



Research Report - August 28, 2007 **Rating: Speculative Buy**
Tumbleweed Communications (TMWD)
Industry: Technology
Analyst: Alan Weinfeld (212) 675-4100 aweinfeld@henleyandcompany.com

Company Description

Tumbleweed Communications Corp. provides messaging security solutions for enterprise and government customers worldwide. It provides solutions for inbound and outbound email protection, secure file transfer and routing, and identity validation. The company's products enable organizations to block security threats, protect information, and conduct business online. Tumbleweed offers these solutions in three product suites: MailGate, SecureTransport, and Validation Authority. MailGate product suite is used for protecting, monitoring, and filtering email communications. These products enable organizations to block threats at multiple points in their email networks, and encrypt and route email messages based on administrator-defined policies and industry regulations. MailGate suite of products includes MailGate Email Firewall, MailGate Appliance, MailGate Edge, and MailGate Secure Messenger. The SecureTransport product suite is an enterprise secure file transfer solution for moving financial transactions, critical business files, large documents, Extensible Markup Language, and Electronic Data Interchange transactions over the Internet and private Internet protocol networks. Tumbleweed Validation Authority is an Online Certificate Status Protocol responder. It validates the revocation status of any digital certificate in real-time. The company sells its products directly and through channel partners to enterprises in the financial services, healthcare, and government markets, as well as governments. Tumbleweed also offers a range of professional services, including support and maintenance, integration consulting, and technical training services. The company was founded in 1993 and is based in Redwood City, California. (Yahoo)

Key Data

(MM)					
Price (As of Close 8/27)	\$2.04	Cash	30.00M	Revenue Q1 07	15.015M
Shrs Outstanding(M)	51.13M	Cash per Share (MM)	0.587	Gross Profit	48.53M
Market Cap	108.08M	Debt (D)	\$0	EBITDA	(1.69M)
Avg. Volume	134,851	Equity (E)	62.7M		
52 week High	\$3.66	Inst. % Ownership	58.00%		
52 week Low	\$1.78				
Beta	1.66				

Key Investment Considerations

- We are initiating coverage of Tumbleweed communications (TMWD) with a Buy rating and a price target of \$8.00. We believe that TMWD is terribly undervalued at the current time, and a Sum of the Parts of \$8.00 is a better reflection of its valuation.
- With the core business of TMWD's business growing 38% YoY, email security, with solid customer additions (bringing the total customer base to more than 2,700 enterprises and governments) we would currently be aggressive buyers of the stock. Even without counting \$280 million plus of NOLs, we believe the stock in 12 months is worth our sum of the parts estimate of \$8. We feel very confident that the investments Tumbleweed is making in its business in 2007 should turn into substantial 20%+ revenue growth in 2008 and 5% operating margins in 2008 with approximately \$75 million in revenues.
- We believe that 2008 will be a watershed year for sales of integrated anti-spam, anti-phishing and content filtering software all in the same box because spam was an annoyance a year or two ago and is now a major business problem. IDC labels these issues messaging security and says it should grow 28% in 2007 and 22% in 2008. The largest fraud in spam is called "phishing" where as a user, one impersonates the identity of a known commercial entity and basically steals your personal information. Up to 90% of all e-mail is spam and phishing is the most dangerous type of spam, as it is up to 15% of all spam.

Valuation

We used a sum of the parts valuation model to determine a fair market value for shares of Tumbleweed Communications (TMWD). Taking the Sum of the Parts of five revenue producing businesses at Tumbleweed and comparing them to their private market values in takeover or in public companies, we arrive at a value of \$8 per share. Please refer to the valuation section of this report for a more in depth explanation as to how we calculated our sum of the parts model and arrived at NAV.



Please see important disclosures on pages 12 and 13 of this report



Tumbleweed has led the communication security industry for over 10 years, with the most comprehensive solutions available. Tumbleweed's innovation has resulted in over 26 patents, some of which are licensed by other vendors in the field to ensure they can provide the most powerful technology available. Tumbleweed's product portfolio has grown significantly over the last decade, with communication security solutions now available for email, file transfer, and identity validation.

Recognizing that email communication was going to become a major tool for business communications, Jeffrey Smith and Jean Christophe Bandini used Jeff's home as a base of operations and set out to create technology that would allow for secure, seamless communication.

Envoy, their first solution, was a tool for electronically distributing pictures of documents, regardless of the application used to create the original source material. Shortly after they shipped it in 1993, WordPerfect purchased the solution for its WordPerfect Suite in 1994.

In 1994, Tumbleweed recognized that email was quickly becoming a medium for both communication and abuse, and they set out to create an email firewall solution to extend standard email and enable secure communications with customers, suppliers, and business partners.

Since then, Tumbleweed has continued to expand their offerings as secure Internet communications became a more integral part of an organizations operations.

Tumbleweed continues to make email networks secure and reliable. We believe that today's organizations need integrated messaging solutions that are both easy to use and scalable. Tumbleweed's integrated communication security solutions allows for a single point of administration and a single point of failure - which makes email firewall management a much more manageable proposition while considerably lowering the TCO.

