

# Pomeroy IT Solutions, Inc.

(PMRY:NASDAQ)

Market Perform 3

Based in Hebron, KY, Pomeroy IT Solutions, Inc. sells, installs, services and leases computer equipment for commercial, health care, financial, educational and government customers. The company, which generated 2003 revenues of \$598.4 million, employs approximately 1,345 individuals, more than half of whom are technical personnel, and maintains 28 regional offices throughout the Southeast and Midwest regions of the U.S.

## Pomeroy 2Q EPS Beats Expectations; Raising Estimates to Reflect ARC Accretion

- ◆ Pomeroy reported 2Q04 EPS of \$0.25, exceeding our EPS estimate of \$0.24. Total revenue of \$178.2 million was above our estimate of \$173.2 million, and contributed \$0.01 to EPS. Gross margin was 11.1% (versus our estimate of 11.7%), due to lower than expected product gross margin of 7.2% (versus our estimate of 8.0%). Weakness in gross margin was offset by better than expected SG&A as a percentage of sales of 7.6% (versus our estimate of 8.4% and its lowest level in two years).
- ◆ For 3Q04, management provided revenue guidance of 15%-18% organic growth year-over-year and organic EPS growth of 30%-35% year-over-year. This guidance excludes the impact of newly acquired ARC, which they believe will contribute approximately \$20 million of revenue in 3Q. Our internal revenue and EPS estimates are in-line with guidance, as we believe Pomeroy should see continued earnings growth despite lower product gross margin.
- ◆ For 3Q04, we are raising our revenue estimate to \$200.9 million from \$180.9 million, to reflect the result of two months of revenue from ARC. Our 4Q EPS goes to \$0.31 from \$0.30 and our 2004 EPS goes to \$1.01 from \$1.00. Our revenue estimate for 2004 goes to \$753.8 million from \$692.1 million. For 2005, our revenue estimate goes to \$860.5 million from \$733.6 million and we are raising our 2005 EPS estimate to \$1.24 from \$1.10, reflecting the accretion to earnings due to the ARC acquisition.
- ◆ The company reported a solid 2Q and its third consecutive quarter of year-over-year revenue growth. Furthermore, management's commentary for July sales supports our view that domestic IT demand is still holding up. Although the acquisition of ARC continues the transition to a higher margin, service-oriented approach, our concern with pricing still remains and EPS estimates are highly sensitive to changes in margin (10 basis points equal a \$0.01 per share). Maintain **Market Perform**.

FY=	EPS Dec	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year
	2003A	\$0.12	\$0.17	\$0.21	\$0.24	\$0.74
Old	2004E	0.18A	0.24	0.28	0.30	1.00
<b>New</b>	<b>2004E</b>	<b>0.18A</b>	<b>0.25A</b>	<b>0.27</b>	<b>0.31</b>	<b>1.01</b>
Old	2005E	UR	UR	UR	UR	1.10
<b>New</b>	<b>2005E</b>	<b>UR</b>	<b>UR</b>	<b>UR</b>	<b>UR</b>	<b>1.24</b>

UR: Under Review. Rows may not add due to rounding.

Please read disclosure/risk information on page 6 and Analyst Certification on page 8.

All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc., (RJA) at this date and are subject to change. Information obtained from third-party sources is considered reliable, but we do not guarantee that the foregoing report is accurate or complete. Other departments of RJA may have information that is not available to the Research Department about companies mentioned in this report. RJA or its affiliates may execute transactions in the securities mentioned in this report that may not be consistent with the report's conclusions. For institutional clients of the European Economic Area (EEA): This document (and any attachments or exhibits hereto) is intended only for EEA Institutional Clients or others to whom it may lawfully be submitted. Raymond James in the U.K. is regulated by the Securities and Futures Authority.

The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716  
 Institutional clients may call for additional information:  
 Research 800-237-5643 • Trading 800-237-8426

## EQUITY RESEARCH

August 11, 2004  
 Technology Distribution  
 Company Comment

Brian G. Alexander, CPA  
 (727) 567-2312  
 Brian.Alexander@RaymondJames.com

**Current Price**  
 (8/11/04/10:20 a.m.) \$12.83  
 Projected 12-Month Target Price: NM

**52-Week Range** \$16.18-\$10.59  
 Dividend/Yield \$0.00/0.0%  
 Book Value (06/04) \$16.61  
 Suitability Aggressive Growth

**Shares Out. (mil.)** 12.4  
 Market Cap. (mil.) \$159.1  
 Avg. Daily Vol. (10 day) 36,535

**Proj. 3-Yr EPS Growth Rate** NM  
 ROE 5%  
 Long-Term Debt/Cap \$0/0%

**P/E Ratios**  
 2004E 12.7 x  
 2005E 10.3x

**Operating Margins**  
 2003A 2.5%  
 2004E 2.7%  
 2005E 3.0%

**Revenues (mil.)**

	Old	New
2003A	\$598	\$598
2004E	\$692	\$754
2005E	\$734	\$860

## **Pomeroy 2Q EPS Beats Expectations; Raising Estimates to Reflect ARC Accretion**

Pomeroy reported 2Q04 EPS of \$0.25, exceeding our EPS estimate of \$0.24. Revenue of \$178.2 million was above our estimate of \$173.2 million, and contributed \$0.01 to EPS. Excluding the Micrologic acquisition, we estimate revenue was up just under 20% year-over-year. Gross margin was 11.1% (versus our estimate of 11.7%), due to lower than expected product gross margin of 7.2% (versus our estimate of 8.0%). Positively, service margins were 27.5%, the highest level in over one year. Weakness in gross margin was offset by better than expected SG&A as a percentage of sales of 7.6% (versus our estimate of 8.4% and its lowest level in two years).

