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United States of America
Technology
Software

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Check Point Software (CHKP - US$ 23.67) 1-Overweight

Recommendation Change

No Love, No Multiple: Upgrading to 1-OW

Investment Conclusion

- We are upgrading shares of Check Point Software to 1-Overweight from 2-Equalweight and establishing a new 12 month price target of $30 per share, representing 27% potential upside from current levels. We look for multiple expansion to 15x earnings to drive shares higher on strengthening topline trends as appliance shift gains momentum.

Summary

- At a languishing and peer low multiple of 11.8x C09 earnings, we view shares as mispriced given five consecutive quarters of financial outperformance and improving competitive outlook based on ongoing mix shift to CHKP-branded appliances and recent product introductions. Ongoing shift is driving higher ASP's and deal value, stemming market share losses and expanding customer reach into new market segments in midmarket and branch/remote offices. We look for sustained double digit topline growth over the next several quarters as appliances ramp (currently 30% of product sales).
- Raising our FY08 and FY09 revenue estimates above consensus to $811.7M and $888.8 from $800M to $858M. Our EPS estimates go to $1.80 and $2.00 from $1.75 and $1.91.

Stock Rating

New:	1-Overweight
Old:	2-Equal weight

Target Price

New:	US$ 30.00
Old:	US$ 28.00

Sector View: 1-Positive

EPS (US$) (FY Dec)

	2007	2008			2009			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	2009
1Q	0.35A	0.43A	0.43A	0.43A	N/A	0.47E	0.44E	23%	9%
2Q	0.38A	0.42E	0.43E	0.43E	N/A	0.48E	0.46E	13%	12%
3Q	0.41A	0.43E	0.44E	0.44E	N/A	0.49E	0.47E	7%	11%
4Q	0.46A	0.47E	0.50E	0.49E	N/A	0.56E	0.53E	9%	12%
Year	1.59A	1.75E	1.80E	1.78E	1.91E	2.00E	1.93E	13%	11%
P/E			13.2			11.8			

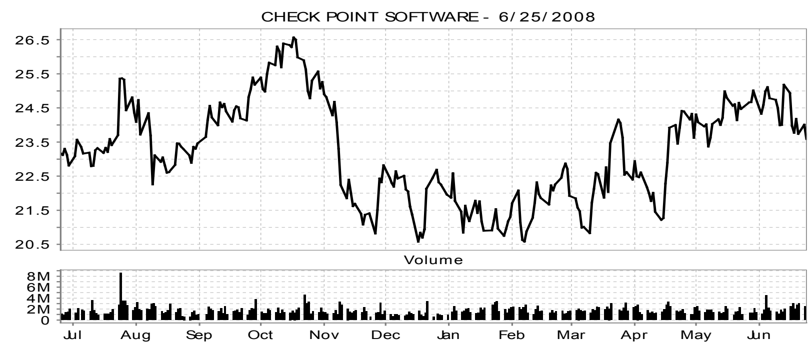
Market Data

Market Cap (Mil.)	5173
Dividend Yield	0.00
52 Week Range	26.79 - 20.00

Financial Summary

Revenue TTM (Mil.)	730.9

Stock Overview



Source: LehmanLive

Upgrading Shares to 1-Overweight; Increasing PT to $30 from $28

We are upgrading Check Point Software to 1-Overweight from 2-Equalweight and establishing a new 12 month price target of $30 per share, representing 27% potential upside from current levels. Our previous PT of $28 represented 16x our old C08 pro-forma EPS estimate of $1.75. In our view, accelerating topline performance driven by the ongoing mix shift to Check Point-branded appliances and new products such as the UTM-1 series, and Point Sec are driving fundamental improvements that are not being adequately reflected in the current valuation. We believe continued strong topline performance should lead to positive earnings revisions and drive multiple expansion from a current peer group low of 12x to 15x our C09 earnings estimates, consistent with our long-term growth rate assumption. While the current macro does present a headwind for all software vendors and no company is immune to sustained cutbacks in IT spending, we believe enterprise security remains an important spending priority giving us increasing confidence that Check Point should continue to at least meet, if not exceed, expectations in the current environment. Additionally, we believe downside risk is also contained given the company's valuation discount relative to the peer group and an attractive free cash flow yield of 10.7%. Our $30 price target is based on a P/E of 15x our non-GAAP C09 EPS estimate of $2.00. We believe shares should trade at a PEG of 1:1, commensurate with our long-term earnings growth expectation of 15%.

Company Background/Recent History

Founded in 1993, Check Point Software is a leading provider of Internet and enterprise security solutions best known for its high end enterprise firewall/virtual private networking solutions. Check Point is one of the most profitable technology companies in the world, with operating margins of nearly 51% in 2007. According to IDC, Check Point is the sixth largest provider of network security with sales of $731 million in 2007 and a market capitalization of $5.2 billion. Its core customer base consists of large enterprises, service providers and government entities. Financial institutions represent approximately 16-20% of sales. We estimate that core firewall/VPN products and services represent approximately 80%-85% of total sales with the balance consisting of complementary security add-on products and the Point Sec data encryption business which generated approximately $83 million in sales in 2007.

After experiencing a period of rapid growth during the late 1990's, Check Point saw its business decelerate during the early part of this decade post the dotcom bubble, a function of maturing end markets and increased competition from networking vendors Cisco and Juniper. During the period, Check Point's software only/best-of-breed strategy was not able to keep up with the competitive threat posed by hardware-based solutions from Cisco and Juniper, resulting in market share losses, slowing growth and a period of investor apathy which to this day, remains an impediment to multiple expansion (No love, No Multiple). In late 2006 and early 2007, Check Point finally embraced a more growth oriented strategy that focused on bringing new products to market in emerging growth segments of Internet security such as unified threat management while expanding its security footprint through strategic acquisitions. The acquisition of Point Sec in early 2007 extended Check Point's reach beyond network security into the mobile data encryption market. Today, Check Point offers a broad portfolio of products across the network (firewall/VPN/UTM), data and endpoint security (Point Sec), all managed through an integrated management platform, a key competitive differentiator. In 2007, driven by new internally developed products such as UTM-1 and the addition of Point Sec, sales growth accelerated to 27% y/y on a reported basis from 5.4% in C06. Adjusting for Point Sec, sales growth accelerated to approximately 11.8%. In 2007, shares of Check Point were essentially flat for the year despite the acceleration in revenue growth and a 17% increase in earnings per share, primarily due to disappointment with the Point Sec acquisition which did not achieve its original revenue expectation of $95 million - $105 million, falling short at $83 million. However, in Q108, Point Sec grew 25% y/y, providing the foundation for a solid start to 2008.

It is in this context that we upgrade shares to 1-Overweight based on the following investment considerations:

Transition to Appliance Model Drives Incremental Revenue Opportunity: We believe Check Point's recent success selling its own line of security appliances will sustain topline growth in the double digits due to three primary factors: 1) an ability to drive higher ASP's on core firewall/VPN products, 2) expanding midmarket and replacement cycle opportunity and 3) an improved competitive outlook. In February 2007, Check Point introduced a new series of Check Point-branded appliances, UTM-1, with an aim to penetrate the midmarket with a multi-functional unified threat management device. At the time, Check Point's prior hardware portfolio consisted primarily of low end, mispriced firewall appliances and represented 12% of product revenue. In Q108, appliances sales represented approximately 30% of product sales, a clear indication of growing customer acceptance of the new branded appliance strategy led by UTM-1. According to IDC, Check Point is now the six largest vendor of UTM appliances with sales of $81 million. IDC estimates that UTM sales exceeded $1 billion in 2007.

