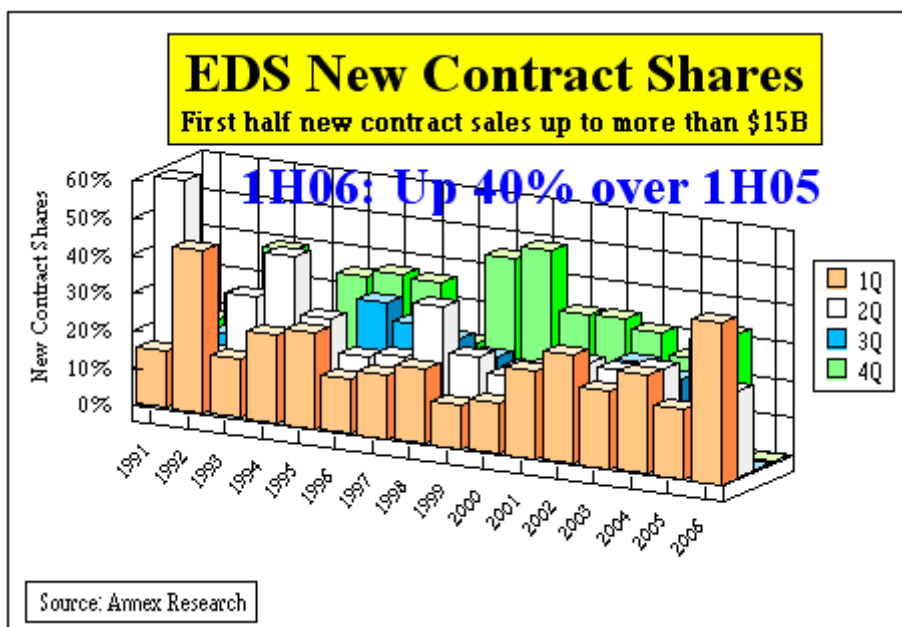


EDS stock drops despite first good quarter since early 2003

Yet despite all these signs of improvement, the EDS stock lost ground the day the earnings came out (Aug 1), declining 47 cents or 2%, to close at \$23.43. It may be a small consolation to EDS shareholders that the

market's ebb tide pulled down the competitor's CSC stock even more, as that IT services company released its latest quarterly results after the markets closed on Aug 1 (see the chart).

For all of 2006, EDS said it now expects revenue of between \$21 billion and \$21.5 billion, up from a prior estimate of \$20 billion to \$20.5 billion. The company left its profit forecast unchanged of between 83 cents and 93 cents a share before special items, with free cash flow in the \$800 million to \$1 billion range. Wall Street had expected a 2006 profit of 89 cents a share on revenue of \$20.46 billion prior to the latest release.

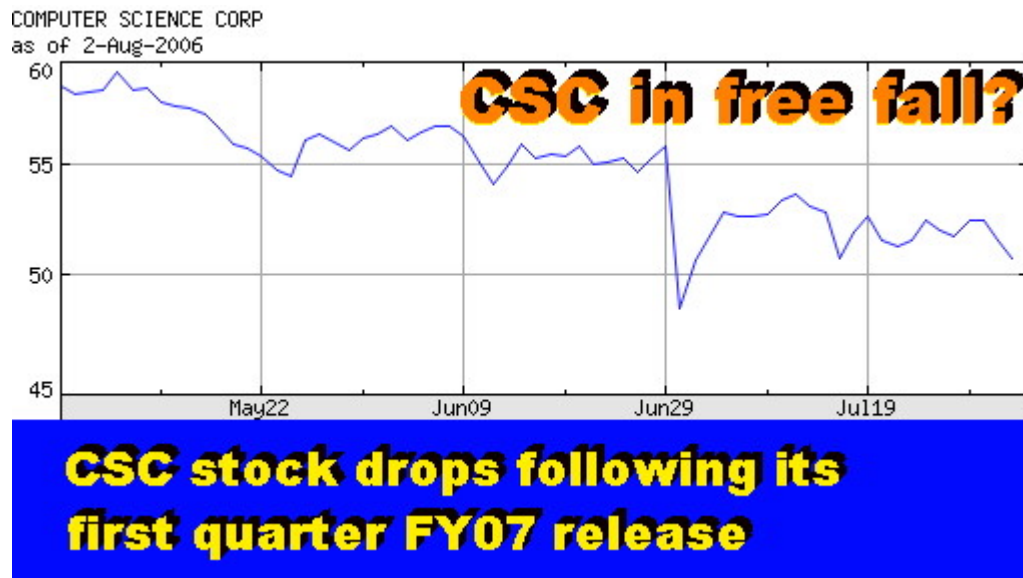


EDS also boosted its expectation for new contract sales for the year, estimating it would sign \$23 billion to \$25 billion in 2006. The company's prior goal was for \$23 billion. During the first half of the year EDS has already signed more than \$15 of new business.