Tumbleweed has nearly 2,700 customers including 8/10 top US banks, over 40% of Blue Cross/Blue Shield organizations, and all four branches of the US Armed Forces.

Evaluation Considerations

Compelling reasons to "BUY"

- We view Tumbleweed as a company that has suffered its growing pains in management, especially sales people turnover, but is now ready to break away from the pack in a very fragmented communications security industry. Tumbleweed will break away with totally unique products such as the Dynamic Anti-Spam Service, available on both the Linux appliance email firewall (MailGate) or the software version, and the email authentication product. This product, which is basically cutting edge technology that blocks the newest attacks, will be upsold to email firewall customers. All products will be available for the first time through a broad worldwide channel.
- We believe that 2008 will be a watershed year for sales of integrated anti-spam, anti-phishing and content filtering software all in the same box because spam was an annoyance a year or two ago and is now a major business problem. IDC labels these issues messaging security and says it should grow 28% in 2007 and 22% in 2008. The largest fraud in spam is called "phishing," where a user impersonates the identity of a known commercial entity and basically steals a person's personal information. Up to 90% of all e-mail is spam - phishing being the most dangerous type of spam, which consists of up to 15% of all spam.



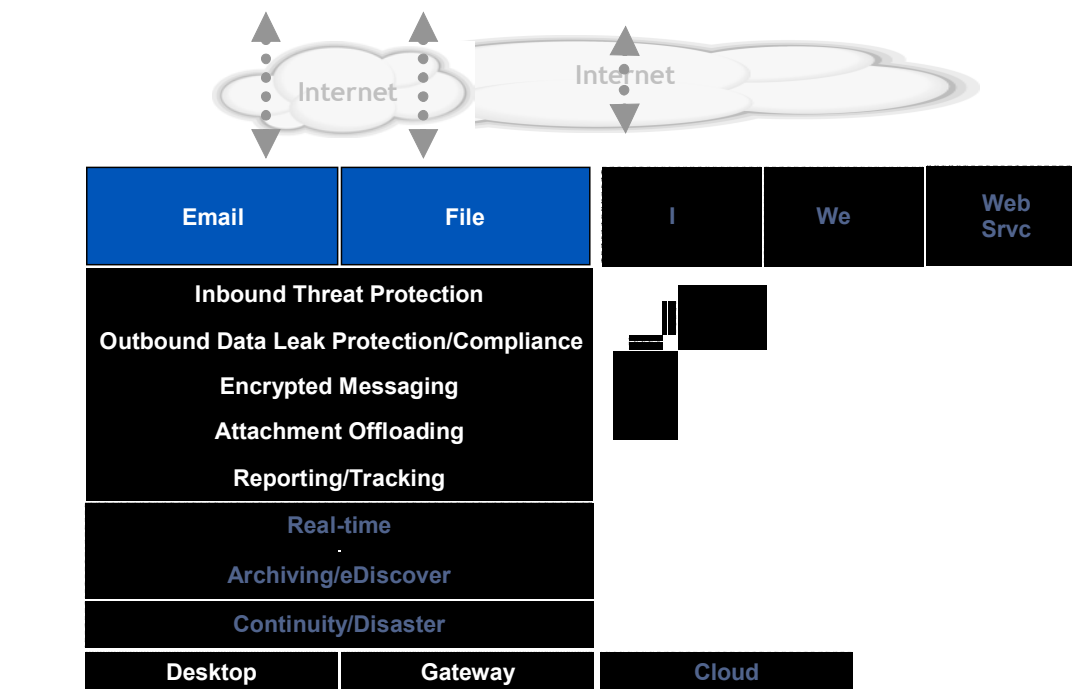
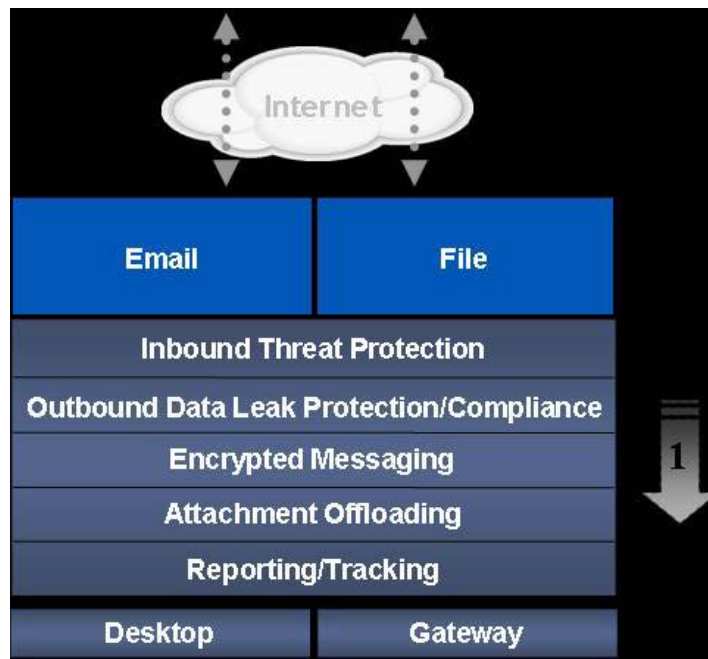
- New phishing sites are currently increasing 313% year over year according to the Anti-Phishing Working Group which Tumbleweed founded in 2003. The largest fraud is taking place in the financial services industry. According to industry experts, encryption of e-mail will not be enough security for enterprises, which will cause them to look for a product that can be trusted. Tumbleweed, which has sold secure mail products for more than 13 years, will be one of the companies they look to. Radicati Group forecasts that enterprises will spend \$257 per mailbox to protect their business just from overwhelming spam attacks.
- With the core of TMWD's business growing 38% YoY with solid customer additions brings the total customer base to more than 2,700 enterprises and governments. Even without counting \$280 million plus of NOLs, we believe the stock in 12 months is worth our sum of the parts estimate of \$8. We feel very confident that the investments Tumbleweed is making in its business in 2007 should turn into substantial 20+ revenue growth in 2008 and 5% operating margins in 2008 with approximately \$75 million in revenues.

