

# Better than expected results and guidance

## Strong 3Q results and guidance

Radware reported revs/non-GAAP loss per share of \$23.0mn/\$(0.06), ahead of our and consensus ests of \$22.5mn/\$(0.08). Upside was driven by a recovery in the US business, up 29% seq., though down 5% YoY. No explicit revenue guidance was issued, but mgmt pointed to another strong seq. increase. Radware should have little trouble clearing \$25mn in revs, enabling it to breakeven.

## Shares could trade up slightly, but upside is capped

Our model assumes a recovery in F2009 with revs/EPS at \$124mn/\$0.70, which would still necessitate applying a 27x F09 PE multiple to justify 20% upside. Recall that even in mid-cycle, Radware shares had difficulty sustaining a 20-23x forward PE. Additionally, it remains to be seen whether Radware can sustain the industry's 20-25% growth rate, given its weak execution history. Nevertheless, Radware shares could trade up in light of the upside potential in 4Q.

## Recovery in US underway, expect more evidence in 4Q

We estimate that Radware's new US salespeople contributed an avg. of \$50K/per person in sequential revenue growth in 3Q, which should increase in 4Q. As a result, 4Q revs from the US could again be up over 20% seq., in our view. The company continued to make progress at AT&T, a relationship that started on the wireless side and has now expanded to managed security service provider (MSSP) type services as well, also helping US results.

## Momentum and pipeline improving

In addition to the US recovery, Radware is making headway with carriers and new OEMs/partners outside of the US. The company also won a gov't contract worth "several million" dollars which should be recognized over the next quarter or two. The company should continue to see increased traction with carriers that offer MSSP and other services, with several large (>\$1mn) deals in the pipeline.

## Estimates (Dec)

(US\$)	2005A	2006A	2007E	2008E	2009E
EPS	0.16	(0.04)	(0.42)	0.05	0.51
GAAP EPS	0.32	(0.04)	(0.42)	0.05	0.51
EPS Change (YoY)	-76.8%	NM	-950.0%	NM	920.0%
Consensus EPS (First Call: 18-oct-2007)			(0.34)	0.12	0.05
Dividend Rate	0	0	0	0	5.00
EPS Ex-Options Expense	0.47	0.17	-0.21	0.24	0.70

## Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	97.8x	NM	NM	313.0x	30.7x
GAAP P/E	48.9x	NM	NM	313.0x	30.7x
Dividend Yield	0%	0%	0%	0%	31.9%
EV / EBITDA*	23.7x	NM	NM	61.3x	1.3x
Free Cash Flow Yield*	3.4%	0.4%	-1.7%	-2.6%	0%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 6.



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## Stock Data

Price	US\$15.65
Investment Opinion	C-2-9
Volatility Risk	HIGH
52-Week Range	US\$12.09-16.78
Mrkt Val / Shares Out (mn)	US\$305 / 19.5
ML Symbol / Exchange	RDWR / NAS
Bloomberg / Reuters	RDWR US / RDWR.OQ
ROE (2007E)	-4.4%
Total Dbt to Cap (Sep-2007A)	0%
Est. 5-Yr EPS / DPS Growth	15.0% / 0%



## Quarterly Earnings Estimates

	2006	2007
Q1	0A	-0.12A
Q2	-0.03A	-0.18A
Q3	-0.02A	-0.11A
Q4	0.01A	-0.02E

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Refer to important disclosures on page 7 to 8. Analyst Certification on page 6.

