



# Stock Traders Press

## Short Sale

### Automatic Data Processing (NYSE) ADP \$36.00

## Initiated Coverage

August 6, 2002

#### Company Data

52-week range	\$31.15 - \$60.37
Market Cap	\$22.679B
Shares Outstanding	60.4M
Book Value	\$ 8.64
Price/Book	4.19
Average Daily Vol.	2,327,863
Target Price	\$33.00
Target Percentage	9.76%
Stop Price	\$39.00

**Current Price \$36.57**



**Automatic Data Processing** is a major provider of payroll services and translation services to the investment community and mutual fund industry. We are recommending the short sale of **Automatic Data Processing** primarily for the following reasons:

- The sharp drop in overall employment over the past year has had a negative effect on the company's payroll services business. While we expect the economy to show improvement, the level of overall employment growth will be quite slow. These services represent about 55% of gross revenues.
- The company is a major provider of brokerage services to the investment community and mutual fund industry. The significant slowdown within the industry has not only impacted revenues but the current lower level should persist for the foreseeable future. This area represents 25% of gross revenues.
- The significant decline in short term interest rates have lowered the interest income the company's receives on the "float" from its payroll services. We are not expecting interest rates to rise meaningful over the next 6-12 months

**We believe the above factors will continue to adversely impact Automatic Data's operations. At the present time the stock is selling at 21 times earnings.**

#### STOCKS THAT HIT TARGET

Company / Symbol	Rec Date	Rec Price	Day Hit	Target	Days Held	% Gain
Lockheed Martin (LMT)	7/24/02	\$57.00	7/30/02	\$65.00	4	<b>10.2% @ \$62.80</b>
Equity Office (EOP) (short)	7/16/02	\$26.50	7/24/02	\$22.00	6	<b>13.4% @ \$22.96</b>
AOL (AOL) (short)	7/19/02	\$11.80	7/25/02	\$10.00	4	<b>20.3% @ \$9.40</b>

## Fremont General Corp. (NYSE) FMT \$4.34

Initially Recommended  
June 28, 2002

### Company Data

52-week range	\$3-\$8
Market Cap	\$303.7M
Shares Outstanding	72.7M
Book Value	\$5.21
Price/Book	0.77
Average Daily Vol.	301.3K
Dividend / Yield	\$0.08 / 2.01%
Target Price	\$8.00
Target Percentage	45.75%

Recommendation – Strong Buy



**Fremont General Corp.** is a holding company, which owns a commercial & industrial bank primarily located in California. We continue to recommend purchase of Fremont as an undervalued special opportunity investment.

- The company recently reported 2<sup>nd</sup> quarter earnings of \$.32 per share, which was higher by 30% over the 1st quarter and an 80% increase from the \$.18 per share, reported in the 2<sup>nd</sup> quarter of 2001.
- For the six months ending 6/30/02 the company has earned \$.57 per share and we expect the company to earn \$1.20 per share for 2002. Currently, the stock is selling at \$4.50 per share, which represents 3.8x-estimated earnings for 2002.
- We believe the stock should sell at a multiple of at least 6 times earnings, which would translate, to a price of \$7.20 per share. Additionally it should be noted that the company has a book value of \$5.60 per share.
- As of June 30, 2002, the company had cash of approximately \$1.92 per share.

## AOL-Time Warner. (NYSE) AOL \$9.95

Initially Recommended  
August 5, 2002

### Company Data

52-week range	\$8.70 - \$46.88
Market Cap	\$ 42.39B
Shares Outstanding	4.28B
Book Value	\$ 34.33
Price/Book	0.30
Average Daily Vol.	31,861,700
Target Price	\$7.50
Target Percentage	24.6%

### Recommendation – Short Sale



We are reinstating a recommended short sale of AOL-Time Warner. Previously, we had recommended the short sale of AOL on July 19th at a price of \$11.80. On July 15th we suggested that clients cover the short sale at a price of \$10.00 for a gain of 20.3%.

Our reasons for recommending a short sale of AOL-Time Warner are as follows:

- The widening probe, by the government, into the company's accounting practices at the AOL unit of its advertising revenues is quite serious. The essential issue is whether the company inflated revenues. In addition to the SEC, the Dept. of Justice has opened a criminal probe.
- The advertising market is especially weak for online advertisers. Additionally, AOL business is for dial-up users and the growth is in high-speed broadband. This is a major problem for future growth.
- AOL-Time Warner still has to resolve the issue of paying AT&T for its 29% position in Time Warner Entertainment. It is estimated that the 29% position is valued at \$2-3 billion.
- We believe the outlook for AOL-Time Warner is neutral at best and the company and stock is postured for negative surprise.
- Technically, if AOL closes below \$10.00 per share (a key support level), short sellers and institutions may start hammering the stock down.

**NOTE: Back in April our Firm saw a similar trading pattern with EMC. Shortly after EMC closed below \$10.00, the stock got pounded down to \$6.00. At that point short sellers covered their positions (locking in HUGE profits) and ran the stock back to \$10.**

**Recent Recommendations**

Company/Symbol	Recommend Date	Recommend Price	Price 07/30/02	Percent Change	Target Price	Target % Gain	Stop Price
Lockheed Martin (LMT)	7/24/02	\$57.00	Hit Target	10.2%	\$65.00	15.7%	\$53.00
Archer Daniels Midland (ADM)	04/16/02	\$13.27	\$11.50	-13.3%	\$16.50	24.3%	HOLD
Ohio Casualty	3/19/02	\$19.13	\$18.85	-1.5%	\$25.00	30.6%	\$16.00
<b>SHORT RECOMMENDATIONS</b>							
Beazer Homes (BZH)	7/23/02	\$57.85	Hit Stop	----	\$47.00	18.7%	\$60.00
UAL Corp (UAL) ***	7/22/02	\$5.61	\$6.24	-11.2%	\$4.00	28.6%	\$6.50
AOL Time Warner (AOL)	7/16/02	\$11.80	Hit Target	20.3%	\$10.00	15.2%	\$12.50
Equity Office Prop (EOP)	7/16/02	\$26.50	Hit Target	13.4%	\$22.00	16.9%	\$28.65

\*\*\*UAL dropped as low as \$3.47 a few days after our recommendation date... active clients could have realized a gain of as much as 38% on this short if they had covered at that level!

***Quote: "Money gives me pleasure all the time." – Hilaire Belloc***