ANNEX BULLETIN

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IT SERVICES

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Analysis of Computer Sciences Corp.'s Fourth Quarter Results

New Broom Sweeps Clean

New Executive Team Takes Charge and Charges against Earnings; Stock Down in After-hours

SCOTTSDALE, June 13 - Van Honeycutt, Computer Sciences Corp.'s outgoing chairman, may still be technically in or near his chair (till July 31), but his legacy is already getting eroded by the new executive team, led by Mike Laphen, the new CEO (click on right thumbnail). Laphen had served as the company's COO for the last three years prior to being appointed CEO in late May.


NEW CSC EXECUTIVE TEAM
(June 2007)

Mr. Michael W. Laphen, 56
Chief Exec. Officer, Pres, Chief Operating Officer

Mr. Michael E. Keane, 51
Chief Financial Officer and Corp. VP

Dr. Paul T. Tucker, 59
VP of Corp. Devel.

Mr. Gerhard Fercho, 54
Pres of Europe Middle East & Africa Central Region and Acting Chairman of Deutschland Solutions Gmbh

Mr. Hayward D. Fisk, 64
VP, Sec. and Gen. Counsel

"A new broom sweeps clean," goes an old saw. The new CSC leaders have done just that. They wasted no time taking charge and charges against earnings while sweeping clean the company's boardroom.

Their post-earnings teleconference was market by an unusual candor, which included some "mea culpa" statements, such as this one:

> "CSC discovered significant errors in its accounting for tax liabilities in fiscal years 2000 through 2006 and other insignificant errors. The most significant of these errors related to the tax accounting for the amortization of tax bases of assets contributed to a consolidated affiliate.
>
> In addition, errors were identified in accounting for income tax liabilities related to foreign operations, as well as favorable adjustments in the preparation of U.S. federal tax returns.

Recent...

HEADLINES

New Broom Sweeps Clean - *Analysis of CSC's 4Q07 business results [Annex clients click here]*

The Last of the (PC) Mohicans - *Analysis of Dell's strategy changes; Linux, Wal-Mart*

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The Greening of Big Blue *(IBM to spend $1 billion on "going green")*

Are We in "Buyback Bubble?" - *Analysis of corporate stock buyback trends*

IBM: Lowering Center of Gravity *(Highlights of Partnerworld 2007, with Detailed Reports for Clients)*

Growth Accelerating - Analysis of Capgemini's 1Q07 business results *[Annex clients click here]*

To Buy (back shares) or Not to Buy? - *Analysis of stock buybacks in corporate America*

No Surprises in Good Opening Quarter - *Analysis*

As a result of these changes, interest and penalties were accrued. The company also identified a correction required with respect to the accounting for the sale of licenses for a software product. The total effect of the errors resulted in a reduction of net income of $22.2 million and $90.7 million for fiscal years 2007 and 2006, respectively."

(An excerpt from CSC's 4Q release, 6/13/07, delayed for several weeks pending investigations of the outgoing leaders' transgressions)

For the full fiscal year 2007, that ended March 31, "special items" amounted to $316 million or $1.56 per share. That's not a small piece of change given that the company's net income was $389 million, down from $471 million the year before. In the latest (fourth) quarter, the charges against earnings were $36 million or 14 cents per share.

Stock Slips Despite Good Quarterly Results

Wall Street generally likes charges, so it traded CSC shares up 2.4% to $56 in regular on rumors about a good quarter and write-offs. But then investors turned around and sold the stock off, down 2.8% to $54.5 in after-hours trading, after the fourth quarter facts were disclosed. So our old adage "up on rumors, down on facts" once again came true.

Nevertheless, CSC shares are now still at about the same level as a year ago, when the company tried and failed to sell itself off, and then resorted to stock buybacks as its "plan B" strategy (see above chart).

Revenue Shortfall Sinks Shares

And what was so disappointing about the fourth quarter facts? Actually, not much. We thought it was a pretty good quarter. Revenue was a little light relative to Wall Street expectations, but new contract sales by far exceeded them, thus implying solid revenues and profits in the future. While revenue rose to $4.05 billion from $3.89 billion, it missed slightly Wall Street's average estimate of $4.1 billion.

of IBM 1Q business results [Annex clients click her

IBM Stock Still Grossly Undervalued (A preview of IBM first quarter business results]

Accenture Beats Forecasts, Again *(Analysis of Accenture's 2QFY07 results)*

HPS, Capgemini Tie for "Gold" - *Results of Octathlon 2007 [Annex clients click here]*

The Value of pi (**π**) - Analysis of IBM System p and System i market and product strategies

IBM Profit to Grow Faster Than Revenue - Update to 5-yr IBM forecast [Annex clients click here]

