Scott Moritz’s Tech Focus: Sprint Apprentice Alamosa Grabs Wall Street's Attention

As a company, Sprint PCS (PCS:NYSE) is going like gangbusters. But as a stock, it's going away.

Come Friday, when Sprint FON (FON:NYSE) folds the PCS tracking stock back in, the sector will be minus one of its better growth plays.

But some investors aren't willing to give up so easy on a hot industry. Alamosa Holdings (APCS:Nasdaq) is a Lubbock, Texas-based Sprint affiliate that has contributed mightily to Sprint's robust growth.

In fact, Sprint said Tuesday that affiliates contributed an addition of 138,000 users in the first quarter ended in March. That compares with 86,000 affiliate additions in the previous quarter ended in December.

Alamosa is expected to report earnings on May 4, and judging by Sprint's results, the numbers should be solid. Fans point to a number of contributors to the company's success.

Chief among its strengths is location. Alamosa shares a large chunk of territory with Qwest (Q:NYSE). And Qwest just happens to be shutting down its wireless operation and shifting its customers to Sprint and its affiliates.

Alamosa also collects a sizable toll from roaming charges as subscribers with other telcos travel through any of its territories in 11 states. In the December quarter, roaming accounted for a quarter of the company's $168 million in revenue. As Sprint grows, presumably Alamosa's roaming proceeds will rise as well.

Though the company is still in the red, it runs on a much firmer financial footing. In November, Alamosa completed a prepackaged debt-for-equity swap. The recapitalization left it with about $100 million in cash and $660 million in debt.

Alamosa's shareholders have seen the stock go from 50 cents to nearly $8 in the past year. Any investors who have seen that kind of stock appreciation would be foolish not to sell at least some of their position.

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For those not involved, there may be a limited opportunity to buy now and sell in a couple of weeks, when the company announces earnings on May 4.

Why the trader mentality, you may ask?

It seems to be the "in thing" to do. April, it turns out, has been a big selling month for Alamosa insiders. CEO David Sharbutt has been busy in recent weeks, cashing out three times, with a fourth $2 million sale still pending.

To be sure, the executives haven't come close to selling all their Alamosa holdings, and this is the first sales opportunity in two years for some of the insiders. But history has shown that management often has good ideas on timing its stock sales.

One hedge fund manager I talked to says he's selling a big part of his position after watching his investment grow. That's a great idea if you are in a similar position.

Otherwise, after the smoke clears from all the insider and hedge fund selling, it may pay to listen to the company's outlook on May 4. By then, if the selling has cooled down and if the prospects sound good, it may be worth a small venture.

Alamosa Looks Ripe for Profit-Taking

![Graph showing Alamosa's stock performance](chart.png)
Jordan Kahn’s Model Portfolio:  
Earnings Mixed, but Overall Picture Remains Bright

**Fundamentals:** Last week was a big week for earnings, and results varied widely. It's hard to characterize all of the reports in one brush stroke, so let me offer some examples of the good, the bad and the ugly.

**The Good**
- **Apple Computer** (AAPL:Nasdaq) reported a good quarter last Wednesday, beating expectations by 4 cents on year-over-year revenue growth of 29%. The company shipped 807,000 iPods during the quarter, a 909% increase.
- **Advanced Micro Devices** (AMD:NYSE) blew away estimates, posting EPS of 12 cents vs. estimates of 4 cents, on revenue that grew 73% from the year-ago period.
- Analog chipmaker **Linear Technology** (LLTC:Nasdaq) beat top- and bottom-line estimates, reporting EPS of 27 cents, 2 cents ahead of estimates. Revenue grew 36% year over year, which was also better than expected.
- Last, **Texas Instruments** (TXN:NYSE) posted solid results, beating revenue expectations and posting in-line EPS. The company raised its guidance for next quarter and said it's on track to surpass peak profit margins of the last upcycle.

**The Bad**
It might overstate things to call these reports bad, but they were all *not good enough*.
- **Intel** (INTC:Nasdaq) reported a so-so quarter, beating bottom-line estimates by a penny but coming up light on top-line revenue. The company issued revenue guidance of $7.6 billion to $8.2 billion for next quarter. The midpoint of that guidance, $7.9 billion, is below consensus estimates of $8.1 billion. The stock has been weak since the earnings report.
- Second, model-portfolio stock **PMC-Sierra** (PMCS:Nasdaq) reported an essentially in-line quarter (see the update on page 7 for details), after issuing bullish guidance in March. But the company did not raise guidance for next quarter enough to satisfy investors, and the stock was punished.

