

AuthenTec, Inc.

(AUTH:NASDAQ)

Outperform 2

Based in Melbourne, Florida, AuthenTec, Inc. is a mixed-signal semiconductor company that develops and sells fingerprint authentication sensors and solutions into high-volume PC, cell phone/wireless device, and access control markets. Since its inception in 1998, AuthenTec has shipped millions of sensors which have been integrated into over 150 different models of laptops, desktops, and PC peripherals as well as over six million mobile phones.

AUTH: Reports Strong 1Q08 and Guidance

- ◆ We are reiterating our **Outperform** rating on AuthenTec after the company reported 1Q08 revenue of \$15.5 million and EPS of \$0.02 vs. the Street at \$15.2 million and \$0.02. 2Q08 guidance is for revenue of \$17.2-\$17.8 million and EPS of \$0.02-\$0.03. At the midpoints of \$17.5 million and \$0.03, guidance is ahead of the Street at \$15.5 million and \$0.02.
- ◆ 1Q08 revenue decreased 1.1% sequentially as a customer transitioned to a new handset platform (AuthenTec is on both). 1Q08 pro forma gross margin was 49.6%, up 350 basis points (bps) y/y due to a mix shift toward higher-margin sensors and lower production costs. 2Q08 guidance is for gross margin of 47-49%, down sequentially due to short-term inefficiencies as their new product AES2810 ramps.
- ◆ We believe AuthenTec will continue to experience high levels of top-line growth in 2008 as the company's AES2810 sensor ramps on new notebook platforms. AuthenTec is now on platforms at eight of the nine largest OEMs. Given that they are not on Apple, we are concluding that they will now be ramping on Dell. We believe HP remains their largest custom at over 10% of revenue. Customer mix improved as the top five customers dropped to 79% of revenue in 2Q08 from 85% in 2007. AuthenTec is now also on ultra-mobile PCs including the HTC Shift which offers wireless 3G/2.5G access on Orange's network in the UK and on Sprint in the U.S. In addition, we believe AuthenTec's wireless business will ramp in 2009 as the company develops a greater presence in feature-rich handsets, particularly in m-commerce applications.
- ◆ Given better-than-expected 1Q08 revenue and 2Q08 guidance, we are raising our 2008 revenue estimate to \$78 million from \$75 million, while our 2008 EPS remains at \$0.20. We are also raising our 2009 revenue and EPS estimates to \$105 million and \$0.44 from \$98 million and \$0.36.
- ◆ On a P/S basis, shares of AUTH are trading at ~3.5x our 2009 revenue estimate of \$105 million. Our target price of \$17.00 is based on ~5.0x our 2009 revenue estimate. We believe this valuation reflects the top-line growth and is a similar multiple to what was seen in comparables during periods of outsized revenue expansion. By our calculation, the risk/reward on AuthenTec is positive, thus our **Outperform** rating.

Non-GAAP							GAAP EPS
EPS	Q1	Q2	Q3	Q4	Full	Full	
FY= Dec	Mar	Jun	Sep	Dec	Year	Year	
2007A	\$(0.09)	\$(0.03)	\$0.03	\$0.04	\$(0.04)		\$(7.61)
Old 2008E	NA	NA	NA	NA	0.20		0.15
New 2008E	0.02A	0.03	0.06	0.10	0.20		0.15
Old 2009E	NA	NA	NA	NA	0.36		0.31
New 2009E	0.09	0.09	0.12	0.15	0.44		0.39

Rows may not add due to rounding. Non-GAAP EPS is pro forma excluding options expense. Initial public offering within last 12 months; trailing 12-month figures represent range since that time.

Please read disclosure/risk information on page 6 and Analyst Certification on page 11.

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**EQUITY
RESEARCH**

April 29, 2008

Power Electronics
Company Comment

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Current Price
(4/28/2008) \$12.06
Projected 12-Month Target Price:
\$17.00

52-Week Range \$19.81-\$8.65
Dividend/Yield \$0.00/0.0%
Book Value (03/08) \$2.35
Suitability Aggressive Growth

Shares Out. (mil.) 30.5
Market Cap. (mil.) \$368
Avg. Daily Vol. (10 day) 151,880

Proj. 3-Yr EPS Growth Rate NM
ROE 1%
LT Debt (mil.)/% Cap. \$0/0%

P/E Ratios (Non-GAAP)
2008E 60.3x
2009E 27.4x

Revenues (mil.)

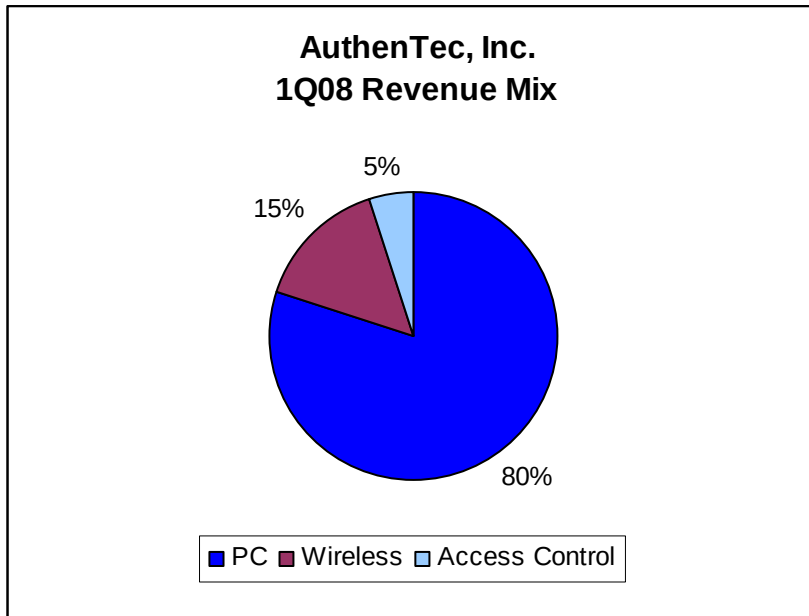
	Old	New
2007A	\$52	\$52
2008E	\$75	\$78
2009E	\$98	\$105

