

## Strong results and outlook

**Beat and raise quarter, profitable growth, maintain Buy**

AudioCodes reported a strong Q2, with sales of \$36.5mn (+5% QoQ, +20% YoY), above our \$34.8mn, and the fifth straight quarter of seq. sales growth. Pro-forma EPS of \$0.07 was penny above expectations. Cash flow was positive for the thirteenth straight quarter, which includes the tough 2009 period. Management cited strong trends, no impact from Euro turmoil, and raised 2010 sales outlook to \$145mn or 15% YoY growth from 13% growth prior, and pro-forma EPS to \$0.28 from \$0.26 (vs. \$0.08 in 2009). We raise estimates and maintain our Buy rating.

**Promising pipeline, upside to estimates**

AudioCodes is transforming itself from a niche provider of media gateways to a player in the broader market of unified communications. Over the past year, the company has launched multiple initiatives: mobile Voice over IP, enterprise session border controllers, IP Phones, and Multi Service Biz Gateways. Tier 1 partners have grown with addition of Microsoft, Avaya and Skype, while reseller channels have been improved. We see upside to ests., as we only model 8%/9% op. margins in 2010/11, while AudioCodes targets 10%+ and is capable of 15%.

**Fundamentals strong, but stock needs institutional support**

Despite steady progress, AudioCodes trades at a 50% discount to comps, at only 9x PE and 0.5x EV/S on our 2010 estimates, versus comps at 24x PE and 1x EV/S. We attribute the discount to: 1) the stock's low share price below \$5, which discourages some investors; 2) lower sales growth rate of ~15% YoY vs. comps at 20%; and 3) uneven past execution when some large customers went through restructuring. We expect some of the valuation gap to narrow as AudioCodes shows progress in the new initiatives mentioned above, and newsflow around the new Tier 1 relationships improves. A reverse stock split could be considered to improve the share price over \$5, but could impact liquidity, in our view.

**Estimates (Dec)**

(US\$)	2008A	2009A	2010E	2011E	2012E
EPS	0.18	0.01	0.24	0.31	0.40
GAAP EPS	(0.06)	0.01	0.21	0.31	0.40
EPS Change (YoY)	NM	-94.4%	NM	29.2%	29.0%
Consensus EPS (Bloomberg)			0.26	0.32	NA
DPS	0	0	0	0	0

**Valuation (Dec)**

	2008A	2009A	2010E	2011E	2012E
P/E	14.7x	264.0x	11.0x	8.5x	6.6x
GAAP P/E	NM	264.0x	12.6x	8.5x	6.6x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	4.0x	9.8x	5.1x	4.4x	3.8x
Free Cash Flow Yield*	13.2%	18.2%	10.5%	13.5%	16.6%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.


**Bank of America  
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**Stock Data**

Price	US\$2.64
Price Objective	US\$5.00
Date Established	15-Apr-2010
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	US\$1.80-4.39
Mrkt Val / Shares Out (mn)	US\$108 / 41.0
BofAML Ticker / Exchange	AUDC / NAS
Bloomberg / Reuters	AUDC US / AUDC.OQ
ROE (2010E)	11.2%
Total Dbt to Cap (Mar-2010A)	14.5%
Est. 5-Yr EPS / DPS Growth	20.0% / 0%

**Key Changes**

(US\$)	Previous	Current
2010E Rev (m)	143.2	146.1
2011E Rev (m)	158.1	160.8
2012E Rev (m)	175.2	178.2
2010E EPS	0.20	0.24
2011E EPS	0.26	0.31
2012E EPS	0.33	0.40

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Refer to important disclosures on page 8 to 10. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6. Link to Definitions on page 6. 10959245

28 July 2010

## iQprofile<sup>SM</sup> AudioCodes

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

(US\$ Millions)	2008A	2009A	2010E	2011E	2012E
Return on Capital Employed	5.6%	2.0%	9.1%	10.1%	11.2%
Return on Equity	5.7%	0.6%	11.2%	12.8%	14.3%
Operating Margin	7.5%	2.7%	8.3%	9.4%	10.7%
Free Cash Flow	14	20	11	15	18