### **Outlook**

For 3Q04, management provided revenue guidance of 15%-18% growth year-over-year and EPS growth of 30-35% year-over-year. This guidance excludes the impact of newly acquired ARC, which they believe will contribute approximately \$20 million of revenue in 3Q. Our internal revenue and EPS estimates are in-line with guidance, as we believe Pomeroy should see continued earnings growth despite lower product gross margin for 3Q04, we are raising our revenue estimate to \$200.9 million from \$180.9 million, to reflect the result of two months of revenue from ARC. Our 4Q EPS goes to \$0.31 from \$0.30 and our 2004 EPS goes to \$1.01 from \$1.00. Our revenue estimate for 2004 goes to \$753.8 million from \$692.1 million. For 2005, our revenue estimate goes to \$860.45 million from \$733.6 million and we are raising our 2005 EPS estimate to \$1.24 from \$1.10, reflecting the accretion to earnings due to the ARC acquisition.

The company reported a solid 2Q and its third consecutive quarter of year-over-year revenue growth. Furthermore, management's commentary for July sales supports our view that domestic IT demand is still holding up relatively well. Although Pomeroy continues to transition to a higher margin, service-oriented approach (furthered by the acquisition of ARC) our concern with pricing still remains and EPS estimates are highly sensitive to changes in margin (10 basis points equal a \$0.01 per share).

### **Quarter Details**

#### **Products**

Pomeroy reported \$143.7 million in product revenue, exceeding our estimate of \$139.5 million. In terms of products, management indicated strength in desktops, mobile units, servers, storage and infrastructure during the quarter. Management noted that product revenue continued to track up 15% in July.

In terms of customers, only one accounted for more than 5% of sales this quarter. No other customer accounted for more than 3% of sales. Management indicated strength in enterprise spending, small to medium sized business, and all verticals with the exception of education and healthcare. The top five vendors for the quarter were HP (HPQ/\$19.95), Cisco (CSCO/\$20.46/Market Perform), IBM (IBM/\$84.99), Dell (DELL/\$34.32/Strong Buy) and Sun (SUNW/\$3.59). Product gross margins decreased to 7.15% (versus our estimate of 7.95%), from 8.05% in the previous quarter and 7.66% in the same period last year. Management attributed this decrease to opportunities taken to capture revenue from several highly visible customers. For 3Q, management does not see product gross margin falling below these levels, although they do not see them reaching the levels of last quarter.

#### **Services**

Service revenues of \$34.4 million were slightly higher than our estimate of \$33.7 million, and this segment is tracked up 15% in July. Service gross margins were 27.45%, versus 27.25% last quarter and 27.00% in the same period last year. Our estimate was 27.25%.

Operating expenses of \$14.6 million were 8.2% of revenues, down from 9.4% last quarter and 9.5% last year, and below our estimate of 8.9%. Pomeroy was able to grow overall revenues almost 21% sequentially while keeping operating expenses flat.

#### **Balance Sheet and Returns**

Pomeroy ended the quarter with cash and equivalents of \$45.4 million, or \$3.67 per share. Accounts receivable DSOs declined two days to 57 days. The company ended the quarter with ten days of inventory, down four days versus the previous quarter. Accounts payable days of 32 were down two day versus the previous quarter. At quarter-end, book value was \$16.61 per share and tangible book value was \$11.07 per share.

#### **Alternative Resources Corporation (ARC) Acquisition**

Pomeroy announced it closed the acquisition of Alternative Resources Corporation on July 23, 2004. ARC is the largest acquisition Pomeroy has made, with approximately \$138 million in revenue last year, all of which

was service revenue. ARC was EBITDA break-even in the most recent quarter but is hampered by double-digit interest payments on outstanding debt.

Pomeroy has finished evaluating ARC and is currently beginning to convert non-essential processes over to Pomeroy's processes. Management's goal is to have Arc's back office converted to Pomeroy's by January 1, 2005. Management stated that the main goal is to reduce SG&A expense.

ARC is a leading provider of IT solutions and staffing services and should provide Pomeroy with a presence in the West and East coasts. Due to the lack of geographic conflict there is little overlap with ARC and Pomeroy's customer bases. For 3Q there will be two months of ARC results, adding roughly \$20 million in revenue - all of it services-related. Management noted that the addition of ARC will not have a dilutive effect on Pomeroy's earnings. Management also provided early guidance for 2005 in that the addition of ARC will be accretive to Pomeroy's EPS by \$0.12 to \$0.16 for the year, or \$0.03 to \$0.04 per quarter.