In our view, the success of a more aggressive appliance strategy, anchored by UTM-1, is a major factor in our improved long-term outlook. For one, the move to branded appliances such as UTM-1 and the recently introduced Power-1, aimed at the high end of the enterprise market, provides Check Point with a greater revenue opportunity due to a major lift in average selling prices. Because Check Point is now selling an integrated appliance, it is able to capture a higher percentage of the revenue opportunity that in the past would be shared by Check Point and its /hardware partners (Nokia, HP, Dell, Nortel, Sun to name a few) who would bundle Check Point software and then resell the hardware to end customers. This is because Check Point now receives all of the revenue associated with a new appliance sale rather than effectively sharing that revenue with its existing hardware partners. We estimate that the pricing uplift over a standalone software sale can range from 20% to nearly 100% depending on the product line and configuration. For Check Point, this is a win-win situation since the total dollar value of an appliance sale is greater than that of a standalone software sale. While the gross margin percentage is lower – we estimate in the low eighties percent range vs. mid nineties for standalone software – absolute gross margins dollars are higher, making the transition accretive from a P&L perspective, all else being equal. The growing acceptance for Check Point appliances has been one of the drivers of the recent improvement in financial performance. Our expectation is for Check Point appliance sales to steadily continue to increase as a percentage of product sales from 30% today to perhaps as high as 50% over the next 2-3 years. However, for various reasons such as performance requirements and customer preferences, we believe partners such as Nokia, IBM and Crossbeam will remain important contributors to revenue for the foreseeable future. The following table compares the ASP differential of several Check Point products sold on a standalone software basis vs. a Check Point branded appliance. Note these are list prices and subject to vendor or dealer discounting.

ASP differential on a standalone software basis vs. a Check Point branded appliance

	Software Only Equivalent	Appliance	Increase
Power Gateway (U8) vs. Power-1 9070			
Product	26,000	49,500	90.4%
Support (1 year)	4,940	7,425	50.3%
Total	30,940	56,925	84.0%
Power Gateway (U4) vs. Power-1 5070			
Product	18,000	36,500	102.8%
Support (1 year)	3,420	5,475	60.1%
Total	21,420	41,975	96.0%
VPN-1 UTM (up to 50 users) vs. UTM-1 270			
Product	3,000	4,800	60.0%
Support (1 year)	570	1,500	163.2%
Total	3,570	6,300	76.5%
VPN-1 UTM (up to 100 users) vs. UTM-1 450			
Product	5,000	7,500	50.0%
Support (1 year)	950	2,200	131.6%
Total	5,950	9,700	63.0%
VPN-1 UTM (up to 250 users) vs. UTM-1 570			
Product	7,500	8,500	13.3%
Support (1 year)	1,425	2,400	68.4%
Total	8,925	10,900	22.1%
VPN-1 UTM (up to 500 users) vs. UTM-1 1050			
Product	9,000	13,000	44.4%
Support (1 year)	1,710	3,300	93.0%
Total	10,710	16,300	52.2%
VPN-1 UTM (U2) vs. UTM-1 2050			
Product	13,000	17,000	30.8%
Support (1 year)	2,470	3,900	57.9%
Total	15,470	20,900	35.1%
Average Increase			61.3%

Source: Lehman Brothers, Check Point Software Website

The second component of our improved outlook is an expanding midmarket and replacement cycle opportunity. The midmarket is an area that historically, has not been an area of strength for Check Point, as it ceded market share to Cisco, Juniper and others. A complicated product set and uncompetitive pricing were the primary barriers to success in this market. With the introduction of UTM-1, Check Point now has a complete line of high performance appliances that address the midmarket with price points as low as $4,500. We believe the low and midrange of the UTM market generated over $1 billion in sales in 2007. Additionally, UTM-1 is also gaining traction within the existing installed base as customers look for lower cost, multi-functional appliances to place at the departmental, branch office or remote location level. Check Point is also seeing incremental growth coming from a replacement cycle as older generation Check Point firewalls running on obsolete hardware (typically a Nokia appliance or IBM/Dell/HP server) are upgraded to newer higher throughput appliances to accommodate next generation networks. In the past, without a competitive appliance solution, customers would often migrate to Cisco and Juniper due to price, performance and ease of use considerations. We believe Check Point's recent financial success in part, reflects a stemming of market share losses from within the installed base.

Finally, we believe Check Point has begun to close a major competitive gap that had opened up over the past several years relative to networking vendors Cisco and Juniper. These vendors bundle their respective security solutions in their own hardware/networking offerings and compete on price, often times placing Check Point, whose software was being bundled with third parties such as Nokia or IBM or HP, at a competitive disadvantage. The Check Point solution came to be seen by customers as expensive and unwieldy from a servicing perspective, especially in the midmarket where price/performance and ease of use are major selling points. While great for Check Point margins – Check Point incurred no hardware costs and preserved its software margin -, this was not optimal from a cost and services perspective. The cost of the Check Point software plus hardware from a third party OEM was more often than not more expensive relative to Cisco and Juniper, both of which used pricing as a competitive weapon. Customers needing support were sometimes redirected from Check Point to the OEM and visa versa, creating customer confusion, dissatisfaction and ultimately market share losses. With the new Check Point appliances, customers now can get all of their support needs from one vendor, at a competitive price and under one management framework. While we are not suggesting that Check Point is gaining major market share from Cisco and Juniper at this point, we believe Check Point is now capable of maintaining share and opportunistically winning new business with its enhanced appliance portfolio.

New Product Introductions Should Sustain Growth and Provide Upside Opportunities

As we cited above, we believe new product introductions will be the key to sustaining growth over the next several quarters and Check Point has been very aggressive on this front. In February 2007, Check Point entered the unified threat management market with the release of UTM-1. This series of appliances initially targeted the midmarket at a price point beginning at $7,500 per gateway. Check Point followed this in December 2007 with the release of UTM-1 Total Security Solutions (price points starting at $10,500) which added messaging security capabilities. In April 2008, Check Point introduced three new UTM-1 appliances starting at $4,500 and which offer throughput speeds from 400 Mbps to 4.5Gbps. At the same time, Check Point released a new appliance aimed specifically at the enterprise market, which historically has been Check Point's core customer strength. Power-1 combines firewall, IPSec, VPN, intrusion prevention and advanced accelerating technologies at enterprise class throughput as high as 14 Gbps for firewalling and 6.1Gbps for intrusion prevention. While we do not expect to see material revenue generated in Q208 from Power-1 as the product is just now being introduced into the channel, we believe this represents a major incremental growth driver since the ASP on Power-1 represents a price increase in excess of 80% vs. the comparable solution hosted on a high performance IBM server. We also believe the incremental replacement cycle opportunity is substantial given an installed based of Check Point gateways that likely runs in the tens of thousands. We also look for PointSec, which generated $83 million in sales in 2007, to post solid growth in 2008, with the segment off to a strong start growing 25% y/y in Q108. The release of IPS-1, an updated intrusion prevention appliance based on the NFR acquisition, in April 2008 also represents an incremental opportunity though we have modest expectations given that a number of well-established vendors are entrenched in this market.

Recent Record of Solid Financial Performance: In our view, Check Point's recent financial results are not reflected in the current P/E multiple as the stock has been largely ignored by the Street. For the past five quarters, Check Point has met or exceeded the high end of guidance resulting in a series of positive earnings revisions (see below). The results have been driven by improved execution and the aforementioned transition to an appliance model, which we believe continues to gain momentum. Despite a difficult macro, Check Point reported one of its strongest quarters in Q108, posting 17% organic growth for both new product sales and maintenance. This growth is among the highest in Check Point's peer group and does not include any currency benefit, unlike most vendors. Deferred revenue also grew 17% y/y to $314 million suggesting a high level of renewal activity. Contributing to high visibility, Check Point generates approximately 60% of its revenue from recurring support, maintenance and services.

Consensus and Reported Revenue

	Mar-07A	Jun-07A	Sep-07A	Dec-07A	Mar-08A	Jun-08E	2007A	2008E	2009E
Consensus Revenue Estimate	$163.23	$172.08	$178.77	$202.53	$186.68	$195.00	$705.00	$803.00	$862.00
Consensus Non-GAAP EPS Estimate	$0.34	$0.36	$0.38	$0.45	$0.40	$0.42	$1.44	$1.78	$1.93
Reported Revenue	$163.97	$176.19	$184.01	$206.70	$191.60		$730.88		
Reported Non-GAAP EPS	$0.35	$0.38	$0.41	$0.46	$0.43		$1.59		
% Surprise									
Reported Revenue	0.5%	2.4%	2.9%	2.1%	2.6%		3.7%		
Reported Non-GAAP EPS	1.5%	5.3%	7.8%	2.2%	6.4%		10.6%		
Guidance									
Revenue	$158-$169M	$166-$176M	$172-$182M	$196-$208M	$184M-$193M	$190M-$200M	$690M-$720M	$780M-$820M	
Non-GAAP EPS	$0.32-$0.37	$0.33-$0.38	$0.36-$0.40	$0.42-$0.46	$0.39-$0.42	$0.40-$0.44	$1.40-$1.54	$1.43-$1.53	
GAAP EPS	NA	$0.26-$0.31	$0.29-$0.33	$0.35-$0.39	$0.32-$0.35	$0.33-$0.37	$1.04-$1.18	$1.71-$1.81M	

Source: Lehman Brothers, Company Data

Checks Point to Solid Q2 on Appliance Uptick

Our most recent distribution and reseller channel checks conducted during the month of June suggest that Q2 is tracking to at least the midpoint of Q2 guidance for revenue of $190 million - $200 million. Despite macro conditions in the US, most partners we spoke to cited solid demand across the major components of the portfolio including UTM-1, though our visibility in Point Sec is limited given a channel footprint that is still building. Generally, partners cited the expectation for 10% to 15% year over year growth during calendar Q2 and over the near term which places us comfortably within our modeling expectations.