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

(US\$ Millions)	2008A	2009A	2010E	2011E	2012E
Cash Realization Ratio	2.3x	43.6x	1.3x	1.3x	1.2x
Asset Replacement Ratio	0.4x	0.3x	0.3x	0.5x	1.2x
Tax Rate	11.1%	9.2%	2.7%	2.3%	2.3%
Net Debt-to-Equity Ratio	-19.2%	-36.6%	-43.8%	-50.5%	-56.5%
Interest Cover	6.8x	15.2x	29.9x	NM	NM

### Income Statement Data (Dec)

(US\$ Millions)	2008A	2009A	2010E	2011E	2012E
Sales	175	126	146	161	178
% Change	10.4%	-28.0%	16.0%	10.1%	10.8%
Gross Profit	100	71	82	90	98
% Change	8.2%	-28.7%	15.6%	9.1%	9.6%
EBITDA	21	8	16	19	22
% Change	35.9%	-59.1%	91.9%	15.1%	16.0%
Net Interest & Other Income	0	0	0	0	0
Net Income (Adjusted)	7	0	10	13	17
% Change	NM	-93.5%	NM	30.5%	29.6%

### Free Cash Flow Data (Dec)

(US\$ Millions)	2008A	2009A	2010E	2011E	2012E
Net Income from Cont Operations (GAAP)	(2)	0	8	13	17
Depreciation & Amortization	7	5	4	3	2
Change in Working Capital	4	18	(1)	1	1
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	9	(3)	1	(1)	1
Capital Expenditure	(3)	(1)	(1)	(2)	(3)
Free Cash Flow	14	20	11	15	18
% Change	46.0%	38.2%	-42.5%	29.0%	22.8%

### Balance Sheet Data (Dec)

(US\$ Millions)	2008A	2009A	2010E	2011E	2012E
Cash & Equivalents	115	53	61	75	91
Trade Receivables	30	19	23	27	30
Other Current Assets	25	17	21	23	25
Property, Plant & Equipment	7	5	3	1	1
Other Non-Current Assets	54	54	55	56	58
<b>Total Assets</b>	<b>230</b>	<b>148</b>	<b>163</b>	<b>182</b>	<b>205</b>
Short-Term Debt	77	6	6	6	6
Other Current Liabilities	36	28	34	36	38
Long-Term Debt	22	16	14	14	14
Other Non-Current Liabilities	12	13	15	17	20
<b>Total Liabilities</b>	<b>147</b>	<b>64</b>	<b>69</b>	<b>74</b>	<b>79</b>
<b>Total Equity</b>	<b>83</b>	<b>84</b>	<b>93</b>	<b>108</b>	<b>126</b>
<b>Total Equity &amp; Liabilities</b>	<b>230</b>	<b>148</b>	<b>163</b>	<b>182</b>	<b>205</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

### Company Description

AudioCodes (AUDC) designs and develops systems, boards and processors for Voice over IP (VoIP) networks. The company's products include VoIP media gateways, session border controllers and call-logging communication boards. Products are sold directly to carriers, or indirectly via partners such as Nortel, Alcatel-Lucent, Ericsson and others.

### Investment Thesis

AudioCodes is a small-cap profitable pure-play on the secular growth in Voice over IP deployments by carriers and enterprises. We expect improvement in telco and enterprise spending to revive growth above expectations in 2010 and beyond. We also note the substantial operating leverage in the model, following the cost-cutting actions during the recent downturn.

### Stock Data

Average Daily Volume 70,144

### Quarterly Earnings Estimates

	2009	2010
Q1	-0.07A	0.05A
Q2	0A	0.06A
Q3	0.03A	0.06E
Q4	0.05A	0.07E

## Raise estimates

We raise our estimates slightly to reflect the Q2 beat and robust 2010 guidance. For 2010, we raise sales to \$146mn (+16% YoY) from \$143mn (+14% YoY) and pro-forma EPS (excludes options expense and 1x items) to \$0.28 from \$0.26. This compares to only \$0.08 pro-forma EPS in 2008. We bake in only 9.2% operating margin exiting Q4'2010, so if management is able to achieve its 10% op. margin goal, there could be slight upside to our estimates.

For 2011, we raise sales to \$160.8mn and pro-forma EPS to \$0.35 (+25% YoY) versus \$158mn/\$0.33 prior. For full-year 2011, we model 9.4% operating margin, which again could prove conservative should AudioCodes realize stronger top-line growth while controlling expenses.

For 2012, we model sales growth of 11% YoY to \$178mn and pro-forma EPS growth of 26% YoY to \$0.44.

Table 1: Raising estimates for 2010-12.

