

August 07, 2007

United States of America
Technology

AudioCodes Ltd. (AUDC - US\$ 5.49) 2-Equal weight

Emerging Communications Technologies

Change of Price Target

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Business Sounds More Stable

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Investment Conclusion

Reported 2Q sales slightly ahead of our and consensus expectations, important given the very disappointing past few quarters. 2007 guidance was maintained. Our price target drops to \$7 from \$7.50 based on 2x EV/08 sales or 19x CY08E EPS ex options, but adjusting for risks we maintain our 2EW rating. While this is a step in the right direction, we would be more positive on pullbacks and or with increased visibility into the potential for operating margin improvement and rising sales momentum

Summary

- Our sales estimates are essentially unchanged at \$156.5M (+6% YoY) and \$183.6M (+17% YoY), but our EPS estimates ex options now drop to \$0.19 and \$0.37 from \$0.21 and \$0.42 since we previously modeled opex cuts more aggressively than management appears to be making—it also seems that management plans to increase investment in some new acquisitions.
- Technology revs have declined QoQ in 4 qtrs, which continues to hold back growth in the Networking.
- The balance sheet remains okay, with net cash per share of \$0.22, and 2Q07 cash from operations of \$3M.

Stock Rating

Target Price

New: 2-Equal weight	New: US\$ 7.00
Old: 2-Equal weight	Old: US\$ 7.50

Sector View: 1-Positive

EPS (US\$) (FY Dec)

	2006		2007		2008			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2007	2008
1Q	0.05A	-0.06A	-0.04A	0.01A	0.05E	0.05E	0.06E	-180%	225%
2Q	0.07A	-0.02E	-0.01A	0.02E	0.06E	0.06E	0.07E	-114%	700%
3Q	0.03A	0.01E	0.02E	0.04E	0.07E	0.06E	0.08E	-33%	200%
4Q	0.03A	0.05E	0.05E	0.08E	0.07E	0.07E	0.09E	67%	40%
Year	0.18A	-0.01E	0.02E	0.15E	0.28E	0.26E	0.31E	-89%	1200%
P/E			274.5			21.1			

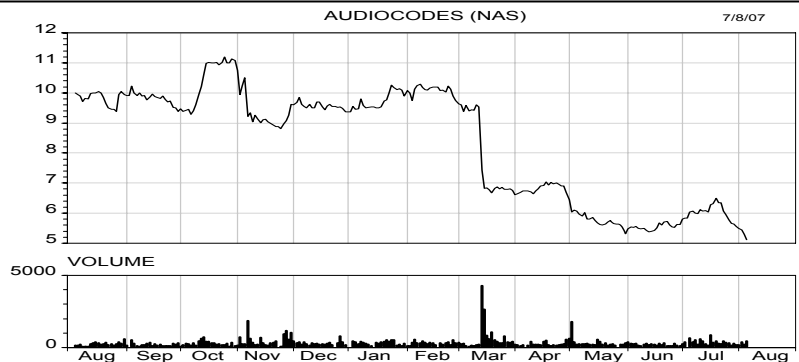
Market Data

Market Cap (Mil.)	241
Shares Outstanding (Mil.)	43.85
Float (%)	N/A
Dividend Yield	0.00
Convertible	Yes
52 Week Range	11.24 - 5.01

Financial Summary

Revenue FY07 (Mil.)	156.6
Five-Year EPS CAGR	N/A
Return on Equity	6.30
Current BVPS	3.86
Debt To Capital (%)	42.00

Stock Overview



IMPROVING PERFORMANCE IN 2Q REVERSES RECENT TRENDS; EST SLIDE LOWER; \$7 TARGET LEAVES POTENTIAL UPSIDE BUT RISK ADJUSTING STILL 2EW

Audiocodes reported 2Q sales slightly ahead of our and consensus expectations, which is important given very disappointing performance in the past few quarters. The 2007 outlook was maintained but management raised its bias for EPS to the high end of the range (\$0.12 to \$0.15)—we still believe this is based on expectations to hit the low end of the sales guidance range (\$155M-\$160M). Our sense is the revenues are finding some stability after demand waned and acquisitions side-tracked management (and missed their revenue targets), which is a positive development. Our sales estimates are essentially unchanged at \$156.5M (+6% YoY) and \$183.6M (+17% YoY), but our EPS estimates ex options now drop to \$0.19 and \$0.37 from \$0.21 and \$0.42 since we previously modeled opex cuts more aggressively than management appears to be making—it also seems that management plans to increase investment in some new acquisitions. Our