So we all important EDS financial indicators point up for the first time in 39 months since Jordan took over as CEO, it is more than a little ironic that the stock declined on Aug 1. C'est la vie on Wall Street these days... no rhyme nor reason evident this summer season.

CSC Stock Continues Its Virtual Free Fall

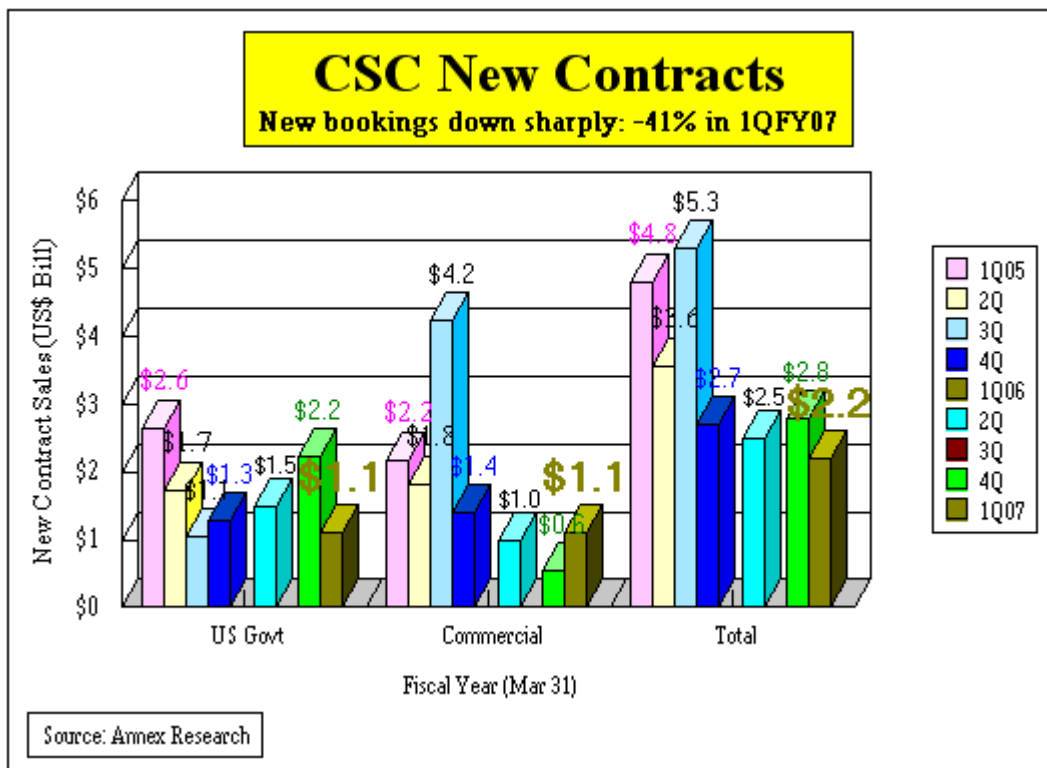
Meanwhile, the Computer Sciences Corp. (CSC) stock continued its virtual freefall following its announcement in late June that it was abandoning efforts to sell itself, and would instead divert some \$2 billion of its capital toward stock buybacks.



At least in CSC's case, there was plenty of reason, if not rhyme, for its decline. The company posted a quarterly loss \$55.3 million, or 29 cents a share, as compared to a year-ago profit of \$131.6 million, or 70 cents a share. And the revenue declined slightly to \$3.56 billion, as declines in U.S. and European commercial sectors offset the strength in its federal contracts and Asia/Pacific operations.

CSC also said it has been cooperating with government regulators in connection with a widening probe of stock-options grants. Additionally, the company said it has been named in two shareholder lawsuits alleging improper backdating of options issued to its executives.

Most of the loss is due to a \$215 million charge CSC took in the current quarter on account of a restructuring that will trim its payroll by about 5,000 jobs, mostly in Europe. Without the write-off, the quarterly earnings would have been 61 cents, up from 58 cents a share in the comparable quarter of last year.



Meanwhile, CSC new contract signings dropped 41% from a year ago to \$2.2 billion in the current quarter. But the company said the federal government pipeline was up approximately 17% over last year's comparable 20-month set. About \$15 billion of the total is scheduled for award in the current fiscal year.

Obviously, CSC is hoping to win its fair share of it. But Wall Street was not impressed. The stock declined almost two points following the quarterly release.

Happy bargain hunting!

Bob Djurdjevic

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