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Positive highlights:

We are encouraged by AuthenTec's continued strength in the PC market as attach rates in laptops are increasing at both new and existing accounts. AuthenTec's sequential revenue ramp in 2Q08 will be driven primarily by the company's 5th generation sensor, the AES2810. In 2Q08, the AES2810 will be introduced in three of the top five PC OEMs. AuthenTec also mentioned penetration into two new accounts, one of which will have a material impact in 2Q08, with the other likely to impact in 3Q08 and 4Q08.

In 2008, we believe that roughly 20-25% of all laptops will ship with a fingerprint sensor, and that the company will have a 60% share of this market. As far as peripheral devices, AuthenTec does not expect a material impact until the 2009 timeframe, however we believe there are wide number of opportunities for fingerprint sensors in peripheral devices.



AuthenTec, Inc.

QUARTERLY INCOME STATEMENT
(\$ in millions, except per share data)

FYE December	2007A				2008E				2009E			
	1QA	2QA	3QA	4QA	1QA	2QE	3QE	4QE	1QE	2QE	3QE	4QE
SALES												
Net Sales	\$9.3	\$12.3	\$15.1	\$15.7	\$15.5	\$17.5	\$20.7	\$24.3	\$23.1	\$23.6	\$27.3	\$31.0
COGS	5.0	6.8	7.9	7.8	7.8	9.1	10.6	12.0	11.5	11.7	13.4	15.2
Gross Profit	4.3	5.5	7.2	7.9	7.7	8.4	10.0	12.3	11.6	11.9	13.9	15.8
Research & Development	2.7	2.9	3.4	3.4	4.0	4.1	4.2	4.6	4.6	4.8	5.2	5.8
Selling & Marketing	2.0	2.0	2.3	2.7	2.4	2.6	2.8	3.2	3.1	3.2	3.6	4.0
General & Administrative	1.4	1.2	1.4	1.3	1.5	1.6	1.7	1.9	1.8	1.8	1.9	2.0
Amortization of Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special Charges	<u>3.8</u>	<u>5.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Operating Expenses	6.1	6.1	7.1	7.4	7.9	8.3	8.7	9.7	9.5	9.8	10.8	11.8
EBIT	(1.8)	(0.6)	0.0	0.5	(0.2)	0.1	1.3	2.5	2.1	2.1	3.1	4.1
Warrant Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Expense	(0.0)	(0.1)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Income	0.1	0.1	0.8	0.8	0.7	0.7	0.5	0.5	0.5	0.5	0.6	0.6
Other Income (Expense), Net	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 Other Income (Expense)	0.0	0.0	0.8	0.8	0.7	0.7	0.5	0.5	0.5	0.5	0.6	0.6
Income Before Taxes and Minority Interest	(1.7)	(0.6)	0.9	1.3	0.6	0.8	1.8	3.0	2.6	2.6	3.7	4.7
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Effect of Change in Accounting Principle	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Before Minority Interest	(1.7)	(0.6)	0.9	1.3	0.6	0.8	1.8	3.0	2.6	2.6	3.7	4.7
Minority Interest in JVs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Net Income	(1.7)	(0.6)	0.9	1.3	0.6	0.8	1.8	3.0	2.6	2.6	3.7	4.7
Net Adjustment for Convertible Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Net Income	(1.7)	(0.6)	0.9	1.3	0.6	0.8	1.8	3.0	2.6	2.6	3.7	4.7
Net Adjustment for Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Effect of Special Items	(3.9)	(6.1)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
GAAP Net Income as Reported - FD	(5.7)	(6.6)	0.5	0.9	0.2	0.4	1.5	2.7	2.3	2.3	3.3	4.3
Pro Forma EPS (Excl. Options Expense)	(0.09)	(0.03)	0.03	0.04	0.02	0.03	0.06	0.10	0.09	0.09	0.12	0.15