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

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price target drops to \$7 from \$7.50 based on 2x EV/08 sales or 19x CY08E EPS ex options, which provides some decent potential upside from here but adjusting for risks we maintain our 2EW rating. While we believe these results are a step in the right direction, we would be more positive on pullbacks and or with increased visibility into the potential for operating margin improvement and rising sales momentum since it seems like sales are stabilizing after some tough recent quarters. As we have seen in the past, gauging AudioCodes sales momentum can be challenging since the business has many OEM partners and these projects can have volatile deployments as we've seen in the past with Audiocodes and other VoIP peers such as Sonus (2EW). We also remain concerned about the Technology business unit, which continues to decline QoQ but yet we have modeled this stabilizing per guidance.

OUR NEW ESTIMATES

We adjusted our 3Q07, FY07 and FY08 forecast slightly, and now forecast sales and EPS excluding options of \$40M (+3% QoQ) and \$0.06, \$157M (+6% YoY) and \$0.19, and \$184M (+17% YoY) and \$0.37, versus our prior \$39M (+5% QoQ) and \$0.06, \$155M (+5% QoQ) and \$0.21, and \$185M (+19% QoQ) and \$0.42. To be clear our proforma EPS estimates including stock based compensation for 3Q07, FY07 and FY08 are now \$0.02, \$0.02 and \$0.26. Our previous estimates for 3Q07, FY07 and FY08 were \$0.01, -\$0.01 and \$0.28.

Guidance – Management maintained its guidance from the 1Q07 conference call for revenues of \$155-\$160M, with non-GAAP EPS of \$0.12-\$0.15. On the conference call, AudioCodes management indicated it expects gross margins around 58%, and that operating expenses should be flat or lower in 3Q07 versus 2Q07.

Figure 1: Lehman Changes to AudioCodes Model

	Sep-07e		2007e		2008e	
	Old	New	Old	New	Old	New
Revenues	\$39,329	\$39,790	\$155,411	\$156,556	\$184,987	\$183,653
QoQ/YoY Growth	5%	3%	5%	6%	19%	17%
Gross Profit	22,950	23,124	90,751	91,137	106,483	104,956
Gross Margin	58%	58%	58%	58%	58%	57%
Operating Expenses	20,160	20,985	81,715	84,498	85,840	89,140
Opex % Revs	51%	53%	53%	54%	46%	49%
Operating Income	\$2,790	\$2,139	\$9,036	\$6,639	\$20,643	\$15,816
Oper Margin	7%	5%	6%	4%	11%	9%
Net Income	2,834	2,563	9,806	8,582	22,723	19,546
EPS ex Options	\$0.06	\$0.06	\$0.21	\$0.19	\$0.42	\$0.37
YoY Growth	-24%	-30%	-44%	-50%	99%	96%
EPS inc Options	\$0.01	\$0.02	-\$0.01	\$0.02	\$0.28	\$0.26

Source: Company data and Lehman Brothers estimates

MORE DETAILS 2Q07 RESULTS

2Q07 sales of \$38.4M (+5% QoQ) beat our estimate of \$37.5M and consensus of \$37.2M. Proforma EPS of \$0.03 was in-line with our estimate, and beat the Street's \$0.02 by a penny. 2Q07 gross margins of 58.3% were marginally lower than our estimate and 1Q07 performance of 58.6%, though to be clear the gross profit dollars were higher than our estimate. Operating expenses were \$21.5M versus our estimate of \$20.5M, and included ~\$750K from the CTI acquisition. Despite the higher operating expense and lower operating income, AUDC proforma EPS was in-line with our estimates as the company had lower taxes and lower equity losses from affiliates, and higher interest income.