**The Ugly**
A few companies' reports can only be characterized as ugly.
- **Nokia** (NOK:NYSE ADR) disappointed investors, even after its earnings warning a week earlier. The company saw sales decline 2% and EPS fall 20% as the cell-phone giant lost market share to companies like **Samsung** and **Motorola** (MOT:NYSE). Management said it will likely have to sacrifice margins going forward to win back market share.
- Equally disappointing reports came from flash memory makers **SanDisk** (SNDK:Nasdaq) and model-portfolio stock **Lexar Media** (LEXR:Nasdaq). Both of these companies reported solid top- and bottom-line growth but saw margins fall, and their stocks got crushed. SanDisk posted EPS of 34 cents, 2 cents ahead of estimates, on revenue growth of 122%, but product gross margins fell to 32% from 36% as its price-per-megabyte fell. Lexar also saw margins fall (see the update on page 6 for details). Investors pounded the stocks on concerns that continued price declines will damper profit growth.

So there was fodder for both bulls and bears last week, but overall I think the earnings picture is still bright for tech stocks writ large. Higher corporate profits should translate into higher IT spending after years of slashing tech budgets. Also, second-quarter comparisons should be easy considering how low earnings were in the second quarter of 2003.

*Outlook: bullish (+1)*

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Technicals: The technical backdrop is neutral, so I will touch upon both the positives and negatives as I see them. The first good sign is that Monday’s rally took the Nasdaq back above its overhead 20-day and 50-day moving averages. Also, last week’s decline took the Nazz down to a level that represented a full 50% retracement of the rally that began on March 24. The market is nearing short-term oversold levels, so there could be more of a bounce coming. For the bulls to remain in charge, I think the Nazz needs to take out its early April highs above 2079.

On the minus side of the equation, last week logged two days of distribution and no accumulation. It would be better to see the market pull back on lighter volume, as it did many times in 2003, and then rally on higher volume. As such, Monday’s rally would have been more powerful if it hadn’t come on light volume. So if the Nazz is going to show any follow-through to Monday’s rally attempt, it needs to be accompanied by strong volume.

Outlook: neutral (+0)
Sentiment: The sentiment indicators have moved back into neutral territory, as most of the recent pessimism I have highlighted has been unwound. The investment adviser surveys are more bullish, with the spread on the Investors Intelligence survey widening for the fourth consecutive week (50% bulls, 22% bears). The Specialist Short Ratio has also risen back to neutral territory, indicating less speculative shorting by the public.

In options land, the 21-day put/call ratio is back down to 0.64, a neutral reading. And the volatility index (VXN) has once again fallen to low levels near 21, indicating complacency. So sentiment does not appear to be at levels that normally coincide with market bottoms. Then again, it's not at levels normally associated with market tops, either.

Outlook: neutral (+0)

Trading Points: If sentiment is to move back to levels that reflect more pessimism, then we should expect a market decline to accompany it. But we’ve already seen lots of earnings-related selloffs, so be careful out there. This is a time to play good defense.

Overall tech rating: +1 (slightly bullish)

Watch List Alerts

I am going to remove both eBay (EBAY:Nasdaq) and Juniper (JNPR:Nasdaq) from the Watch List. Since I added them, each has seen gains of roughly 10% (but fell below that in today’s selloff), which is within my target range (10%-20%) for a nice trade. Both companies report this week, and if the pattern holds, anything other than total blowout numbers will likely be met with sell orders. So I’m going to take profits now and look to add more Watch List positions after earnings season.

The Tech Edge Watch List

<table>
<thead>
<tr>
<th>Company</th>
<th>Bias</th>
<th>Date Added</th>
<th>Closing Price Day Added</th>
<th>Date Closed</th>
<th>Closing Price</th>
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Model Portfolio Updates

Lexar Media
(LEXR:Nasdaq): long

Trading Points: As I noted above, Lexar reported an ugly quarter, despite explosive revenue growth of 202%. Revenue actually blew away the estimates ($161 million actual vs. $141 million consensus), but a large decline in margins led to a profit of 11 cents per share, which was a penny shy of the 12-cent expectation. Gross margins plummeted to 16%, as the company slashed prices to match competitor price cuts. Lexar believes it is important cut prices in order to maintain market share, as several new entrants are expected in the flash market.

Guidance for next quarter shows the same trend. Revenue guidance was raised to $190 million vs. consensus of $156 million. That’s a really big number bump for revenue. But because of the lower-margin assumptions, the company expects to break-even or deliver a small profit vs. EPS consensus of 12 cents. That guidance crushed the stock.

While the news is clearly negative, the nearly 50% plunge over the past week appears overdone. A price war is never good for earnings, but I still think patience from investors will lead to a better exit point. Gross margins should stabilize, and growth should accelerate as the market anticipates another strong holiday season. That said, I don’t believe Lexar offers the upside it once did, so I will be looking to sell at some point in the near future. Mea culpa.