\$mn	SALES (\$mn)			EPS (Pro-forma)			EPS (incl. options)		
	Old	New	Change	Old	New	Change	Old	New	Change
<b>2010E</b>									
Q1	34.80	34.80	0.00	0.06	0.06	0.00	0.05	0.05	0.00
Q2E	35.50	36.48	0.98	0.06	0.07	0.01	0.05	0.06	0.01
Q3E	35.54	36.84	1.31	0.06	0.07	0.01	0.04	0.06	0.02
Q4E	37.31	37.95	0.64	0.08	0.08	0.00	0.06	0.07	0.01
<b>2010E Total</b>	<b>\$143.15</b>	<b>\$146.07</b>	<b>\$2.92</b>	<b>\$0.26</b>	<b>\$0.28</b>	<b>\$0.02</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.04</b>
YoY	13.7%	16.0%		225.0%	250.0%		1597.1%	1933.2%	
Gross Margin %	56.2%	56.2%	3						
Operating Margin %	7.7%	8.3%	63						
<b>Q1E</b>	37.87	38.52	0.65	0.07	0.07	0.00	0.05	0.07	0.02
Q2E	39.20	39.87	0.67	0.08	0.09	0.01	0.07	0.08	0.01
Q3E	39.24	39.91	0.67	0.08	0.08	0.00	0.06	0.07	0.01
Q4E	41.79	42.50	0.71	0.10	0.10	0.00	0.08	0.10	0.02
<b>2011E Total</b>	<b>\$158.09</b>	<b>\$160.79</b>	<b>\$2.69</b>	<b>\$0.33</b>	<b>\$0.35</b>	<b>\$0.02</b>	<b>\$0.26</b>	<b>\$0.31</b>	<b>\$0.05</b>
YoY	10.4%	10.1%		26.9%	25.0%		29.9%	28.5%	
Gross Margin %	55.8%	55.8%	-						
Operating Margin %	9.1%	9.4%	31						

Source: Company reports; BofA Merrill Lynch Global Research estimates

## Q2 highlights

AudioCodes reported a strong quarter with sales and earnings exceeding expectations in the past several quarters. Upside was driven by stronger sales of chipsets for Voice over IP (VoIP) applications in China broadband deployments.

We highlight key trends below:

- Sales of \$36.5mn, up 5% QoQ and 20% YoY. Results were above our and consensus expectations of \$35.5mn.
- Technology segment (chips) was strong, surging 15% QoQ to \$12.4mn. The strength was driven by chipset sales into ONU for some China broadband (FTTX) projects.
- Networking sales were sluggish and grew modestly sequentially. Management attributed the declines at Nortel, but expects Networking sales to pick up in Q3.

- Gross margins remained strong at 56.3%, up slightly QoQ and YoY. This could partly be due to the strength in Technology products.
- Opex grew above our expectations, due to reversing of some wage cuts from the prior year. AudioCodes increased headcount by 11 people to 596 total during the quarter, which we see as a promising sign of customer engagements and new product pipeline.
- Operating margins of 8.3% continued their steady march upward, with AudioCodes targeting 10% margins by Q4.
- Pro-forma EPS of \$0.07 was a penny above our and Consensus expectations.

Table 2: AudioCodes outperformed expectations during Q2.

\$mn	Yr Ago	Q Ago	Est.	delta	Actual	QoQ	YoY
Sales (\$mn)	\$30.36	\$34.80	\$35.50	\$0.98	\$36.48	4.8%	20.2%
GM%	56.2%	56.2%	56.2%	12 bps	56.3%	12 bps	17 bps
R&D Exp	7.08	7.25	7.50	0.13	7.63	5.3%	7.8%
SG&A	9.22	9.70	9.77	0.11	9.88	1.8%	7.2%
Opex Total (\$mn)	16.30	16.95	17.27	0.24	17.51	3.3%	7.5%
Fin/Other Income	(0.06)	(0.08)	(0.08)	(0.03)	(0.11)	34.2%	86.0%
Taxes	0.08	0.07	0.07	0.00	0.07	3.0%	-12.8%
Op Mgn%	2.5%	7.5%	7.6%	76 bps	8.3%	82 bps	584 bps
EPS (\$)	\$0.02	\$0.06	\$0.06	\$0.01	\$0.07	16.7%	250.0%

Source: Company reports; BofA Merrill Lynch Global Research estimates.