Figure 4: AudioCodes Report Card

(\$ in '000, except EPS)	Actual	Actual	Actual	LB Est	% Chg	% Chg	% Chg
	Jun-06	Mar-07	Jun-07	Jun-07	YoY	QoQ	Variance
Technology Sales	15,316	14,983	14,000	15,000	-9%	-7%	-7%
Networking Sales	<u>17,979</u>	<u>21,560</u>	<u>24,444</u>	<u>22,457</u>	36%	13%	9%
Net Sales	\$33,295	\$36,543	\$38,444	\$37,457	15%	5%	3%
COGS	13,446	15,146	16,025	15,525	19%	6%	3%
Gross Profit	19,849	21,397	22,419	21,932	13%	5%	2%
Gross Margin	59.6%	58.6%	58.3%	58.6%			
R&D	6,597	9,201	9,594	9,150	45%	4%	5%
S&M	7,364	9,599	9,764	9,250	33%	2%	6%
G&A	<u>1,569</u>	<u>2,210</u>	<u>2,160</u>	<u>2,135</u>	<u>38%</u>	<u>-2%</u>	<u>1%</u>
Total Opex	15,530	21,010	21,518	20,535	39%	2%	5%
Norm Oper Income	\$4,319	\$387	\$901	\$1,397	-79%	133%	-36%
Operating Margin	13.0%	1.1%	2.3%	3.7%	-82%	121%	-37%
Interest Income (Expense)	1,813	504	766	529	-58%	52%	45%
Equity in losses of Affiliates	213	329	204	329	-4%	-38%	-38%
Pre Tax Income	5,919	562	1,463	1,597	-75%	160%	-8%
Provision for Taxes	260	56	80	96	-69%	43%	-17%
Tax Rate	4%	10%	5%	6%			
Net Income	5,659	506	1,383	1,501	-76%	173%	-8%
EPS ex Options	\$0.11	\$0.01	\$0.03	\$0.03	-71%	176%	-6%
YoY Growth	54%	-88%	-71%	-70%			
Wtd.Avg.Shs.Outst.	50,922	43,847	43,481	44,505	-15%	-1%	-2%
EPS inc Options	\$0.07	(\$0.04)	(\$0.01)	(\$0.02)		-77%	-37%

Source: Company data and Lehman Brothers estimates

With respect to sales by product segment (see Figure 3), Networking (gateways/servers) revenues increased by 13% QoQ to \$24.4 million and Technology sales decreased 7% QoQ to \$14.0M. Of the last 6 quarters, Networking revenues have grown QoQ in 5 quarters, and Technology revenues have declined in 4 quarters. We remain cautious on the Technology business unit, which continues to hold back growth in the Networking business.

Figure 3: Audiocodes Sales by Product Segmentation

Revenue Segmentation (\$000s)	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
Technology (chips/boards/Ai Logix)	\$17,547	\$15,316	\$19,253	\$17,897	\$14,983	\$14,000
% revs	56%	46%	48%	42%	41%	36%
%chg QoQ	2%	-13%	26%	-7%	-16%	-7%
Networking (gateways/ servers)	\$13,787	\$17,979	\$20,858	\$24,716	\$21,560	\$24,444
% revs	44%	54%	52%	58%	59%	64%
%chg QoQ	2%	30%	16%	18%	-13%	13%

Source: Company data and Lehman Brothers estimates

Looking at sales by geography and customer (see Figure 4), AUDC experienced a sequential increase in revenues in all regions (Israel, Europe, APAC) except North America, as AudioCodes experienced customer weakness in North America. The company indicated that sales in the Asia Pacific region are recovering at \$5.0M versus a disappointing \$2.6M in 1Q07. AudioCodes experienced greater customer diversification than in its previous 5 quarters, with its top 15 customers comprising ~42% of revenues, versus 48% in 1Q07, and the highest concentration of 56% in 2Q06. We are pleased revenues with broader exposure seem to be a trend over the last 6 quarters and going forward.

Figure 4: AudioCodes Revenue by Geography and Customer

Geographical Segmentation (\$000s)	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07
North America	\$18,487	\$18,978	\$24,067	\$21,733	\$21,560	\$19,606
Israel	\$2,193	\$2,997	\$2,407	\$4,261	\$2,193	\$2,691
Europe	\$6,267	\$7,325	\$8,423	\$11,079	\$10,232	\$11,149
Asia Pac	\$4,387	\$3,995	\$5,214	\$5,540	\$2,558	\$4,998
Top 15 Customers	\$16,294	\$18,645	\$18,852	\$19,602	\$17,541	\$16,146
% of sales	52.0%	56.0%	47.0%	46.0%	48.0%	42.0%

Source: Company data and Lehman Brothers estimates

*The balance sheet remains okay, in our view, and 2Q07 cash from operations was \$2.7M—key moving parts are the net loss (GAAP basis), which was more than offset by non-cash charges of depreciation & amortization and stock based compensation. Net cash per share at quarter end was \$0.22, 4c lower than \$0.26 last quarter. AudioCodes used a small amount of working capital in the quarter, largely driven by a higher inventory balance, because of sales in its pipeline. Inventory turns were 3.4, slightly lower than 3.6 in 1Q07, and an average of ~4.2 in CY06. We are pleased accounts receivables were managed down to \$25.5M in the quarter from \$27.4M, with DSOs down to 63 days versus 72 in 1Q07.