(Continued on the next page)
PMC-Sierra (PMCS:Nasdaq): long

Trading Points: PMC-Sierra reported a good quarter, but offered tepid guidance. The company posted EPS of 6 cents, vs. 4 cents consensus expectation, on revenue of $78.7 million, which grew 42% year over year. Gross margins were up (at 70%), book-to-bill ratio was high at 1.1, and the company indicated it had many design wins during the quarter.

But again, high-valuation growth stocks have to raise guidance each quarter to maintain their stock price momentum, and PMC-Sierra said second-quarter revenue would be $83 million to $85 million (the current consensus is $83.7 million). That's just not enough juice to power the stock higher, which is why it took a hit the next day.

That said, management was very upbeat in its discussion of business conditions, customer spending, operating leverage and future profitability. So despite the near-term weakness in the stock, I think it has another good run in it.
### Ticker | Trade Date | Position | Current Price | Cost Basis | Net Gain | Return | NASDAQ at Trade Date | NASDAQ Return
--- | --- | --- | --- | --- | --- | --- | --- | ---
Au Optronics (AUO) | 02/10/2004 | Long | $ 24.95 | $ 14.19 | $ 10.76 | 75.83% | $ 2,061.10 | -4.00%
Broadcom (BRCM) | 03/02/2004 | Long | $ 38.24 | $ 42.01 | -3.77 | -8.97% | $ 2,056.38 | -3.78%
Epicor (EPIC) | 01/07/2004 | Long | $ 12.58 | $ 14.01 | -1.43 | -10.21% | $ 2,056.75 | -3.80%
Genesis Microchip (GNSS) | 11/18/2003 | Long | $ 18.05 | $ 17.59 | $ 0.46 | 2.62% | $ 1,919.45 | 3.08%
Garmin (GRMN) | 09/16/2003 | Long | $ 39.88 | $ 44.39 | -4.51 | -10.16% | $ 1,848.41 | 7.04%
Lexar Media (LEXR) | 12/09/2003 | Long | $ 10.39 | $ 15.47 | -5.08 | -32.84% | $ 1,955.50 | 1.18%
PMC-Sierra (PMCS) | 01/20/2004 | Long | $ 14.77 | $ 24.51 | -9.74 | -39.74% | $ 2,149.03 | -7.93%
QLogic (QLGC) | 03/11/2004 | Long | $ 27.78 | $ 41.39 | -13.61 | -32.88% | $ 1,953.59 | 1.28%
QLogic (QLGC) | 09/09/2003 | Long | $ 27.78 | $ 51.80 | -24.02 | -46.37% | $ 1,883.00 | 5.08%
UTStarcom (UTSI) | 09/30/2003 | Long | $ 26.89 | $ 31.80 | -4.91 | -15.44% | $ 1,812.81 | 9.15%
Zoran (ZRAN) | 09/30/2003 | Long | $ 16.82 | $ 19.57 | -2.75 | -14.05% | $ 1,812.81 | 9.15%

### Portfolio Performance

**Total Average Return** 4.24%  
Performance results listed here reflect values of stocks as of the close of the most recently completed trading day, and do NOT take into account dividends paid, interest earned or commissions. Results are updated overnight and posted prior to the market open the following business day. The 2004 YTD Return figures reflect changes since the beginning of 2004. The Total Average Return figures reflect changes since inception on 10/8/2002.

**2004 YTD Return** 6.46%

### Nasdaq Composite Performance

<table>
<thead>
<tr>
<th>Nasdaq Composite (COMP)</th>
<th>Date Initiated</th>
<th>Open Price</th>
<th>Current Price</th>
<th>% Gain/Loss Since Inception</th>
<th>2004 YTD Return</th>
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<tr>
<td>10/8/2002</td>
<td>$ 1,129.21</td>
<td>$ 1,978.63</td>
<td>75.22%</td>
<td>-1.61%</td>
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*The Tech Edge model portfolio is a model portfolio of technology companies maintained by Jordan Kahn, CFA. Mr. Kahn is a Portfolio Manager at Berger Fund Advisors, a registered investment advisor that serves as advisor to a hedge fund. The performance represented here is for informational purposes only and should not be construed as a recommendation to buy any security. Holdings of the fund advised by Berger Fund Advisors are not identical to the model portfolio shown here. Please keep in mind that this is a model portfolio and does not necessarily account for the different risk tolerances, investment objectives, and other criteria used by each individual investor when making an investment decision. You are encouraged to conduct your own research and due diligence, and to seek the advice of a qualified securities professional, before you make any investment. Past results are not necessarily indicative of future performance.*

**At the time of publication, Berger Fund Advisors, LLC was long AUO, BRCM, INTC, JNPR, PMCS, QLGC, UTSI.**

To see Jordan’s full portfolio, including closed positions, visit [http://www.thestreet.com/k/tech/portfoliotrade.html](http://www.thestreet.com/k/tech/portfoliotrade.html).
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