

RiT Technologies

(RITT<sup>5,8,9,10</sup> \$1.44 - Intraday) Market Perform

**Strong Growth in Enterprise Business; Carrier Potential in 2007**

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- Revenue Slightly Exceed, EPS In-Line.** RiT Technologies reported 4Q06 revenue of \$7.1 million, above our estimate of \$6.5 million. Pro-forma EPS was \$0.01, in-line with our estimate.
- Enterprise Remains Strong; Carrier Opportunities Could Drive Growth in 2007.** This was the second consecutive quarter of record Enterprise sales, which was the majority of revenue in the quarter. The strength in Enterprise sales was aided by strong activity with OEM partners, which accounted for 30% of sales in the quarter. RiT has been working closely with its OEM partners in Asia, particularly India and China, and Latin America.
- Carrier Still Disappointing.** Carrier business was less than \$1 million. However, the company has been involved in various trials and believes a deal could materialize in early-to-mid 2007. A number of the opportunities have matured, but have not yet reached ordering stages.
- Fine-Tuning Estimates.** Management commented that they expect to grow revenue and be profitable in 2007. For 2007, we are maintaining our revenue estimate of \$27.0 million and slightly lowering our EPS estimate to \$0.05 from \$0.06. We are establishing a 2008 revenue estimate of \$28.3 million and EPS estimate of \$0.07.
- Maintaining Market Perform.** The stock is trading at 20x our 2008 EPS estimate. At these levels, we believe the stock is fairly valued until the company begins to see success with its renewed push into carrier. We are maintaining our rating of Market Perform.

Key Data

52-Week Range	\$2.60 - \$0.80
Weighted Average Shares (MM)	14.6
Float (MM)	10.8
% Held Institutionally	18.3
Market Capitalization (MM)	\$21
Average Daily Volume (000)	25
Revenues - LTM (MM)	\$25.1
Total Debt (including severance) (MM)	\$2.4
Net Cash per Share	\$0.41
Long-Term Growth Rate	15%

Fiscal Year Ends: Dec.	2006A	2007E	2008E
Revenue (MM)	\$25.1	\$27.0	\$28.3
Previous Revenues (MM)	\$24.5	NC	NE
Earnings per Share			
Q1	(\$0.06)	(\$0.02)	\$0.00
Q2	(\$0.04)	\$0.02	\$0.02
Q3	(\$0.01)	\$0.02	\$0.02
Q4	<u>\$0.01A</u>	<u>\$0.03</u>	<u>\$0.03</u>
Year	(\$0.10)	\$0.05	\$0.07
Previous EPS	(\$0.10)	\$0.06	NE
P/E	NM	26x	20x
Shares Fully Diluted (MM)	14.8	14.8	15.0

RiT is a leading supplier of physical layer management solutions for enterprise and carrier networks. RiT was founded in 1989 and completed its IPO in July of 1997. The company is headquartered in Israel.

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## December Quarter Results

**Many Carrier Opportunities; Some Could Materialize in Early-Mid 2007.** The company has been involved in various trials and believes a deal could materialize in early-mid 2007. Some of the trials are in active stages but haven't yet reached order stage. Meanwhile, RiT completed its 4<sup>th</sup> generation product line.

**Enterprise Revenue at Highest Levels.** Enterprise revenue was nearly all (about \$7.1 million) of total revenue, up from about \$6 million in 3Q06. This marks the second consecutive quarter of record Enterprise revenue. The strength in Enterprise sales was due to strong orders in Asia as well as increased activity from OEM partners, accounting for 30% of sales. RiT has expanded its OEM base particularly in India, China, and Latin America. Management expects strong enterprise trends to continue as the company expands worldwide.

**Gross Margins.** The company posted 53.9% gross margins for the quarter, up from 50.0% in 3Q06, due to increased sales to OEM and a favorable product mix of software and scanners, which carries higher GMs. Gross margins should also improve as carrier revenue returns in 2007, since carrier products carry higher margins.

**Operating Expenses Increase Sequentially.** Operating expenses were \$3.8 million or 52.9% of revenue in 4Q06, up sequentially due to higher sales commission and higher value of the Shekel.

**Cash Up.** On December 31, 2006, the company had \$6.0 million in net cash and securities (excluding severance liabilities), or about \$0.41 per share, up from \$0.37 per share sequentially. DSOs were 57 days, down from 78 days sequentially. Inventory turns were 1.6x compared 2.6x sequentially.