## POMEROY IT SOLUTIONS, INC.

Summary of Current Quarter (Actual vs Projected)  
Income Statement

	Q1	Q2	Q2	\$ Variance	%Variance	EPS impact
	MAR 04A	JUN 04A	JUN 04E	(Act-Proj)		
<b>Revenue:</b>						
Product	\$124.60	\$143.72	\$139.50	\$4.22	3.0%	\$0.006
% of total rev	80.3%	80.7%	80.5%			
Service	\$30.62	\$34.43	\$33.70	\$0.73	2.2%	\$0.001
% of total rev	19.7%	19.3%	19.5%			
<b>TOTAL REVENUE</b>	<b>\$155.21</b>	<b>\$178.16</b>	<b>\$173.20</b>	<b>\$4.96</b>	<b>2.9%</b>	<b>\$0.01</b>
COST OF SALES	\$136.85	\$158.42	\$152.93	\$5.50	3.6%	
<b>Gross Profit:</b>						
Product	\$10.03	\$10.28	\$11.09			
% of product rev	8.05%	7.15%	7.95%			
Service	\$8.34	\$9.45	\$9.18			
% of service rev	27.25%	27.45%	27.25%			
<b>TOTAL GROSS PROFIT</b>	<b>\$18.37</b>	<b>\$19.73</b>	<b>\$20.27</b>	<b>(\$0.54)</b>	<b>-2.7%</b>	<b>(\$0.05)</b>
% of total rev	11.83%	11.08%	11.71%			
TOTAL OPER. EXPENSE	\$14.66	\$14.63	\$15.40	(\$0.77)	-5.0%	
% of total rev	9.4%	8.2%	8.9%			\$0.06
<b>OPER INCOME</b>	<b>\$3.71</b>	<b>\$5.10</b>	<b>\$4.87</b>	<b>\$0.23</b>	<b>4.7%</b>	<b>\$0.00</b>
% of total rev	2.4%	2.9%	2.8%			
INT (net)	(\$0.01)	\$0.00	(\$0.05)	\$0.05	104.0%	
PRE-TAX	\$3.72	\$5.10	\$4.92	\$0.18	3.6%	
% of total rev	2.4%	2.9%	2.8%			
TAX-RATE %	38.7%	39.5%	38.7%			76bp (\$0.00)
<b>NET INCOME</b>	<b>\$2.28</b>	<b>\$3.09</b>	<b>\$3.02</b>	<b>\$0.07</b>	<b>2.3%</b>	
% of total rev	1.5%	1.7%	1.7%			
<b>EPS (diluted)</b>	<b>\$0.18</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$0.01</b>	<b>3.0%</b>	
<b>EPS (x gain/charge)</b>	<b>\$0.18</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$0.01</b>	<b>3.0%</b>	
PRIOR YR EPS	\$0.12	\$0.17	\$0.17	\$0.00	0.0%	
SHARES OUT (MIL)	12.40	12.36	12.45	(0.09)	-0.7%	\$0.00

**POMEROY IT SOLUTIONS, INC.**

INCOME STATEMENT (\$Mil.)