Net Adjustment for Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GAAP Net Income (Excl. Special Items)	(1.73)	(0.57)	0.86	1.27	0.59	0.77	1.84	3.03	2.65	2.64	3.70	4.66
Special Items	(3.93)	(6.07)	(0.34)	(0.37)	(0.40)	(0.38)	(0.38)	(0.38)	(0.38)	(0.38)	(0.38)	(0.38)
GAAP Net Income as Reported	(5.66)	(6.64)	0.52	0.90	0.19	0.40	1.47	2.65	2.27	2.27	3.33	4.29
GAAP EPS - Diluted (Excl. Special Items)	(0.09)	(0.03)	0.03	0.04	0.02	0.03	0.06	0.10	0.09	0.09	0.12	0.15
GAAP EPS - Diluted as Reported	(0.28)	(7.37)	0.02	0.03	0.01	0.01	0.05	0.09	0.07	0.07	0.11	0.14
Pro Forma EPS (Incl. Options Expense)	(0.10)	(0.04)	0.02	0.03	0.01	0.01	0.05	0.09	0.07	0.07	0.11	0.14
Avg. Shares Outstanding - Diluted	20.0	20.7	30.1	30.6	30.5	30.5	30.5	30.5	31.0	31.0	31.0	31.0
Avg. Shares Outstanding - with Options Expense	20.0	20.7	30.1	30.6	30.5	30.5	30.5	30.5	31.0	31.0	31.0	31.0
MARGINS												
Gross Profit	46.1%	45.0%	47.6%	50.0%	49.6%	48.0%	48.5%	50.5%	50.3%	50.5%	50.8%	51.1%
Research & Development	29.4	24.0	22.8	21.8	25.6	23.5	20.2	19.0	20.1	20.2	19.2	18.6
Selling & Marketing	21.2	16.4	15.0	16.9	15.3	14.9	13.8	13.1	13.3	13.5	13.3	13.0
General & Administrative	14.6	9.4	9.6	8.3	9.7	8.9	8.0	8.0	7.6	7.7	7.0	6.4
EBIT	(19.1)	(4.8)	0.2	3.0	(1.0)	0.7	6.5	10.4	9.3	9.1	11.4	13.1
Income Before Taxes	N.M.	(4.6)	5.7	8.1	3.8	4.4	8.9	12.5	11.5	11.2	13.5	15.0
Tax Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sequential GROWTH RATES (%)												
Net Sales	N.A.	32.3	22.4	4.2	(1.1)	12.8	18.0	17.7	(5.0)	2.0	16.0	13.5
Gross Profit	N.A.	29.2	29.5	9.5	(1.9)	9.1	19.2	22.6	(5.4)	2.4	16.7	14.2
Research & Development	N.A.	8.0	16.4	(0.5)	16.0	3.7	1.4	10.7	0.5	2.5	10.3	10.0
Selling & Marketing	N.A.	2.8	11.5	17.9	(10.4)	9.6	9.3	11.7	(3.5)	3.5	14.3	10.9
General & Administrative	N.A.	(14.6)	24.6	(9.9)	15.8	3.1	6.1	17.7	(9.8)	3.3	4.7	4.5
EBIT	N.A.	(66.4)	N.M.	N.M.	N.M.	N.M.	N.M.	88.3	(15.0)	(0.2)	44.7	31.0
Income Before Taxes and Minority Interest	N.A.	(67.0)	N.M.	47.5	(53.7)	31.6	138.5	64.3	(12.6)	(0.2)	40.0	26.0
Pro Forma EPS (Ex. Options Expense)	N.A.	(68.1)	N.M.	44.9	(53.5)	31.6	138.5	64.3	(14.0)	(0.2)	40.0	26.0
YOY GROWTH RATES (%)												
Net Sales	N.A.	N.A.	N.A.	N.A.	66.9	42.3	37.1	54.9	48.8	34.6	32.3	27.6
Gross Profit	N.A.	N.A.	N.A.	N.A.	79.8	51.8	39.7	56.4	50.8	41.6	38.6	29.1
Research & Development	N.A.	N.A.	N.A.	N.A.	45.1	39.5	21.5	35.2	17.1	15.7	25.8	24.9
Selling & Marketing	N.A.	N.A.	N.A.	N.A.	21.1	29.0	26.4	19.8	29.0	21.9	27.5	26.6
General & Administrative	N.A.	N.A.	N.A.	N.A.	11.1	34.2	14.2	49.1	16.2	16.4	14.9	2.1
EBIT	N.A.	N.A.	N.A.	N.A.	(91.4)	(120.6)	3,847.8	434.4	(1,503.5)	1,649.5	131.0	60.7
Income Before Taxes and Minority Interest	N.A.	N.A.	N.A.	N.A.	(134.0)	(235.3)	114.5	139.0	351.0	242.2	100.9	54.0
Pro Forma EPS (Ex. Options Expense)	N.A.	N.A.	N.A.	N.A.	(122.3)	(191.7)	111.5	139.9	343.7	236.6	97.6	51.5

A = Actual; E = Estimate; N.A. = Not available

Sources: Company reports and Raymond James & Associates estimates

AuthenTec, Inc.
ANNUAL INCOME STATEMENT
(\$ in millions, except per share data)