23 October 2007

# iQprofile<sup>SM</sup> Radware Ltd

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Return on Capital Employed	5.0%	1.8%	-2.0%	2.2%	5.6%
Return on Equity	2.0%	-0.4%	-4.4%	0.5%	4.2%
Operating Margin	5.7%	-4.7%	-12.4%	-1.8%	6.3%
Free Cash Flow	10	1	(5)	(8)	0

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Cash Realization Ratio	4.2x	NM	NM	-1.4x	0x
Asset Replacement Ratio	NA	NA	NA	NA	NA
Tax Rate	2.6%	9.6%	3.5%	10.0%	10.0%
Net Debt-to-Equity Ratio	-71.5%	-77.0%	-81.8%	-82.0%	-84.6%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Sales	78	81	90	108	124
% Change	13.4%	4.9%	10.0%	20.5%	15.3%
Gross Profit	63	66	72	87	100
% Change	11.4%	4.8%	9.8%	20.4%	15.3%
EBITDA	6	(1)	(7)	2	113
% Change	-41.5%	NM	-791.3%	NM	NM
Net Interest & Other Income	5	7	7	7	8
Net Income (Adjusted)	3	(1)	(8)	1	10
% Change	-75.9%	NM	-949.6%	NM	915.5%

## Free Cash Flow Data (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Net Income from Cont Operations (GAAP)	6	(1)	(8)	1	10
Depreciation & Amortization	2	3	4	4	105
Change in Working Capital	2	0	0	0	0
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	4	5	6	(7)	(115)
Capital Expenditure	(4)	(6)	(6)	(6)	0
Free Cash Flow	10	1	-5	-8	0
% Change	-19.5%	-87.1%	NM	-55.2%	NM

## Balance Sheet Data (Dec)

(US\$ Millions)	2005A	2006A	2007E	2008E	2009E
Cash & Equivalents	127	140	154	186	216
Trade Receivables	16	19	20	21	23
Other Current Assets	5	7	6	7	8
Property, Plant & Equipment	6	9	12	20	22
Other Non-Current Assets	50	40	37	40	40
<b>Total Assets</b>	<b>204</b>	<b>216</b>	<b>229</b>	<b>274</b>	<b>308</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	24	29	37	42	48
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	3	4	5	5	5
<b>Total Liabilities</b>	<b>27</b>	<b>33</b>	<b>41</b>	<b>47</b>	<b>53</b>
<b>Total Equity</b>	<b>177</b>	<b>182</b>	<b>188</b>	<b>227</b>	<b>255</b>
<b>Total Equity &amp; Liabilities</b>	<b>204</b>	<b>216</b>	<b>229</b>	<b>274</b>	<b>308</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Description

Radware develops, manufactures, and markets application delivery solutions and network security solutions that provide point-to-point availability, performance and security of mission critical networked applications. Radware's security products are focused on perimeter security, specifically intrusion detection and prevention (unauthorized network access).

## Stock Data

Average Daily Volume	117,804
Brokers Covered (FirstCall)	8

## 3Q Summary and Highlights

Table 1: Actual vs. Estimates

(\$mn except p/sh data)	Actual	ML Estimates	Delta	Q/Q	Y/Y
<b>Total Revenue</b>	<b>\$23.0</b>	<b>\$22.4</b>	<b>2.8%</b>	<b>7.2%</b>	<b>14.0%</b>
Cost of Sales	\$4.5	\$4.3	3.0%	7.4%	14.3%
<b>Gross Profit</b>	<b>\$18.6</b>	<b>\$18.1</b>	<b>2.8%</b>	<b>7.2%</b>	<b>13.9%</b>
R&D	\$5.6	\$5.6	0.1%	0.3%	31.8%
SG&A	\$15.8	\$15.7	0.4%	0.6%	17.9%
Total OPEX	\$21.4	\$21.3	0.3%	0.5%	21.2%
<b>Operating Income</b>	<b>(\$2.8)</b>	<b>(\$3.3)</b>	<b>-13.5%</b>	<b>-28.9%</b>	<b>111.0%</b>
Net Income (loss)	(\$1.2)	(\$1.6)	-21.8%	-46.2%	-318.0%
<b>Proforma EPS (\$)</b>	<b>(0.06)</b>	<b>(\$0.08)</b>	<b>(\$0.21)</b>	<b>-46.3%</b>	<b>-316.5%</b>
<b>Gross Margin</b>	<b>80.6%</b>	<b>80.7%</b>	<b>0.0%</b>		
R&D % of revenue	24.2%	24.9%	-0.7%		
SG&A % of revenue	68.7%	70.3%	-1.7%		
<b>Operating Margin</b>	<b>-12.2%</b>	<b>-14.5%</b>	<b>2.3%</b>		
Net Margin	-5.3%	-6.9%	1.7%		