Figure 5: AudioCodes Model -- Income Statement

Quarters Ended (\$000s)	FY 2005A	Mar-06	Jun-06	Sep-06	Dec-06	FY 2006	Mar-07	Jun-07	Sep-07E	Dec-07E	FY 2007E	Mar-08E	Jun-08E	Sep-08E	Dec-08E	FY 2008E
Net Sales	\$115,827	\$31,334	\$33,295	\$40,111	\$42,613	\$147,353	\$36,543	\$38,444	\$39,790	\$41,779	\$156,556	\$42,823	\$44,965	\$46,763	\$49,101	\$183,653
YoY Growth	40.0%	16.4%	16.7%	34.9%	39.1%	27.2%	16.6%	15.5%	-0.8%	-2.0%	6.2%	17.2%	17.0%	17.5%	17.5%	17.3%
QoQ Growth		2.3%	6.3%	20.5%	6.2%		-14.2%	5.2%	3.5%	5.0%		2.5%	5.0%	4.0%	5.0%	
Cost of Sales	46,993	12,559	13,446	16,099	17,277	59,381	15,146	16,025	16,665	17,582	65,419	18,150	19,193	20,101	21,253	78,697
Gross Profit	\$68,834	\$18,775	\$19,849	\$24,012	\$25,336	\$87,972	\$21,397	\$22,419	\$23,124	\$24,197	\$91,137	\$24,673	\$25,772	\$26,663	\$27,848	\$104,956
Gross Margin	59.4%	59.9%	59.6%	59.9%	59.5%	59.7%	58.6%	58.3%	58.1%	57.9%	58.2%	57.6%	57.3%	57.0%	56.7%	57.1%
Research & Development	24,415	6,581	6,597	9,312	9,873	32,363	9,201	9,594	9,350	9,350	37,495	9,350	9,650	10,050	10,450	39,500
% of sales	21.1%	21.0%	19.8%	23.2%	23.2%	22.0%	25.2%	25.0%	23.5%	22.4%	23.9%	21.8%	21.5%	21.5%	21.3%	21.5%
Sales & Mktg	25,944	7,222	7,364	9,101	9,827	33,514	9,599	9,764	9,550	9,550	38,463	9,800	10,100	10,300	10,800	41,000
% of sales	22.4%	23.0%	22.1%	22.7%	23.1%	22.7%	26.3%	25.4%	24.0%	22.9%	24.6%	22.9%	22.5%	22.0%	22.0%	22.3%
General & Admin	6,004	1,454	1,569	2,122	2,215	7,360	2,210	2,160	2,085	2,085	8,540	2,085	2,135	2,185	2,235	8,640
% of sales	5.2%	4.6%	4.7%	5.3%	5.2%	5.0%	6.0%	5.6%	5.2%	5.0%	5.5%	4.9%	4.7%	4.7%	4.6%	4.7%
Total Operating Expenses	56,363	15,257	15,530	20,535	21,915	73,237	21,010	21,518	20,985	20,985	84,498	21,235	21,885	22,535	23,485	89,140
Operating Income	\$12,471	\$3,518	\$4,319	\$3,477	\$3,421	\$14,735	\$387	\$901	\$2,139	\$3,212	\$6,639	\$3,438	\$3,887	\$4,128	\$4,363	\$15,816
Interest Income (Expense)	2,457	1,679	1,813	1,281	1,324	6,097	504	766	791	1,386	3,447	1,411	1,436	1,461	1,486	5,794