FYE December	2004A	2005A	2006A	2007A	2008E	2009E
SALES						
Net Sales	\$13.8	\$19.2	\$33.2	\$52.3	\$78.0	\$105.0
COGS	7.4	11.3	19.3	27.5	39.6	51.7
Gross Profit	6.4	7.9	13.9	24.8	38.4	53.2
Research & Development	6.0	7.4	9.6	12.5	16.9	20.4
Selling & Marketing	4.0	5.4	7.1	8.9	11.0	13.9
General & Administrative	1.3	1.3	5.1	5.3	6.7	7.5
Amortization of Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Special Charges	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>9.6</u>	<u>0.0</u>	<u>0.0</u>
Total Operating Expenses	11.3	14.1	21.8	26.7	34.6	41.8
EBIT	(4.8)	(6.1)	(7.9)	(1.9)	3.8	11.5
Warrant Expense	0.0	(0.9)	(2.2)	0.0	0.0	0.0
Interest Expense	0.0	0.0	0.0	(0.1)	0.0	0.0
Interest Income	(0.0)	0.4	0.3	1.8	2.4	2.2
Other Income (Expense), Net	0.2	0.0	0.0	0.0	0.0	0.0
Total Other Income (Expense)	0.2	(0.5)	(1.9)	1.7	2.4	2.2
Income Before Taxes and Minority Interest	(4.6)	(6.6)	(9.8)	(0.2)	6.2	13.7
Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Cumulative Effect of Change in Accounting Principle	0.0	(4.5)	0.0	0.0	0.0	0.0
Income Before Minority Interest	(4.6)	(11.1)	(9.8)	(0.2)	6.2	13.7
Minority Interest in JVs	0.0	0.0	0.0	0.0	0.0	0.0
Cash Net Income	(4.6)	(11.1)	(9.8)	(0.2)	6.2	13.7
Net Adjustment for Convertible Debt	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Cash Net Income	(4.6)	(11.1)	(9.8)	(0.2)	6.2	13.7
Net Adjustment for Amortization	0.0	0.0	0.0	0.0	0.0	0.0
Net Effect of Special Items	0.0	0.0	0.0	(10.7)	(1.5)	(1.5)
GAAP Net Income as Reported - FD	(4.6)	(11.1)	(9.8)	(10.9)	4.7	12.2
Pro Forma EPS (Excl. Options Expense)	<u>(\$6.16)</u>	<u>(\$9.15)</u>	<u>(\$3.80)</u>	<u>(\$0.04)</u>	<u>\$0.20</u>	<u>\$0.44</u>
Net Adjustment for Amortization	0.0	0.0	0.0	0.0	0.0	0.0
GAAP Net Income (Excl. Special Items)	(4.6)	(11.1)	(9.8)	(0.2)	6.2	13.7
Special Items	0.0	0.0	0.0	(10.7)	(1.5)	(1.5)
GAAP Net Income as Reported	(4.6)	(11.1)	(9.8)	(10.9)	4.7	12.2
GAAP EPS - Diluted (Excl. Special Items)	(\$6.16)	(\$9.15)	(\$3.80)	(\$0.04)	\$0.20	\$0.44
GAAP EPS - Diluted as Reported	(\$6.16)	(\$9.15)	(\$3.80)	(\$7.61)	\$0.15	\$0.39
Pro Forma EPS (Incl. Options Expense)	(\$6.16)	(\$9.15)	(\$0.12)	(\$0.09)	\$0.15	\$0.39
Avg. Shares Outstanding - Diluted	0.8	1.2	2.6	25.4	30.5	31.0
Avg. Shares Outstanding - with Options Expense	0.8	1.2	79.5	25.4	30.5	31.0
MARGINS						
Gross Profit	46.3%	41.2%	41.9%	47.4%	49.2%	50.7%
Research & Development	43.4	38.2	29.0	23.9	21.6	19.4
Selling & Marketing	28.8	28.2	21.3	17.0	14.1	13.3
General & Administrative	9.2	6.7	15.3	10.1	8.5	7.1
EBIT	(35.0)	(31.9)	(23.7)	(3.6)	4.9	10.9
Income Before Taxes	(33.6)	(34.4)	(29.5)	(0.3)	8.0	13.0
Tax Rate	0.0	67.4	0.0	0.0	0.0	0.0
GROWTH RATES (%)						
Net Sales	N.A.	39.1	72.4	57.8	49.0	34.6
Gross Profit	N.A.	23.7	75.4	78.6	54.6	38.7
Research & Development	N.A.	22.5	30.9	30.1	34.6	21.0
Selling & Marketing	N.A.	36.3	30.1	25.9	23.9	26.3
General & Administrative	N.A.	1.1	296.0	3.7	26.4	11.8
EBIT	N.A.	26.7	28.2	(76.4)	N.M.	198.3
Income Before Taxes and Minority Interest	N.A.	42.7	47.6	(98.2)	N.M.	119.2
Pro Forma EPS (Ex. Options Expense)	N.A.	48.5	(58.5)	(98.8)	N.M.	115.6

A = Actual; E = Estimate; N.A. = Not available; PF = Pro forma
Sources: Company reports and Raymond James & Associates estimates

ANNUAL BALANCE SHEET AND CASH FLOW DATA

(\$ in millions, except per share data)