The (T)ides of March Sink Markets Again - Analysis of global economic & investment trends

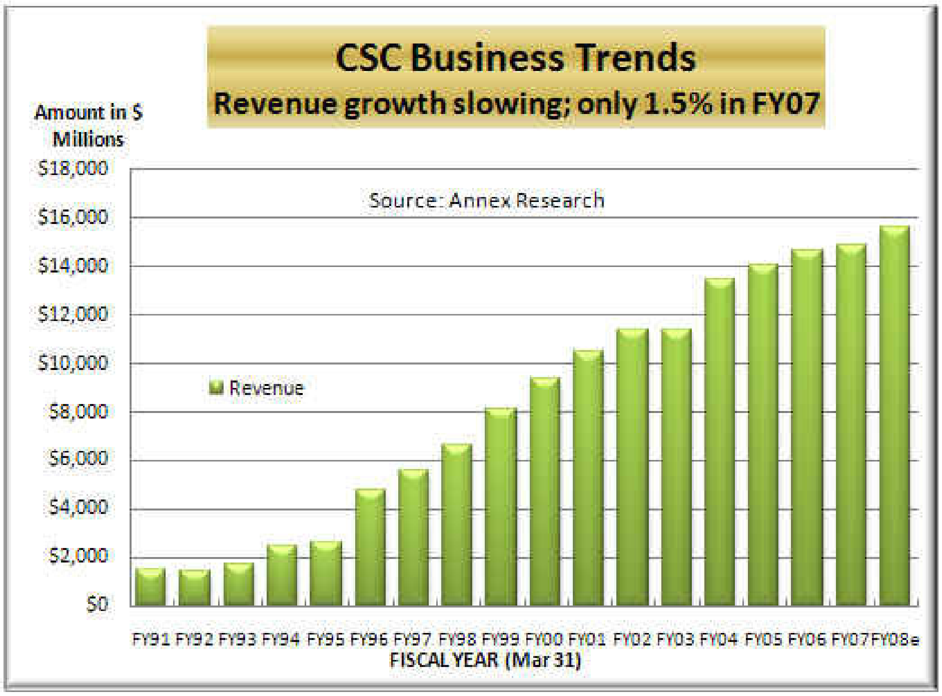
IGS: Growth Slows, Profit Surges - Analysis of IGS 2006 business results [Annex clients click here]

HP: Toward New Highs? (Excerpts from analysis of HP's 1Q07 business results) [Annex clients click here]

Capgemini Caps Great Year, Saves Best for Last *(Analysis of Capgemini's fourth quarter business results)*

EDS: On Sunny Side of Street *(Analysis of EDS' fourth quarter business results)*

CSC: Where Less Seems More *(Analysis of CSC's third quarter fiscal 2007*



"Our fourth quarter results continued to display our solid operational progress in a transition year," said Laphen, CSC's COO for the last three years, in a statement. And the future doesn't look too shabby, either.

The fourth quarter new bookings were $4.3 billion, bringing the full-year total to $16.9 billion, up about 40% from the last fiscal year. That's the highest level in the company's history. The annual total was split 55%/45% between federal and commercial awards.

business results)

Fujitsu: Sales Up, Profit Down *(Analysis of Fujitsu's third quarter fiscal 2007 business results)*

IBM Shatters Records *(Analysis of IBM's fourth quarter business results)*

IBM Stock Passes Century Mark *(Analysis of Big Blue's Stock Performance)*

Happy Days Are Here Again *(Analysis of Top 20 IT leaders' latest stock market and business performances)*

"Excellenture" Excels Again *(Analysis of Accenture's first quarter fiscal 2007 business results) [Annex clients click here]*

Hedging the Bets *(Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Perot) [Annex clients click here]*

Globalization Accelerates *(Analysis of United Nation's annual survey of global investments)*

IBM: A $125-Stock? *(An update to "From Small Acorns Mighty Oaks Grow")*

Capgemini: Longest Sustained Stock Price Rise *(An update to "By Leaps and Bounds")*

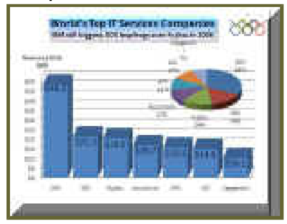
HP: New King of the Hill *(Analysis of HP's fourth quarter business results)*

IBM: From Little Acorns Mighty Oaks Grow *(Analysis of IBM's "State of the Union")*

"Our (record) bookings reflect improvements on the outsourcing side," he added, answering a question during a post-earning teleconference with analysts.