**Table 1**  
**RIT Technologies**  
**Annual Earnings Model, 2000-2008E**

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005A</b>	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>
<i>(in thousands)</i>									
<b>Revenue</b>	<b>\$38,628</b>	<b>\$39,225</b>	<b>\$18,424</b>	<b>\$15,189</b>	<b>\$18,427</b>	<b>\$27,852</b>	<b>\$25,092</b>	<b>\$27,000</b>	<b>\$28,300</b>
Cost of sales	20,018	19,696	11,080	10,782	10,067	12,923	12,933	12,960	13,584
Gross profit	18,610	19,529	7,344	4,407	8,360	14,929	12,159	14,040	14,716
Research and development, net	3,938	4,868	3,913	3,862	3,481	4,093	4,163	3,990	4,000
Sales and marketing	10,030	10,319	7,846	5,857	6,165	7,624	7,653	7,400	7,800
General and administrative	2,315	2,962	2,591	1,587	1,719	2,007	2,133	2,040	2,040
Total operating expense	16,283	18,149	14,350	11,306	11,365	13,724	13,949	13,430	13,840
Operating income	2,327	1,380	(7,006)	(6,899)	(3,005)	1,205	(1,790)	610	876
Financial income, net	226	408	96	82	26	198	237	200	200
Income before taxes	2,553	1,788	(6,910)	(6,817)	(2,979)	1,403	(1,553)	810	1,076
Income tax (pro forma)	-	-	-	-	-	-	-	-	-
Net income	2,553	1,788	(6,910)	(6,817)	(2,979)	1,403	(1,553)	810	1,076
<b>EPS</b>	<b>\$0.27</b>	<b>\$0.20</b>	<b>(\$0.78)</b>	<b>(\$0.08)</b>	<b>(\$0.27)</b>	<b>\$0.09</b>	<b>(\$0.10)</b>	<b>\$0.05</b>	<b>\$0.07</b>
Avg. shares out. (diluted):	9,601	9,118	8,910	80,739	11,170	15,458	14,818	14,767	14,967
<b>Yr/Yr % change:</b>									
<b>Revenues</b>	<b>68%</b>	<b>2%</b>	<b>(53%)</b>	<b>-18%</b>	<b>21%</b>	<b>51%</b>	<b>-10%</b>	<b>8%</b>	<b>5%</b>
Gross profit	137	5	(62)	(40)	90	79	(19)	15	5
Operating income	NA	(41)	NA	NA	NA	NA	(249)	(134)	44
Pretax income	NA	(30)	NA	NA	NA	NA	(211)	(152)	33
Net income	NA	(30)	NA	NA	NA	NA	(211)	(152)	33
EPS	NA	(26)	NA	NA	NA	NA	(215)	(152)	31
Avg. shares outstanding	11	(5)	(2)	806	(86)	38	(4)	(0)	1
<b>Gross margin</b>	<b>48.2%</b>	<b>49.8%</b>	<b>39.9%</b>	<b>29.0%</b>	<b>45.4%</b>	<b>53.6%</b>	<b>48.5%</b>	<b>52.0%</b>	<b>52.0%</b>
Research and development, net	10.2	12.4	21.2	25.4	18.9	14.7	16.6	14.8	14.1
Sales and marketing	26.0	26.3	42.6	38.6	33.5	27.4	30.5	27.4	27.6
General and administrative	6.0	7.6	14.1	10.4	9.3	7.2	8.5	7.6	7.2
Operating Expense	42.2	46.3	77.9	74.4	61.7	49.3	55.6	49.7	48.9
<b>Operating margin</b>	<b>6.0</b>	<b>3.5</b>	<b>(38.0)</b>	<b>(45.4)</b>	<b>(16.3)</b>	<b>4.3</b>	<b>(7.1)</b>	<b>2.3</b>	<b>3.1</b>
Pretax margin	6.6	4.6	(37.5)	(44.9)	(16.2)	5.0	(6.2)	3.0	3.8
Net margin	6.6	4.6	(37.5)	(44.9)	(16.2)	5.0	(6.2)	3.0	3.8
Tax rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data and C.E. Unterberg, Towbin estimates

**Table 2**  
**RiT Technologies**  
**Quarterly Earnings Model, 2006-2008E**

(in thousands)