As a result of positive feedback that confirms solid end demand and which suggests an improving competitive outlook, we are raising our Q2 revenue estimate to $196 million from $193.5 million. Given the solid performance during Q1 where we estimate that new products grew 17% organically (constant currency) including 15% for core network security and 25% for Point Sec data security, we believe our estimates for 9.6% product license growth is conservative and allows for a possible slowdown in macro environment, as they imply a sharp deceleration quarter/quarter (of which we are not seeing).

Qualitatively, checks indicate that Check Point's move to appliances is beginning to improve the competitive positioning of Check Point over the networkers and smaller point vendors, Check Point still has a vocal set of detractors within its partner base. It also would be a stretch to suggest that we are seeing a major shift in market share to Check Point. However, its does appear that Check Point is benefiting from share gains at the expense of existing OEM partners, notably Nokia which represents the largest component of the Check Point's installed base. We believe this shift is enabling Check Point to 1) capture more dollar share from existing and new opportunities and 2) maintain and extend a relationship with a given customer who in the past may have switched out of Check Point to a hardware-based solution from Cisco or Juniper.

Again, while we do not anticipate major share gains from Cisco and Juniper in the short term, channel commentary suggest the expectation for Check Point appliances to make steady share gains over the next several quarters as awareness of the competitive advantages of the new appliances increases. Partners overwhelmingly cited Check Point's ability to deliver best-of-breed functionality on a 'plug-and-play' appliance as an incremental positive catalyst for sales while also citing an integrated management console/toolset as a competitive differentiator. Our checks indicate that recent competitive gains are being made primarily in the mid range UTM appliance segment. We also encountered one competitive displacement at a large financial services firm of approximately 40 firewalls.

2008 Model Set Up for Outperformance

We are raising our FY08 and FY09 estimates to reflect increasing confidence in Check Point's ability to remain a relevant and growing player in the network security sector. In our view, financial outperformance will be predicated on the company's ability to sustain double digit topline growth. As we look out to the remainder of the year, we note that expectations are conservative reflecting a deceleration in growth over the next few quarters. If current positive trends continue, we believe we could see further positive revenue revisions, principally in the new products category which includes new appliances such as Power-1, the UTM-1 series, IPS-1 and Point Sec. Check Point's current FY08 revenue guidance is $780 million - $820 million, representing year/year growth of 9.5% at the midpoint.

A point on margins: With FY07 operating margins at 51.7%, we recognize that Check Point is not a margin expansion story. The majority of any earnings upside will have to come from sustained topline outperformance. In modeling our FY08 and FY09 estimates, we assume that operating margins should modestly improve over the next several quarters despite the increase in appliance revenue which will reduce gross margins. We estimate operating margins to increase from 50.7% in FY07 to 51.4% in FY08 and 51.8% in FY09. We believe these improvements can come from sales leverage and slight improvements in appliance gross margins which should benefit from increased scale as production units increase and as the mix shift moves toward higher end/higher margin appliances. We estimate total appliance gross margins were approximately 75% in Q108.

We are raising our FY08 revenue estimate to $811.7 million (+11.1% y/y) from $800 million and increasing our non-GAAP EPS estimate to $1.80 (+12.8%) from $1.73. For FY09, we are also increasing our revenue estimates to $888.8 million (+9.5%) from $858 million while our EPS estimates go to $2.00 (+11.2%) from $1.91. We believe our estimates are conservative given our modeling assumption for 9.6% new product growth in FY08 and 8.4% in FY09 and a growing recurring maintenance stream which should also grow in the low double digits over the next two years.

Pristine Balance Sheet and Strong Cash Flow Generation

Check Point's balance sheet appears in pristine shape with over $1.3 billion in cash, representing $6.01 per share as of March 31st 2008. Additionally, cash flow from operations remains strong growing 29.9% y/y on a trailing twelve month basis, contributing to a 29% increase in free cash flow. For FY08, we forecast cash flow from operations to increase 14% to $425 million. We expect buyback activity to remain strong given the cash position on the balance sheet and cash flow generation. In March 2008, Check Point announced a $400 million extension of its buyback program and we would expect quarterly buybacks on the order of $50-$100 million over the next few quarters. We believe Check Point would likely use a portion of its cash position to fund acquisitions to expand into emerging network security opportunities though we see no major acquisitions on the horizon beyond an occasional tuck-in. We believe data loss prevention may be an area of interest in the near-term.

Attractive Valuation Allows for Multiple Expansion and Limits Downside: Check Point currently trades at 13.2x and 11.8x our C08 and C09 non-GAAP EPS estimates. Check Point ranks among the cheapest of all software stocks with a market capitalization of $5 billion or more with only Microsoft and Symantec trading at a comparable valuation. The stock also trades at an EV-adjusted free cash flow yield of 10.7% or 8% on a market cap basis. This valuation has persisted despite that Check Point has met or exceeded expectations for the past five quarters in a row, a measure of improved financial performance due to an improving competitive positioning, successful new product introductions and better execution. In our view, given the business trends outlined above, we believe shares are mispriced and undervalued, setting the stage for a material improvement in Check Point's P/E multiple over the next twelve months. In establishing our new $30 price target, we believe Check Point can command a P/E multiple of 15x our C09 non-GAAP EPS estimate of $2.00.

Channel Commentary

Below we summarize commentary from channel checks conducted over the past 2-3 weeks, with a number of large Check Point resellers and distribution partners in North America and Europe. Given the vastness of the Check Point channel, this commentary is not intended to provide a definitive view into Check Point's quarter though we believe the commentary does offer some useful predictive insight into current trends affecting Check Point's business.

"Check Point sales are tracking to 10% to 15% year over year, inline with overall security growth. Check Point's bundled UTM appliances are beginning to gain traction. Check Point wins roughly 50% of competitive deals, which has remained consistent recently. We see a healthy business for attaching services such as PSX to Check Point appliances Check Point's competitive advantage lies in the usability of its console." **– Regional Reseller, North America**

"Security sales are tracking well for us this quarter in Germany. Check Point sales are tracking inline with our expectations, with appliances are selling well. Check Point is viewed as the firewall leader, and the management console is a competitive advantage for Check Point. We are not seeing a high number of competitive wins against Cisco and Juniper yet, but we think Check Point will gain tractions steadily over time. However, we did recently close a deal with a large financial institution switching to Check Point appliances from Cisco Pix. Security spending is stable in Germany, given a healthy macro environment. Check Point sales are keeping pace with overall security spending growth." **- Regional Reseller, Europe**

"Our Check Point sales have accelerated slightly over the past year to 10%, due to increasing sales of Check Point's new appliances. Overall, security spending remains healthy despite the weakening economy. Check Point's strengths lie in the scalability of the boxes and the best of breed management console. The high end UTM 1 and Power 1 boxes have not gained as much traction. Most of the new Check Point appliance sales are coming from the Check Point installed base. We are beginning to book Check Point appliance renewal business, since the appliances have been in the market now for 1 ½ years, and these are very sticky. Check Point is very channel friendly overall, they do not compete with us at all for the core appliance/software sale. There is a large installed base on legacy Cisco Pix that we expect Check Point to gain from, over the coming replacement cycle. Our pipeline for H2 is healthy for Check Point and security products overall, we do not expect a slow down in the near term." **– Regional Reseller, North America**

"Check Point sales are tracking inline with our expectations this quarter. Check Point appliances are beginning to replace legacy Nokia appliances running Check Point, as well as some Cisco and Juniper appliances. UTM appliances and Firefly are particularly strong. Customers evaluate the maintenance costs associated with renewal and server upgrade to the cost for an appliance plus maintenance, and the latter is cheaper. Check Point's main advantage is superior software over Cisco and Juniper. Check Point software performs better and has better management console, which is simple to use and manages multiple sites. We have closed a couple of sizable deals for Check Point this quarter. Our pipeline build is normal for the remainder of the year, though we are seeing some slowness in the housing related manufacturing verticals." **– Regional Reseller, North America**

