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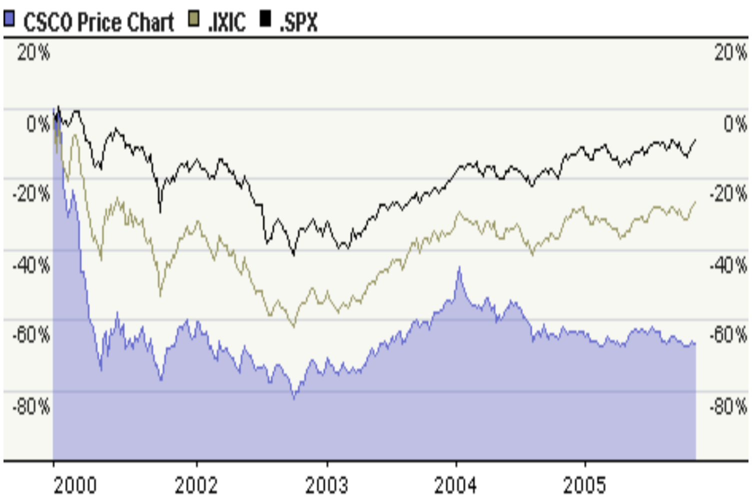
Cisco Systems Inc.
NASDAQ: CISCO
Technology Sector
12/08/2005

Recommendation: HOLD



Market Data

Shares in ARC holding:	800
Share Price (12/08/05):	$17.64
Purchase Price	$5.63
DCF Fair value	$15.35
Market Cap (mil.):	$108,351
Shares Outstanding (mil.):	6,391
52-week high:	$20.35
52-week low:	$16.83
Beta:	1.54

Key Points:

- Cisco is undervalued at **$21.38** on a DCF basis even when using a terminal growth rate of 7%, but undervalued on a comparables basis on several metrics including P/E, PEG, and Mkt Cap / EBITDA
- Revenue will continue to grow around 10-12% in the coming year
- Recent acquisition of Scientific-Atlantic combined with Linksys acquisition will add a much needed entry into digital home, high-margin market
- Plenty of growth opportunities are available and being pursued in China and India
- Cisco has mild near-term PEG Ratio of 1.15 vs. 1.38 aggregate figure
- Lowest P/E Ratio in the industry
- Company still highly profitable; 68.1% gross margin, 24.0% net profit margin in Q1 FY06
- 19% year over year EPS growth
- Convergence of data, voice, video, and storage will position as the market leader in the coming 3 to 5 years

Investment Thesis:

Cisco has plenty of room to grow both abroad and in the U.S. domestic market. With a renewed focus on the consumer market, Cisco looks to capitalize on the convergence of home technologies with its acquisitions of Linksys, a home-networking hardware company, KiSS, a network-enabled DVD player company, and Scientific-Atlanta, a set-top box manufacturer that controls 50% of its market. The end goal is to "take over the home". As Cisco Systems has in the past shown its ability to integrate recent acquisitions without missing a beat, we feel that Cisco will, again, not miss a beat in its earnings. **We recommend that the Anne Rife Portfolio hold Cisco Systems.**

Company Description

The ruler of routers, the sultan of switches, **Cisco Systems** continues to dominate the market for equipment used to link networks and power the Internet. The company's bread and butter products are routers and switches; Cisco's switch line includes equipment based on Ethernet, Gigabit Ethernet, Token Ring, and ATM technologies. Other products include remote access servers, IP telephony equipment used to transmit data and voice communications over the same network, optical networking components, and network service and security systems. It sells its products primarily to large enterprises and telecommunications service providers, but it also has products designed for small businesses and consumers.[1]

Key Points

Plenty of Growth in Advanced Technologies

Cisco's advanced technologies area saw a growth of 25% over Q1 FY06; expected to continue with convergence of data, voice, video, storage technologies. An advanced technology is defined as an opportunity that is adjacent to our other businesses, can generate Cisco revenue of $1B or more, where Cisco can secure #1 or #2 market share position, has clear and sustainable differentiation over time and fits into our long-term architectural technology vision. Cisco has identified six advanced technologies that represent examples of taking advantage of market transitions ahead of competitors and executing against the opportunity to drive growth. These include: security, wireless, enterprise IP communications, storage, optical and home networking. We intend to announce two new advanced technologies before the end of this calendar year.