(\$ MIL)	2002A	Q1 MAR 03A	Q2 JUN 03A	Q3 SEP 03A	Q4 DEC 03A	2003A	Q1 MAR 04A	Q2 JUN 04A	Q3 SEP 04E	Q4 DEC 04E	2004E	2005E
<b>Revenue:</b>												
Product Revenue	\$571.51	\$99.99	\$116.20	\$125.70	\$128.64	\$470.52	\$124.60	\$143.72	\$145.10	\$151.80	\$565.22	\$593.48
% of total revenue	81.3%	76.9%	78.9%	79.5%	78.9%	78.6%	80.3%	80.7%	72.2%	69.1%	75.0%	69.0%
Service Revenue	\$131.29	\$29.99	\$31.16	\$32.37	\$34.38	\$127.91	\$30.62	\$34.43	\$55.80	\$67.80	\$188.65	\$266.97
% of total revenue	18.7%	23.1%	21.1%	20.5%	21.1%	21.4%	19.7%	19.3%	27.8%	30.9%	25.0%	31.0%
<b>TOTAL REVENUE</b>	<b>\$702.80</b>	<b>\$129.98</b>	<b>\$147.35</b>	<b>\$158.07</b>	<b>\$163.02</b>	<b>\$598.42</b>	<b>\$155.21</b>	<b>\$178.16</b>	<b>\$200.90</b>	<b>\$219.60</b>	<b>\$753.87</b>	<b>\$860.45</b>
COST OF SALES	\$615.14	\$113.60	\$130.04	\$140.44	\$143.96	\$528.03	\$136.85	\$158.42	\$175.06	\$190.12	\$660.45	\$744.27
<b>Gross Profit:</b>												
Product	\$47.27	\$7.92	\$8.90	\$8.87	\$9.78	\$35.47	\$10.03	\$10.28	\$10.52	\$11.01	\$41.83	\$43.03
% of product revenue	8.27%	7.92%	7.66%	7.06%	7.60%	7.54%	8.05%	7.15%	7.25%	7.25%	7.40%	7.25%
Service	\$40.40	\$8.46	\$8.41	\$8.76	\$9.29	\$34.92	\$8.34	\$9.45	\$15.32	\$18.48	\$51.59	\$73.15
% of service revenue	30.77%	28.21%	27.00%	27.06%	27.01%	27.30%	27.25%	27.45%	27.45%	27.25%	27.35%	27.40%
<b>TOTAL GROSS PROFIT</b>	<b>\$87.67</b>	<b>\$16.38</b>	<b>\$17.32</b>	<b>\$17.64</b>	<b>\$19.06</b>	<b>\$70.39</b>	<b>\$18.37</b>	<b>\$19.73</b>	<b>\$25.84</b>	<b>\$29.48</b>	<b>\$93.42</b>	<b>\$116.18</b>
% of total revenue	12.47%	12.60%	11.75%	11.16%	11.69%	11.76%	11.83%	11.08%	12.86%	13.42%	12.39%	13.50%
TOTAL OPER. EXPENSE	\$62.10	\$13.86	\$13.94	\$13.42	\$14.21	\$55.44	\$14.66	\$14.63	\$20.30	\$23.17	\$72.76	\$90.10
% of total revenue	8.8%	10.7%	9.5%	8.5%	8.7%	9.3%	9.4%	8.2%	10.1%	10.6%	9.7%	10.5%
<b>OPER INCOME</b>	<b>\$25.57</b>	<b>\$2.51</b>	<b>\$3.38</b>	<b>\$4.21</b>	<b>\$4.85</b>	<b>\$14.96</b>	<b>\$3.71</b>	<b>\$5.10</b>	<b>\$5.54</b>	<b>\$6.31</b>	<b>\$20.66</b>	<b>\$26.08</b>
% of total revenue	3.6%	1.9%	2.3%	2.7%	3.0%	2.5%	2.4%	2.9%	2.8%	2.9%	2.7%	3.0%
INT (net)	\$0.48	\$0.07	(\$0.07)	\$0.01	(\$0.04)	(\$0.04)	(\$0.01)	\$0.00	(\$0.05)	(\$0.05)	(\$0.11)	(\$0.11)
Restructuring/Reserves	\$3.33	(\$0.02)	\$0.15			\$0.13						
PRE-TAX	\$25.09	\$2.47	\$3.30	\$4.20	\$4.90	\$14.87	\$3.72	\$5.10	\$5.59	\$6.36	\$20.76	\$26.19
% of total revenue	3.6%	1.9%	2.2%	2.7%	3.0%	2.5%	2.4%	2.9%	2.9%	2.9%	2.8%	3.0%
TAX-RATE %	31.0%	39.0%	39.0%	39.0%	39.0%	39.0%	38.7%	39.5%	39.5%	39.5%	39.4%	39.4%
<b>NET INCOME</b>	<b>\$15.01</b>	<b>\$1.51</b>	<b>\$2.01</b>	<b>\$2.56</b>	<b>\$2.99</b>	<b>\$9.07</b>	<b>\$2.28</b>	<b>\$3.09</b>	<b>\$3.38</b>	<b>\$3.85</b>	<b>\$12.59</b>	<b>\$15.88</b>
% of total revenue	2.1%	1.2%	1.4%	1.6%	1.8%	1.5%	1.5%	1.7%	1.7%	1.8%	1.7%	1.8%
<b>EPS (diluted)</b>	<b>\$1.17</b>	<b>\$0.12</b>	<b>\$0.16</b>	<b>\$0.21</b>	<b>\$0.24</b>	<b>\$0.73</b>	<b>\$0.18</b>	<b>\$0.25</b>	<b>\$0.27</b>	<b>\$0.31</b>	<b>\$1.01</b>	<b>\$1.24</b>
EPS (x gain/charge)	\$1.26	\$0.12	\$0.17	\$0.21	\$0.24	\$0.74	\$0.18	\$0.25	\$0.27	\$0.31	\$1.01	\$1.24
PRIOR YR EPS	\$1.43	\$0.36	\$0.38	\$0.30	\$0.21	\$1.26	\$0.12	\$0.17	\$0.21	\$0.24	\$0.74	\$1.01
SHARES OUT (MIL)	12.76	12.47	12.38	12.37	12.37	12.40	12.40	12.36	12.50	12.55	12.45	12.80
<b>Y/Y% CHG.</b>												
Product Revenue	-14.5%	-34.8%	-28.7%	-8.2%	8.9%	-17.7%	24.6%	23.7%	15.4%	18.0%	20.1%	5.0%
Service Revenue	-6.5%	-8.8%	-7.4%	-4.6%	11.6%	-2.6%	2.1%	10.5%	72.4%	97.2%	47.5%	41.5%