Equity in losses of Affiliates	693	173	213	286	244	916	329	204	204	204	941	204	204	204	204	816
Pre Tax Income	\$14,235	\$5,024	\$5,919	\$4,472	\$4,501	\$19,916	\$562	\$1,463	\$2,726	\$4,394	\$9,145	\$4,645	\$5,119	\$5,385	\$5,645	\$20,794
Provision for Taxes	799	126	260	315	293	994	56	80	164	264	563	279	307	323	339	1,248
Tax Rate	5.6%	0.4%	4.4%	7.0%	6.5%	5.0%	10.0%	5.5%	6.0%	6.0%	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%
Net Income	\$13,436	\$4,898	\$5,659	\$4,157	\$4,208	\$18,922	\$506	\$1,383	\$2,563	\$4,130	\$8,582	\$4,366	\$4,812	\$5,061	\$5,307	\$19,546
Proforma EPS	\$0.31	\$0.10	\$0.11	\$0.08	\$0.08	\$0.37	\$0.01	\$0.03	\$0.06	\$0.08	\$0.19	\$0.08	\$0.09	\$0.09	\$0.10	\$0.37
YoY Growth	158%	42.2%	54.0%	1.6%	-7.9%	20%	-88.1%	-71.4%	-29.6%	-3.8%	-50%	625.3%	186.3%	62.8%	22.0%	96%
Wtd.Avg.Shs.Outst.	43,086	50,619	50,922	50,414	50,466	50,605	43,847	43,481	44,133	51,495	45,739	52,167	52,849	53,541	54,244	53,200
Option Expense		\$2,051	\$1,836	\$2,353	\$2,467	\$8,707	\$2,330	\$1,808	\$1,808	\$1,808	\$7,754	\$1,808	\$1,808	\$1,808	\$1,808	\$7,232
EPS W/ Options Expensing		\$0.05	\$0.07	\$0.03	\$0.03	\$0.18	-\$0.04	-\$0.01	\$0.02	\$0.05	\$0.02	\$0.05	\$0.06	\$0.06	\$0.07	\$0.26
Margin Analysis	FY 2005A	Mar-06	Jun-06	Sep-06	Dec-06	FY 2006	Mar-07	Jun-07	Sep-07E	Dec-07E	FY 2007E	Mar-08E	Jun-08E	Sep-08E	Dec-08E	FY 2008E
Gross Margin	59.4%	59.9%	59.6%	59.9%	59.5%	59.7%	58.6%	58.3%	58.1%	57.9%	58.2%	57.6%	57.3%	57.0%	56.7%	57.1%
R&D	21.1%	21.0%	19.8%	23.2%	23.2%	22.0%	25.2%	25.0%	23.5%	22.4%	23.9%	21.8%	21.5%	21.5%	21.3%	21.5%
S&M	22.4%	23.0%	22.1%	22.7%	23.1%	22.7%	26.3%	25.4%	24.0%	22.9%	24.6%	22.9%	22.5%	22.0%	22.0%	22.3%
G&A	5.2%	4.6%	4.7%	5.3%	5.2%	5.0%	6.0%	5.6%	5.2%	5.0%	5.5%	4.9%	4.7%	4.7%	4.6%	4.7%
Total Operating Expenses	48.7%	48.7%	46.6%	51.2%	51.4%	49.7%	57.5%	56.0%	52.7%	50.2%	54.0%	49.6%	48.7%	48.2%	47.8%	48.5%
Operating Margin	10.8%	11.2%	13.0%	8.7%	8.0%	10.0%	1.1%	2.3%	5.4%	7.7%	4.2%	8.0%	8.6%	8.8%	8.9%	8.6%
Net Margin	11.6%	15.6%	17.0%	10.4%	9.9%	12.8%	1.4%	3.6%	6.4%	9.9%	5.5%	10.2%	10.7%	10.8%	10.8%	10.6%