"Check Point sales have been healthy and tracking inline with our expectations, growing 10% to 15% year over year. Q1 was really strong and Q2 is strong as well. Our business is driven by sales of Check Point's SMB products such as Edge appliances and UTM VPN. We don't want to sell the UTM 1 boxes, because that leaves little room for us to attach services and support add ons. We are seeing Check Point gain share from Juniper and Cisco, given increasing preferences for Check Point in IT departments. Check Point is recognized as the leader in firewall. Our Check Point Q3/Q4 pipeline growth is healthy, we do not expect any slowdown in security spending in the near term, despite shrinking IT budgets. CIOs feel that they must continue to spend on security." **– Regional Reseller, North America**

"Check Point sales are tracking inline with the overall security group, in the 10% to 15% range year over year. We do not expect a material change in near term growth, given a steady pipeline build for Q3/Q4. However, we are seeing the need for additional discounts to close deals and we have seen some companies go out of business, which has had a minor negative impact on our business. Growth is particularly good in Germany and the Nordic countries. We are concerned about the macro environment, but we aren't seeing it materially negative impact on growth as of yet. Our Check Point business is largely driven by steady renewals. Check Point's high end appliances are not quite competitive yet, they are only really competitive at the low end of the market. UTM and Edge appliances are beginning to sell well in the mid market. New Check Point appliance wins are coming equally from existing Check Point customers running on third party appliances and competitive wins from Cisco and Juniper. They are not materially gaining traction against Cisco and Juniper, but are gaining traction steadily. Check Point's advantage lies in the end to end solution which includes end point (Point Sec) and a strong management console. The console is strategic once it is sold into the account, since it is very sticky and customers tend to manage more with it over time." **– Regional Reseller, Europe**

"Overall, our security sales are tracking inline with lowered expectations heading into the quarter, though we are still having a good year so far. We are seeing some lengthening of sales cycles, as customer are spending more time evaluating competitive offerings, in search of better discounts. We are not seeing much migration between Check Point, Juniper and Cisco appliances. Customers tend to stay with the vendors that they have been running. Check Point's new appliance sales have not changed that dynamic much. We do not see Check Point appliances winning a large number of deals over Cisco yet. Most of the new sales are coming from existing Check Point customers for upgrades. We are seeing more customers sign up for our managed service offerings for hosted security offerings. Our pipeline for H2 is tracking normally, and within our expectations." **– Regional Reseller, North America**

"Overall security spending is tracking well in Canada, growing 20% year over year, inline with our expectations heading into the quarter. The Healthcare and Financials verticals are particularly strong in Canada. Check Point's growth is lagging the overall group, growing 10%. Growth from Cisco and Juniper is outpacing Check Point. Cisco and Juniper are the incumbent appliance vendors and are viewed as the market leaders. Check Point is new to the appliance business and is not winning many deals over Cisco and Juniper at this point. Companies tend to stick with the same vendor, though we expect Check Point to pick up some of the upgrade business over time as awareness of the new appliances increases. Today, Check Point is training customers on their new appliances. Cisco and Juniper appliances are viewed as the providing the highest level of performance. Check Point is viewed as the technology leader, though Cisco and Juniper are gaining ground, due to improving software. Check Point's advantage is in the management console. All three vendors are viewed equally in terms of breadth of offering, they all have integrated firewall, management and endpoint. We think that Check Point will gain steady ground on Cisco and Juniper over the next several years, tough we are not seeing significant share gains at this point. Our H2 pipeline build is healthy for Check Point and security in general." **– Regional Reseller, North America**

"Check Point is just beginning to make traction selling appliances in Germany, given that they have only recently entered the market. Appliances are very sticky and customers in Germany take a conservative approach to switching security vendors. We think that Check Point is taking the right approach by selling these new appliances. Check Point appliances are viewed evenly against Cisco in terms of performance and scalability. We are not seeing any competitive wins against Cisco or Juniper yet, given that Check Point has only recently entered the market." **- Regional Reseller - Europe**

"Overall, security/network spending is holding up relatively well in the UK and across Europe, though the macro economy has created some deceleration in growth in the past few months. Overall, revenue is growing roughly 10% year over year, down from 15% in prior quarters.

We are seeing customers negotiate more heavily on price, particularly in financials vertical which has slightly impacted our margins. Check Point sales are tracking inline with the overall security group and inline with our expectations over the past few months. We expect that trend to sustain over the near term. Cisco is the dominant firewall vendor. Cisco used to have 20% market share versus 35% for Check Point, as of a year ago, that has reversed now. There are 2 reasons for this: 1) customers want to buy from a single vendor and Cisco is viewed as the most integrated software and hardware vendor, and 2) Check Point has begun cutting the channel out of more deals. Check Point competes now more aggressively in support with the Level III Collaborative Enterprise Support offering which was rolled out in 2005. Check Point is doing the right thing with their appliance strategy, as customers want to buy integrated appliances. Check Point mid range appliances are gaining traction in the small/mid market. However, they are not gaining much traction in the high end with Power 1. Cisco dominates that market. Cisco's advantages stem from the self defending network. Check Point's advantage lies in the most robust and integrated software offering. Over time, Check Point will gain traction against Cisco with its new appliances, though we expect this to happen gradually. Cisco is also broadening its software offering with more endpoint/AV. Check Point has lost some traction with its key existing partner Nokia, since it began competing with them in the appliance market." **– Regional Reseller, Europe**

"Q2 security sales are tracking inline with expectations. Security and storage spending has remained healthy during Q2, following a strong Q1 where we saw increases of roughly 40% year over year, driven mostly by strong storage sales. Check Point sales have been flat year over year in Q1 and we expect similar growth in Q2, inline with our expectation heading into the quarter. Growth has been coming from the East US region, driven by the large banks. The West has been lagging. While sales of Check Point's UTM appliances have been solid, these are typically just a replacement of existing Check Point software running on a separate server. The appliance enables better cost savings, given lower total cost of ownership. Check Point receives a higher annuity given that the maintenance fee is based on the total appliance with hardware. Check Point's Edge appliance sales in the SMB segment have been solid. However, Check Point has been losing some market share to Juniper, given recent improvements in firewall by Juniper. Check Point is becoming increasingly channel unfriendly and increasingly competing against us on deals. Nokia's offering has improved dramatically. Cisco remains at a disadvantage in the large enterprise given weaker firewall software." **– Regional Reseller, North America**