<b>TOTAL REVENUE</b>	<b>-13.2%</b>	<b>-30.2%</b>	<b>-25.0%</b>	<b>-7.5%</b>	<b>9.4%</b>	<b>-14.9%</b>	<b>19.4%</b>	<b>20.9%</b>	<b>27.1%</b>	<b>34.7%</b>	<b>26.0%</b>	<b>14.1%</b>
TOTAL GROSS PROFIT	-15.1%	-31.2%	-28.2%	-17.8%	4.2%	-19.7%	12.2%	13.9%	46.5%	54.6%	32.7%	24.4%
TOTAL OPER. EXPENSE	-13.8%	-14.3%	-14.6%	-14.8%	2.6%	-10.7%	5.8%	4.9%	51.2%	63.1%	31.3%	23.8%
<b>OPER INCOME</b>	<b>-18.2%</b>	<b>-67.1%</b>	<b>-56.6%</b>	<b>-26.1%</b>	<b>9.4%</b>	<b>-41.5%</b>	<b>47.4%</b>	<b>51.1%</b>	<b>31.5%</b>	<b>30.0%</b>	<b>38.1%</b>	<b>26.2%</b>
PRE-TAX	-12.7%	-67.2%	-56.5%	-25.4%	12.8%	-40.7%	50.5%	54.6%	33.0%	29.9%	39.6%	26.1%
NET INCOME	-14.4%	-67.7%	-56.5%	-49.7%	NM	-39.6%	51.1%	53.3%	31.9%	NM	38.8%	26.1%
<b>EPS (x gain/charge)</b>	<b>-11.7%</b>	<b>-66.9%</b>	<b>-55.7%</b>	<b>-30.7%</b>	<b>13.2%</b>	<b>-41.3%</b>	<b>51.9%</b>	<b>46.8%</b>	<b>30.5%</b>	<b>26.9%</b>	<b>36.6%</b>	<b>22.8%</b>
<b>SEQ% CHG.</b>												
Product Revenue	-15.4%	16.2%	16.2%	8.2%	2.3%	-3.1%	15.3%	1.0%	4.6%			
Service Revenue		-2.6%	3.9%	3.9%	6.2%	-11.0%	12.5%	62.1%	21.5%			
<b>TOTAL REVENUE</b>	<b>-12.7%</b>	<b>13.4%</b>	<b>7.3%</b>	<b>3.1%</b>	<b>1.8%</b>	<b>-4.8%</b>	<b>14.8%</b>	<b>12.8%</b>	<b>9.3%</b>			
<b>TOTAL GROSS PROFIT</b>	<b>-10.5%</b>	<b>5.7%</b>	<b>1.8%</b>	<b>8.1%</b>	<b>1.8%</b>	<b>-3.6%</b>	<b>7.4%</b>	<b>30.9%</b>	<b>14.1%</b>			
TOTAL OPER. EXPENSE		0.1%	0.6%	-3.7%	5.9%	3.2%	-0.2%	38.8%	14.1%			
<b>OPER INCOME</b>	<b>-43.3%</b>	<b>34.3%</b>	<b>24.7%</b>	<b>15.3%</b>	<b>15.3%</b>	<b>-23.7%</b>	<b>37.7%</b>	<b>8.5%</b>	<b>14.0%</b>			
PRE-TAX	-43.1%	33.7%	27.3%	16.6%	16.6%	-24.2%	37.3%	9.5%	13.9%			
NET INCOME	141.0%	33.7%	27.3%	16.6%	16.6%	-23.8%	35.6%	9.5%	13.9%			
<b>EPS (x gain/charge)</b>	<b>-43.4%</b>	<b>40.7%</b>	<b>21.9%</b>	<b>16.6%</b>	<b>16.6%</b>	<b>-24.0%</b>	<b>36.0%</b>	<b>8.3%</b>	<b>13.4%</b>			
<b>MARGIN ANALYSIS</b>												
<b>GROSS MARGIN-Product</b>	<b>8.27%</b>	<b>7.92%</b>	<b>7.66%</b>	<b>7.06%</b>	<b>7.60%</b>	<b>7.54%</b>	<b>8.05%</b>	<b>7.15%</b>	<b>7.25%</b>	<b>7.25%</b>	<b>7.40%</b>	<b>7.25%</b>
Y/Y BP CHG	(110.0)	(95.7)	(67.3)	(111.7)	9.1	(73.3)	13.0	(51.2)	19.1	(35.0)	(13.8)	(15.1)
SEQ BP CHG		40.7	(25.4)	(60.4)	54.1		44.6	(89.5)	9.9	0.0		
<b>GROSS MARGIN-Service</b>	<b>30.77%</b>	<b>28.21%</b>	<b>27.00%</b>	<b>27.06%</b>	<b>27.01%</b>	<b>27.30%</b>	<b>27.25%</b>	<b>27.45%</b>	<b>27.45%</b>	<b>27.25%</b>	<b>27.35%</b>	<b>27.40%</b>
Y/Y BP CHG	185.8	(280.6)	(425.8)	(314.0)	(357.1)	(346.3)	(96.0)	45.1	38.5	23.9	4.3	5.4
SEQ BP CHG		(237.1)	(120.9)	6.3	(5.4)		24.0	20.2	(0.3)	(20.0)		
<b>GROSS MARGIN-Total</b>	<b>12.47%</b>	<b>12.60%</b>	<b>11.75%</b>	<b>11.16%</b>	<b>11.69%</b>	<b>11.76%</b>	<b>11.83%</b>	<b>11.08%</b>	<b>12.86%</b>	<b>13.42%</b>	<b>12.39%</b>	<b>13.50%</b>
Y/Y BP CHG	(28.9)	(18.3)	(50.9)	(139.5)	(58.6)	(71.1)	(76.5)	(67.7)	170.4	173.1	62.9	111.0
SEQ BP CHG		32.0	(84.8)	(59.6)	53.8		14.0	(75.9)	178.5	56.4		
<b>OPER MARGIN</b>	<b>3.64%</b>	<b>1.93%</b>	<b>2.29%</b>	<b>2.66%</b>	<b>2.98%</b>	<b>2.50%</b>	<b>2.39%</b>	<b>2.86%</b>	<b>2.76%</b>	<b>2.87%</b>	<b>2.74%</b>	<b>3.03%</b>
Y/Y BP CHG	(22.7)	(217.1)	(166.5)	(67.2)	(0.1)	(113.9)	45.3	57.3	9.2	(10.4)	24.1	29.1
SEQ BP CHG		(104.5)	35.8	37.2	31.4		(59.1)	47.7	(10.8)	11.8		
<b>NET MARGIN</b>	<b>2.14%</b>	<b>1.16%</b>	<b>1.37%</b>	<b>1.62%</b>	<b>1.83%</b>	<b>1.52%</b>	<b>1.47%</b>	<b>1.73%</b>	<b>1.68%</b>	<b>1.75%</b>	<b>1.67%</b>	<b>1.85%</b>
Y/Y BP CHG	(3.1)	(134.4)	(98.8)	(135.9)	141.3	(62.0)	30.8	36.6	6.1	(8.0)	15.4	17.5
SEQ BP CHG		73.9	20.7	25.5	21.1		(36.7)	26.6	(5.0)	7.0		

