

Focus List Earnings Update for October 24, 2009

IBM Q3 Oct. 15th: Dual cash-flow and accrual analysis was hinting to a potential hiccup at the tech giant going into their third quarter results. Although sales and earnings beat analyst estimates, the company warned that business spending wasn't materializing as quickly as expected.



Our comments on IBM from the Merriam Report: - **Based on the Merriam Report data, we believe any good news is already baked into the price at current levels. If you own the shares directly or through mutual funds w/ IBM as a top holding, you might consider trimming some exposure in a tax advantaged manner.** - IBM shares are down 6.25% in the week following earnings release.

AAPL Q4 Oct. 19th: We can't always call 'em correctly, but Apple's Q4 results were (at first glance) pretty remarkable. Steve Jobs & Co. have come a long way since the good 'ol Mac days and there's no disputing their marketing prowess and fanatic legion of devotees.

However, the Merriam Report data indicated some potentially troubling trends in their GAAP presentation, which in our opinion, did not jibe with changes in "Adjusted" (non-GAAP) metrics.

Needless to say, investors liked what management had to say, and AAPL shares popped more than 8% since earnings were announced.



Regardless of pending FASB changes as to how Apple reconciles "subscription" accounting, we continue to believe that shares are significantly over-priced. Fair value is \$174.

LNN Q4 Oct. 21st: We did not expect any wonderful news from farm equipment & infrastructure maker Lindsay Corp, when they reported earnings on Oct. 21. In fact, revenues and profits came in well-below analyst estimates. Farm income is way down and farmers, understandably, are reluctant to spend on new equipment.



However, LNN's earnings quality remains very high, a testament to focused management and the important markets their products serve.

Comments on LNN from the Merriam Report: -**Although LNN shares are off recent two month highs, we think investors should be patient here and consider partial positions on any pull-back to the \$38 area; full positions should be considered up to \$35.**

Investors who bought LNN Wed. morning after the earnings announcement were treated to a nice 14% pop in two days!

ATI Q3 Oct. 21st: The Merriam Report analysis indicated a significant deterioration in earnings quality for specialty and industrial metals and alloys maker Allegheny Technologies.



We urged investors to **AVOID** shares of ATI going into the earnings report due to increases in balance-sheet cash-flow, increasing accrual ratios and significant declines in capital productivity.

Not surprisingly, the company reported its third quarter profit fell to a mere hundredth of what it earned a year earlier.

Investors who heeded our advice going into earnings would have missed the 10.5% drop in ATI's share price.

DLX Q3 Oct. 22nd: Our dual cash-flow and accrual analysis of diversified business services company Deluxe Corp was exhibiting "transitional" earnings quality going into Q3 earnings. The company reported slightly better than expected results primarily due to cost cutting.

The Merriam Report issued a **HOLD / AVOID** opinion on DLX shares due to high goodwill and continuing negative operating cash-flow trends.



At time of report, we assigned a fair value of \$15.91 on the common. Since the earnings announcement, DLX shares are down 11% and approx. 5% below fair value.

However, given the large spike in selling volume going into Friday Oct. 23's close **and** the Oct. 31st fiscal year-end for most mutual funds, investors may want to wait and see if DLX shares re-test the \$14 area before nibbling.