The Downside at Tumbleweed

- Tumbleweed has a history of losses in order to build a world class product and customer base. These losses could continue in the near future.
- Recent volatility in the market sparked by sub-prime and credit concerns could lead to decreased capital spending. If the economy heads into a recession, many companies may begin to cut back on their technology spending, inevitably hurting Tumbleweed. With that said, since much of their revenues are generated from maintenance, we feel that Tumbleweed would fare better in an economic downturn in comparison to some of its counterparts.
- Strong competitive pressures resulting in price reductions reduced gross margins and market fluctuations could create market share loss.



Products and Services





The **Tumbleweed Email Security** family of products is optimized for network defense, email encryption, content filtering, and data integrity. Using MailGate technology, Tumbleweed customers fight spam and viruses, block network-level denial-of-service and directory harvest attacks, dynamically encrypt and securely route messages, and achieve regulatory and corporate policy compliance. **Mailgate** is a powerful and cost-effective turnkey anti-spam/anti-virus solution, available as a hardened Linux appliance. **Secure Messenger** is a policy-based, secure message delivery solution that inspects incoming and outgoing mail and dynamically applies user-defined encryption and routing preferences. **Desktop Messenger** is an elegant solution that is easy to use, practical to manage, and provides robust, standards-based encryption from the user's desktop.

Tumbleweed MailGate AntiSpam delivers up to 98% capture rates with extremely low false positives and was rated #1 by InfoWorld magazine against all other competitors. MailGate AntiSpam combines three technologies, Dynamic Anti-spam (DAS™), Intent Based Filtering (IBF), and Recurrent Pattern Detection Technology (RPD™) to virtually eliminate spam without losing good messages. The proactive IBF technology applies artificial intelligence to identify evolving spam techniques. Tumbleweed's Message Protection Lab™ identifies and analyzes spam and phishing attacks, publishing regular filter updates to the MailGate appliance via the optional DAS update service. RPD identifies spam outbreaks on the Internet through the real-time analysis of large volumes of email.

Tumbleweed SecureTransport™ allows our customers to easily consolidate disparate systems, automate and streamline applications, simplify compliance with policies and regulations, and safely utilize the Internet for transactions. Tumbleweed offers a comprehensive, scalable, and easy to manage solution for replacing costly products.

Tumbleweed Validation Authority™ ensures the validity and integrity of highly valued and trusted transactions by validating digital certificates in real time. This comprehensive, scalable, and reliable framework can validate certificates issued by any Certificate Authority (CA). **Validation Authority Server** a robust server that processes digital certificate status queries, and offers numerous advanced features, including support for the most widely adopted certificate validation protocols such as OCSP and SCVP. **Server Validator**, a flexible client application for enabling digital certificate validation in the most widely used secure Web servers and Web application servers. **Desktop Validator** is a flexible client solution that enables Microsoft Windows based desktop and server applications respectively to validate digital certificates via the Microsoft Cryptographic API (CAPI). **Validator Toolkit** is a complete set of certificate validation functions, source code examples and reference manuals for integrating certificate validation integration into third-party or custom applications developed in C/C++ or Java.

Here is a pictorial demonstration of these products.

Comprehensive Product Portfolio

Helping enterprises manage, protect, and extend their Internet communications.

Messaging Security	
Secure Transport	- Secure all data exchanges between 3rd parties with secure managed file transfer - Deployed on software-only basis and as an appliance
MailGate	- Protect email communications with comprehensive inbound and outbound security - Deployed on software-only basis and as an appliance
Identity Validation	
Validation Authority	- Enable real-time security for large PKI infrastructures with the industry's leading digital certificate validation suite - Deployed on software-only basis and as an appliance

Awards:
SC AWARDS 2006 WINNER Best Email Content Filtering Solution
SC AWARDS 2006 WINNER Secure Transport Best Intellectual Property Protection