Source: Company Reports, Merrill Lynch Estimates

Table 2: Balance Sheet Metrics

	Sep-07	Q Ago	Yr Ago
Net Cash	\$155.5	\$158.3	\$163.9
Net Cash/Dil Share	\$7.98	\$8.13	\$8.47
DSO	69	59	0
Inventory Turnover	3.5x	2.9x	2.3x
AP Days	126	137	105
Total Deferred Revenue	\$16.61	\$16.31	\$14.62

Source: Company Reports, Merrill Lynch Estimates

Table 3: Model Changes

	Sales			EPS			EPS w/ Stock Options		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
<b>FY07</b>									
Q1	\$19.72	\$19.72		(\$0.07)	(\$0.07)		(\$0.12)	(\$0.12)	
Q2	\$21.46	\$21.46		(\$0.12)	(\$0.12)		(\$0.18)	(\$0.18)	
Q3	\$23.02	\$23.02		(\$0.06)	(\$0.06)		(\$0.11)	(\$0.11)	
Q4E	\$23.95	\$25.32	\$1.37	(\$0.02)	\$0.03	\$0.05	(\$0.06)	(\$0.02)	\$0.05
<b>Total</b>	<b>\$87.52</b>	<b>\$89.52</b>	<b>\$2.00</b>	<b>(\$0.29)</b>	<b>(\$0.21)</b>	<b>\$0.08</b>	<b>(\$0.49)</b>	<b>(\$0.42)</b>	<b>\$0.07</b>
<b>FY08</b>									
Q1E	\$24.02	\$25.40	\$1.37	(\$0.02)	\$0.03	\$0.05	(\$0.06)	(\$0.02)	\$0.04
Q2E	\$24.51	\$25.90	\$1.40	(\$0.05)	\$0.02	\$0.07	(\$0.09)	(\$0.03)	\$0.06
Q3E	\$25.36	\$27.33	\$1.97	(\$0.02)	\$0.06	\$0.08	(\$0.06)	\$0.02	\$0.08
Q4E	\$26.63	\$29.24	\$2.61	\$0.03	\$0.13	\$0.10	(\$0.01)	\$0.09	\$0.10
<b>Total</b>	<b>\$100.52</b>	<b>\$107.87</b>	<b>\$7.35</b>	<b>(\$0.07)</b>	<b>\$0.24</b>	<b>\$0.30</b>	<b>(\$0.23)</b>	<b>\$0.05</b>	<b>\$0.28</b>
<b>FY09</b>									
<b>Total</b>	<b>\$113.06</b>	<b>\$124.39</b>	<b>\$11.33</b>	<b>\$0.21</b>	<b>\$0.70</b>	<b>\$0.49</b>	<b>\$0.05</b>	<b>\$0.51</b>	<b>\$0.46</b>