The company's U.S. federal pipeline of opportunities over the next 22 months is approximately $44 billion, CSC said, up nearly 35% from the same time last year, and is comprised of more than 500 programs across a broad spectrum of government agencies and departments. Of the total pipeline, approximately $22 billion is scheduled for award in the current fiscal year.

Net income in the fourth quarter jumped to $249.7 million, or $1.42 per share, from $158.8 million, or 84 cents per share, a year earlier. But the fourth quarter commercial revenues fell 3% $991 million.

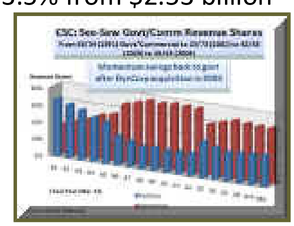


For the full year, revenues were $14.9 billion, up 1.5% (down less than 0.5% in constant currency) over last year's comparable 12-month period. This makes CSC the sixth largest IT services company in the world [not fifth (!), as the U.S.-focused media tend to report - see the right thumbnail for actual global rankings].

Business Segment Analysis

U.S. government sector revenues increased 5% to $1.43 billion in the fourth quarter, up from $1.37 billion in fiscal 2006. The Pentagon-related business was $978 million, up over 6% from the year-ago total, while revenues from civil agencies were $415.1 million, down slightly compared to last year.

Fourth quarter global commercial revenue was $2.61 billion, up 3.5% from $2.53 billion in the year-ago quarter, but down 2% in constant currency. Weakness in the domestic market was the main reason. U.S. commercial revenues were $991 million, down 3% from $1.02 billion last year. So momentum is clearly swinging again back to the government business (click on thumbnail chart).



European revenues were $1.23 billion, up 9% as reported, but down 1% in constant currency despite a boost from CSC's takeover of the U.K. National Health Service megadeal from Accenture last year (see "Accenture's Emphatic Year-end Accents," Sep 2006).

CSC's non-European international revenue was $389 million, up 5.3% but up less than 0.5% in constant currency.

Outlook

For the first quarter, CSC projects revenue in the range of $3.7 billion to $3.8 billion, in line with analysts' current consensus estimate. The company expects earnings of 65 cents to 75 cents a share, excluding special items, vs. analysts' views of 76 cents.

For the full year, CSC forecast 6% to 7% growth in revenue, reaching $15.7 billion to $15.9 billion, slightly above analysts' current consensus estimate. The company pegged earnings between $4 and $4.20 a share, excluding restructuring expenses and one-time items. Analysts had projected $4.19 a share.

Capgemini: By Leaps and Bounds *(Analysis of Capgemini's preliminary third quarter business results)*

Fujitsu: Good Performance Gets Better, More Global *(Analysis of Fujitsu's first half FY2007 business results)*

IBM: A Slam Dunk Quarter *(Analysis of IBM third quarter business results)*

Accenture's Emphatic Year-end Accents *(Analysis of Accenture's fourth quarter results) [Annex clients click here]*

IBM: Services in a Box *(Analysis of IBM Global Services' Ground-shifting Announcements)*

Strong Comeback by IT Stocks in Third Quarter *(Analysis of top 20 IT companies' market and business trends)*

Stock Buybacks: A Fading Fad *(Dell, erstwhile "King of Fluff," suspends its stock buybacks)*

Capgemini: Growth Continues *(Revenues, net profit up in double digits, margins also improve)*

HP Firing on All Cylinders *(Stock sets new multi-year record following excellent third fiscal quarter results) [Annex clients click here]*

Power of Manpower *(While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force)*

Ebb Tide Lowers Most Boats *(Analysis of EDS' and CSC's latest quarterly*

CSC also expects to double its staff in India to about 14,000 after completing the $1.3 billion acquisition of Covansys Corp. The company is planning to spend about $40 million in the current fiscal year on a five-point business improvement program. A part of it includes boosting its India operations.

Click here for detailed CSC results & forecast table (Annex clients only)

Happy bargain hunting!

Bob Djurdjevic

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IBM Stock Grossly Undervalued? *(Analysis of stock market valuations of IBM and its major competitors) [adds latest Fujitsu, Capgemini results]*

IBM vs. HP: A Tale of Two Blues *(Both companies are doing well in business, but only HP is favored by Wall Street; Big Blue trying to change that now with its new "India Opus") [Annex clients click here]*

Go East, Young Man! *(A speech delivered in St. Petersburg, Russia, May 25, 2006; click here for slides)*

IBM 5-Yr Forecast: Steady As She Goes *(Emphasis on quality continued) [Annex clients click here]*

Octathlon 2006: Accenture Again Wins "Gold!" *(HP gets "Silver," IBM "bronze") [Annex clients click here]*