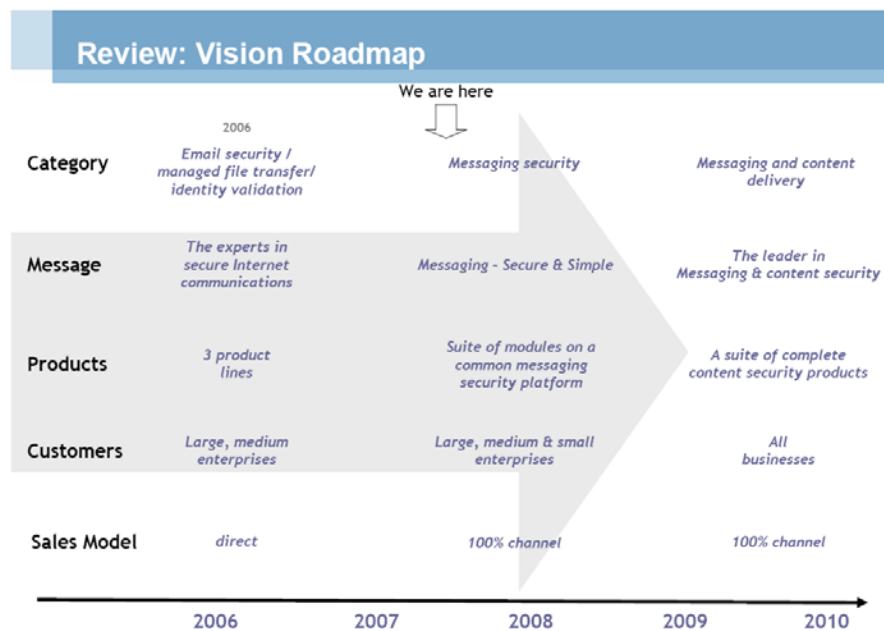
Tumbleweed Communications Corp. offers these software solutions customized for the following market segments:

Financial Institutions: Tumbleweed offers a suite of products that enable financial institutions to migrate high-valued, highly sensitive paper and private network-based transactions to the Internet. The company has sold its solutions to nine out of the top-10 U.S. banks, six of the top-10 European banks, and four out of the top-5 Canadian banks and now offers packages for small- to mid-size financial institutions also.

Healthcare Institutions: Tumbleweed offers a suite of HIPAA compliant products allowing healthcare providers and payers to securely send and receive protected healthcare information (PHI) over the Internet and private networks. The company has more than 100 healthcare customers. Tumbleweed customers include more than 20 Blue Cross-Blue Shield organizations, and leading hospital networks throughout North America.

Government: Tumbleweed's authentication solutions are used to validate PKI credentials in mission-critical implementations with numerous arms of the Department of Defense and other federal agencies. The company's communications solutions are used by state and local governments for streamlining payment processing, benefits administration and electronic records exchange and archiving.

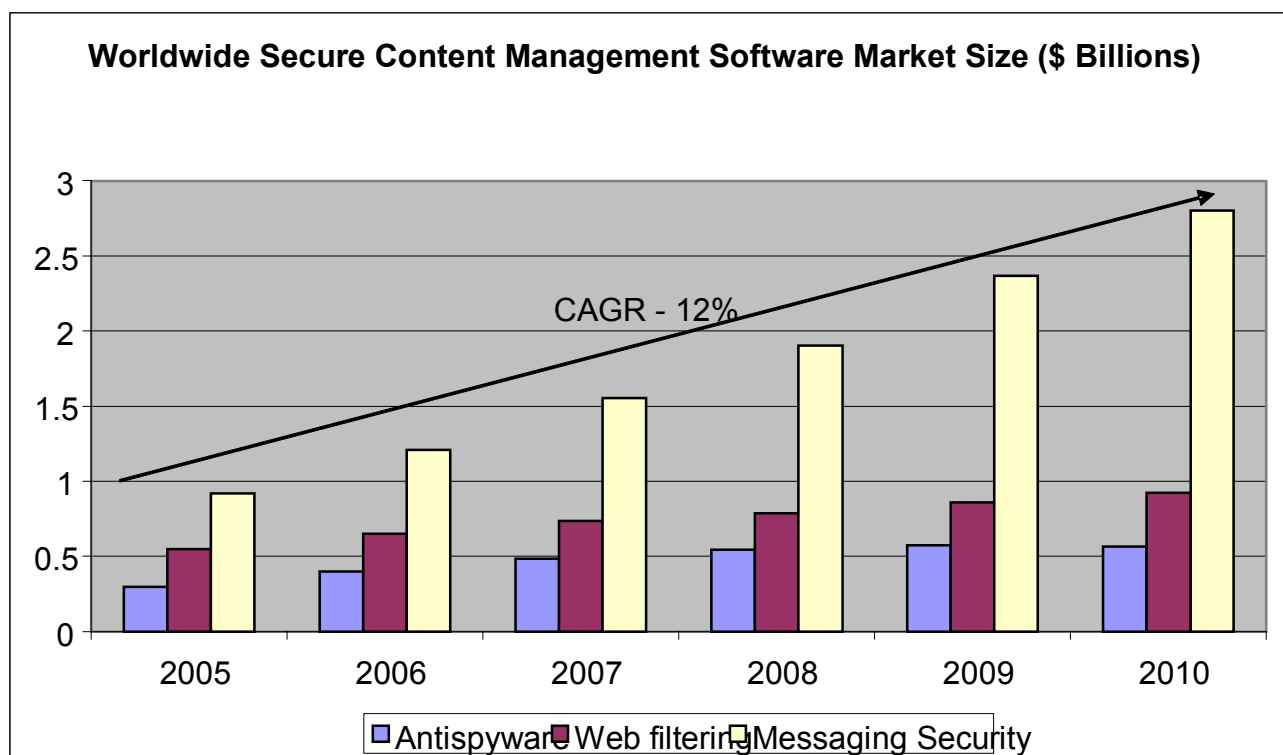
Enterprise: Tumbleweed offers products that enable businesses to protect their email infrastructure and utilize messaging to securely conduct business transactions and communicate sensitive information with customers, suppliers and partners.