	2005	2006	2007	2008E	2009E	*1Q08A	*2Q08E	*3Q08E	*4Q08E
ASSETS									
Cash & Equivalents	0.7	6.1	15.7	26.6	40.2	21.1	20.7	23.3	26.6
Investments	9.5	0.0	42.6	28.8	28.8	28.8	28.8	28.8	28.8
Receivables (Net)	4.5	3.7	6.4	10.1	13.9	6.5	7.3	8.6	10.1
Inventories	4.0	4.5	5.1	4.5	5.6	0.7	3.4	4.0	4.5
Prepaid Expenses and Other Current Assets	<u>0.0</u>	<u>0.2</u>	<u>0.8</u>	<u>6.5</u>	<u>8.2</u>	<u>4.1</u>	<u>4.6</u>	<u>5.5</u>	<u>6.5</u>
Total Current Assets	18.7	14.5	70.6	76.4	96.8	61.2	64.8	70.0	76.4
Net Plant	1.1	1.4	2.6	2.4	2.2	2.6	2.5	2.5	2.4
Other Assets	<u>0.0</u>	<u>0.0</u>	<u>8.7</u>	<u>17.7</u>	<u>17.7</u>	<u>17.7</u>	<u>17.7</u>	<u>17.7</u>	<u>17.7</u>
Total Assets	19.7	15.9	81.9	96.5	116.7	81.5	85.1	90.2	96.5
LIABILITIES AND OWNERS EQUITY									
Accounts Payable	2.0	2.3	3.9	6.7	8.4	4.7	5.0	5.9	6.7
Accrued Compensation and Related Benefits	0.6	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Stock Warrants Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accrued Litigation Expenses	0.0	1.9	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other Accrued Liabilities	2.4	1.9	5.6	3.6	3.6	3.6	3.6	3.6	3.6
Deferred Revenue	<u>0.7</u>	<u>1.2</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Current Liabilities	5.7	8.4	10.9	11.6	13.3	9.6	9.9	10.8	11.6
Preferred Stock Warrants Liability	5.4	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Accrued Litigation Expenses	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Senior Secured Convertible Notes	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Liabilities	11.1	16.9	10.9	11.6	13.3	9.6	9.9	10.8	11.6
Commitment and Contingencies	62.6	62.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional Paid-In Capital	1.2	1.5	147.0	155.1	159.9	147.6	150.1	152.6	155.1
Retained Earnings (Deficit)	(55.3)	(65.1)	(76.0)	(70.1)	(56.5)	(75.8)	(75.0)	(73.2)	(70.1)
Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Notes Receivable from Stockholders	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Stock Compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated Other Comprehensive Gain (Loss)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common Equity	<u>8.6</u>	<u>(0.9)</u>	<u>71.0</u>	<u>85.0</u>	<u>103.4</u>	<u>71.8</u>	<u>75.1</u>	<u>79.5</u>	<u>85.0</u>
Total Liabilities and Common Equity	19.7	15.9	81.9	96.5	116.7	81.5	85.1	90.2	96.5
FREE CASH FLOW TO THE FIRM									
EBIT	(\$6.1)	(\$7.9)	(\$1.9)	\$3.8	\$11.5	(\$0.2)	\$0.1	\$1.3	\$2.5
Less: Taxes on EBIT	(\$4.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Plus: D&A	\$0.4	\$0.5	\$0.8	\$1.0	\$1.1	\$0.2	\$0.2	\$0.2	\$0.2
Less: Capital Expenditures	\$0.6	\$0.9	\$2.0	\$0.8	\$0.9	\$0.2	\$0.2	\$0.2	\$0.2
Less: Increase in Working Capital	N.A.	(\$12.9)	\$1.4	\$8.0	\$5.0	\$0.3	\$3.7	\$1.9	\$2.2
Free Cash Flow to the Firm	N.A.	\$4.6	(\$4.4)	(\$4.0)	\$6.6	(\$0.4)	(\$3.5)	(\$0.5)	\$0.3
EBITDA	(\$5.8)	(\$7.4)	(\$1.0)	\$4.8	\$12.6	\$0.1	\$0.4	\$1.6	\$2.8
Free Cash Flow to the Firm per Share	N.A.	\$0.06	(\$0.07)	(\$0.13)	\$0.21	(\$0.01)	(\$0.11)	(\$0.02)	\$0.01
EBITDA per Share	(\$4.75)	(\$0.09)	(\$0.07)	\$0.16	\$0.41	\$0.00	\$0.01	\$0.05	\$0.09

*Quarterly Figures

Sources: Company reports and Raymond James & Associates estimates

Public companies mentioned in this report.

Company Name	Ticker	Priced as of 04/28/08	RJ&A Rating (if Applicable)
Apple Computer Inc.	AAPL	\$172.24	
Dell Inc.	DELL	\$18.87	Outperform
Hewlett Packard	HPQ	\$47.59	Outperform
Sprint Nextel Corp.	S	\$7.78	Outperform

Important Investor Disclosures

The common stock of AuthenTec, Inc. currently has an **Outperform** rating within our four-tiered rating system. Definitions of our ratings follow:

- Strong Buy (SB1)** Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
- Outperform (MO2)** Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.
- Market Perform (MP3)** Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.
- Underperform (MU4)** Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Out of approximately 686 rated stocks in the Raymond James coverage universe, 56% have Strong Buy or Outperform ratings (Buy), 38% are rated Market Perform (Hold) and 7% are rated Underperform (Sell). Within those rating categories, 31% of the Strong Buy- or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 16% of the Market Perform (Hold) rated companies are or have been clients and 9% of the Underperform (Sell) rated companies are or have been clients.

Suitability ratings are not assigned to stocks rated Underperform (Sell). Projected 12-month price targets are assigned only to stocks rated Strong Buy or Outperform.

Suitability Categories (SR)

- Total Return (TR)** Lower risk equities possessing dividend yields above that of the S&P 500 and greater stability of principal.
- Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.
- Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.
- High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.
- Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