Source: Company Reports, Merrill Lynch Estimates

Table 4: Radware Income Statement

Income Statement Model (in \$mn)	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4E Dec-07	Q1E Mar-08	Q2E Jun-08	Q3E Sep-08	Q4E Dec-08	Year FY2006	Year FY2007E	Year FY2008E	Year FY2009E
Product Revenues	\$13.6	\$13.8	\$14.5	\$15.4	\$15.2	\$16.7	\$18.8	\$18.6	\$17.7	\$19.2	\$21.1	\$20.8	\$57.3	\$69.2		
Service Revenues	\$6.4	\$6.3	\$5.7	\$5.7	\$4.5	\$4.8	\$4.3	\$6.7	\$7.7	\$6.7	\$6.2	\$8.5	\$24.1	\$20.3		
<b>Total Revenues</b>	<b>\$20.0</b>	<b>\$20.1</b>	<b>\$20.2</b>	<b>\$21.1</b>	<b>\$19.7</b>	<b>\$21.5</b>	<b>\$23.0</b>	<b>\$25.3</b>	<b>\$25.4</b>	<b>\$25.9</b>	<b>\$27.3</b>	<b>\$29.2</b>	<b>\$81.4</b>	<b>\$89.5</b>	<b>\$107.9</b>	<b>\$124.4</b>
Cost of Sales	\$3.8	\$3.9	\$3.9	\$4.1	\$3.9	\$4.2	\$4.5	\$4.9	\$5.0	\$5.1	\$5.3	\$5.7	\$15.7	\$17.4	\$21.0	\$24.3
<b>Gross Profits</b>	<b>\$16.2</b>	<b>\$16.2</b>	<b>\$16.3</b>	<b>\$17.0</b>	<b>\$15.9</b>	<b>\$17.3</b>	<b>\$18.6</b>	<b>\$20.4</b>	<b>\$20.4</b>	<b>\$20.9</b>	<b>\$22.0</b>	<b>\$23.5</b>	<b>\$65.7</b>	<b>\$72.1</b>	<b>\$86.8</b>	<b>\$100.1</b>
Research & Development	\$3.5	\$4.0	\$4.2	\$4.8	\$5.0	\$5.6	\$5.6	\$5.6	\$5.8	\$6.1	\$6.1	\$6.2	\$16.5	\$21.7	\$24.2	\$25.7
SG&A	\$12.7	\$13.6	\$13.4	\$13.2	\$14.1	\$15.7	\$15.8	\$15.8	\$15.9	\$16.2	\$16.2	\$16.3	\$53.0	\$61.4	\$64.6	\$66.5
<b>Operating Expenses</b>	<b>\$16.3</b>	<b>\$17.6</b>	<b>\$17.6</b>	<b>\$18.0</b>	<b>\$19.1</b>	<b>\$21.3</b>	<b>\$21.4</b>	<b>\$21.5</b>	<b>\$21.7</b>	<b>\$22.3</b>	<b>\$22.4</b>	<b>\$22.5</b>	<b>\$69.5</b>	<b>\$83.2</b>	<b>\$88.8</b>	<b>\$92.2</b>
<b>Operating Income</b>	<b>-\$0.1</b>	<b>-\$1.4</b>	<b>-\$1.3</b>	<b>-\$1.0</b>	<b>-\$3.2</b>	<b>-\$4.0</b>	<b>-\$2.8</b>	<b>-\$1.1</b>	<b>-\$1.2</b>	<b>-\$1.4</b>	<b>-\$0.4</b>	<b>\$1.1</b>	<b>-\$3.8</b>	<b>-\$11.1</b>	<b>-\$2.0</b>	<b>\$7.9</b>
Net Interest Income	\$1.6	\$1.8	\$1.9	\$2.1	\$1.8	\$1.6	\$1.7	\$1.7	\$1.8	\$1.8	\$1.8	\$1.8	\$7.4	\$6.9	\$7.2	\$7.5
Income Tax Expense	\$0.2	\$0.0	\$0.0	\$0.1	\$0.0	-\$0.1	-\$0.1	\$0.1	\$0.1	\$0.0	\$0.1	\$0.3	\$0.3	-\$0.1	\$0.5	\$1.5