## Balance Sheet and cash flow trends

AudioCodes maintains a good but not great balance sheet, relative to comparables. Management has managed cash prudently and generated cash from operations on a consistent basis – we specifically highlight the past thirteen quarters of positive cash flow from operations, including the tough 2009 period, when industry capex declined substantially. During Q2, cash from operations was positive \$1.6mn. Total cash was steady around \$55mn, with net cash of \$34.3mn or \$0.84/share or 32% of the company's market cap. We believe this provides a comfortable cushion for the business plan, but does not leave enough room for M&A or share buybacks.

Table 3: AudioCodes balance sheet and cash flow trends.

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	QoQ	YoY
Gross Cash (\$mn)	\$114.94	\$116.41	\$52.87	\$54.69	\$54.55	-0.3%	-52.5%
Gross Cash/Diluted Share	2.86	2.89	1.31	1.33	1.34	0.1%	-53.3%
Total Debt	97.04	96.38	22.15	20.65	20.22	-2.1%	-79.2%
Net Cash	\$17.91	\$20.03	\$30.72	\$34.03	\$34.32	0.9%	91.7%
Net Cash/Diluted Share	\$0.45	\$0.50	\$0.76	\$0.83	\$0.84	1.3%	88.8%
DSO	62.23	66.40	48.80	54.79	61.28	11.8%	-1.5%
Inventory Turns	2.57	4.00	3.99	4.35	4.31	-1.0%	67.8%
Cash flow from operations	\$3.44	\$5.64	\$11.87	\$3.26	\$1.61	-50.6%	-53.2%
Free cash flow	\$3.01	\$5.55	\$11.46	\$2.93	\$1.31	-55.4%	na

Source: Company reports; BofA Merrill Lynch Global Research estimates.

Table 4: AudioCodes pro-forma income statement model.

