NEWS RELEASE

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Students Uncover Possible Stock Market Mispricing in Turbulent Times

Professor Griffin’s Winter quarter 2008 class on company valuation analysis posed a special challenge this year: how to value a company in tough economic times, including the impact of the subprime debt crisis. Despite the challenging market conditions, students spotlighted several companies believed to be significantly mispriced by stock investors. Students based their views on a detailed analysis of the strategy and the future cash flows of the company. These analyses also pierced through the fog of complex accrual accounting, which often the stock market does not fully understand.

Companies under-appreciated by the market included Amazon.com (AMZN), Best Buy (BBY), Peet’s Coffee (PEET), and Smith Micro (SMSI). Mostly, students justified their recommendations based on stock investors’ over-emphasis on short-term results and recent write-downs rather than on long-term fundamentals.

Students also examined companies whose stock price had been hit hard by allegations of financial fraud. After a careful analysis of the merits of the accounting allegations, students identified several cases with weak charges that could lead to dismissal, including recent fraud litigation against Aetna (AET), Nutrisystem (NTRI), and Panera Bread (PNRA). On the other hand, many cases seemed well justified, as with Countrywide Financial (CFC), whose senior officers sold much of their “over-priced” stock back to the company as part of a company share buy-back plan implemented shortly before the company’s demise in 2007.

For more information on the students’ analyses, please contact Professor Griffin (pagriffin@ucdavis.edu).