<b>Net Income</b>	<b>\$1.4</b>	<b>\$0.3</b>	<b>\$0.6</b>	<b>\$0.9</b>	<b>-\$1.4</b>	<b>-\$2.3</b>	<b>-\$1.0</b>	<b>\$0.6</b>	<b>\$0.5</b>	<b>\$0.3</b>	<b>\$1.3</b>	<b>\$2.6</b>	<b>\$3.2</b>	<b>-\$4.0</b>	<b>\$4.7</b>	<b>\$13.9</b>
<b>Operating EPS</b>	<b>\$0.07</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>\$0.05</b>	<b>(\$0.07)</b>	<b>(\$0.12)</b>	<b>(\$0.05)</b>	<b>\$0.03</b>	<b>\$0.03</b>	<b>\$0.02</b>	<b>\$0.06</b>	<b>\$0.13</b>	<b>\$0.17</b>	<b>(\$0.21)</b>	<b>\$0.24</b>	<b>\$0.70</b>
EPS incl. Options Exp.	(\$0.00)	(\$0.03)	(\$0.02)	\$0.01	(\$0.12)	(\$0.18)	(\$0.11)	(\$0.02)	(\$0.02)	(\$0.03)	\$0.02	\$0.09	(\$0.04)	(\$0.42)	\$0.05	\$0.51
Shares Outstanding (mns)	20.2	19.5	19.4	19.3	19.4	19.5	19.5	19.5	19.6	19.6	19.7	19.7	19.6	19.5	19.6	19.8
<b>MARGINS</b>																
<b>Gross Margin %</b>	<b>80.8%</b>	<b>80.8%</b>	<b>80.7%</b>	<b>80.5%</b>	<b>80.4%</b>	<b>80.7%</b>	<b>80.6%</b>	<b>80.5%</b>	<b>80.5%</b>	<b>80.5%</b>	<b>80.5%</b>	<b>80.5%</b>	<b>80.7%</b>	<b>80.5%</b>	<b>80.5%</b>	<b>80.5%</b>
Research & Development %	17.6%	20.1%	20.9%	22.6%	25.3%	25.9%	24.2%	22.2%	22.8%	23.5%	22.5%	21.2%	20.3%	24.3%	22.5%	20.7%
SG&A %	63.5%	67.8%	66.4%	62.7%	71.4%	73.2%	68.7%	62.5%	62.5%	62.6%	59.4%	55.7%	65.1%	68.6%	59.9%	53.5%
<b>Operating Margin %</b>	<b>-0.3%</b>	<b>-7.1%</b>	<b>-6.6%</b>	<b>-4.8%</b>	<b>-16.3%</b>	<b>-18.4%</b>	<b>-12.2%</b>	<b>-4.2%</b>	<b>-4.8%</b>	<b>-5.6%</b>	<b>-1.4%</b>	<b>3.6%</b>	<b>-4.7%</b>	<b>-12.4%</b>	<b>-1.8%</b>	<b>6.3%</b>
Effective Tax Rate %	10.0%	10.1%	7.9%	9.8%	1.6%	2.7%	11.7%	10.0%	10.0%	10.0%	10.0%	10.0%	9.6%	3.5%	10.0%	10.0%
<b>Net Margin %</b>	<b>6.9%</b>	<b>1.7%</b>	<b>2.8%</b>	<b>4.5%</b>	<b>-7.3%</b>	<b>-10.5%</b>	<b>-4.2%</b>	<b>2.4%</b>	<b>2.0%</b>	<b>1.2%</b>	<b>4.7%</b>	<b>8.9%</b>	<b>4.0%</b>	<b>-4.5%</b>	<b>4.3%</b>	<b>11.1%</b>
<b>QoQ Growth</b>																
Revenues	-4.7%	0.1%	0.7%	4.4%	-6.5%	8.8%	7.2%	10.0%	0.3%	2.0%	5.5%	7.0%				
Operating EPS	-42.2%	-73.8%	60.7%	70.3%	-251.0%	56.7%	-57.5%	-162.8%	-17.7%	-37.8%	310.6%	102.9%				
<b>YoY Growth</b>																
Revenues	0%	15%	6%	0%	-2%	7%	14%	20%	29%	21%	19%	15%	4.9%	10.0%	20.5%	15.3%
Operating EPS	-68%	-64%	-64%	-59%	-208%	-748%	-271%	-37%	-134%	-114%	-232%	327%	-64.5%	-225.9%	-214.8%	192.9%