Source: Company data, Lehman Brothers Estimates

Analyst Certification:

I, Marcus L. Kupferschmidt, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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Important Disclosures:

AudioCodes Ltd. (AUDC)

US\$ 5.49 (07-Aug-2007)

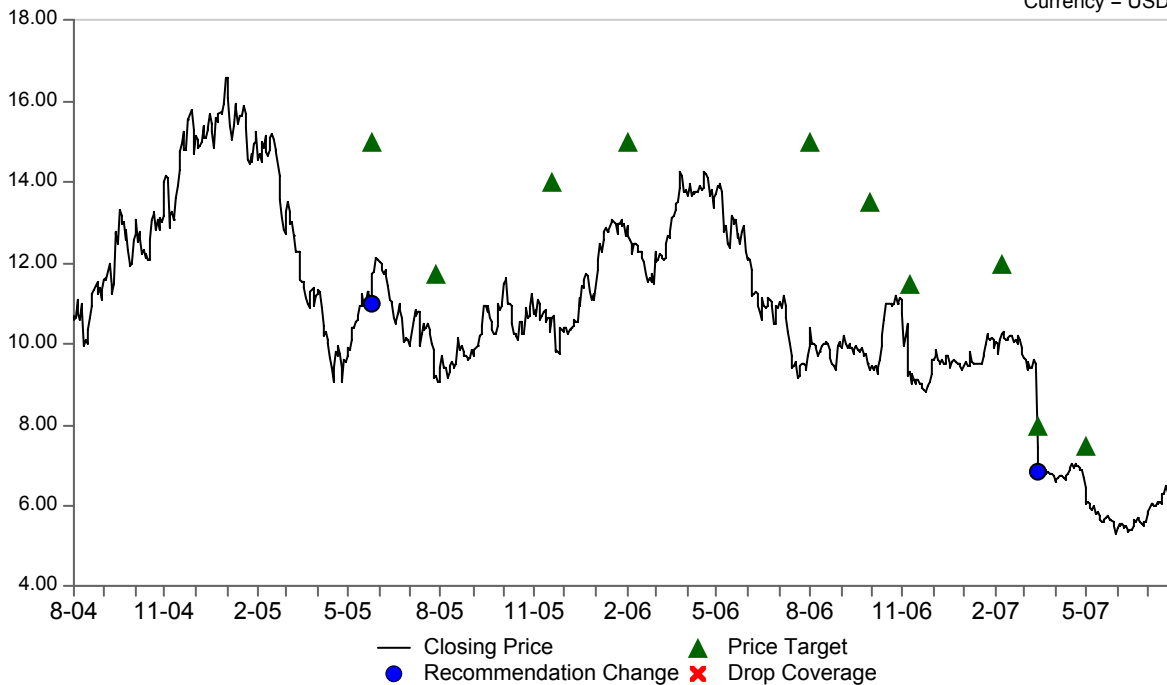
2-Equal weight / 1-Positive

Rating and Price Target Chart:

AUDIOCODES LTD.

As of 31-Jul-2007

Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
02-May-07	6.03		7.50
15-Mar-07	6.83		8.00
15-Mar-07	6.83	2 -Equal weight	
07-Feb-07	10.24		12.00
08-Nov-06	9.34		11.50
29-Sep-06	9.39		13.50

Date	Closing Price	Rating	Price Target
01-Aug-06	9.94		15.00
01-Feb-06	12.92		15.00
18-Nov-05	10.65		14.00
27-Jul-05	9.22		11.75
24-May-05	11.00		15.00
24-May-05	11.00	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate makes a market in the securities of AudioCodes Ltd..

Lehman Brothers Inc and/or an affiliate hold a short position of at least 1% of the outstanding share capital of AudioCodes Ltd..

Lehman Brothers Inc and/or an affiliate trade regularly in the shares of AudioCodes Ltd..

Valuation Methodology: Our \$7.00 price target is based on 2x EV/CY08 Sales of ~\$184M.

Risks Which May Impede the Achievement of the Price Target: The business has a high dependence on continued outsourcing trends by larger system OEMs. AudioCodes may face increasing pressure to limit the breathe of its System product portfolio to avoid competing with its OEM customers. The business strategy involves technology acquisitions to augment organic growth, and while AudioCodes successfully integrated two transactions, additional moves are expected. Competition remains intense and we expect more aggressive pricing pressure as this market continues to flourish. In a typical quarter, roughly 50% of shipments are book and ship business. The OEM business model leaves AudioCodes one step removed from end customer demand, which may limit the company's ability to adapt quickly to rapid changes in orders.

Important Disclosures Continued:

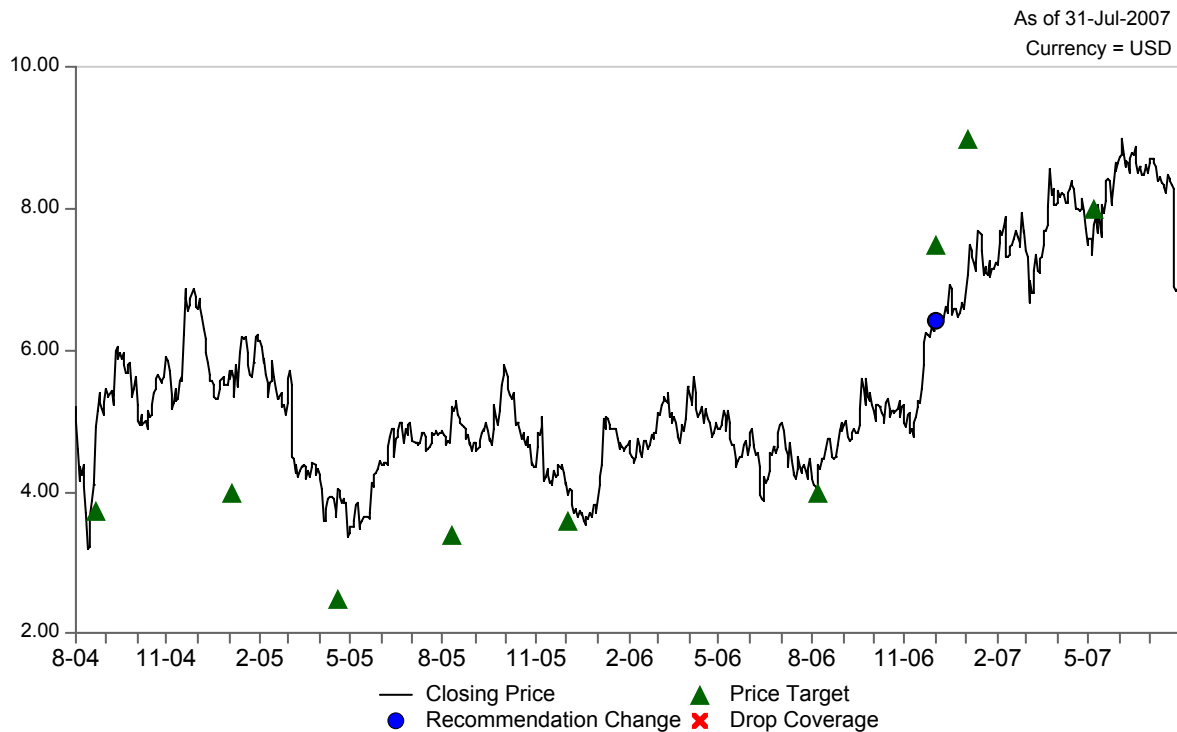
Sonus Networks (SONS)

US\$ 6.64 (06-Aug-2007)

2-Equal weight / 1-Positive

Rating and Price Target Chart:

SONUS NETWORKS



As of 31-Jul-2007
Currency = USD

Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
08-May-07	7.79		8.00
03-Jan-07	7.08		9.00
01-Dec-06	6.41		7.50
01-Dec-06	6.41	1 -Overweight	
08-Aug-06	4.40		4.00

Date	Closing Price	Rating	Price Target
02-Dec-05	3.97		3.60
09-Aug-05	5.13		3.40
19-Apr-05	4.05		2.50
04-Jan-05	5.72		4.00
23-Aug-04	4.92		3.75

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Risks Which May Impede the Achievement of the Price Target: Our projections for SONS assume that the telecom spending environment does not weaken further and that carriers begin to get more serious with regards to the adoption of Next Gen technologies. If telecom markets weaken further, however, the company's prospects, along with those of other equipment vendors would undoubtedly weaken. In particular, a growing desire of large incumbent carriers such as the RBOCs, to deploy next generation voice switching systems is critical to our assumptions and if these deployments are pushed out, our forecasts would likely prove too aggressive. We also assume that the company will have ample liquidity and funding to meet future cash needs. Our rating and price target could become invalid if Sonus burns cash at rates above our expectations.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (07-Aug-2007)	Stock / Sector Rating
AudioCodes Ltd.	AUDC	US\$ 5.49	2-Equal weight / 1-Positive

Related Stocks	Ticker	Price (06-Aug-2007)	Stock / Sector Rating
Sonus Networks	SONS	US\$ 6.64	2-Equal weight / 1-Positive

Guide to Lehman Brothers Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

ADC Telecommunications (ADCT)	Adtran Inc. (ADTN)
AudioCodes Ltd. (AUDC)	CIENA Corp. (CIEN)
Commscope (CTV)	Ditech Networks (DITC)
ECI Telecom Ltd (ECIL)	Harmonic, Inc. (HLIT)
Infinera Corp. (INFN)	Sonus Networks (SONS)
Sycamore Networks (SCMR)	Tekelec (TKLC)
Tellabs, Inc (TLAB)	Veraz Networks Inc. (VRAZ)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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