**POMEROY IT SOLUTIONS, INC.**

BALANCE SHEET (\$Mil.)

ASSETS (\$mil)	2002A	MAR 03A	JUN 03A	SEP 03A	DEC 03A	2003A	MAR 04A	JUN 04A	SEP 04E	DEC 04E	2004E	2005E
CASH & EQUIV	\$32.51	\$58.58	\$57.90	\$40.26	\$40.20	\$40.20	\$48.63	\$45.37	\$42.11	\$39.57	\$39.57	\$36.36
TOTAL RECEIVABLES	\$110.90	\$94.21	\$97.49	\$116.50	\$122.65	\$122.65	\$108.60	\$120.70	\$135.70	\$147.91	\$147.91	\$160.98
RESERVES	\$4.89	\$5.16	\$5.27	\$5.30	\$2.66	\$2.66	\$2.66	\$2.66	\$2.66	\$2.66	\$2.66	\$2.89
INVENTORIES	\$11.24	\$10.06	\$11.71	\$13.20	\$12.45	\$12.45	\$22.16	\$17.71	\$19.57	\$21.25	\$21.25	\$20.39
OTHER CURRENT	\$10.20	\$5.57	\$8.51	\$7.28	\$5.19	\$5.19	\$4.97	\$7.32	\$6.43	\$7.03	\$7.03	\$7.47
<b>TOT CURR ASSETS</b>	<b>\$164.84</b>	<b>\$168.43</b>	<b>\$175.61</b>	<b>\$177.25</b>	<b>\$180.50</b>	<b>\$180.50</b>	<b>\$184.36</b>	<b>\$191.10</b>	<b>\$203.81</b>	<b>\$215.77</b>	<b>\$215.77</b>	<b>\$225.19</b>
PP&E	\$19.30	\$19.03	\$18.24	\$17.30	\$16.26	\$16.26	\$15.85	\$15.88	\$15.25	\$14.61	\$14.61	\$15.61
LEASES	\$1.89	\$1.67	\$2.58	\$2.33	\$2.94	\$2.94	\$2.78	\$2.29	\$2.29	\$2.29	\$2.29	\$4.22
GOODWILL	\$61.18	\$65.20	\$65.44	\$66.97	\$68.10	\$68.10	\$68.41	\$68.49	\$68.49	\$68.49	\$68.49	\$68.49
OTHER ASSETS	\$1.30	\$1.31	\$1.20	\$1.03	\$1.41	\$1.41	\$1.49	\$1.76	\$1.93	\$2.11	\$2.11	\$2.03
<b>TOTAL ASSETS</b>	<b>\$248.50</b>	<b>\$255.62</b>	<b>\$263.06</b>	<b>\$264.88</b>	<b>\$269.20</b>	<b>\$269.20</b>	<b>\$272.89</b>	<b>\$279.53</b>	<b>\$291.77</b>	<b>\$303.27</b>	<b>\$303.27</b>	<b>\$315.54</b>
<b>LIAB &amp; EQUITY</b>												
CURR PORTION OF NOTE	\$0.54	\$1.20	\$1.20	\$0.66	\$0.91	\$0.91	\$0.91	\$0.91	\$0.00	\$0.00	\$0.00	\$0.00
ACCT PAY	\$31.17	\$35.79	\$41.38	\$48.39	\$50.05	\$50.05	\$50.62	\$55.38	\$57.56	\$62.50	\$62.50	\$61.17
BANK NOTE	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ACCRUEDS	\$9.80	\$10.38	\$10.94	\$14.02	\$12.75	\$12.75	\$13.90	\$12.78	\$17.99	\$19.66	\$19.66	\$18.33
<b>CURRENT LIAB</b>	<b>\$41.50</b>	<b>\$47.37</b>	<b>\$53.53</b>	<b>\$63.08</b>	<b>\$63.71</b>	<b>\$63.71</b>	<b>\$65.42</b>	<b>\$69.08</b>	<b>\$75.54</b>	<b>\$82.17</b>	<b>\$82.17</b>	<b>\$79.50</b>
L.T. DEBT	\$0.00	\$0.66	\$0.66	\$0.66	\$0.91	\$0.91	\$0.25	\$0.25	\$0.00	\$0.00	\$0.00	\$0.00
DEF INCOME TAX	\$3.32	\$3.14	\$4.16	\$4.73	\$4.78	\$4.78	\$4.82	\$4.83	\$6.24	\$6.82	\$6.82	\$6.87
<b>EQUITY</b>	<b>\$203.67</b>	<b>\$204.44</b>	<b>\$204.71</b>	<b>\$196.41</b>	<b>\$199.80</b>	<b>\$199.80</b>	<b>\$202.39</b>	<b>\$205.37</b>	<b>\$209.99</b>	<b>\$214.29</b>	<b>\$214.29</b>	<b>\$229.16</b>
<b>TOTAL LIAB+EQUITY</b>	<b>\$248.50</b>	<b>\$255.62</b>	<b>\$263.06</b>	<b>\$264.88</b>	<b>\$269.20</b>	<b>\$269.20</b>	<b>\$272.89</b>	<b>\$279.53</b>	<b>\$291.77</b>	<b>\$303.27</b>	<b>\$303.27</b>	<b>\$315.54</b>
<b>YY % CHG.</b>												
TOTAL RECEIVABLES	-47%	-48%	-34%	-12%	11%	11%	15%	24%	16%	21%	21%	9%
INVENTORIES	-46%	-49%	-44%	-22%	11%	11%	120%	51%	48%	71%	71%	-4%
ACCT PAY	-64%	-46%	-11%	22%	61%	61%	41%	34%	19%	25%	25%	-2%
EQUITY	7%	4%	2%	-4%	-2%	-2%	-1%	0%	7%	7%	7%	7%
<b>RATIO ANALYSIS</b>												
<b>LIQUIDITY</b>												
CASH/EQUIV. PER SHARE	\$2.55	\$4.70	\$4.68	\$3.26	\$3.25	\$3.24	\$3.92	\$3.67	\$3.37	\$3.15	\$3.18	\$2.84
CURRENT RATIO	4.0	3.6	3.3	2.8	2.8	2.8	2.8	2.8	2.7	2.6	2.6	2.8
<b>ASSET EFFICIENCY</b>												
TRADE A/R DAYS	49.8	58.3	53.8	62.0	62.3	67.9	58.8	57.3	57.3	57.3	66.7	62.0
RES % A/R (INCL CHARGE)	4.4%	5.7%	5.7%	4.8%	2.2%	2.2%	2.6%	2.3%	2.3%	2.3%	1.8%	1.8%
INVENTORY DAYS	6.7	8.1	8.2	8.6	7.9	8.6	14.8	10.2	10.2	10.2	11.7	10.0
INVENTORY TURNS	38.3	42.7	47.8	45.1	44.9	44.6	31.6	31.8	37.6	37.3	39.2	35.7
PAYABLE DAYS	18.5	28.7	29.0	31.4	31.7	34.6	33.8	31.9	30.0	30.0	34.5	30.0
<b>NET TRADE CYCLE</b>	<b>38</b>	<b>38</b>	<b>33</b>	<b>39</b>	<b>38</b>	<b>42</b>	<b>40</b>	<b>36</b>	<b>37</b>	<b>37</b>	<b>44</b>	<b>42</b>
WORK. CAP. / SALES (ANN)	12.9%	13.2%	11.5%	12.9%	13.0%	14.2%	12.9%	11.7%	12.2%	12.1%	14.1%	14.0%
FIXED ASSET / SALES (ANN)	2.7%	3.7%	3.2%	2.8%	2.6%	3.0%	2.6%	2.2%	1.9%	1.7%	2.0%	1.8%
<b>LEVERAGE</b>												
DEBT AS % CAPITAL	4.9%	0.9%	0.9%	0.7%	0.9%	5.6%	0.6%	0.6%	0.0%	0.0%	4.5%	4.2%
<b>RETURN ON CAPITAL</b>												
PROFIT MARGIN	2.1%	1.2%	1.4%	1.6%	1.8%	1.5%	1.5%	1.7%	1.7%	1.8%	1.7%	1.8%
ASSET TURNS (ANN)	2.4	2.1	2.3	2.4	2.5	2.3	2.3	2.6	2.8	3.0	2.6	2.8
<b>ROA</b>	<b>5.1%</b>	<b>2.4%</b>	<b>3.1%</b>	<b>3.9%</b>	<b>4.5%</b>	<b>3.5%</b>	<b>3.4%</b>	<b>4.5%</b>	<b>4.8%</b>	<b>5.3%</b>	<b>4.4%</b>	<b>5.1%</b>
ASSETS/EQUITY	1.50	1.24	1.25	1.30	1.32	1.28	1.35	1.35	1.37	1.39	1.38	1.40
<b>ROE</b>	<b>7.6%</b>	<b>3.0%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>5.9%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>6.1%</b>	<b>6.6%</b>	<b>7.3%</b>	<b>6.1%</b>	<b>7.2%</b>
<b>ROIC</b>	<b>5.0%</b>	<b>2.0%</b>	<b>2.6%</b>	<b>3.4%</b>	<b>3.9%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.7%</b>	<b>3.9%</b>	<b>4.7%</b>
BOOK VALUE	\$15.96	\$16.40	\$16.54	\$15.88	\$16.16	\$16.12	\$16.32	\$16.61	\$16.80	\$17.07	\$17.21	\$17.90
TANGIBLE BOOK VALUE	\$11.17	\$11.17	\$11.25	\$10.46	\$10.65	\$10.63	\$10.80	\$11.07	\$11.32	\$11.62	\$11.71	\$12.55