Source: Company Reports, Merrill Lynch Estimates

Table 5: Radware Balance Sheet

Balance Sheet (in \$mn)	Q1 Mar-06	Q2 Jun-06	Q3 Sep-06	Q4 Dec-06	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4E Dec-07	Q1E Mar-08	Q2E Jun-08	Q3E Sep-08	Q4E Dec-08	Year FY2006	Year FY2007E	Year FY2008E	Year FY2009E
<b>Assets</b>																
Cash & Equivalents	108.3	120.4	121.0	140.4	137.9	133.6	141.2	153.7	165.0	167.9	180.2	186.1	140.4	153.7	186.1	215.6
Accounts receivables	15.7	17.1	15.8	17.5	15.5	13.9	17.2	17.5	16.7	16.7	17.7	20.2	17.5	17.5	20.2	22.7
Other receivables	1.7	1.8	1.9	2.0	2.3	2.7	2.7	2.1	1.7	1.3	1.0	0.9	2.0	2.1	0.9	0.3
Inventories	5.8	6.9	6.9	6.9	6.2	5.7	5.1	6.4	6.8	6.7	7.1	7.1	6.9	6.4	7.1	7.9
<b>Total Current Assets</b>	<b>131.5</b>	<b>146.2</b>	<b>145.5</b>	<b>166.7</b>	<b>162.0</b>	<b>156.0</b>	<b>166.2</b>	<b>179.7</b>	<b>190.2</b>	<b>192.7</b>	<b>206.0</b>	<b>214.3</b>	<b>166.7</b>	<b>179.7</b>	<b>214.3</b>	<b>246.6</b>
Long Term Investments	61.8	50.1	43.0	23.8	26.9	24.7	14.3	14.3	14.3	14.3	14.3	14.3	23.8	14.3	14.3	14.3
Severance Pay Funds	2.3	2.5	2.7	2.9	3.0	3.1	3.5	3.5	3.6	3.6	3.7	3.7	2.9	3.5	3.7	3.9
Property and Equipment, Net	6.3	6.8	8.2	9.3	10.7	11.3	11.7	12.2	12.7	19.1	19.6	20.1	9.3	12.2	20.1	22.1
Goodwill	6.5	6.5	6.5	9.5	9.5	13.5	13.5	13.5	13.5	16.0	16.0	16.0	9.5	13.5	16.0	16.0
Other Assets	3.8	3.7	3.7	3.6	3.5	6.6	6.2	6.2	6.1	6.0	5.9	5.8	3.6	6.2	5.8	5.5
<b>TOTAL ASSETS</b>	<b>212.1</b>	<b>215.8</b>	<b>209.6</b>	<b>215.7</b>	<b>215.6</b>	<b>215.1</b>	<b>215.3</b>	<b>229.3</b>	<b>240.2</b>	<b>251.7</b>	<b>265.4</b>	<b>274.3</b>	<b>215.7</b>	<b>229.3</b>	<b>274.3</b>	<b>308.4</b>
<b>Current Liabilities</b>																
Accounts Payable	5.4	5.9	4.5	7.0	5.0	6.3	6.3	6.5	6.5	6.6	7.0	7.5	7.0	6.5	7.5	8.6
Other accrued liabilities	7.6	7.7	7.4	6.6	10.2	10.1	10.7	11.7	11.8	12.0	12.7	13.6	6.6	11.7	13.6	15.5
Deferred support revenue	13.6	14.3	14.6	15.7	16.0	16.3	16.6	18.3	18.3	18.7	19.7	21.1	15.7	18.3	21.1	24.1
<b>Total Current Liabilities</b>	<b>26.5</b>	<b>28.0</b>	<b>26.6</b>	<b>29.3</b>	<b>31.2</b>	<b>32.7</b>	<b>33.5</b>	<b>36.5</b>	<b>36.6</b>	<b>37.3</b>	<b>39.4</b>	<b>42.2</b>	<b>29.3</b>	<b>36.5</b>	<b>42.2</b>	<b>48.2</b>
Accrued Severance Pay	2.8	3.3	3.6	4.0	4.2	4.6	4.8	4.9	4.9	5.0	5.0	5.1	4.0	4.9	5.1	5.2
<b>TOTAL LIABILITIES</b>	<b>29.3</b>	<b>31.2</b>	<b>30.2</b>	<b>33.3</b>	<b>35.4</b>	<b>37.3</b>	<b>38.4</b>	<b>41.4</b>	<b>41.5</b>	<b>42.3</b>	<b>44.4</b>	<b>47.2</b>	<b>33.3</b>	<b>41.4</b>	<b>47.2</b>	<b>53.4</b>