Excellent Stock Repurchase Program

$3.5 billion worth of stock was repurchased in Q1. That makes for a total of $30.7 billion since the inception of the program. This has lead to a 15.3% decrease in the number of diluted shares which is a positive for investors such as the ARC Fund. The program still has $4.3 billion of funds remaining which could be augmented given the accretive nature of the Scientific-Atlanta deal and the $1.7 billion in cash acquired from it.

Leadership in Most Market Areas

Cisco continues to dominate the industry with its networking products. Some of its year-over-year results include:

- Enterprise IP Communications revenue grew in the low 40s Y/Y
- Security revenue grew in the high 20s Y/Y
- Wireless revenue grew in the upper-teens Y/Y
- Networked home revenue grew in the high single digits Y/Y
- Storage revenue grew approximately 100% Y/Y
- Optical revenue was flat Y/Y

[1] *Courtesy hoovers.com*

Major Investments in Key Markets

Cisco recently invested $1.1 billion into Cisco India and is committed to investing more money into India's internet infrastructure. Although it has already invested billions into the Chinese market, the company is betting that India's economy catches up with China's within the next four years. Also, it has smartly recognized that India doesn't really have a solid challenger for it to have to share the market with. In China, Huawei Technologies and Harbour Networks Co. have proven to be tough competitors. Regardless, as these economies continue to grow at high single digit and/or double digit rates, Cisco will see higher demand for its broadband equipment. In India alone, Cisco has a market share of 74% and saw a Q1 growth rate of 70%. That number is outstanding, but, even more so, are the consistent 40% revenue growth rates that Cisco is expecting out of the Indian market over the next decade.

Stock "Over-punished"

Cisco's stock price has been punished significantly since the Dot-Com crash of 2001. After losing over 80% of its stock price in 2000, the company's stock has yet to recover. Lately, the stock price has been hung-up in the high teens. Investors seem wary to overprice the stock and suffer a loss. Therefore, by installing a "risk-buffer" of roughly $3-$6, they effectively have undervalued the stock. This carry over from the tech crash will continue to haunt the stock into the future, but will certainly ease up with the new prospects of IPTV, home networking, data security, and digital video. After a December 7th analyst meeting, representatives of the media and analysts covering the stock felt there were plenty of reasons to be excited about the future growth prospects of the company. Some analysts are looking to higher revenue growth in the years ahead and are guesstimating a target price of around $22, which would serve as evidence that the aforementioned "risk-buffer" will be decreasing and that investors will warm up to the networking giant's new digital convergence strategy.

Discounted Cash Flow Analysis:

Our Discounted Cash Flow Analysis basically hinged on determining the correct beta, 2.20 from MSN Money and Multex vs. 1.50 from Value Line, projecting future growth rates for revenue, and determining the appropriate level of capital expenditures for Cisco Systems over the next decade.

To resolve the beta issue, we took it upon ourselves to determine our own beta based on the last 5 years worth of data. From Nov. 21st, 2000 to Nov. 21st, 2005, we came up with a beta of 2.202, un-weighted, and a 1.54 weighted-average beta; the latter being in accord with Bloomberg, that is what we used.

Another important point to note is our use of an equity market risk premium of 6.50%. This was a class standard and a feature that allows us to use our DCF analysis interchangeably with other sectors.

For our growth assumptions, we read through a plethora of analyst reports and listened to conference calls to come up with a solid 10-15% figure for the next 3-5 yrs and slowly trended the figure down towards a terminal value of 7.7%. For FY2006, we have a 14% growth sequential followed by 15% for both FY2007 and FY2008. These small increases in revenue growth were factored in as the likely impact of the Scientific-Atlanta acquisition.

Other rates used to value the company include a 3% growth rate for cash which serves to mimic its average value over the past five years. Also, in our asset model, the capital acquisitions of the year are modeled through a CAPX to DEPR rate of 400% trending down to 150% as the terminal value. Cisco is very much an active company at the moment, and we feel this activity will continue as the company's competition with software giant Microsoft heats up.