Check Point Software Earnings Model

$'s million

	Fiscal Year 2007E				Fiscal Year 2008E				Fiscal Year 2009E				Fiscal Year End: Dec		
	Mar-07A	Jun-07A	Sep-07A	Dec-07A	Mar-08A	Jun-08E	Sep-08E	Dec-08E	Mar-09E	Jun-09E	Sep-09E	Dec-09E	2007A	2008E	2009E
Product & Licenses	66.0	73.3	76.9	93.5	77.4	80.3	81.9	99.9	83.9	86.9	88.9	108.5	309.8	339.5	368.2
Software updates, maintenance & services	97.9	102.9	107.1	113.2	114.2	115.6	117.8	124.5	125.6	127.2	129.6	138.2	421.1	472.2	520.6
Net Revenue	**164.0**	**176.2**	**184.0**	**206.7**	**191.6**	**196.0**	**199.7**	**224.4**	**209.6**	**214.1**	**218.5**	**246.7**	**730.9**	**811.7**	**888.8**
Cost of product and licenses	5.2	6.7	8.48	9.8	9.0	9.7	10.2	12.3	10.6	11.2	11.6	14.3	30.2	41.2	47.7
Cost of software updates, maintenance & services	5.3	5.7	6.09	6.5	6.6	6.6	6.6	7.1	7.2	7.3	7.3	7.7	23.6	26.9	29.4
Costs of Goods Sold	10.6	12.4	14.4	16.3	15.5	16.3	16.8	19.4	17.8	18.4	18.8	22.1	53.7	68.0	77.1
Product Development	17.9	19.7	18.7	20.4	21.6	22.1	22.0	22.7	23.1	23.6	24.0	24.7	76.7	88.4	95.3
Sales & Marketing	47.7	49.4	46.9	52.5	48.3	50.2	50.9	55.4	52.4	52.9	54.0	60.4	196.5	204.8	219.7
General & Admin.	8.6	6.9	7.6	10.1	8.0	8.2	8.4	8.5	9.0	9.0	9.2	9.4	33.3	33.2	36.6
Total Operating Expenses	84.8	88.4	87.5	99.3	93.5	96.8	98.1	106.0	102.2	103.9	106.0	116.5	360.1	394.4	428.6
Total Non-Operating Expenses	34.3	18.9	18.6	19.2	19.4	15.5	16.0	16.0	15.0	15.5	16.0	16.0	91.0	66.9	62.5
Operating Income pro forma	79.2	87.7	96.5	107.4	98.1	99.1	101.6	118.4	107.3	110.3	112.5	130.1	370.8	417.3	460.2
Operating Income GAAP	44.9	68.8	77.8	88.2	78.7	83.6	85.6	102.4	92.3	94.8	96.5	114.1	279.8	350.4	397.7
Interest Income	13.1	11.6	11.6	13.4	14.6	13.0	12.9	12.7	12.6	12.6	12.6	12.6	49.7	53.2	50.4
Pre-Tax Income pro forma	92.2	99.4	108.1	120.8	112.7	112.1	114.5	131.1	119.9	122.9	125.1	142.7	420.5	470.5	510.6
Pre-Tax Income GAAP	57.9	80.5	89.4	101.7	93.3	96.6	98.5	115.1	104.9	107.4	109.1	126.7	329.5	403.6	448.1
Income Taxes pro forma	13.6	13.7	15.9	18.3	19.4	18.5	19.1	22.3	19.2	20.0	20.8	24.3	61.6	79.3	84.2
Income Taxes GAAP	11.0	11.0	12.5	13.7	15.1	14.5	17.7	19.6	14.6	14.5	19.6	21.5	48.2	66.9	70.3
Net Income pro forma	78.6	85.7	92.1	102.5	93.4	93.6	95.4	108.8	100.7	102.9	104.3	118.5	358.9	391.2	426.4
Net Income GAAP	46.9	69.5	76.9	87.9	78.3	82.1	80.8	95.5	90.3	92.9	89.4	105.2	281.3	336.7	377.8
EPS - Pro forma	**0.35**	**0.38**	**0.41**	**0.46**	**0.43**	**0.43**	**0.44**	**0.50**	**0.47**	**0.48**	**0.49**	**0.56**	**1.59**	**1.80**	**2.00**
EPS - GAAP	0.21	0.31	0.34	0.39	0.36	0.38	0.37	0.44	0.42	0.43	0.42	0.50	1.25	1.55	1.77
Share Outstanding (mil.)	227.7	226.2	225.0	223.0	219.4	218.3	217.2	216.1	215.0	214.0	212.9	211.8	232.1	227.4	222.9
MARGIN ANALYSIS															
Gross Profit	93.6%	92.9%	92.2%	92.1%	91.9%	91.7%	91.6%	91.4%	91.5%	91.4%	91.4%	91.1%	92.7%	91.6%	91.3%
Operating Margin	48.3%	49.8%	52.4%	51.9%	51.2%	50.6%	50.9%	52.8%	51.2%	51.5%	51.5%	52.8%	50.7%	51.4%	51.8%
Profit Margin	47.9%	48.6%	50.1%	49.6%	48.7%	47.8%	47.8%	48.5%	48.1%	48.0%	47.7%	48.0%	49.1%	48.2%	48.0%
YEAR TO YEAR CHANGE															
Product & Licenses	20.5%	25.3%	30.8%	33.9%	17.2%	9.6%	6.5%	6.8%	8.5%	8.2%	8.5%	8.6%	28.0%	9.6%	8.4%
Software updates, maintenance & services	24.3%	27.9%	27.9%	25.4%	16.6%	12.4%	10.0%	10.0%	10.0%	10.0%	10.0%	11.0%	26.4%	12.1%	10.3%
Net Revenue	**22.7%**	**26.8%**	**29.1%**	**29.1%**	**16.8%**	**11.2%**	**8.5%**	**8.6%**	**9.4%**	**9.3%**	**9.4%**	**9.9%**	**27.1%**	**11.1%**	**9.5%**
Organic Revenue	**12.1%**	**12.7%**	**11.1%**	**11.6%**	**16.8%**	**11.2%**	**8.5%**	**8.6%**	**0.0%**	**0.0%**	**13.6%**	**5.4%**	**11.8%**	**11.1%**	**9.5%**
Total Operating Expenses	44.1%	38.0%	36.5%	44.2%	10.3%	9.5%	12.1%	6.7%	9.4%	7.2%	8.0%	9.9%	40.7%	9.5%	
Operating Income	5.9%	17.2%	23.0%	17.7%	23.9%	13.0%	5.3%	10.3%	9.4%	11.3%	10.7%	9.9%	16.2%	12.5%	10.3%
Net Income	4.6%	12.8%	17.2%	13.2%	18.8%	9.3%	3.6%	6.2%	7.9%	9.9%	9.3%	8.9%	12.1%	9.0%	9.0%
EPS	11.4%	20.1%	20.7%	16.2%	23.3%	13.2%	7.3%	9.5%	10.1%	12.1%	11.6%	11.1%	17.2%	12.8%	11.2%
QUARTER TO QUARTER CHANGE															
Net Revenue	**2.4%**	**7.5%**	**4.4%**	**12.3%**	**-7.3%**	**2.3%**	**1.9%**	**12.3%**	**-6.6%**	**2.2%**	**2.0%**	**12.9%**	**-**	**-**	**-**
Operating Income	-13.2%	10.8%	10.0%	11.3%	-8.6%	1.0%	2.5%	16.5%	-9.4%	2.8%	2.0%	15.7%	-	-	-
Net Income	-13.2%	9.0%	7.5%	11.3%	-8.9%	0.3%	1.9%	14.1%	-7.4%	2.1%	1.4%	13.6%	-	-	-
EPS	-12.8%	9.8%	8.1%	12.3%	-7.4%	0.8%	2.4%	14.6%	-7.0%	2.6%	1.9%	14.1%	-	-	-
PERCENT OF SALES															
Cost of product and licenses	7.9%	9.2%	11.0%	10.4%	11.6%	12.1%	12.5%	12.3%	12.7%	12.8%	13.0%	13.2%	9.8%	12.1%	12.9%
Cost of software updates, maintenance & services	5.5%	5.5%	5.7%	5.7%	5.7%	5.7%	5.6%	5.7%	5.7%	5.7%	5.6%	5.6%	5.6%	5.7%	5.6%
Costs of Goods Sold	6.4%	7.1%	7.8%	7.9%	8.1%	8.3%	8.4%	8.6%	8.5%	8.6%	8.6%	8.9%	7.3%	8.4%	8.7%
Product Development	10.9%	11.2%	10.1%	9.9%	11.3%	11.3%	11.0%	10.1%	11.0%	11.0%	11.0%	10.0%	10.5%	10.9%	10.7%
Sales & Marketing	29.1%	28.0%	25.5%	25.4%	25.2%	25.6%	25.5%	24.7%	25.0%	24.7%	24.7%	24.5%	26.9%	25.2%	24.7%
General & Admin.	5.3%	3.9%	4.1%	4.9%	4.2%	4.2%	4.2%	3.8%	4.3%	4.2%	4.2%	3.8%	4.6%	4.1%	4.1%
Total Operating Expenses	51.7%	50.2%	47.6%	48.1%	48.8%	49.4%	49.1%	47.2%	48.8%	48.5%	48.5%	47.2%	49.3%	48.6%	48.2%
Effective Tax Rate (net income)	14.8%	13.8%	14.7%	15.2%	17.2%	16.5%	16.7%	17.0%	16.0%	16.3%	16.6%	17.0%	14.6%	16.8%	16.5%