Secure Content Management \$ in Millions							
	2005	2006	2007	2008	2009	2010	CAGR '06-'10
Antispyware	295	398	486	545	575	565	9%
Y/Y%		35%	22%	12%	6%	-2%	
Web Filtering	549	651	733	787	861	926	9%
Y/Y%		19%	13%	7%	9%	8%	
Messaging Security	919	1,210	1,553	1,902	2,369	2,804	23%
Y/Y%		32%	28%	22%	25%	18%	
Consumer AV	1,801	2,127	2,410	2,630	2,785	2,916	8%
Y/Y%		18%	13%	9%	6%	5%	
Enterprise AV	2,530	2,886	3,284	3,731	4,039	4,367	11%
Y/Y%		14%	14%	14%	8%	8%	
Total AV	4,331	5,013	5,693	6,361	6,824	7,283	10%
Y/Y%		165%	14%	12%	7%	7%	
Total SCM	\$6,094	\$7,271	\$8,465	\$9,594	\$10,629	\$11,579	12%
Y/Y%		19%	16%	13%	11%	9%	

Source: IDC



This chart illustrates that the market is clearly there for Tumbleweed to grow into the next 3 years and reach \$100M in revenues and with healthy margins. Messaging Security is the fastest growing part of secure content management at 23 % from 2006-2010 and with high 20s growth rates this year there is plenty of room for appliances, software and hosted services.



Valuations

Peer Group Valuation Table

	<u>Brightmail (Symantec - SYMC)</u>	<u>Google (GOOG - Postini)</u>	<u>Cisco (CSCO - Ironport)</u>	<u>Secure Computing (SCUR - Ciphertrust)</u>	<u>Total</u>
Annual 12 Month Sales (MM) or Projected Sales at Acquisition	\$40	\$65	\$100	\$60	\$185
Takeover Price	\$430	\$625	\$830	\$425	\$1,450
Price/ Sales Valuation for E-mail Security	10.8	9.6	8.3	7.1	8.9

Peer Group Valuation Table

	<u>Verisign - VRSN</u>	<u>Sterling Commerce (AT&T -T)</u>	
Annual 12 Month Sales (MM)	\$152,000	\$119,300	
Equity Valuation	<u>794000</u>	<u>246340</u>	
Price/ Sales Valuation for SecureTransport and Validation Authority	5.2	2.1	
		<u>Designated Revenue Multiple</u>	<u>2007 Revenue Multiple</u>
Tumbleweed Revenue Breakdown			Sum of the Parts Valuation and Price Target
E-Mail Security Suite 60%		8.9	1.2
Communications Security Suite 25%		2.1	1.2
Validation Authority 10%		5.2	1.2
Patent Portfolio 5%		5.0	1.2
			<u>\$0.30</u>
			\$8.0

Source: Henley and Company estimates and financial reports

- Taking the Sum of the Parts of five revenue producing businesses at Tumbleweed and comparing them to their private market values in takeover or in public companies, we arrive at a value of \$8 per share.
- With 26 patents generating royalties quarterly, \$280+ of NOLs and substantial embedded technology resources on the Board of Directors, key competitors continue to license patents from Tumbleweed. The most important patents are the email firewall patent, email signature patent and digital certificate patent. The email firewall patent is the one that has generated the most royalties to date from Yahoo, eBay and PayPal.
- If we don't think this stock is cheap, then the opinion of the insiders should count who just bought 90 thousand shares in the last week.



Management

James Scullion - Chairmen and CEO; Before being appointed as Chairman and Chief Executive Officer of Tumbleweed in January 2006, Mr. Scullion served as President and Chief Executive Officer of Comnetix, Inc. from April 2004 to January 2006. Prior to Comnetix, Mr. Scullion held leadership positions at Identix, Inc., where he served as President and Chief Operating Officer from April 1999 to June 2002, Executive Vice President from 1996 to April 1999, and Chief Financial Officer from 1990 to April 2001.

Tim Conley – SVP of Finance and CFO; From January 2000 through June 2003, Tim served as vice president, finance, and chief financial officer for Valicert, Inc. From September 1998 to January 2000, Tim was vice president of finance and chief financial officer of Longboard, Inc., a provider of telecommunications systems. From June 1997 to August 1998, Tim served as vice president of finance and chief financial officer of Logicvision, a provider of intellectual property for use in the design and testing of semiconductor devices. Previously, from November 1989 to May 1997, Tim was vice president of finance and chief financial officer of Verilink Corporation, a manufacturer of network access equipment.