## Important Investor Disclosures

**Stock Ratings:** The common stock of Pomeroy IT Solutions, Inc. currently has a **Market Perform** rating. Within our four-tiered rating system, Strong Buy (SB1) means that the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.* Outperform (MO2) means the stock is expected to appreciate and outperform the S&P 500 over the next 12 months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.* Market Perform (MP3) means the stock is expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities; and Underperform (MU4) means the stock is expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

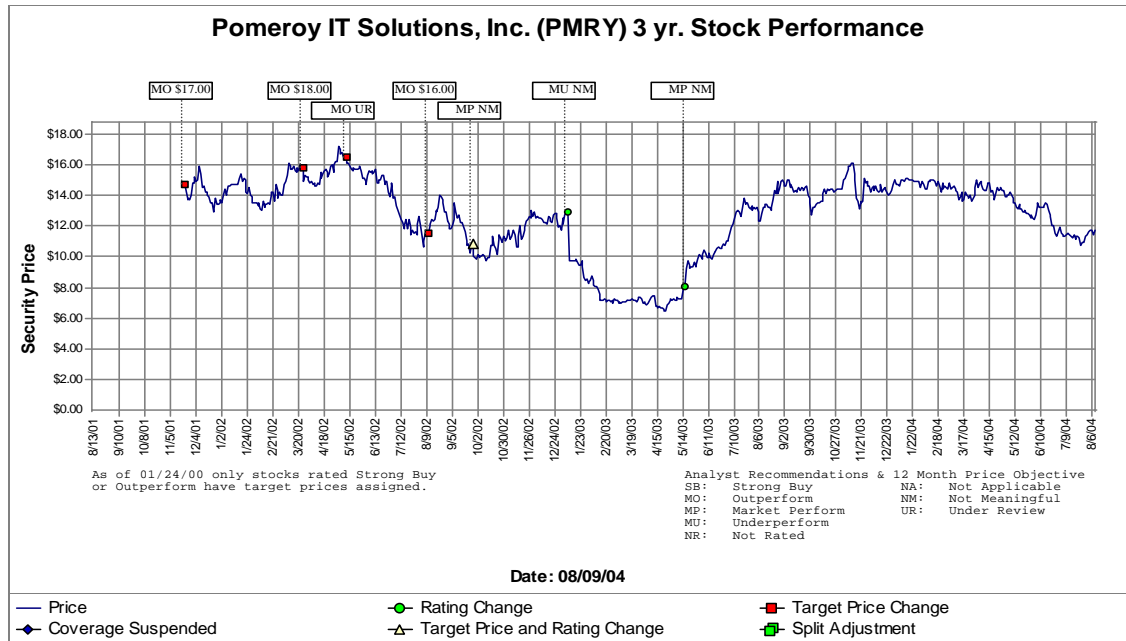
Out of approximately 557 stocks in the Raymond James coverage universe, 52% have Strong Buy or Outperform ratings (Buy), 39% are rated Market Perform (Hold) and 9% are rated Underperform (Sell). Within those rating categories, 32% of the Strong Buy or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 23% of the Market Perform (Hold) rated companies are or have been clients and 15% of the Underperform (Sell) rated companies are or have been clients.