Shareholder's Equity	182.8	184.6	179.4	182.4	180.2	177.8	176.9	187.9	198.7	209.4	221.0	227.0	182.4	187.9	227.0	254.9
<b>TOT LIABS &amp; S/H EQUITY</b>	<b>212.1</b>	<b>215.8</b>	<b>209.6</b>	<b>215.7</b>	<b>215.6</b>	<b>215.1</b>	<b>215.3</b>	<b>229.3</b>	<b>240.2</b>	<b>251.7</b>	<b>265.4</b>	<b>274.3</b>	<b>215.7</b>	<b>229.3</b>	<b>274.3</b>	<b>308.4</b>
<b>Net Cash (Debt)</b>	<b>170.0</b>	<b>170.4</b>	<b>163.9</b>	<b>164.1</b>	<b>164.8</b>	<b>158.3</b>	<b>155.5</b>	<b>168.0</b>	<b>179.3</b>	<b>182.2</b>	<b>194.5</b>	<b>200.4</b>	<b>164.1</b>	<b>168.0</b>	<b>200.4</b>	<b>229.9</b>
Change in Net Cash (Debt)	5.6	0.4	-6.5	0.2	0.7	-6.6	-2.8	12.5	11.3	2.9	12.3	6.0	0.2	12.5	6.0	8.6
<b>BALANCE SHEET RATIOS:</b>																
Cash per share	\$8.41	\$8.74	\$8.47	\$8.52	\$8.49	\$8.13	\$7.98	\$8.60	\$9.16	\$9.29	\$9.89	\$10.16	\$8.52	\$8.60	\$10.16	\$11.56
Book value per share	\$9.04	\$9.47	\$9.26	\$9.47	\$9.27	\$9.14	\$9.08	\$9.62	\$10.15	\$10.67	\$11.24	\$11.51	\$9.47	\$9.62	\$11.51	\$12.81
Working Capital	105.0	118.2	118.9	137.4	130.8	123.2	132.6	143.2	153.6	155.3	166.6	172.2	137.4	143.2	172.2	198.4
Working Capital (ex-cash)	10.3	12.2	12.6	12.7	8.9	6.0	8.1	7.8	6.9	6.1	6.1	7.1	47.8	30.7	7.1	6.9
Change in Working Capital	-0.8	-1.8	-0.4	-0.2	3.9	2.9	-2.1	0.3	0.8	0.8	0.0	-1.0	-0.2	0.3	-1.0	-0.9
Current Ratio	5.0	5.2	5.5	5.7	5.2	4.8	5.0	4.9	5.2	5.2	5.2	5.1	5.7	4.9	5.1	5.1
Quick Ratio	4.7	5.0	5.2	5.5	5.0	4.6	4.8	4.7	5.0	5.0	5.0	4.9	5.5	4.7	4.9	5.0
Annualized Sales to Total																
Assets	37.8%	37.2%	38.6%	39.1%	36.6%	39.9%	42.8%	44.2%	42.3%	41.2%	41.2%	42.6%	37.7%	39.0%	42.6%	43.4%
Debt to Capitalization	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Return on Assets* (net inc.)	3.0%	2.6%	2.2%	1.5%	0.2%	-1.0%	-1.8%	-1.9%	-1.0%	0.1%	1.0%	1.7%	1.5%	-1.8%	1.7%	4.5%
Return on Sales*	8.2%	7.1%	5.7%	4.0%	0.5%	-2.7%	-4.6%	-4.8%	-2.5%	0.2%	2.6%	4.3%	4.0%	-4.5%	4.3%	11.1%
Return on Equity*	3.6%	3.2%	2.6%	1.8%	0.2%	-1.2%	-2.2%	-2.4%	-1.3%	0.1%	1.3%	2.2%	1.8%	-2.2%	2.2%	5.7%
A/R Days Sales Out	70.7	77.9	71.6	75.5	71.8	59.2	68.1	63.0	60.0	59.0	59.0	63.0	77.2	70.3	67.4	65.7
Inventory Turns	2.7	2.2	2.3	2.4	2.5	2.9	3.5	3.1	2.9	3.0	3.0	3.2	12.0	12.0	12.8	13.2
Days of Inventory	134.8	160.2	158.2	150.4	144.5	124.6	102.9	116.1	124.1	120.0	120.0	112.5	157.8	131.7	122.0	117.3
A/P Days Payable	125.5	138.2	105.0	151.8	116.3	137.0	126.3	120.0	120.0	120.0	120.0	120.0	159.2	134.2	128.3	127.2

