



July 2007

### ***Companies Recently Added***

#### **Microsoft Corporation (MSFT)**

Microsoft is the world's largest independent software developer. The Company's products include the Windows operating systems for business and personal computers, the Office products suite, and entertainment products, including its video game console, Xbox 360, and related software. Online offerings are delivered through the MSN portal. In May, the Company acquired aQuantive, Inc. to help boost its Internet advertising capabilities. In our analysis, Microsoft's size and scale are unmatched in the markets in which it competes. The Company's revenues surpassed \$51 billion in the past fiscal year ending June 30, 2007. In addition, Microsoft maintains superior financial strength with no debt and over \$23 billion in cash and short-term investments on its balance sheet. The company continues to innovate and drive growth through what we believe to be an attractive portfolio of new product offerings, such as Windows Server 2008 and Windows Vista. Additional growth continues to come from its existing flagship products, such as Microsoft Office and Xbox 360, as well. We believe Microsoft's existing suite of products and services, along with its upcoming product cycle, will help drive future growth. Due to this, and its superior financial characteristics and reasonable valuation, we have taken the opportunity to add shares to client accounts.

#### **Novartis AG ADR (NVS)**

Novartis, the Swiss-based pharmaceutical and health care company, is one of the world's 10 largest pharmaceutical companies and Europe's third largest drug manufacturer. Headquartered in Basel, Switzerland, the Company employs more than 100,000 associates and operates in over 140 countries around the world. In addition to branded prescription drugs, the Company is a major producer of generic drugs, as well as eye care products, consumer health goods and nutritional products. Revenues exceeded \$36 billion in 2006. Major branded pharmaceuticals produced by Novartis include Diovan, the world's number one branded high blood pressure medicine; Gleeevec/Glivec, a targeted therapy used in patients with certain forms of chronic myeloid leukemia; and Zometa, an intravenous bisphosphonate for patients with bone cancer. We view Novartis as one of the more stable and conservatively managed companies in the drug industry. The Company maintains extremely low levels of long-term debt, less than 2% of total capital, cash and cash-equivalents of over \$7.5 billion on its balance sheet, and Standard and Poor's highest credit rating, "AAA". In addition, Novartis has a pipeline of approximately 50 drugs in late stage development that could reach the market over the next three to five years. As such, we have chosen to add shares of this well financed, global pharmaceutical company to client accounts.

### ***Existing Positions Increased***

None this month.

### ***Existing Positions Decreased***

None this month.

*The information included in this publication was compiled from Reuters, Bloomberg L.P., Baseline, and/or other Independent Investment Research sources. These reports are intended solely for the clients of Godsey & Gibb Associates. This material is for informational purposes only and is not intended to be a recommendation for the purchase or sale of any individual security.*

## ***Positions Eliminated***

### **Amgen Inc. (AMGN)**

Amgen is a global biotechnology company that works to discover and manufacture therapeutics based on advances in cellular and molecular biology. It currently markets therapeutic products in the areas of anemia, white blood cell deficiencies, and autoimmune diseases, such as rheumatoid arthritis. In our view, AMGN has undergone a series of regulatory and fundamental developments that have limited its foreseeable sales and growth prospects. In summary, the negative changes to AMGN's underlying fundamentals were: (1) A Federal Drug Administration advisory panel of cancer experts voted to place new restrictions on the labels of drugs that stimulate red-blood cell production; (2) The Centers for Medicare and Medicaid Services recommended limiting reimbursements for cancer medications; (3) Blue Shield of California, a non-profit insurer with 3.3 million members, began limiting payments for anemia drugs; (4) AMGN is currently involved in patent infringement litigation with a competitor, Roche, creating uncertainty in the shares until a resolution can be determined; and (5) The Company is leveraging up its balance sheet, which will raise its debt/total capital ratios and increase its interest expense. The impacts of the debt issuance could be magnified by the potential for declining sales noted above. Based on our analysis, these developments limit the upside potential for AMGN's shares and therefore we have sold positions from client accounts.

### **CIT Group (CIT)**

CIT is a leading global commercial and consumer finance company. The Company provides a wide range of financing including vendor financing, equipment and transportation financing, small business administration loans and asset based lending. In our view, the current interest rate environment and credit cycle are creating a tough operating environment for CIT. We believe the inverted yield curve and increased funding costs from widening spreads will decrease CIT's potential profits. In addition to these macro economic headwinds, approximately ten percent of CIT's business is related to home lending, including exposure to the sub-prime mortgage market. Although CIT announced plans to sell its home lending unit, we believe the well-publicized increases in delinquencies in the subprime market created too many uncertainties as to the eventual price and timing of such a transaction. In our analysis, CIT could face the need to take future write downs depending on the eventual price and terms of the disposition. Given the interest rate sensitivity inherent in CIT's financing operations, deteriorating credit quality in the fixed income markets and the Company's exposure to the increasingly volatile subprime mortgage market, we believe it was prudent to remove shares of CIT from client portfolios.

### **Paychex Inc. (PAYX)**

Paychex provides payroll-accounting and other human resources services to more than 500,000 small- to mid-size businesses in the U.S. In our analysis, PAYX faces two fundamental risks that led us to our decision to remove the shares from client accounts. The Company benefits when short-term interest rates rise, as it collects the interest from customer deposits and claims it as a portion of its income. Our forecast is for the increase in short-term interest rates to come to an end. We believe that short-term interest rates may stay near current levels, or in fact decrease, thereby reducing future income for PAYX. Secondly, the Company's clients, small- and mid-size businesses, are marginally vulnerable to a slowdown in overall economic activity. Additionally, when it reported second quarter earnings, the Company lowered its full-year revenue guidance. In light of our interest rate and macro economic outlook and the related fundamental changes to the Company's future growth prospects, we have removed shares of PAYX from portfolios.

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