**Analyst Holdings and Compensation:** Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks. **The covering analyst and/or research associate owns shares of the common stock of Dell Inc.**

**Raymond James Relationships:** RJA expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

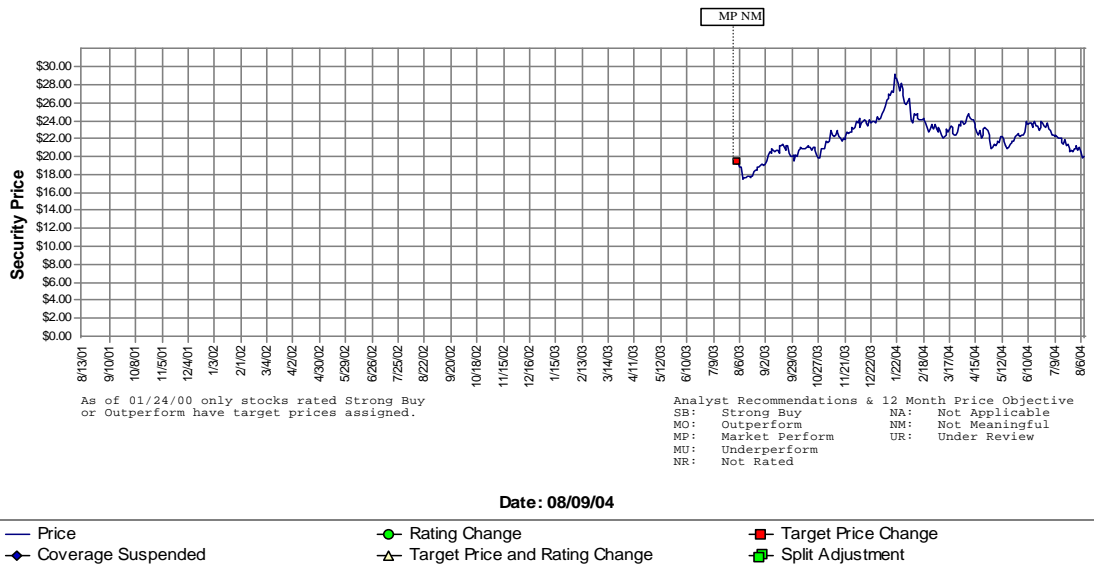
Company Name	Disclosure
Pomeroy IT Solutions, Inc.	<b>Raymond James &amp; Associates makes a NASDAQ market in shares of PMRY. Raymond James &amp; Associates received non-investment banking securities-related compensation from PMRY within the past 12 months.</b>

**Target Prices:** The information below indicates our target price and rating changes for PMRY stock over the past three years.

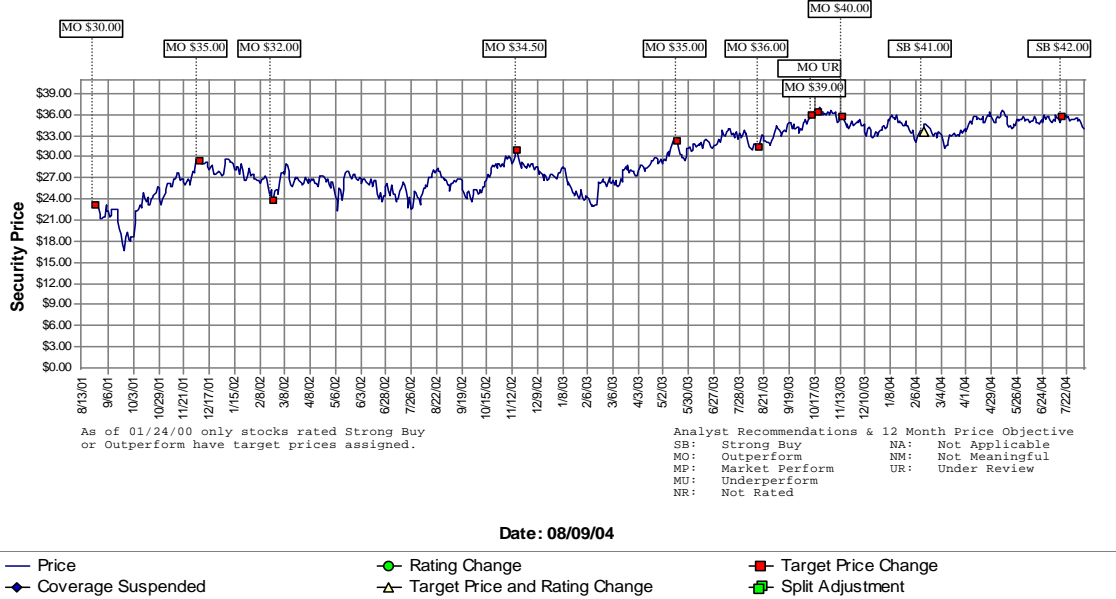


The information below indicates target price and rating changes for other subject companies included in this research.

### Cisco Systems (CSCO) 3 yr. Stock Performance



### Dell Inc. (DELL) 3 yr. Stock Performance



#### Specific Investment Risks Related to the Industry or Issuer

##### Industry Risks

Risks include pricing pressure, strength in capital spending and HP direct initiatives.

##### Company-Specific Risks

Risks include continued weakness in spending for IT products in the major account space (i.e. Fortune 1000 companies) and a concentrated customer base.

##### DELL Company-Specific Risks

Risks include the premium valuation of the company's stock and price competition by competitors.

Complete Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available at [www.rjcapitalmarkets.com/SearchForDisclosures\\_main.asp](http://www.rjcapitalmarkets.com/SearchForDisclosures_main.asp). Copies of research can be obtained by contacting any Raymond James & Associates or Raymond James Financial Services office (please see [www.rjf.com](http://www.rjf.com) for office locations) or by calling (727) 567-1000 or sending a written request to the Equity Research Library, Raymond James & Associates, Inc., Tower 3, 6<sup>th</sup> Floor, 880 Carillon Parkway, St. Petersburg, FL 33716.

---

**Investors should consider this report as only a single factor in making their investment decision.**

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Additional information is available on request.

This document may not be reprinted without permission.