Source: Lehman Brothers Estimates

Comparables Table

Lehman Brothers Software Comparables

Company	Ticker	Rating	Price 6/25/08	MC $M	EV $M	Revs in $M CY08E	CY09E	EPS CY08E	CY09E	EV/Sales CY08E	CY09E	P/E CY08E	CY09E	EV/FCF TTM	FCF Yield TTM	MC/FCF TTM
SECURITY																
Aladdin	ALDN	NR	13.66	195	98	126	143	1.24	1.44	0.8x	0.7x	11.0x	9.5x	5.7x	8.9%	11.3x
ArcSight	ARST	2-EW	9.11	310	242	105	128	0.31	0.42	2.3x	1.9x	29.4x	21.8x	28.1x	2.8%	35.9x
Blue Coat	BCSI	NR	15.84	643	476	382	448	1.41	1.53	1.2x	1.1x	11.2x	10.4x	8.7x	8.5%	11.7x
Check Point	CHKP	1-OW	23.67	5,193	3,874	812	889	1.80	2.00	4.8x	4.4x	13.2x	11.8x	9.9x	7.5%	13.3x
Entrust	ENTU	2-EW	4.00	245	223	108	116	0.09	0.14	2.1x	1.9x	47.0x	29.6x	NA	NA	NA
Guidance Software	GUID	1-OW	10.20	236	199	95	112	0.20	0.28	2.1x	1.8x	NA	NA	NA	NA	NA
McAfee	MFE	1-OW	36.13	5,957	4,663	1,500	1,642	1.93	2.18	3.1x	2.8x	18.8x	16.6x	13.0x	6.0%	16.6x
Secure Computing	SCUR	NR	4.38	328	345	274	301	0.33	0.49	1.3x	1.1x	13.3x	8.9x	8.2x	12.9%	7.8x
SonicWALL	SNWL	1-OW	7.01	446	244	229	250	0.30	0.35	1.1x	1.0x	23.1x	20.0x	4.5x	12.2%	8.2x
Sourcefire	FIRE	2-EW	8.09	200	92	66	75	(0.04)	0.10	1.4x	1.2x	NA	NA	NA	NA	NA
Symantec	SYMC	2-EW	19.98	17,118	16,991	6,238	6,604	1.41	1.57	2.7x	2.6x	14.2x	12.7x	10.3x	9.6%	10.4x
VeriSign	VRSN	1-OW	39.26	8,264	9,136	944	1,104	1.02	1.65	9.7x	8.3x	38.5x	23.8x	28.9x	3.8%	26.1x
Websense	WBSN	NR	17.87	818	906	335	347	1.23	1.34	2.7x	2.6x	14.5x	13.3x	16.3x	6.8%	14.7x
								Mean		**2.1x**	**1.9x**	**19.6x**	**15.5x**	**11.6x**	**8.4%**	**14.4x**
								Median		**2.1x**	**1.8x**	**14.4x**	**13.0x**	**9.9x**	**8.5%**	**11.7x**
INFRASTRUCTURE																
BMC Software	BMC	1-OW	37.55	7,315	5,840	1,872	2,035	2.14	2.38	3.1x	2.9x	17.5x	15.8x	10.6x	7.5%	13.3x
Bladelogic	BLOG	NR	28.04	748	668	95	128	0.11	0.31	7.1x	5.2x	NA	NA	NA	0.7%	NA
Borland	BORL	NR	1.30	94	135	240	248	(0.13)	0.02	0.6x	0.5x	NA	NA	NA	NA	NA
CA	CA	2-EW	24.16	12,974	12,760	4,476	4,756	1.35	1.62	2.9x	2.7x	17.9x	14.9x	12.9x	7.6%	13.2x
Citrix	CTXS	1-OW	31.25	5,937	5,089	1,622	1,900	1.59	1.92	3.1x	2.7x	19.6x	16.3x	16.6x	5.2%	19.3x
CommVault	CVLT	NR	17.74	818	723	230	281	0.71	0.87	3.1x	2.6x	25.0x	20.4x	26.4x	3.4%	29.8x
Compuware	CPWR	NR	9.65	2,726	2,460	1,227	327	0.63	0.71	2.0x	7.5x	15.3x	13.6x	11.9x	7.6%	13.1x
Double-Take Software	DBTK	NR	13.87	322	252	103	124	0.66	0.86	2.4x	2.0x	21.0x	16.1x	11.8x	6.6%	15.1x
Informatica	INFA	1-OW	16.66	1,740	1,435	460	527	0.75	0.92	3.1x	2.7x	22.2x	18.1x	18.1x	4.6%	21.9x
Interwoven	IWOV	NR	13.20	617	459	257	287	0.71	0.83	1.8x	1.6x	18.6x	15.9x	19.6x	3.8%	26.4x
Microsoft	MSFT	2-EW	28.35	267,284	246,208	63,487	71,175	1.99	2.29	3.9x	3.5x	14.2x	12.4x	12.9x	7.2%	14.0x
Novell	NOVL	NR	6.17	2,193	975	965	1,006	0.25	0.30	1.0x	1.0x	24.7x	20.6x	47.2x	0.9%	NA
Open Text	OTEX	NR	32.08	1,693	1,786	740	789	2.10	2.49	2.4x	2.3x	15.3x	12.9x	12.1x	8.7%	11.5x
Oracle	ORCL	1-OW	22.55	118,049	113,781	23,222	25,616	1.34	1.53	4.9x	4.4x	16.8x	14.7x	16.2x	5.9%	16.9x
Quest Software	QSFT	NR	15.64	1,657	1,312	712	770	0.87	1.01	1.8x	1.7x	18.0x	15.5x	10.5x	7.5%	13.3x
Red Hat	RHT	2-EW	22.30	4,914	4,152	631	778	0.78	0.69	6.6x	5.3x	28.5x	32.5x	25.7x	3.3%	30.5x
SupportSoft	SPRT	NR	3.46	160	47	54	64	(0.22)	(0.13)	0.9x	0.7x	NA	NA	NA	NA	NA
Sybase	SY	2-EW	31.35	2,846	2,468	1,090	1,152	1.97	2.17	2.3x	2.1x	15.9x	14.4x	9.8x	8.9%	11.2x
Tibco	TIBX	NR	7.51	1,427	1,192	662	733	0.44	0.53	1.8x	1.6x	17.1x	14.2x	11.3x	7.4%	13.6x
Vignette	VIGN	NR	12.26	299	166	191	208	0.58	0.88	0.9x	0.8x	21.1x	13.9x	6.3x	8.8%	11.4x
VMware	VMW	2-EW	62.18	24,752	23,896	2,000	2,790	1.04	1.50	11.9x	8.6x	59.6x	41.4x	NA	1.1%	NA
								Mean		**2.8x**	**2.7x**	**19.3x**	**16.6x**	**16.5x**	**5.6%**	**17.2x**
								Median		**2.4x**	**2.4x**	**18.0x**	**15.5x**	**12.9x**	**6.6%**	**13.8x**

Source: First Call, Lehman Brothers. 1-Positive Rating on Software Sector

Analyst Certification:

I, Israel Hernandez, 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.

Other Team Members:

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Company Description:

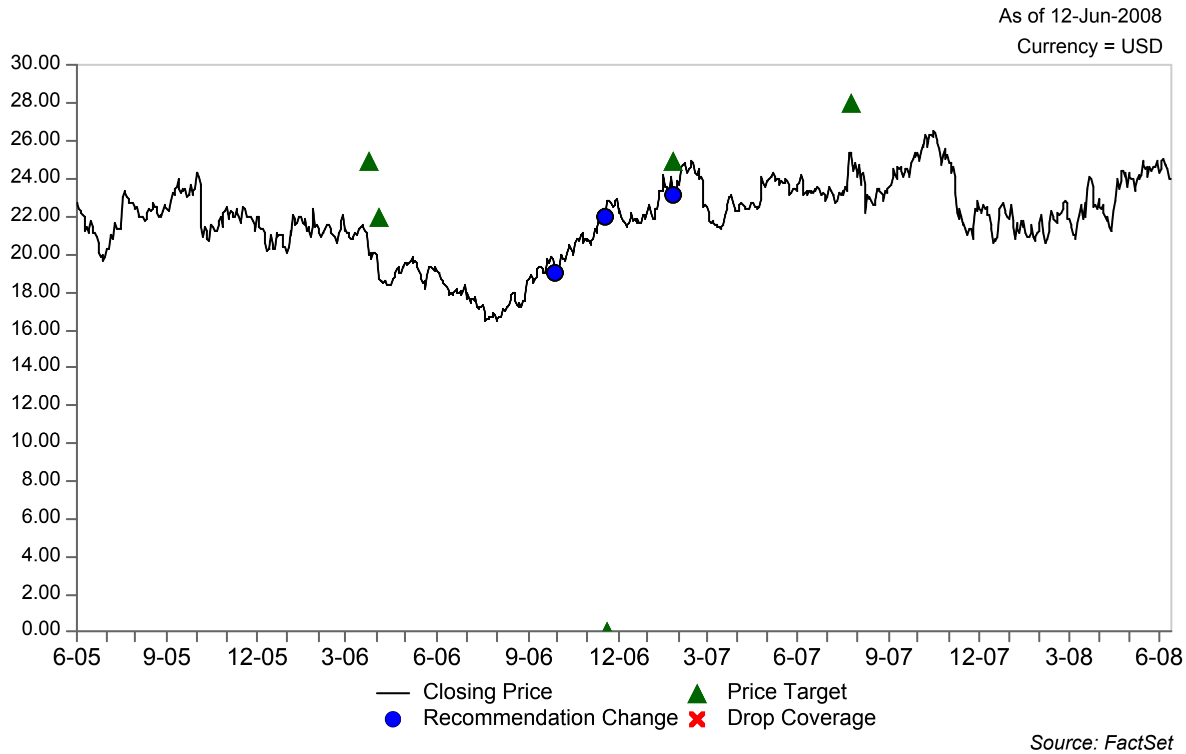
Check Point Software is a leading developer of enterprise security solutions.