Key assumptions made for this model:

Date of valuation:	12/08/2005
Risk-free Rate:	3.60%
Equity Market Risk Premium:	6.50%
Long-term Inflation:	2.50%
Terminal Growth:	7.00%
Equity beta based on Bloomberg:	1.54
Number of Shares (millions):	6,391
Current Market Price per Share:	$17.64

Valuation model used[2]	Summary	
	Equity $M	$ Per Share
Unlevered value	$136,620,853	$21.38
Adjusted Present Value	$136,620,853	$21.38
Flow to Equity	$136,620,853	$21.38
WACC with FCF	$136,620,853	$21.38
AT-WACC with UFCF	$136,620,853	$21.38
Average across models	$136,620,853	$21.38
Price deviation across models	$0	0.0%

[2] See Exhibit 1 for Discounted Cash Flow Analysis

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Comparable Company Analysis

Comparables Analysis	CSCO	AV	JNPR	NT	MOT	MSFT	Aggregate
Revenue (millions)	$22,045.0	$4,902.0	$1,488.5	$9,828.0	$31,323.0	$39,788.0	$87,329.5
Gross Profit	$16,327.0	$2,297.0	$925.5	$4,078.0	$10,497.0	$33,588.0	$51,385.5
EBITDA	$8,450.00	$589.3	$601.6	$645.0	$4,700.0	$17,950.0	$24,485.9
LTM Sales	$25,380.0	$4,900.0	$1,920.0	$10,660.0	$35,250.0	$40,340.0	
LTM EPS*	$1.14	$0.58	$0.53	$0.01	$1.60	$1.18	
CFY EPS Estimate	$1.03	$0.62	$0.73	$0.07	$1.12	$1.32	
NFY EPS Estimate	$1.18	$0.75	$0.90	$0.18	$1.27	$1.52	
LFY Gross Margin	74.1%	46.9%	62.2%	41.5%	33.5%	84.4%	58.8%
LFY EBITDA Margin	38.3%	12.0%	40.4%	6.6%	15.0%	45.1%	28.0%
ROE	24.8%	70.6%	5.0%	0.3%	27.5%	20.7%	
ROA	22.1%	19.3%	3.6%	-0.4%	7.5%	12.9%	25.4%
Historical 5 Year Revenue Growth Rate	13.66%	-8.7%	67.1%	-12.9%	-1.1%	N/A	
Historical 5 Year EPS Growth Rate	22.80%	N/A	-12.4%	N/A	17.3%	6.0%	
Projected ROE (CFY)	30.4%	14.9%	6.1%	8.0%	17.7%	23.1%	
CFY - NFY EPS Growth Rate	14.6%	21.0%	23.3%	157.1%	13.4%	15.2%	19.7%
Proj. Growth in EPS 5 Years	15.0%	10.2%	20.0%	7.5%	12.0%	11.5%	12.2%
Beta	1.54	4.42	3.79	4.26	1.44	1.30	1.55
MV of Equity / Book Value	5.09	2.81	23.36	3.50	3.77	4.85	4.34
Price / EPS (TTM)	15.11	20.16	44.08	306.00	14.91	23.53	26.80
Price / EPS (05)	16.72	18.85	32.00	43.71	21.30	21.03	27.08
Price / EPS (06)	14.59	15.59	25.96	17.00	18.79	18.26	22.63
Total Market Capitalization / EBITDA	12.79	9.50	22.74	24.31	13.56	16.45	16.09
PEG 05 to near term growth	1.15	0.90	1.37	0.28	1.59	1.39	1.38
PEG 05 to 3-5 yr growth	1.11	1.85	1.60	5.83	1.78	1.83	2.21

Overview of Comparables Analysis

We used three comparables from Cisco's specific industry, Avaya, Juniper, and Nortel Networks, but, also, added Motorola and Microsoft to illustrate the competitive position Cisco will occupy in the new "consumer digital home" market. Motorola serves as a comparison for the set-top box division (Scientific-Atlanta through the recent acquisition) of Cisco, and Microsoft is both constructed the same as Cisco in many ways (i.e. no debt, lots of cash on-hand, large-cap, market leaders) and will be vying for space in consumers' homes and electronics for the next decade.

According to the above data, Cisco has favorable PEG and P/E ratios, but an unfavorable ROA figure compared to the aggregate which hints at sub-par management effectiveness.

As we understand that management is a large part of the success of a company, we feel it is important that Cisco improves this figure. That said, we expect Mr. Chambers and company to do just that through key synergies that are apart of some recent acquisitions (KiSS Technology, Linksys, Scientific-Atlanta).