\$mn, FY Ends Dec	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E	Dec-10E	Mar-11E	Jun-11E	Sep-11E	Dec-11E	2008	2009	2010E	2011E	2012E
Revenues	\$29.30	\$30.36	\$32.08	\$34.16	\$34.80	\$36.48	\$36.84	\$37.95	\$38.52	\$39.87	\$39.91	\$42.50	\$174.74	\$125.89	\$146.07	\$160.79	\$178.21
QoQ Growth	-24.4%	3.6%	5.7%	6.5%	1.9%	4.8%	1.0%	3.0%	1.5%	3.5%	0.1%	6.5%					
YoY Growth	-33.0%	-33.5%	-31.2%	-11.9%	18.8%	20.2%	14.8%	11.1%	10.7%	9.3%	8.3%	12.0%	10.4%	-28.0%	16.0%	10.1%	10.8%
Cost of Goods	12.56	13.31	14.03	14.94	15.24	15.93	16.14	16.62	17.06	17.66	17.68	18.74	75.01	54.83	63.93	71.14	79.97
Gross Profit	16.74	17.05	18.05	19.22	19.56	20.55	20.71	21.33	21.45	22.21	22.23	23.76	99.73	71.06	82.14	89.64	98.24
Operating Expenses:																	
R&D	8.04	7.08	7.11	7.08	7.25	7.63	7.65	7.70	8.00	8.10	8.20	8.30	36.37	29.31	30.24	32.60	34.80
S&M	8.27	7.40	7.45	7.76	7.84	7.92	8.00	8.10	8.20	8.30	8.40	8.70	41.59	30.87	31.86	33.60	35.30
G&A	1.99	1.82	1.89	1.81	1.87	1.96	2.00	2.05	2.00	2.05	2.10	2.20	8.69	7.50	7.88	8.35	9.00
Total Opex	18.29	16.30	16.45	16.65	16.95	17.51	17.65	17.85	18.20	18.45	18.70	19.20	86.64	67.68	69.97	74.55	79.10
QoQ Growth	-9.9%	-10.9%	0.9%	1.2%	1.9%	3.3%	0.8%	1.1%	2.0%	1.4%	1.4%	2.7%					
Operating Income	(1.55)	0.75	1.60	2.58	2.61	3.03	3.06	3.48	3.25	3.76	3.53	4.56	13.09	3.38	12.17	15.09	19.14
Total Financial/Other Income (loss)	(0.01)	(0.06)	0.08	(0.04)	(0.08)	(0.11)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.30)	(0.03)	(0.34)	(0.32)	(0.32)
Pre-Tax Income	(1.56)	0.69	1.68	2.54	2.53	2.93	2.98	3.40	3.18	3.68	3.45	4.48	12.78	3.35	11.83	14.78	18.82
Income Taxes	0.05	0.08	0.12	0.05	0.07	0.07	0.07	0.08	0.07	0.09	0.08	0.10	0.51	0.31	0.28	0.34	0.44
Net Income	(1.61)	0.61	1.56	2.48	2.46	2.86	2.91	3.32	3.10	3.59	3.37	4.37	12.28	3.04	11.55	14.43	18.38
<b>Fully Diluted EPS</b>	<b>(\$0.04)</b>	<b>\$0.02</b>	<b>\$0.04</b>	<b>\$0.06</b>	<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.07</b>	<b>\$0.09</b>	<b>\$0.08</b>	<b>\$0.10</b>	<b>\$0.29</b>	<b>\$0.08</b>	<b>\$0.28</b>	<b>\$0.35</b>	<b>\$0.44</b>
Shares Outstanding (Basic)	40.18	40.21	40.20	40.26	40.98	40.44	41.18	41.28	41.38	41.48	41.58	41.68	41.22	40.21	40.68	41.38	41.78
Shares Outstanding (Fully Diluted)	40.18	40.21	40.31	40.40	40.98	40.81	41.18	41.28	41.38	41.48	41.58	41.68	41.78	40.27	40.74	41.38	41.78
Shares Outstanding (incl convert)	44.18	40.21	40.33	40.61	40.98	41.04	41.18	41.28	41.38	41.48	41.58	41.68	44.38	41.33	40.80	41.38	41.78
<b>Margin Analysis</b>																	
Gross Margin	57.1%	56.2%	56.3%	56.3%	56.2%	56.3%	56.2%	56.2%	55.7%	55.7%	55.7%	55.9%	57.1%	56.4%	56.2%	55.8%	55.1%
Total Operating Expense	62.4%	53.7%	51.3%	48.7%	48.7%	48.0%	47.9%	47.0%	47.3%	46.3%	46.9%	45.2%	49.6%	53.8%	47.9%	46.4%	44.4%
R&D Expense	27.4%	23.3%	22.2%	20.7%	20.8%	20.9%	20.8%	20.3%	20.8%	20.3%	20.5%	19.5%	20.8%	23.3%	20.7%	20.3%	19.5%
S&M Expense	28.2%	24.4%	23.2%	22.7%	22.5%	21.7%	21.7%	21.3%	21.3%	20.8%	21.0%	20.5%	23.8%	24.5%	21.8%	20.9%	19.8%
G&A Expense	6.8%	6.0%	5.9%	5.3%	5.4%	5.4%	5.4%	5.4%	5.2%	5.1%	5.3%	5.2%	5.0%	6.0%	5.4%	5.2%	5.1%
Operating Margins	-5.3%	2.5%	5.0%	7.5%	7.5%	8.3%	8.3%	9.2%	8.4%	9.4%	8.8%	10.7%	7.5%	2.7%	8.3%	9.4%	10.7%
Tax Rate	-3.3%	11.3%	7.3%	2.1%	2.6%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	4.0%	9.2%	2.4%	2.3%	2.3%
Net Income	-5%	2%	5%	7%	7%	8%	8%	9%	8%	9%	8%	10%	7%	2%	8%	9%	10%
Est. Options Expense	1.13	0.49	0.40	0.54	0.54	0.37	0.37	0.37	0.37	0.38	0.38	0.39	4.84	2.56	1.65	1.52	1.65
<b>EPS incl. Options Exp.</b>	<b>(\$0.07)</b>	<b>\$0.00</b>	<b>\$0.03</b>	<b>\$0.05</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.07</b>	<b>\$0.10</b>	<b>\$0.18</b>	<b>\$0.01</b>	<b>\$0.24</b>	<b>\$0.31</b>	<b>\$0.40</b>

Source: Company reports; BofA Merrill Lynch Global Research estimates

## Price objective basis & risk

### AudioCodes (AUDC)

We rate AudioCodes Buy with \$5/sh PO, based on 14x PE on our 2011 pro-forma estimates (or 13x PE ex cash), which is below median comparable at 18x PE and range of 12x -37x PE. The discount reflects AudioCodes' lower sales growth rate and lower-levels of net cash.