Important Disclosures:

Check Point Software (CHKP) **US$ 23.67 (25-Jun-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:

CHECK POINT SOFTWARE TECHNOLOGIES LTD.



Currency=US$

Date	Closing Price	Rating	Price Target
25-Jul-07	25.37		28.00
25-Jan-07	23.19		25.00
25-Jan-07	23.19	2 -Equal weight	
21-Nov-06	22.85		0.00

Date	Closing Price	Rating	Price Target
20-Nov-06	22.02	RS -Rating Suspended	
29-Sep-06	19.08	2 -Equal weight	
04-Apr-06	18.76		22.00
24-Mar-06	20.00		25.00

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 Check Point Software.
Lehman Brothers Inc. and/or its affiliates beneficially owns 1% or more of any class of common equity securities of Check Point Software as of the end of last month.
Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Check Point Software.
Lehman Brothers Inc. has received non-investment banking related compensation from Check Point Software within the last 12 months.
Check Point Software is or during the last 12 months has been a non-investment banking client (securities related services) of Lehman Brothers Inc.

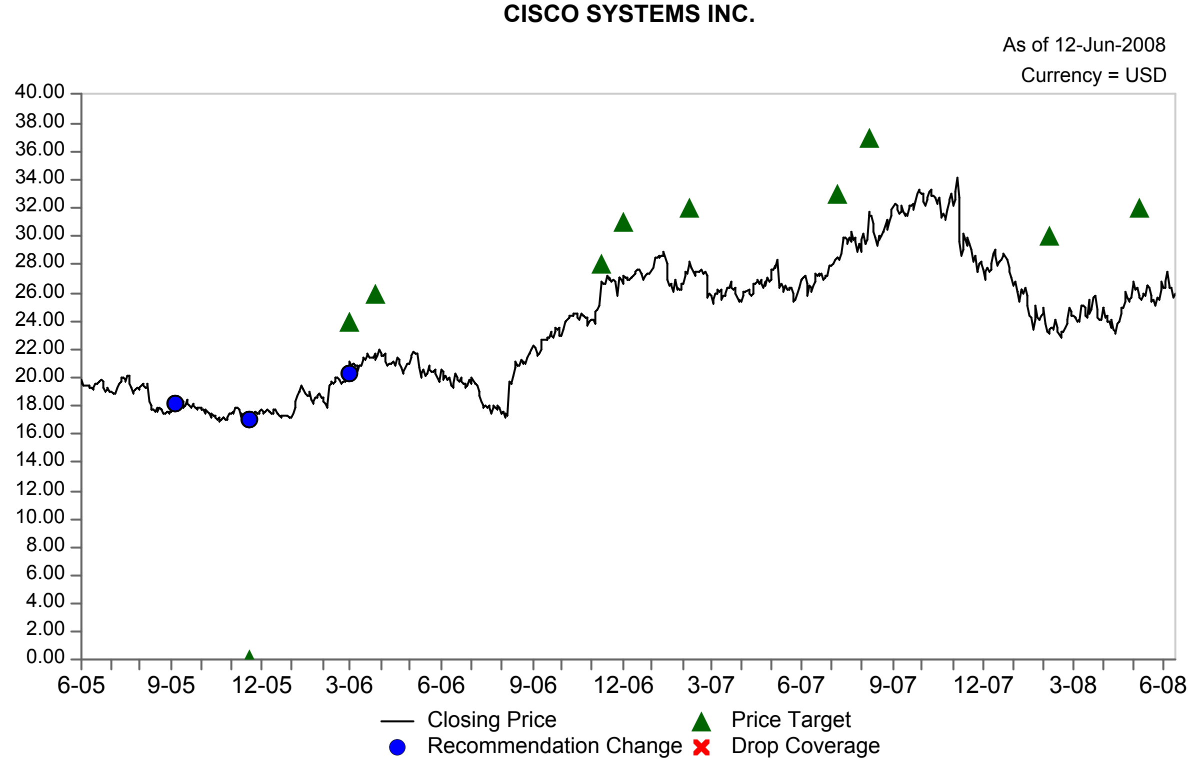
Valuation Methodology: Our $30 price target is based on a P/E of 15x our non-GAAP C09 EPS estimate of $2.00. We believe shares should trade at a PEG of 1:1, commensurate with our long-term earnings growth expectation of 15%.

Risks Which May Impede the Achievement of the Price Target: We highlight the following risk factors to our thesis: 1) slowing macro environment could weaken IT spending resulting in purchasing delays, making it difficult for Check Point to achieve its financial targets, 2) transition to higher mix of appliance revenue could adversely impact margins if revenues fail to accelerate, 3) pricing for network security products and services are subject to intense price competition from larger vendors such as Cisco and Juniper.

Important Disclosures Continued:

Cisco Systems, Inc. (CSCO) **US$ 24.48 (24-Jun-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:



Currency=US$

Date	Closing Price	Rating	Price Target
07-May-08	25.78		32.00
07-Feb-08	23.38		30.00
08-Aug-07	31.68		37.00
09-Jul-07	28.45		33.00
07-Feb-07	28.09		32.00
01-Dec-06	26.69		31.00
09-Nov-06	26.71		28.00

Date	Closing Price	Rating	Price Target
27-Mar-06	21.69		26.00
28-Feb-06	20.24		24.00
28-Feb-06	20.24	1 -Overweight	
18-Nov-05	17.02		0.00
18-Nov-05	17.02	RS -Rating Suspended	
06-Sep-05	18.20	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 Cisco Systems, Inc..
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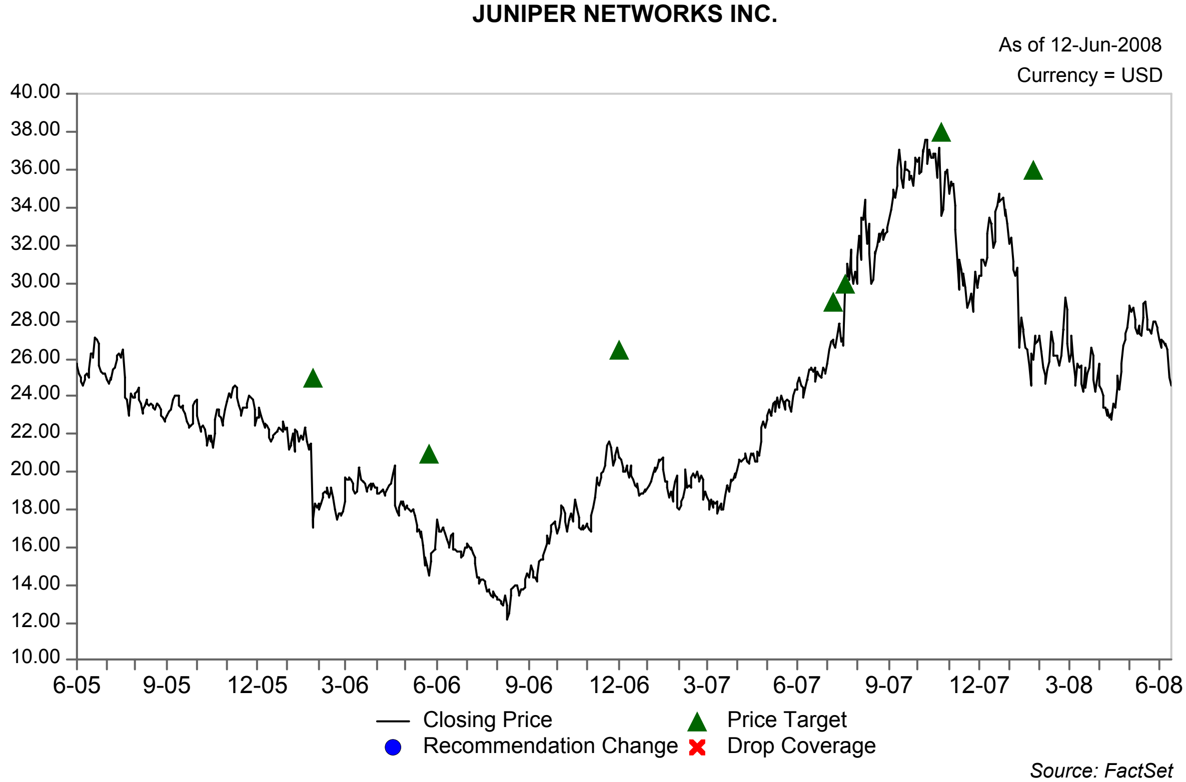
Lehman Brothers Inc and/or an affiliate trade regularly in the shares of Cisco Systems, Inc..
Lehman Brothers Inc. has received non-investment banking related compensation from Cisco Systems, Inc. within the last 12 months.
Cisco Systems, Inc. is or during the past 12 months has been an investment banking client of Lehman Brothers Inc. and/or an affiliate.
Cisco Systems, Inc. is or during the last 12 months has been a non-investment banking client (securities related services) of Lehman Brothers Inc.