We have built the synergies and investment theses into our DCF analysis and have improved margins accordingly.

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Exhibit 1: Discounted Cash Flow Analysis

(Dollars in Thousands)	2005	Time "0"	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal
Net Income	$ 5,741,000	$ 5,741,000	$ 6,507,022	$ 7,965,447	$ 9,684,180	$ 11,563,909	$ 13,581,245	$ 15,706,963	$ 17,704,212	$ 19,743,257	$ 21,832,698	$ 23,933,728	$ 26,035,087
Plus Depr. & Amort.	227,000	227,000	625,590	645,359	731,557	793,286	840,174	892,422	947,577	1,006,186	1,035,248	1,068,430	1,102,341
Equals Value Line "Cash Flow"	5,968,000	5,968,000	7,132,612	8,610,805	10,415,738	12,357,195	14,421,419	16,599,385	18,651,788	20,749,442	22,867,946	25,002,159	27,137,429
- Change in NWC Increases/(Decreases)	2,887,000	2,887,000	(509,660)	(649,462)	(798,969)	(929,625)	(1,067,652)	(1,211,731)	(1,360,501)	(1,512,624)	(1,666,819)	(1,821,906)	(1,976,831)
= Cash Flow contributed by operations	8,855,000	8,855,000	6,622,952	7,961,343	9,616,769	11,427,570	13,353,767	15,387,654	17,291,287	19,236,819	21,201,128	23,180,252	25,160,597
- Capital Expenditures: alcategories	532,000	532,000	(2,376,600)	(3,670,560)	(3,676,255)	(3,645,619)	(3,871,567)	(4,049,438)	(4,218,987)	(3,901,421)	(4,016,499)	(4,069,312)	(4,111,493)
Equals OCF to Equity (Before Debt Adjs.)	$ 9,387,000	$ 9,387,000	$ 4,246,352	$ 4,290,783	$ 5,940,514	$ 7,781,951	$ 9,482,200	$ 11,338,216	$ 13,072,300	$ 15,335,397	$ 17,184,629	$ 19,110,941	$ 21,049,104
Tax Rate for leverage adjustments	28.6%	28.6%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
+ Increase (decrease) in debt	1	1	0	0	0	0	0	0	0	0	0	0	0
Equals "EFCF" or "FCFE"	$ 9,387,001	$ 9,387,001	$ 4,246,352	$ 4,290,783	$ 5,940,514	$ 7,781,951	$ 9,482,200	$ 11,338,216	$ 13,072,301	$ 15,335,398	$ 17,184,629	$ 19,110,941	$ 21,049,105
+ Interest Expense		-	0	0	0	0	0	0	0	0	0	0	0
Equals "FCF"		$ 9,387,000	$ 4,246,352	$ 4,290,783	$ 5,940,514	$ 7,781,951	$ 9,482,200	$ 11,338,216	$ 13,072,301	$ 15,335,397	$ 17,184,629	$ 19,110,941	$ 21,049,105
- Interest Tax Shields		-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Equals "UFCF"		$ 9,387,000	$ 4,246,352	$ 4,290,783	$ 5,940,514	$ 7,781,951	$ 9,482,200	$ 11,338,216	$ 13,072,300	$ 15,335,397	$ 17,184,629	$ 19,110,941	$ 21,049,105
(Capital Structure Overview)													
Accounting balance sheet (book value)													
Net Assets (LT Assets + NWC - Other LT Liab)		**$ 23,174,000**	$ 25,292,290	$ 28,837,388	$ 32,463,149	$ 36,137,813	$ 40,139,222	$ 44,419,119	$ 48,970,177	$ 53,304,460	$ 57,885,575	$ 62,647,434	$ 67,577,971
Total Debt		**$ 1**	$ 1	$ 1	$ 1	$ 2	$ 2	$ 2	$ 2	$ 3	$ 3	$ 3	$ 3
percentage of capital		**0.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Equity Book Value		**$ 23,173,999**	$ 25,292,289	$ 28,837,386	$ 32,463,148	$ 36,137,812	$ 40,139,220	$ 44,419,117	$ 48,970,174	$ 53,304,457	$ 57,885,572	$ 62,647,431	$ 67,577,968
percentage of capital		**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Economic balance sheet (intrinsic value - Time 0 based on avg. model price, 1-10 based on flow-to-equity)													
Total Market Value		**$ 136,620,854**	$ 150,968,601	$ 167,224,644	$ 184,043,404	$ 201,309,760	$ 219,225,819	$ 237,724,237	$ 257,006,205	$ 276,649,352	$ 297,116,699	$ 318,443,341	$ 340,734,375
Total Debt		**$ 1**	$ 1	$ 1	$ 1	$ 2	$ 2	$ 2	$ 2	$ 3	$ 3	$ 3	$ 3
percentage of market value		**0.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Intrinsic Value of Equity		**$ 136,620,853**	$ 150,968,600	$ 167,224,643	$ 184,043,403	$ 201,309,759	$ 219,225,817	$ 237,724,235	$ 257,006,202	$ 276,649,349	$ 297,116,697	$ 318,443,338	$ 340,734,372
percentage of market value		**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Current Valuation Summary as of the beginning of yr. 2006 - Intrinsic Share Price (avg. across models): $21.38