Source: Company Reports, Merrill Lynch Estimates

## Analyst Certification

I, Stanley Kovler, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### *iQmethod*<sup>SM</sup> Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

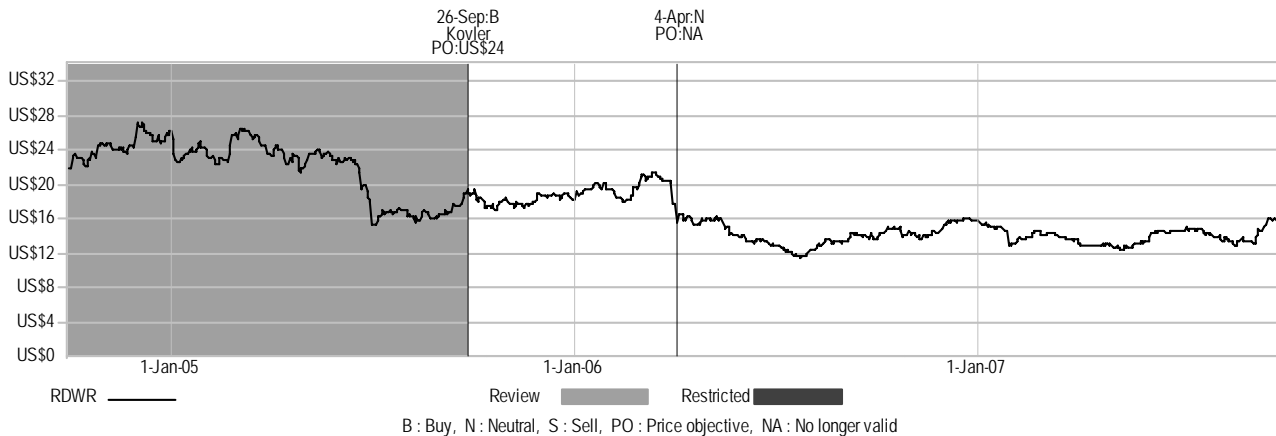
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The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of September 30, 2007 or such later date as indicated.

### Investment Rating Distribution: Telecommunications Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	46.49%	Buy	19	26.76%
Neutral	81	43.78%	Neutral	18	26.09%
Sell	18	9.73%	Sell	4	30.77%

### Investment Rating Distribution: Global Group (as of 01 Oct 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1701	47.03%	Buy	437	29.15%
Neutral	1611	44.54%	Neutral	425	29.11%
Sell	305	8.43%	Sell	58	21.09%

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