Risks Which May Impede the Achievement of the Price Target: Our forecasts assume Cisco will maintain its dominant market share position in the core enterprise market for networking equipment, all the while maintaining its industry-leading operating margins. Should weakness in enterprise IT spending demand persist beyond our current expectations; should the company cede significant market share to its competitors in coming quarters; or should the company fs operating margins deteriorate considerably, we may consider revisiting our projections, investment rating and price target. In addition, Cisco derives 20-25% of its sales from the service provider arena so should our outlook for global capital expenditures materially worsen, then our projections, investment rating and price target may need to be adjusted.

Important Disclosures Continued:

Juniper Networks (JNPR) **US$ 23.10 (24-Jun-2008)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:



Currency=US$

Date	Closing Price	Rating	Price Target
25-Jan-08	25.95		36.00
24-Oct-07	34.02		38.00
19-Jul-07	30.06		30.00
09-Jul-07	26.83		29.00

Date	Closing Price	Rating	Price Target
01-Dec-06	20.78		26.50
24-May-06	14.55		21.00
26-Jan-06	17.06		25.00

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

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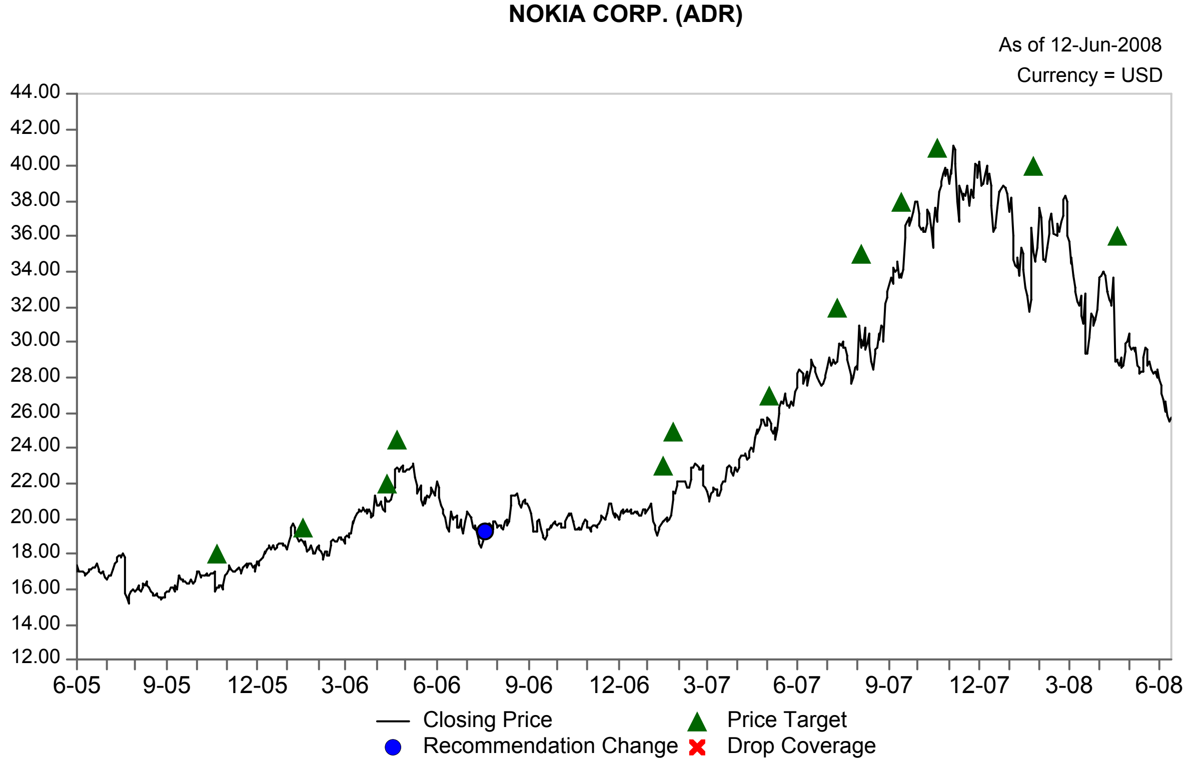
Risks Which May Impede the Achievement of the Price Target: Juniper derives most of its revenues from the service provider arena. Our investment recommendation assumes Juniper will materially improve its operating margins through FY08. Should the company not realize a material increase in its operating margins, in light of pricing pressures, merger difficulties, or other factors, our projections and price target may need to be adjusted.

Important Disclosures Continued:

Nokia (NOK) **US$ 24.66 (24-Jun-2008)** **1-Overweight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
18-Apr-08	29.00		36.00
25-Jan-08	35.08		40.00
19-Oct-07	36.78		41.00
13-Sep-07	33.88		38.00
03-Aug-07	29.65		35.00
11-Jul-07	28.86		32.00
03-May-07	25.64		27.00

Date	Closing Price	Rating	Price Target
26-Jan-07	21.58		25.00
16-Jan-07	19.85		23.00
19-Jul-06	19.33	1 -Overweight	
21-Apr-06	22.88		24.50
12-Apr-06	20.99		22.00
17-Jan-06	18.68		19.50
21-Oct-05	16.09		18.00

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

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Risks Which May Impede the Achievement of the Price Target: Nokia's leading position in the handset industry is under challenge from both existing phone vendors in the near term and software players in the longer term. We note that the handset market is increasingly reliant on replacement phones, which are more difficult to forecast. The rate of carrier spending and pace of technology migrations is also a risk factor for Nokia.

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 (25-Jun-2008)	Stock / Sector Rating
Check Point Software	CHKP	US$ 23.67	1-Overweight / 1-Positive

Related Stocks	Ticker	Price (24-Jun-2008)	Stock / Sector Rating
Cisco Systems, Inc.	CSCO	US$ 24.48	1-Overweight / 1-Positive
Juniper Networks	JNPR	US$ 23.10	1-Overweight / 1-Positive
Nokia	NOK	US$ 24.66	1-Overweight / 2-Neutral

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CA (CA)
Citrix Systems (CTXS)
Entrust Technologies (ENTU)
Guidance Software Inc. (GUID)
McAfee, Inc. (MFE)
Oracle Corp (ORCL)
Sourcefire Inc. (FIRE)
Symantec Corp (SYMC)
VMware Inc. (VMW)
Autodesk Inc. (ADSK)
BMC Software (BMC)
Check Point Software (CHKP)
Deltek, Inc. (PROJ)
Epicor Software Corp. (EPIC)
Lawson Software (LWSN)
Microsoft Corp (MSFT)
Salesforce.com Inc. (CRM)
Sybase Inc. (SY)
VeriSign Inc. (VRSN)

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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39% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as Hold rating, 30% of companies with this rating are investment banking clients of the Firm.
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