Valuation model used	Summary Equity $M	$ Per Share
Unlevered value	**$136,620,853**	**$21.38**
Adjusted Present Value	**$136,620,854**	**$21.38**
Flow to Equity	**$136,620,853**	**$21.38**
WACC with FCF	**$136,620,853**	**$21.38**
AT-WACC with UFCF	**$136,620,853**	**$21.38**
Average across models	**$136,620,853**	**$21.38**
Price deviation across models	**$0**	**0.0%**
Key Assumptions for the models:	Without APV:	0.0%

Date of valuation	12/8/2005
Risk Free Rate:	3.60%
Equity Market Risk Premium:	6.50%
Long term inflation:	2.50%
Terminal Growth:	7.00%
Beta (Bloomberg)	1.54
No. of shares (diluted):	6,390,676
Current Market Price per share:	$17.64

Exhibit 2: Balance Sheet

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal
Cash and Cash equivalents	$ 6,907,000	$ 12,656,000	$ 8,485,000	$ 8,669,000	6,969,000	8,183,000	9,692,763	11,481,078	13,457,431	15,620,966	17,968,911	20,496,826	23,198,884	26,068,165	29,096,954	32,277,028
Accounts Receivable	1,871,000	1,344,000	1,480,000	1,825,000	2,216,000	2,526,240	2,905,176	3,340,952	3,802,004	4,284,706	4,785,174	5,299,383	5,823,292	6,352,940	6,884,534	7,414,525
Inventories	1,684,000	880,000	873,000	1,207,000	1,297,000	1,478,580	1,700,367	1,955,422	2,225,270	2,507,791	2,800,709	3,101,670	3,408,308	3,718,304	4,029,441	4,339,639
Prepaid Expenses	564,000	523,000	624,000	815,000	1,582,000	1,439,620	1,310,054	1,192,149	1,084,856	987,219	898,369	817,516	743,939	676,985	616,056	560,611
Other Current Assets	1,809,000	2,030,000	1,975,000	1,827,000	967,000	1,102,380	1,267,737	1,457,898	1,659,087	1,869,725	2,088,115	2,312,502	2,541,121	2,772,244	3,004,217	3,235,490
Total Current Assets	12,835,000	17,433,000	13,437,000	14,343,000	13,031,000	14,729,820	16,876,097	19,427,499	22,228,648	25,270,407	28,541,277	32,027,897	35,715,544	39,588,637	43,631,203	47,827,293
PPE and Intangibles, Net	7,250,000	8,464,000	8,242,000	7,813,000	9,164,000	9,446,410	10,677,821	11,559,661	12,229,489	12,975,888	13,763,814	14,601,081	15,016,261	15,490,291	15,974,733	16,475,037
Investments	11,610,000	8,800,000	12,167,000	10,598,000	9,086,000	10,358,040	11,911,746	13,698,508	15,588,902	17,568,069	19,620,076	21,728,428	23,876,549	26,048,199	28,227,834	30,400,892
Other Long Term Assets	3,543,000	3,098,000	3,261,000	2,840,000	2,602,000	2,966,280	3,411,222	3,922,905	4,464,266	5,031,049	5,618,692	6,222,471	6,837,638	7,459,544	8,083,736	8,706,045