	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06A</u>	<u>1Q07E</u>	<u>2Q07E</u>	<u>3Q07E</u>	<u>4Q07E</u>	<u>1Q08E</u>	<u>2Q08E</u>	<u>3Q08E</u>	<u>4Q08E</u>
<b>Revenue</b>	<b>\$5,267</b>	<b>\$6,652</b>	<b>\$6,062</b>	<b>\$7,111</b>	<b>\$5,700</b>	<b>\$6,900</b>	<b>\$6,800</b>	<b>\$7,600</b>	<b>\$6,200</b>	<b>\$7,100</b>	<b>\$7,000</b>	<b>\$8,000</b>
Cost of sales	2,867	3,754	3,033	3,279	2,736	3,312	3,264	3,648	2,976	3,408	3,360	3,840
Gross profit	2,400	2,898	3,029	3,832	2,964	3,588	3,536	3,952	3,224	3,692	3,640	4,160
Research and development, net	976	1,065	982	1,140	990	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Sales and marketing	1,829	1,979	1,793	2,052	1,750	1,850	1,800	2,000	1,800	1,900	1,900	2,200
General and administrative	521	529	510	573	510	510	510	510	510	510	510	510
Total operating expense	3,326	3,573	3,285	3,765	3,250	3,360	3,310	3,510	3,310	3,410	3,410	3,710
Operating income	(926)	(675)	(256)	67	(286)	228	226	442	(86)	282	230	450
Financial income, net	76	53	74	34	50	50	50	50	50	50	50	50
Income before taxes	(850)	(622)	(182)	101	(236)	278	276	492	(36)	332	280	500
Income tax (pro forma)	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(850)	(622)	(182)	101	(236)	278	276	492	(36)	332	280	500
<b>EPS</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.01)</b>	<b>\$0.01</b>	<b>(\$0.02)</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>(\$0.00)</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.03</b>
Avg. shares out. (diluted):	15,183	14,776	14,672	14,642	14,692	14,742	14,792	14,842	14,892	14,942	14,992	15,042
<b>Yr/Yr % change:</b>												
<b>Revenue</b>	<b>-20%</b>	<b>-5%</b>	<b>-15%</b>	<b>1%</b>	<b>8%</b>	<b>4%</b>	<b>12%</b>	<b>7%</b>	<b>9%</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>
Gross profit	(33)	(26)	(19)	5	24	24	17	3	9	3	3	5
Operating income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Pretax income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
EPS	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Avg. shares outstanding	(1)	(4)	(6)	(5)	(3)	(0)	1	1	1	1	1	1
<b>Gross margin</b>	<b>45.6%</b>	<b>43.6%</b>	<b>50.0%</b>	<b>53.9%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>	<b>52.0%</b>
Research and development, net	18.5	16.0	16.2	16.0	17.4	14.5	14.7	13.2	16.1	14.1	14.3	12.5
Sales and marketing	34.7	29.8	29.6	28.9	30.7	26.8	26.5	26.3	29.0	26.8	27.1	27.5
General and administrative	9.9	8.0	8.4	8.1	8.9	7.4	7.5	6.7	8.2	7.2	7.3	6.4
Operating Expense	63.1	53.7	54.2	52.9	57.0	48.7	48.7	46.2	53.4	48.0	48.7	46.4
<b>Operating margin</b>	<b>-17.6%</b>	<b>-10.1%</b>	<b>-4.2%</b>	<b>0.9%</b>	<b>-5.0%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>5.8%</b>	<b>-1.4%</b>	<b>4.0%</b>	<b>3.3%</b>	<b>5.6%</b>
Pretax margin	(16.1)	(9.4)	(3.0)	1.4	(4.1)	4.0	4.1	6.5	(0.6)	4.7	4.0	6.3
Net margin	(16.1)	(9.4)	(3.0)	1.4	(4.1)	4.0	4.1	6.5	(0.6)	4.7	4.0	6.3
Tax rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Qtr/Qtr % change:</b>												
<b>Revenue</b>	<b>(26%)</b>	<b>26%</b>	<b>-9%</b>	<b>17%</b>	<b>(20%)</b>	<b>21%</b>	<b>-1%</b>	<b>12%</b>	<b>(18%)</b>	<b>15%</b>	<b>-1%</b>	<b>14%</b>