Nicholas Hulse – EVP of Worldwide Field Operations - Nick has global responsibility for overseeing sales, channel development and customer support for Tumbleweed. Hulse brings over 20 years of IT leadership experience to Tumbleweed. Previously, Hulse was senior vice president of sales, marketing and channel development at FrontBridge Technologies, where he drove 141 percent revenue growth in 2005 prior to Microsoft's acquisition of FrontBridge in August, 2005. At Frontbridge he built the industry's largest distribution partner network and grew indirect sales to more than 86 percent of revenues. Prior to FrontBridge, Hulse was general manager/senior vice president of Cybertek Holdings/Secos, Inc. where he led the company's U.S. operations. He also served as vice president of marketing, products & channel sales at Epoch Internet where he was the principal architect of the channel sales program.

Dr. Taher Elgamal – Chief Technology Officer - Dr. Elgamal is a leading expert in computer, network and information security. Also, recognized in the industry as the "inventor of SSL," Dr. Elgamal led the SSL efforts at Netscape and throughout the industry. He also wrote the SSL patent and promoted SSL as the Internet Security standard within standard committees and the industry. Dr. Elgamal invented several industry and government standards in data security and digital signatures area, including the DSS government standard for digital signatures. Several thousand publications have been written in the space referred to as "the ElGamal Cryptography." He developed the basic work that has been adopted by about ten companies for commercial products and for several IEEE and ISO standards. This work has also been adapted for the DSS government standard for digital signatures and is the basis for the Elliptic Curve encryption methods recently introduced in the industry. Dr. Elgamal has public company board experience with RSA Security, hi/fn, Phoenix Technology and Tumbleweed.

Daniel Greenberg – Chief Marketing Officer - Daniel brings nearly two decades of leadership experience in marketing, strategy and product management. Prior to joining Tumbleweed, Greenberg was vice president of worldwide marketing and product management for Macrovision's Software Technology Group whose product lines included InstallShield & FLEXnet. Sales grew 4X under his leadership. Prior to Macrovision, Greenberg founded Active Decisions, a pioneer in the ecommerce applications market. The company was acquired by KNOVA Software. Before Active Decisions, Greenberg was vice president of global marketing for ACNielsen. Greenberg has also held strategic marketing positions with Dun & Bradstreet, General Motors and a variety of management consulting firms.



Historical TMWD Financials

Henley & Company TUMBLEWEED COMMUNICATIONS Balance Sheet Millions										
	2005				2006				2007	2007
	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec	Mar	Jun
ASSETS										
Cash/Equivalents	21.8	22.3	25.7	27.0	27.4	28.8	30.4	30.5	31.9	30.0
ST Investments										
Accounts Receivable	8.6	10.2	9.0	9.1	12.4	9.1	10.0	12.5	12.5	10.5
Prepaid & Other	1.5	1.3	1.0	1.3	1.6	1.7	1.9	1.9	1.9	2.2
Total Current Assets	31.9	33.8	35.7	37.3	41.4	39.6	42.3	45.0	46.3	42.7
Prop. & Equip. Net	1.3	1.3	1.2	1.1	1.2	1.2	1.5	1.8	1.8	2.1
Goodwill	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1
Intangibles, Net	6.5	5.6	5.7	4.0	3.1	2.3	1.9	1.5	1.5	0.8
Goodwill, Net										
Other Assets	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.4
Total Assets	88.5	89.4	91.3	91.1	94.5	91.8	94.4	96.9	98.3	94.0
LIABILITIES										
Accounts Payable	0.4	1.1	0.2	0.5	1.9	0.5	0.5	1.8	1.8	1.3
Curr. Port. Debt	0.3	0.3	0.0	0.0	0.0		0.0	0.0	0.3	0.0
Accrued Liabs.	5.3	5.6	5.7	6.1	6.9	5.7	6.0	7.5	7.5	6.2
Accrd. Restructuring	0.5	0.4	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0
Deferred Revenue	15.0	15.8	16.7	17.9	18.4	18.1	19.9	20.0	20.0	20.5
Short-Term Debt										
Total Current Liabs	21.5	23.1	22.9	24.7	27.3	24.4	26.6	29.4	29.7	28.0
Long-Term Debt, exc current	0.1	0.1	0.0	0.0		0.1	0.0			
Accrued merger related and other,	0.4	0.1	0.1	0.1	0.0		0.1		0.4	
Deferred revenue, exc current porti	4.7	5.0	5.2	5.0	4.8	4.6	4.9	4.3	4.7	4.7
Other LT liabilities	0.2	0.1	0.1	0.1	0.1	1.0	0.1	0.0	0.1	0.1
Total Long Term Debt	5.4	5.4	5.4	5.2	4.9	5.6	5.1	4.4	5.2	4.8
Minority Interest										
Other LT Liabs.										
Total Liabilities	26.9	28.5	28.3	29.9	32.2	30.0	31.7	33.8	34.9	32.8
SHAREHOLDER EQUITY										
Preferred Stock										
Common Stock	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Paid-In Capital	351.2	351.3	352.9	353.4	355.3	356.7	358.1	361.6	359.2	359.2
Treasury Stock	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Deferred Stock comp exp	-0.4	0.6	-0.3	-0.2					-0.4	
Comprehensive Loss				-0.6	-0.6	-0.6				
Accumulated Deficit	-288.5	-288.7	-289.3	-290.7	-291.7	-292.7	-289.3	-300.5	-288.5	-295.8
Total Equity	61.5	62.4	62.6	61.2	62.3	62.7	68.1	60.4	69.6	62.7
Total Liabilities, OE	88.5	90.9	90.9	91.1	94.5	92.7	99.8	94.2	104.5	95.5
Shares Outstanding	48.2	48.3	48.8	49.2	49.7	49.9	50.1	50.4	50.8	51.1
Source: Henley & Company and company reports										