Total Long Term Assets	22,403,000	20,362,000	23,670,000	21,251,000	20,852,000	22,770,730	26,000,789	29,181,074	32,282,658	35,575,006	39,002,582	42,551,980	45,730,448	48,998,034	52,286,303	55,581,974
Total Assets	$ 35,238,000	$ 37,795,000	$ 37,107,000	$ 35,594,000	$ 33,883,000	$ 37,500,550	$ 42,876,887	$ 48,608,573	$ 54,511,306	$ 60,845,413	$ 67,543,859	$ 74,579,877	$ 81,445,992	$ 88,586,671	$ 95,917,506	##########
Accounts Payable and Accrued Liabilities	4,496,000	4,910,000	4,965,000	5,176,000	5,657,000	6,448,980	7,416,327	8,528,776	9,705,747	10,937,989	12,215,581	13,528,254	14,865,688	16,217,770	17,574,825	18,927,784
Other Current Liabilities	3,600,000	3,465,000	3,329,000	3,527,000	3,854,000	4,393,560	5,052,594	5,810,483	6,612,330	7,451,831	8,322,229	9,216,527	10,127,693	11,048,840	11,973,373	12,895,118
Notes and LT Debt due	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	8,096,000	8,375,000	8,294,000	8,703,000	9,511,000	10,842,540	12,468,921	14,339,259	16,318,077	18,389,820	20,537,810	22,744,781	24,993,381	27,266,610	29,548,198	31,822,902
Other Long Term Liabilities	22,000	764,000	784,000	1,065,000	1,198,000	1,365,720	1,570,578	1,806,165	2,055,415	2,316,371	2,586,931	2,864,919	3,148,152	3,434,486	3,721,874	4,008,394
Long Term Debt	-	-	-	-	1	1	1	1	2	2	2	2	3	3	3	3
Total Long Term Liabilities	$ 22,000	$ 764,000	$ 784,000	$ 1,065,000	$ 1,198,001	$ 1,365,721	$ 1,570,579	$ 1,806,166	$ 2,055,417	$ 2,316,373	$ 2,586,933	$ 2,864,922	$ 3,148,154	$ 3,434,489	$ 3,721,877	$ 4,008,397
Total Stockholders' Equity	27,120,000	28,656,000	28,029,000	25,826,000	23,173,999	25,292,289	28,837,386	32,463,148	36,137,812	40,139,220	44,419,117	48,970,174	53,304,457	57,885,572	62,647,431	67,577,968
Total Liabilities and Stockholders' Equity	35,238,000	37,795,000	37,107,000	35,594,000	33,883,000	37,500,550	42,876,887	48,608,573	54,511,306	60,845,413	67,543,859	74,579,877	81,445,992	88,586,671	95,917,506	103,409,267
Total Debt for leverage calculations	-	-	-	-	1	1	1	1	2	2	2	2	3	3	3	3
Total Debt and Stock	27,120,000	28,656,000	28,029,000	25,826,000	23,174,000	25,292,290	28,837,388	32,463,149	36,137,813	40,139,222	44,419,119	48,970,177	53,304,460	57,885,575	62,647,434	67,577,971
Net Working Capital				5,640,000	3,520,000	3,887,280	4,407,176	5,088,240	5,910,571	6,880,587	8,003,468	9,283,116	10,722,163	12,322,027	14,083,005	16,004,391
Change in Net Working Capital + Normal Cash					(2,120,000)	367,280	519,897	681,064	822,331	970,015	1,122,881	1,279,648	1,439,047	1,599,864	1,760,978	1,921,386