Source: Company data and C.E. Unterberg, Towbin estimates

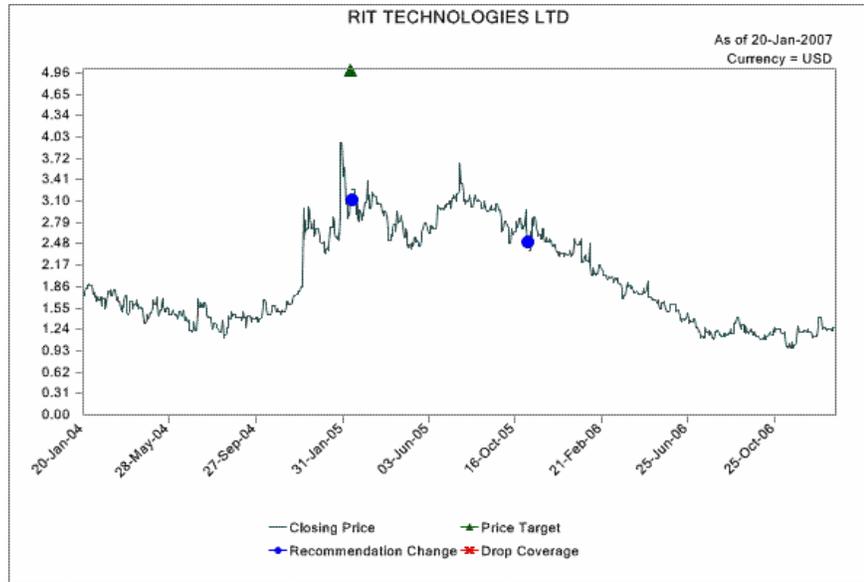
**Table 3**  
**RiT Technologies**  
**Quarterly Balance Sheet, 2001-2006**

(in thousands)	<u>4Q01</u>	<u>4Q02</u>	<u>4Q03</u>	<u>4Q04</u>	<u>4Q05</u>	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>4Q06</u>
Cash and cash equivalents	\$9,574	\$6,163	\$3,560	\$7,773	\$7,222	\$6,419	\$7,011	\$5,938	\$6,515
Marketable securities	1,091	570	560	531	506	502	0	0	0
A/R Trade, net	7,066	3,632	3,369	4,376	4,725	4,970	5,363	5,272	4,485
Other	978	684	767	1,016	741	754	776	1,045	474
Inventories, net	9,172	6,920	4,760	6,548	5,101	4,879	5,040	5,688	7,567
Total current assets	27,881	17,969	13,016	20,244	18,295	17,524	18,190	17,943	19,041
Equipment, net	860	571	351	410	669	695	756	788	801
Assets held for severance benefits	972	1,182	1,435	1,578	1,751	1,700	1,792	1,936	1,919
Total assets	\$29,713	\$19,722	\$14,802	\$22,232	\$20,715	\$19,919	\$20,738	\$20,667	\$21,761
Short-term bank credits	\$0	\$0	\$846	\$2,467	\$0	\$0	\$0	\$0	\$0
Trade payables	3,393	2,143	3,225	4,871	3,270	3,124	4,659	4,732	6,107
Deferred revenues					-	-	-	-	-
Other payables and accrued expenses	4,423	2,445	2,153	2,425	2,680	2,673	2,301	2,104	2,088
Total current liabilities	7,816	4,588	6,224	9,763	5,950	5,797	6,960	6,836	8,195
Liability for employees severance benefits	1,622	1,700	1,970	2,069	2,253	2,127	2,281	2,441	2,398
Total liabilities	9,438	6,288	8,194	11,832	8,203	7,924	9,241	9,277	10,593
Total shareholders' equity	20,275	13,434	6,608	10,400	12,512	11,995	11,497	11,390	11,168
Total liabilities and stockholders' equity	\$29,713	\$19,722	\$14,802	\$22,232	\$20,715	\$19,919	\$20,738	\$20,667	\$21,761

**Balance Sheet Metrics**

Net cash	10,015	6,215	2,739	5,346	7,226	6,494	6,522	5,433	6,036
Net cash per share	0.13	0.70	0.31	0.38	0.47	0.43	0.44	0.37	0.41
Change in net cash	NA	(236,602)	(277,731)	(871)	(1,434)	(732)	28	(1,089)	603
Change in accounts receivable	NA	(42,056)	(50,486)	774	1,101	245	393	(91)	(787)
Change in net inventory	NA	(34,526)	(33,521)	1,835	(523)	(222)	161	648	1,879
LT debt to capital (%)	7.4	11.2	23.0	16.6	15.3	15.1	16.6	17.6	17.7
Working capital	20,065	13,381	6,792	10,481	12,345	11,727	11,230	11,107	10,846
DSO		75	42	70	60	85	73	78	57
Turns		1.5	3.5	1.5	2.7	2.8	2.3	2.6	1.6

Source: Company data and C.E. Unterberg, Towbin estimates



**RIT TECHNOLOGIES LTD**  
Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
03-Nov-2005	2.50	MARKET PERFORM	10-Feb-2005	3.13	5.00
10-Feb-2005	3.13	BUY			

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- Buy: 12 months, estimated 20% or more appreciation
- Market Perform: Performance in line with the market averages anticipated.
- Under Perform: 12 months, estimated underperformance of 20% or more

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	% of CEUT Universe with this rating	% of rating tier for which CEUT provided IB services
Buy	60%	81%
Market Perform	39%	19%
Under Perform	1%	0%

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