



Fourth Quarter 2010

Positions Recently Added

American Express Co. (AXP) – December 2010

New York, NY based AXP is a leading provider of payment and travel services to consumers, small businesses and large corporations. AXP has four operating segments, including: U.S. Card Services, Global Network and Merchant Services, International Card and Global Commercial Services, and Corporate and Other. In our analysis, card member spending by AXP's clients is bouncing back in concert with the expansion in the global economy. Moreover, AXP's best in class credit metrics are superior to those of its bank-issued credit card competitors. The company also maintains a high level of profitability as measured by return-on-equity. Growth opportunities for AXP include expansion in both international and emerging markets, and in alternative payment options such as online and mobile payment systems. Given the positive characteristics, we have added shares of AXP to client portfolios to increase exposure to the Financial Services industry.

FedEx Corp. (FDX) – December 2010

Memphis, TN based FDX is a global provider of transportation and supply-chain solutions offering a variety of package delivery, e-commerce and business services to customers in more than 220 countries. The company operates in four segments: FedEx Express, FedEx Ground, FedEx Freight and FedEx Services. Global economic growth appears to be reaccelerating, which should benefit FDX through higher volumes across its system. We believe FDX, which pioneered overnight delivery in 1973, maintains an international network that delivers a competitive advantage that few, if any, can match. In our analysis, the company's focus on cost controls through a recent restructuring initiative, as well as its expansion into emerging markets, including several recently announced acquisitions in India and Mexico, further boost the company's profitability and growth potential. As such, we have elected to add positions in client accounts to this global delivery and logistics services leader in the Industrials sector.

Intel Corp. (INTC) – December 2010

Santa Clara, CA based INTC is the world's largest semiconductor manufacturer. The company supplies the computing industry with microprocessors, motherboards, systems and software that act as the primary components of personal computer and server architecture. INTC is also a major supplier of flash memory that is mainly used in cellular handsets. INTC's best growth market remains the enterprise segment, where a rebound in spending should increase customer demand for INTC's products. In addition, accelerating PC growth in emerging markets, product growth across tablets and netbooks, and new initiatives beyond its PC microprocessor business such as smartphones, vehicle 'infotainment', so-called 'smart TVs' (e.g. internet-based television) and digital signage (used most often in hotels and airports), represent key areas of future growth for the company. Moreover, INTC's attractive dividend yield near 3% is supported by both a healthy level of cash flow generation and a strong balance sheet. Given these positive attributes, we have recently established positions in INTC.

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Positions Recently Eliminated

Cisco Systems, Inc. (CSCO) – December 2010

San Jose, CA based CSCO is the world's largest supplier of high-performance computer internetworking systems. The company recently reported a weak outlook for its fiscal second quarter (ending January 2011) as capital spending in several areas of CSCO's client base is anticipated to decline. Spending from (1) European customers, (2) Public sector clients such as U.S. states, and (3) U.S. cable television providers for set top boxes were all cited by CSCO as pockets of weakness. Given the financial imbalances and budgetary stress facing both European sovereign nations and some U.S. states, we do not expect these categories of customers to bounce back in the near term for CSCO. Moreover, U.S. cable television providers are highly leveraged to the housing market, which also shows very little capacity for a near term rebound given the currently large supply-demand imbalance. Although CSCO's weaker than expected outlook was a surprise, given the persistent weakness we expect in these three areas (Europe, U.S. state budgets, and housing), along with the 'uncommon uncertainty' among customers that CEO John Chambers referred to on the company's recent quarterly call, as well as the overall economic headwinds from the company's cyclical exposure in the telecom equipment sub-industry of the Technology sector, we have elected to remove CSCO from portfolios.

First Energy Corp. (FE) – October 2010

Akron, OH based First Energy is involved in the generation, transmission, and distribution of electricity as well as energy management services. FE's utility subsidiaries serve approximately 4.5 million customers in Ohio, Pennsylvania and New Jersey. Earlier in the year, FE announced a definitive merger agreement with Allegheny Energy, Inc. (AYE), a Pennsylvania based electric utility holding company which serves 1.6 million customers across Pennsylvania, Maryland, Virginia and West Virginia. We believe that several issues related to the merger agreement could pressure FE shares in the near-term, including: (1) gaining regulatory approval could be challenging and time consuming, as the combination will need to get clearance from state commissions in Maryland, Pennsylvania, Virginia, West Virginia, and from multiple federal agencies including the DOJ, the FERC, and the FTC; (2) FE may have to make rate concessions to customers in order to gain approval for the merger, which could offset any merger related synergies; (3) While FE plans to maintain its current dividend policy until the merger closes, it is unclear what dividend policy the newly combined entity will adopt; and (4) AYE maintains a lower credit profile than FE, currently BBB- from S&P, which could elevate the credit risk of the combined entity. Given these issues, we exited positions in FE.

Northern Trust Corp. (NTRS) – December 2010

Chicago, IL based Northern Trust (NTRS) is a leading provider of fiduciary, asset management and private banking services. While the company maintains strong capital ratios and conservative risk management, we believe that several global, macroeconomic factors, as well as the company's relative valuation may limit the upside for its shares. Net interest margins and fee reimbursements for money markets products continue to plague NTRS' results given the persistently low interest environment. We don't expect growth in these areas until the Fed raises interest rates, which will likely not be for several quarters at the earliest. In addition, while credit quality as measured by non-performing assets (NPAs) remains lower than peers, overall levels of NPAs are increasing, which could provide some earnings drag. As such, we have sold NTRS positions.

SAP AG (SAP) – November 2010

Walldorf, Germany based SAP is a provider of business applications software solutions. While this subsector of the Technology industry appears well positioned for impressive growth, the competition in the space is fierce. We have removed positions in SAP and continue to favor several of its competitors in the industry (ORCL, IBM and MSFT). SAP is reportedly facing customer resistance to its planned maintenance fee hikes, which could dampen revenue growth. As corporate buyers carefully assess their investment in software, they are evaluating not just the initial outlay, but also the long-term cost of support and the viability of the vendor. These trends, a relatively full valuation, and the recent change in leadership led us to our decision to sell.

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