Exhibit 3: Income Statement

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Terminal
Total Revenue		22,293,000	18,915,000	18,878,000	22,045,000	24,801,000	28,273,140	32,514,111	37,391,228	42,551,217	47,953,520	53,554,644	59,309,570	65,173,046	71,100,746	77,050,243	82,981,788
Total Cost of Goods Sold		11,221,000	6,902,000	5,645,000	6,919,000	8,130,000	9,268,200	10,658,430	12,257,195	13,948,687	15,719,613	17,555,714	19,442,232	21,364,335	23,307,490	25,257,791	27,202,207
Gross Profit		11,072,000	12,013,000	13,233,000	15,126,000	16,671,000	19,004,940	21,855,681	25,134,033	28,602,530	32,233,907	35,998,930	39,867,337	43,808,711	47,793,256	51,792,452	55,779,581
SG&A (SHOULD EXCLUDE DEPR.)		6,063,000	4,853,000	4,799,000	5,265,000	5,782,000	6,591,480	7,481,330	8,390,311	9,307,792	10,223,818	11,129,378	12,325,329	13,543,838	14,775,694	16,012,080	17,244,735
R&D		4,633,000	3,366,000	3,030,000	3,083,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000	3,246,000
Unusual Expense (Income)		1,170,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and Amortization		1,210,000	875,000	522,000	486,000	227,000	625,590	645,359	731,557	793,286	840,174	892,422	947,577	1,006,186	1,035,248	1,068,430	1,102,341
Total Deph, SGA, R&D, Unusual Exp (inc)		13,076,000	9,094,000	8,351,000	8,834,000	9,255,000	10,463,070	11,372,689	12,367,869	13,347,078	14,309,993	15,267,800	16,518,906	17,796,024	19,056,943	20,326,510	21,593,077
Operating Income		(2,004,000)	2,919,000	4,882,000	6,292,000	7,416,000	8,541,870	10,482,993	12,766,164	15,255,452	17,923,914	20,731,131	23,348,432	26,012,687	28,736,313	31,465,941	34,186,505
Other (non-operating) Income / (Expense)	(105,800.00)	190,000	(858,000)	(117,000)	188,000	68,000	77,520	89,148	102,520	116,668	131,480	146,837	162,616	178,693	194,946	211,258	227,522
EBIT, Earnings Before Interest and Taxes		(1,814,000)	2,061,000	4,765,000	6,480,000	7,484,000	8,619,390	10,572,141	12,868,684	15,372,120	18,055,395	20,877,968	23,511,048	26,191,380	28,931,259	31,677,200	34,414,026
Interest Income		940,000	649,000	660,000	512,000	552,000	418,140	490,980	581,566	688,865	807,446	937,258	1,078,135	1,229,809	1,391,933	1,564,090	1,745,817
Other (non-recurring) Charges (pretax)	326,333.33		-	412,000	567,000	-	-	-	-	-	-	-	-	-	-	-	-
EBT, Earnings Before Taxes		(874,000)	2,710,000	5,013,000	6,425,000	8,036,000	9,037,530	11,063,120	13,450,250	16,060,984	18,862,840	21,815,226	24,589,183	27,421,190	30,323,192	33,241,289	36,159,843
Income Taxes (payable)		140,000	817,000	1,435,000	2,024,000	2,295,000	2,530,508	3,097,674	3,766,070	4,497,076	5,281,595	6,108,263	6,884,971	7,677,933	8,490,494	9,307,561	10,124,756
Tax Rate	19%	-16%	30%	29%	32%	29%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Net Income		$ (1,014,000)	$ 1,893,000	$ 3,578,000	$ 4,401,000	$ 5,741,000	$ 6,507,022	$ 7,965,447	$ 9,684,180	$11,563,909	$ 13,581,245	$ 15,706,963	$ 17,704,212	$ 19,743,257	$ 21,832,698	$ 23,933,728	$ 26,035,087

Exhibit 4: Comparable Company Descriptions

Avaya, Inc. engages in the design, building, and management of communications networks for businesses worldwide. It offers an array of communications systems, applications, and services that enable enterprises to communicate with their customers, suppliers, partners, and employees through voice, Web, electronic mail, facsimile, Web chat sessions, and other forms of communication. The company operates in three segments: Enterprise Communications Group, Small and Medium Business Solutions, and Services. The Enterprise Communications Group segment offers Internet protocol (IP) telephony systems and voice communications systems; multimedia contact center infrastructure and applications in support of customer relationship management; unified communications applications; and appliances, such as IP telephone sets. The Small and Medium Business Solutions segment provides IP telephony and voice systems, as well as a host of applications, including messaging, contact center, mobility, and conferencing. The Services segment offers global services that enable the company's customers to plan, design, implement, monitor, and manage their converged communications networks worldwide. Avaya's customers include enterprises, governments, and educational institutions. It distributes its products through direct sales forces; and indirect sales channel, which consists of a network of distributors, dealers, value-added resellers, telecommunications service providers, and system integrators. Avaya, Inc. has a strategic alliance with Extreme Networks, Inc. to jointly develop and market converged communications solutions; and with eCompany, pursuant to which, both entities would collaborate in addressing the managed converged communication needs of enterprise customers in the UAE as integrated solution partners. The company was incorporated in February 2000 as Lucent EN Corp. and changed its name to Avaya, Inc. in June 2000. Avaya is headquartered in Basking Ridge, New Jersey.[3]