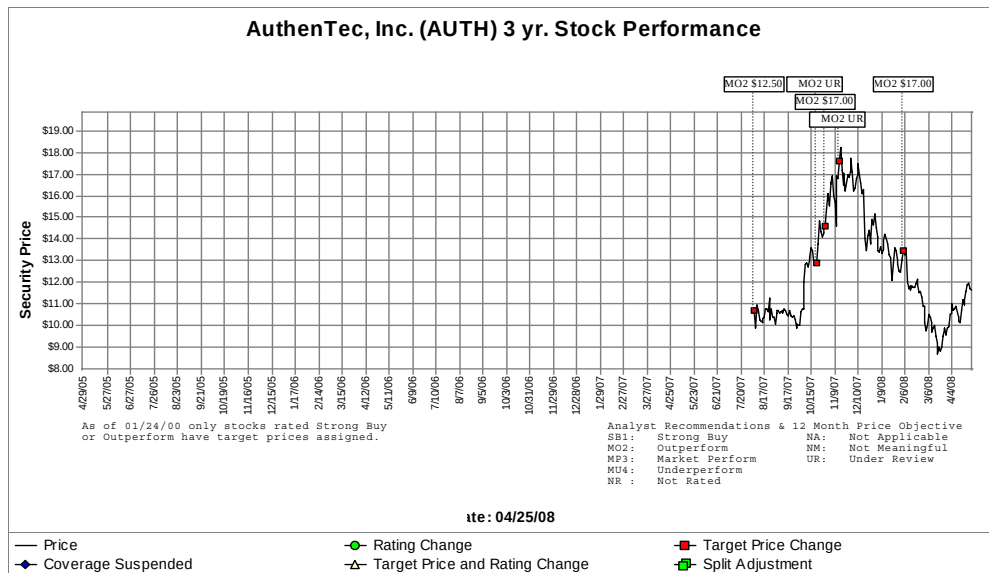
Analyst Holdings and Compensation: Equity analysts and their staffs at Raymond James are compensated based on a salary and bonus system. Several factors enter into the bonus determination including quality and performance of research product, the analyst's success in rating stocks versus an industry index, and support effectiveness to trading and the retail and institutional sales forces. Other factors may include but are not limited to: overall ratings from internal (other than investment banking) or external parties and the general productivity and revenue generated in covered stocks. **The covering analyst and/or research associate owns shares of the common stock of Sprint Nextel Corp.**

Raymond James Relationships: RJA expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
AuthenTec, Inc.	Raymond James & Associates makes a NASDAQ market in shares of AUTH. Raymond James & Associates co-managed an initial public offering of 7.5 million AUTH shares at \$11.00 per share in June 2007.
Dell Inc.	Raymond James & Associates makes a NASDAQ market in shares of DELL. Raymond James & Associates received non-investment banking securities-related compensation from DELL within the past 12 months.
Hewlett Packard	Raymond James & Associates received non-investment banking securities-related

	compensation from HPQ within the past 12 months.
Sprint Nextel Corp.	Raymond James & Associates received non-investment banking securities-related compensation from S within the past 12 months.

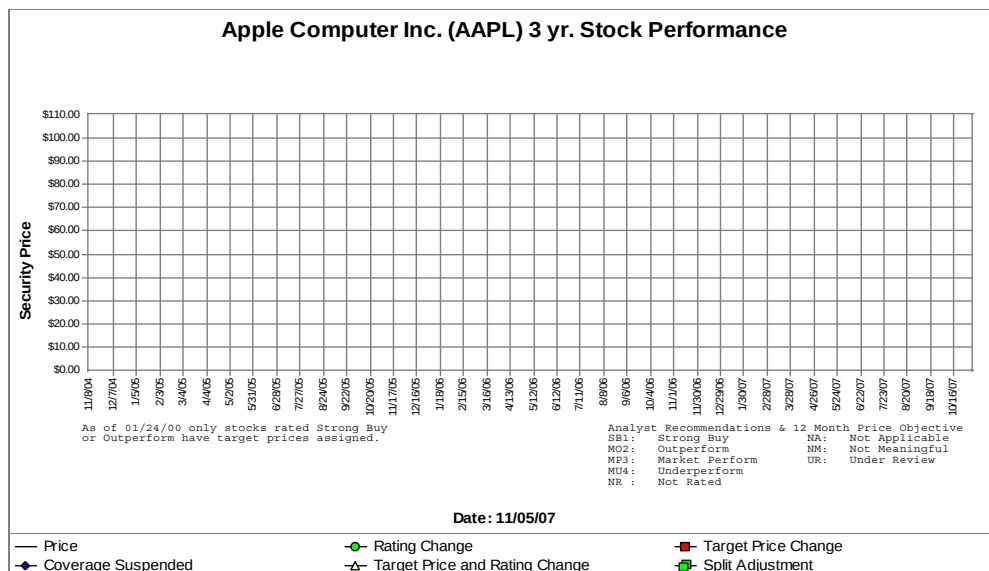
Target Prices: The information below indicates our target price and rating changes for AUTH stock over the past three years.



Update Date	Closing Price	Target Price	Rating
2/5/08	13.45	17.00	2
11/15/07	17.62	UR	2
10/30/07	14.56	17.00	2
10/22/07	12.91	UR	2
8/6/07	10.70	12.50	2

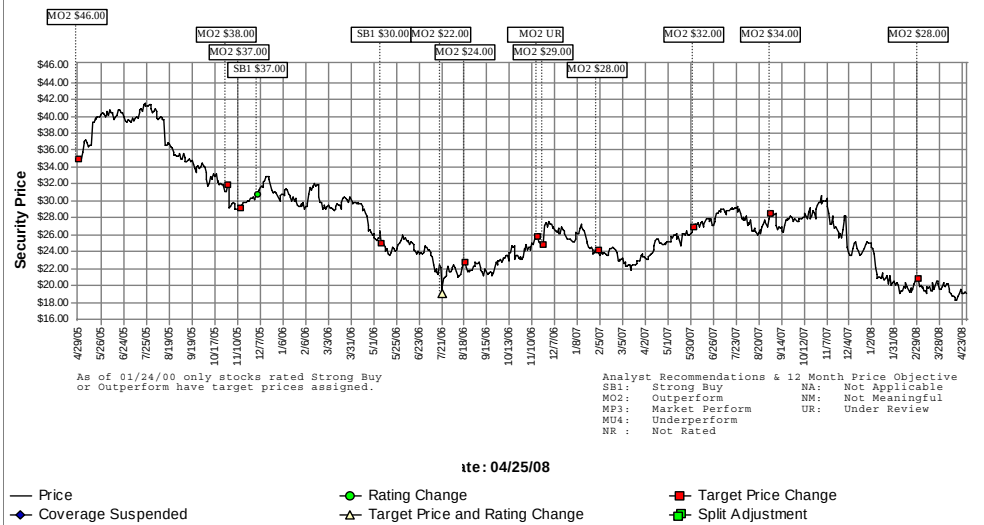
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. For AuthenTec, Inc., our valuation methodology is based on a price/sales multiple.