Henley & Company TUMBLEWEED COMMUNICATIONS

Income Statement
Millions

	2006				2007E				FY 2006	FY 2006	FYE 2007	FYE 2008
	Mar	Jun	Sep	Dec	Mar	Jun	Sep-E	Dec-E	2006	2006	2007	2008
License	7.4	5.3	7.3	8.7	5.9	5.1	6.0	6.2	20.9	28.7	23.2	28.4
Services	7.3	7.3	7.5	7.6	9.0	8.0	8.0	8.5	26.1	29.7	33.5	39.9
Intellectual Property	0.4	2.5	0.4	0.4	1.0	1.0	1.0	1.3	3.0	3.6	4.3	5.2
Total Revenue	15.1	15.1	15.1	16.7	15.9	14.1	15.0	16.0	50.0	62.0	61.0	73.5
Cost of Revenue	2.2	2.2	2.9	3.9	3.8	3.2	3.2	3.4	8.3	11.3	13.5	15.3
Gross Profit	12.8	12.9	12.2	12.8	12.1	10.9	11.9	12.6	41.7	50.7	47.5	58.3
Gross Margin	85.2%	85.4%	80.8%	76.7%	75.5%	77.4%	79.0%	78.0%	83.4%	81.8%	78%	79%
Research & Dev.	3.2	3.5	3.3	3.5	3.9	3.6	3.2	3.3	11.9	13.6	13.9	15.3
Sales & Marketing	6.3	6.4	6.8	7.9	6.6	7.0	6.9	7.0	25.0	27.4	27.5	30.5
General & Admin.	2.1	2.1	1.9	1.9	2.5	1.9	2.5	2.4	5.9	8.1	9.3	9.9
Unusual Inc./Expense	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0	0	0
Depreciation	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 Expenses	11.6	12.1	12.3	13.4	13.0	12.5	12.5	12.7	42.8	46.1	50.7	55.7
Total Expenses (Non-Recurring)	11.6	12.1	12.3	13.4	13.0	12.5	12.5	12.7	42.8	46.1	50.7	55.7
Operating Income	1.3	0.9	-0.1	-0.5	-0.9	-1.6	-0.6	0.0	-1.1	1.7	-3.2	2.6
Operating Inc. (Non-Recurring)	1.3	0.9	-0.1	-0.5	-0.9	-1.6	-0.6	0.0	-1.1	1.7	-3.2	2.6
Other, Net	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.5	1.0	1.2	1.7	2.7
IBT	1.5	1.2	0.2	-0.2	-0.6	-1.2	-0.2	0.5	-0.1	2.9	-1.5	5.3
IBT (Non-recurring)	1.5	1.2	0.2	-0.2	-0.6	-1.2	-0.2	0.5	-0.1	2.9	-1.5	5.3
Income Taxes	0.0	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Rate	2%	1%	NM	NM	-2%	NM	0%	0%	0%	1%	-2%	0%
Net Income	1.5	1.2	0.2	-0.2	-0.6	-1.2	-0.2	0.5	-0.1	2.8	-1.5	5.3
Net Income (Non-recurring)	1.5	1.2	0.2	-0.2	-0.6	-1.2	-0.2	0.5	-0.1	2.8	-1.5	5.3
EPS	0.03	0.02	0.00	0.00	-0.01	-0.02	0.00	0.01	0.00	0.06	-0.03	0.10
EPS (Non-recurring)	0.03	0.02	0.00	0.00	-0.01	-0.02	0.00	0.01	0.00	0.06	-0.03	0.10
Diluted Number of shares	49.7	49.9	50.1	50.4	50.2	51.1	51.1	51.2	48.6	50.0	51.0	51.3
Percentage of Revenue												
License	49%	35%	48%	52%	37%	36%	40%	39%	42%	46%	38%	39%
Services	48%	48%	49%	46%	57%	56%	53%	53%	52%	48%	55%	54%
Cost of Revenue	15%	15%	19%	23%	24%	23%	21%	21%	17%	18%	22%	21%
Gross Margin	85%	85%	81%	77%	76%	77%	79%	79%	83%	82%	78%	79%
Research & Dev.	21%	23%	22%	21%	25%	25%	21%	20%	24%	22%	23%	21%
Sales & Marketing	42%	42%	45%	48%	42%	49%	46%	44%	50%	44%	45%	41%
General & Admin.	14%	14%	13%	11%	16%	14%	17%	15%	12%	13%	15%	13%
Operating Margin	8%	6%	-1%	-3%	-6%	-11%	-4%	0%	-2%	3%	-5%	4%
Quarter/Quarter Growth												
License	65%	-25%	38%	20%	-32%	-13%	17%	3%				
Services	4%	1%	2%	2%	15%	-12%	0%	6%				
Total Revenue	27%	1%	0%	11%	-5%	-11%	6%	7%				
Cost of Revenue	-1%	0%	33%	32%	-2%	-16%	-1%	7%				
Gross Profit	34%	1%	-6%	5%	-6%	-5%	8%	7%				
R&D	8%	12%	-5%	6%	10%	-5%	-13%	3%				
SG&A	5%	3%	6%	17%	-17%	6%	-2%	2%				
G&A	37%	-2%	-5%	-4%	33%	-22%	25%	-4%				
Operating Income	NM	NM	NM	NM	NM	NM	NM	-56%				
Net Income	NM	NM	NM	NM	NM	NM	NM	-352%				
EPS	NM	NM	NM	NM	NM	NM	NM	NM				
Year Over Year Growth												
License	67%	0%	8%	94%	-21%	-3%	-18%	-25%	7%	37%	-15%	23%
Services	15%	14%	13%	5%	24%	5%	7%	12%	15%	14%	13%	15%
Total Revenue	26%	21%	10%	41%	5%	-7%	-1%	-4%	15%	24%	-2%	20%
Cost of Revenue	25%	8%	28%	73%	72%	44%	7%	-14%	36%	35%	20%	13%
Gross Profit	25%	23%	7%	34%	-6%	-15%	-3%	-1%	12%	22%	-6%	23%
R&D	10%	20%	6%	21%	23%	2%	-6%	-8%	3%	14%	2%	10%
SG&A	0%	2%	5%	33%	6%	5%	1%	-12%	5%	10%	0%	11%
G&A	43%	57%	31%	15%	16%	-5%	25%	25%	11%	37%	16%	6%
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EPS	NM	NM	NM	NM	NM	NM	NM	NM	6%	15%	NM	NM