Juniper Networks, Inc. engages in the design and sale of products and services that provide customers with Internet Protocol network solutions primarily in the United States. Its solutions are incorporated into the worldwide Web of interconnected public and private networks across which, various media, including voice, video, and data travel to and from end-users throughout the world. The company also provides security solutions for protecting the network and data on the network. It sells its products and services through direct sales force, distributors, and resellers primarily to government organizations, and research and education institutions, as well as to wireline, wireless, and cable operators. The company operates principally in the United States and Canada, as well as in South America, Europe, the Middle East, and the Asia Pacific region. Juniper Networks was co-founded by Pradeep Sindhu in 1996 and is headquartered in Sunnyvale, California.[4]

[3] *Courtesy finance.yahoo.com*
[4] *Courtesy finance.yahoo.com*

Nortel Networks Corporation engages in the design, development, manufacture, assembly, marketing, sale, licensing, installation, servicing, and support of networking solutions that consists of hardware, software, and services. It operates in four segments: Wireless Networks, Enterprise Networks, Wireline Networks, and Optical Networks. The Wireless Networks segment provides communications networks that enable end-users to be mobile while they send and receive voice and data communications using wireless devices, such as cellular telephones, personal digital assistants, and other computing and communications devices. The Enterprise Networks segment provides data, voice, and multimedia communications solutions that include circuit and packet voice solutions, and data networking and security solutions to enterprise customers. The Wireline Networks segment provides data, voice, and multimedia communications solutions to service providers, such as local and long distance telephone companies, wireless service providers, cable operators, and other communication service providers. The Optical Networks segment solutions transport data, voice, and multimedia communications within and between cities, countries, or continents by transmitting communications signals in the form of light waves through fiber optic cables. This segment consists of long-haul and metropolitan optical products. Nortel Networks serves various enterprise customers, such as large businesses and branch offices, small businesses, home offices, and government agencies; educational and other institutions, and utility organizations; customers in the telecommunications, manufacturing, government, and financial services sectors; and customers in the healthcare, retail, education, hospitality, services, transportation, and other industry sectors worldwide. The company has strategic alliances with Calix Networks, Inc.; ECI Telecom, Ltd.; and KEYMILE AG. Nortel Networks is headquartered in Brampton, Canada.[5]

Motorola, Inc. provides mobility products and solutions across broadband, embedded systems, and wireless networks worldwide. It operates in four segments: Mobile Devices, Networks, Government and Enterprise Mobility Solutions, and Connected Home Solutions. Mobile Devices designs, manufactures, sells, and services wireless subscriber and server equipment for cellular systems, portable energy storage products and systems, servers and software solutions, and related software and accessory products. Networks segment designs, manufactures, sells, installs, and services wireless infrastructure communication systems. It offers end-to-end wireless networks, including radio base stations; base site controllers; associated software and services; mobility soft switching; application platforms; and third-party switching for CDMA, GSM, iDEN, and UMTS technologies. It also offers embedded communications computing platforms; fiber-to-the-premise and fiber-to-the-node transmission systems supporting high-speed data, video, and voice; and wireless broadband systems. Government and Enterprise Mobility Solutions segment provides analog and digital two-way radio, voice, and data communications products and systems to public-safety, government, utility, transportation, and other markets, as well as offers integrated information management, mobile, and biometric applications and services. It also offers automotive electronics systems and telematics systems. Connected Home Solutions segment offers digital systems and set-top terminals for cable TV and broadcast networks; cable modems and cable modem termination systems, and IP-based telephony products; hybrid fiber coaxial network transmission systems used by cable TV operators; digital satellite TV systems; and direct-to-home satellite networks and private networks. The company was founded in 1928 as Galvin Manufacturing Corporation and changed its name to Motorola, Inc. in 1947. Motorola is headquartered in Schaumburg, Illinois.[6]

[5] *Courtesy finance.yahoo.com*
[6] *Courtesy finance.yahoo.com*