The information below indicates target price and rating changes for other subject companies included in this research.



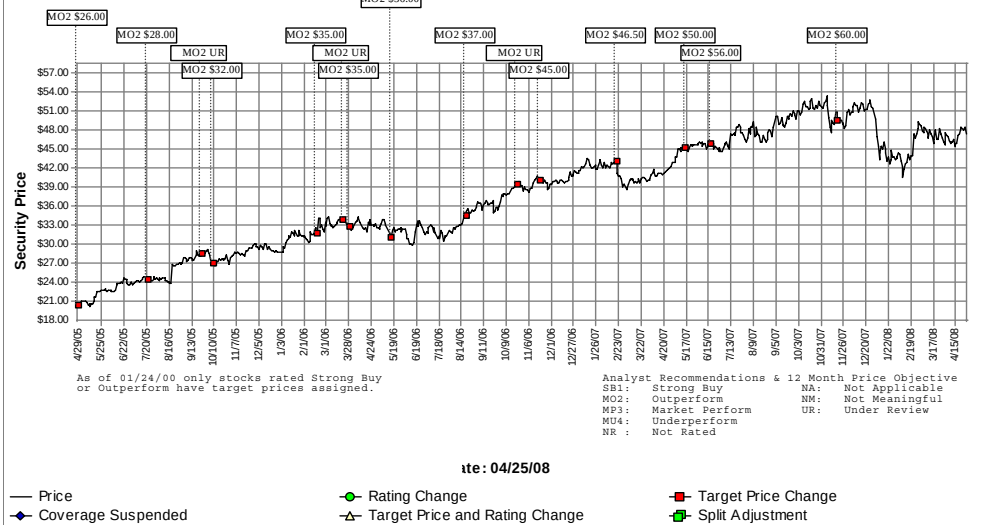
Update Date	Closing Price	Target Price	Rating

Dell Inc. (DELL) 3 yr. Stock Performance



Update Date	Closing Price	Target Price	Rating
2/29/08	20.87	28.00	2
8/31/07	28.46	34.00	2
6/1/07	26.91	32.00	2
2/1/07	24.22	28.00	2
11/22/06	24.82	29.00	2
11/16/06	25.75	UR	2
8/18/06	22.80	24.00	2
7/21/06	19.02	22.00	2
5/9/06	25.00	30.00	1
12/5/05	30.82	37.00	1
11/11/05	29.21	37.00	2
11/1/05	31.88	38.00	2
4/29/05	34.92	46.00	2

Hewlett Packard (HPQ) 3 yr. Stock Performance



Update Date	Closing Price	Target Price	Rating
11/20/07	49.44	60.00	2
6/18/07	45.76	56.00	2
5/17/07	45.21	50.00	2
2/21/07	43.13	46.50	2
11/17/06	40.13	45.00	2
10/23/06	39.38	UR	2
8/17/06	34.43	37.00	2
5/17/06	31.11	36.00	2
3/28/06	32.83	35.00	2
3/21/06	33.96	UR	2
2/16/06	31.67	35.00	2
10/10/05	27.10	32.00	2
9/26/05	28.47	UR	2
7/20/05	24.52	28.00	2
4/29/05	20.30	26.00	2

Sprint Nextel Corp. (S) 3 yr. Stock Performance



Update Date	Closing Price	Target Price	Rating
2/29/08	7.11	12.50	2
1/23/08	8.80	14.00	2
1/22/08	8.70	21.00	2
1/22/08	8.70	14.00	2
11/13/07	15.80	21.00	2
5/3/07	20.67	24.50	2
4/17/07	20.20	23.00	2
3/1/07	19.30	23.00	1
1/9/07	19.64	22.50	1
8/4/06	17.75	26.50	1
5/17/06	24.74	32.50	1

General Risk Factors: Following are some general risk factors that pertain to the projected 12-month target prices included on our research for stocks rated Strong Buy or Outperform: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

Specific Investment Risks Related to the Industry or Issuer

Power Electronics Industry Risks

If the semiconductor cycle does not continue to develop as anticipated, either from too much supply or too little demand, revenue and earnings are likely to be impacted negatively.

Developing and Protecting Intellectual Property

In the regular course of its business, AuthenTec develops a significant amount of Intellectual Property (IP). This IP both enables its technology and provides a competitive advantage relative to other companies in the field. If AuthenTec is unable to further develop technology or if it is unable to defend existing IP, then it may be significantly negatively impacted. Further, protecting IP is expensive and defending its IP may negatively impact earnings. AuthenTec is currently involved in two lawsuits, one filed against and one filed by the company.

Atmel Corporation filed suit against AuthenTec on March 22, 2006, alleging AuthenTec's fingerprint sensors and image software infringe upon two Atmel patents. Should judgment be against AuthenTec, a material negative impact to the company's financial condition could result.