Source: Henley & Company estimates and company reports



Publicly Traded Companies Mentioned in This Report
Last Trade as of August 27, 2007

AT&T (T - NYSE)	\$40.10
Cisco (CSCO - NasdaqGS)	\$31.10
Google (GOOG - NasdaqGS)	\$513.26
Secure Computing (SCUR - NasdaqGS)	\$8.42
Symantec (SYMC - NasdaqGS)	\$18.72
Verisign (VRSN - NasdaqGS)	\$31.84

Market Making and Investment Banking Disclosures

At the time this report was published, Henley and Company, LLC did not make a market in Tumbleweed. (TMWD), or any other company mentioned in this report.

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Henley and Company's stock rating system is designed to reflect the type of investment decisions customers make on a regular basis. The language of the rating system used is a specific action Henley and Company would take in regard to the specific stocks we cover. Below, are an overview and an explanation of each of the types of recommendations Henley and Company would assign to stocks covered. Please understand that the rating system and the assigned definitions are predicated purely based on the total return of the individual stock in absolute dollar terms and not based on a relative value to a specific index or industry group.

Henley & Company's Stock Rating system

Buy: Indicates stocks we believe have a market capitalization that is comparably undervalued to its market peers and offers a greater relative performance to the market. We believe stocks in this category offer excellent risk reward potential and we recommend purchase based on its current relative value. **Note, as with all equities there is always downside risk.**

Speculative Buy: Indicates stocks we believe should be purchased based on its growth potential and long term outlook of its industry. We believe stocks in this category offer excellent reward potential but have a greater specific investment risk and are subject to greater volatility then our normal buy recommendation.

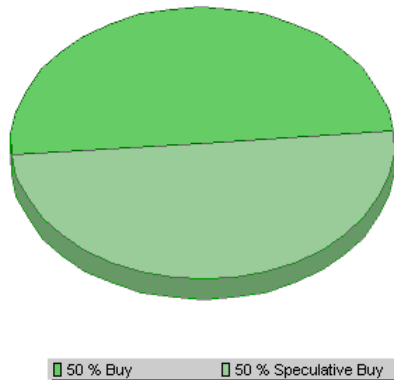
Neutral: Indicates stocks we will not advocate a buy or sell recommendation based on current conditions.

Under-Perform: Indicates stocks we believe are currently fairly valued and offer limited upside reward relative to its specific investment risk.

Sell: Indicates stocks we believe are currently overvalued relative to its market peers, and/or is experiencing major operational challenges. We believe stocks in this category should be avoided and the specific investment risk outweighs any potential reward.



Henley & Company LLC Current Ratings Distribution	
Rating	% Total
Buy	50
Speculative Buy	50



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