Downside risks to our price objective: 1) Weak capital spending by telcos and enterprises on AudioCodes' voice over IP equipment. 2) Execution and competitive risks with the range of new growth opportunities. 3) The company's low net cash increases risk of dilutive capital raising. 4) The company has limited visibility, 5) Reliance on 3rd party OEM and resellers, and 6) Emerging market risk.

## Link to Definitions

### Media & Telecom

Click [here](#) for definitions of commonly used terms.

## Analyst Certification

I, Vivek Arya, 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.

### US-Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AudioCodes	AUDC	AUDC US	Vivek Arya
	CIENA	CIEN	CIEN US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Harmonic Inc	HLIT	HLIT US	Vivek Arya
	Meru Networks	MERU	MERU US	Tal Liani
	Mitel	MITL	MITL US	Tal Liani
	Motorola	MOT	MOT US	Tal Liani
	NETGEAR	NTGR	NTGR US	Woo Jin Ho
	Polycom	PLCM	PLCM US	Woo Jin Ho
	QUALCOMM	QCOM	QCOM US	Tal Liani
	RSCH in Motion	RIMM	RIMM US	Vivek Arya
<b>NEUTRAL</b>				
	Amdocs	DOX	DOX US	Tal Liani
	Arris	ARRS	ARRS US	Vivek Arya
	Blue Coat Systems, Inc	BCSI	BCSI US	Tal Liani
	F5 Networks	FFIV	FFIV US	Tal Liani
	Juniper Networks	JNPR	JNPR US	Tal Liani
	Riverbed Technology	RVBD	RVBD US	Tal Liani
	Tellabs	TLAB	TLAB US	Tal Liani
	Voltaire Ltd	VOLT	VOLT US	Tal Liani
<b>UNDERPERFORM</b>				
	Adtran	ADTN	ADTN US	Vivek Arya
	BigBand Networks	BBND	BBND US	Vivek Arya
	Calix	CALX	CALX US	Vivek Arya
	Garmin	GRMN	GRMN US	Vivek Arya
<b>RVW</b>				
	Tekelec	TKLC	TKLC US	Vivek Arya

28 July 2010

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

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
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

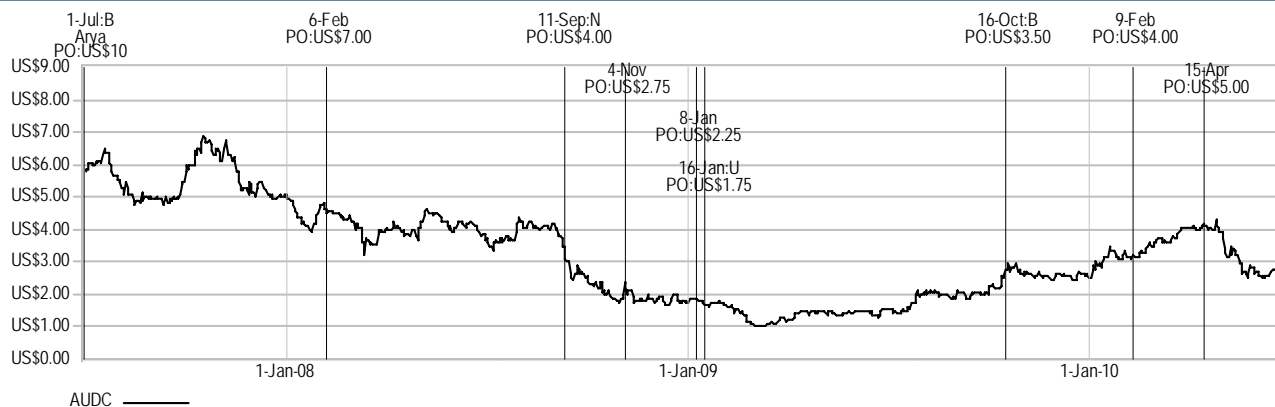
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### AUDC Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

"Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2010 or such later date as indicated. BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

### Investment Rating Distribution: Telecommunications Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	92	51.69%	Buy	51	67.11%
Neutral	51	28.65%	Neutral	30	69.77%
Sell	35	19.66%	Sell	22	78.57%

### Investment Rating Distribution: Global Group (as of 01 Jul 2010)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1922	54.14%	Buy	1042	59.85%
Neutral	874	24.62%	Neutral	496	62.78%
Sell	754	21.24%	Sell	362	51.86%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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