Customer Concentration

AuthenTec derives a significant portion of its revenue from a small number of customers. In 2006, Fujitsu Ltd. and Hewlett-Packard Company accounted for 32.2% and 26.8% of revenue, respectively. AuthenTec's top five end-customers accounted for 80.7% of revenue in 2006 and approximately 85% of revenue in 2007. The loss of, or a reduction in orders by, one of these companies would have a material adverse effect on AuthenTec's operations and financial condition.

In addition, AuthenTec faces a lengthy and expensive sales cycle. Customers generally need three months to three years to finalize a purchasing decision. At any point during the cycle, a deal may fail to close as AuthenTec possesses little control over customers' budget cycles and approval processes. Additional risks arise through the introduction of new products. New product offerings may prolong or defer the approval process as customers seek to evaluate the purchase of new products against existing products.

Decline in ASPs

Historically, the average selling prices (ASPs) of semiconductor products have decreased rapidly. This trend is forecasted to continue as competition and improvement in technology have led to significant downward pressure on price. A reduction in ASPs to one customer could potentially influence ASPs to all customers. The prices of fingerprint sensors have fallen from \$50 five years ago to \$3-\$6 currently. Estimates expect further declines of 8-22% per year going forward.

Limited Supply Base

AuthenTec relies on a limited number of suppliers and foundries for the various elements of its manufacturing and product delivery processes. Suppliers and foundries sometimes run into logistics problems or utilization levels that are higher than anticipated. If this were to happen, AuthenTec may not be able to deliver product on time or in correct volumes.

Risk Factors for Dell

Price Competition

Dell competes in an industry that is becoming increasingly commoditized. This leads to falling prices and increasing competition. If Dell is required to lower prices, this could result in lower margins. Offsetting this is a favorable component pricing environment. If component pricing levels out or actually rises, this would have an adverse effect on Dell margins.

Increased Litigation

Litigations and government investigations are arising out of Dell's related accounting and financial reporting matters. Dell could incur material costs or pay significant damages as a result of a judgment against the company.

Risks for Sprint Nextel Corp.

Must Derive Merger Synergies As Expected

If the company is slow to realize merger synergies, we feel investors would be disappointed not only because it would delay the benefits expected from the merger, but also because it would hinder management's credibility. We feel that a significant deviation in the timing of realizing synergies would be a leading reason for us to change our investment thesis, since a key driver in our model relies on the company decreasing its cost of providing service as a percentage of revenues.

Competitive Pressures During Migration of Nextel Customers

As Sprint Nextel migrates former Nextel customers off the iDEN network and onto CDMA, the company faces a considerable risk of exposure. It is possible that competition will target these high lifetime value customers who are being asked to migrate technologies and, as a result, Sprint Nextel may even face negative net adds. Furthermore, migration mishaps may occur.

Penetration Curve Slowing Down

As more customers sign up for wireless service and the total voice penetration rate increases, opportunities for natural growth in wireless become more difficult to find. Customer growth is important since investors react strongly to how gross and net additions compare to estimates, and operators will have to become more creative at figuring out ways to penetrate the remaining addressable population.

2.5 GHz Spectrum Build-out Plans Not Yet Quantified

Sprint Nextel, as part of a conditional agreement with the FCC regarding approval of the company's merger, must deploy service on the company's 2.5 GHz band. As a result of these requirements, combined with Sprint Nextel's lack of guidance regarding its plans for the build-out, we feel that there is risk due to the potential capital expenditures required for deployment.

Cap Ex and Rebanding Weigh on vFCF

In the wireless industry, Sprint Nextel is required to spend a significant amount of capital in order to maintain and upgrade its network. This is necessary so that customers will not switch to another carrier with better service. Even though the company will be generating strong EBITDA growth, Sprint Nextel's vFCF will be heavily impacted by capital expenditures and rebanding efforts.

Company-Specific Risks for Hewlett-Packard

1. Competitive Hardware Pricing in Slower Growth Environment

HP encounters aggressive competition from numerous competitors in all areas of its business, and its competitors may target its key market segments. HP may have to continue to lower the prices of many of its products and services to stay competitive, while at the same time try to maintain or improve revenue and gross margin in a slower, more mature growth environment. If its pricing is not competitive, it may lose market share in certain areas.

2. Threat from Third-Party Supplies

As corporate executives have focused more intently on lowering document imaging costs, lower priced third-party ink and toner cartridge alternatives have grown in popularity. If third-party ink and toner suppliers continue to grow, it could possibly affect HP's future printing and imaging earnings. If HP is not able to protect its printing supplies business from these third-parties, then it would have a material impact on the company's overall earnings and profitability.

3. Reliance on Canon for Laser Technology

HP outsources production of its laser printer engines and related supplies to Canon (CAJ/\$44.08). Canon has leading market share in copier-based MFPs, while HP leads in laser printer and printer-based MFP market share. As the lines between copier-based and printer-based MFPs potentially blur and HP and Canon compete head-to-head for share, this could have an adverse effect on HP's current outsourcing relationship with Canon.

4. Hardware Commoditization and Virtualization Could Slow Growth

Commoditization of enterprise hardware results in declining prices and less ability to differentiate. As the enterprise hardware industry migrates from proprietary systems (software and microprocessor architecture) towards industry standards, server and storage pricing will be under pressure. In addition, technology support services margins will be pressured because there should be less need for support. Therefore, HP will need to identify other efficiencies to maintain profit margins.

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