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Investors' Soapbox AM **Broadband-Stimulus Beneficiaries**

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ON DEC. 17 VICE PRESIDENT Joe Biden announced the recipients of \$182 million of the grants from the broadband-stimulus package and effectively delayed the announcement of the bulk of the grants from this month until March 2010. The government also committed to announce a total of \$2 billion project awards within 75 days (implying early March).

Recall, the first round of awards had been previously delayed from Nov. 7 until December and was originally expected to total \$4 billion. The timeline for awards is clearly sliding out.

We continue to expect vendors such as Adtran (ticker: ADTN), ADC Telecommunications (ADCT), Occam Networks (OCNW) and Infinera (INFN) will benefit from the broadband-stimulus program. We suspect, however, that it could take longer than expected for the funds to begin helping vendors.

We are not surprised by further lengthening of the timeline for awards. We expected the timeline for Round 1 project approvals to slide out into January or February next year. This is chiefly because both the National Telecommunications and Information Administration and Rural Utilities Service organizations are massively understaffed to handle the sheer volume of applications.

Assuming project awards are announced in March, we expect that timing for the spending of broadband-stimulus dollars could fall into the summer of next year. Depending on the structure of the awards, revenue recognition could take another two to six months. Therefore, the stimulus spending could begin to impact equipment-vendor income statements potentially as late as fourth-quarter 2010.

Within our research universe, the vendors positioned to most benefit from these projects include ADC (rated at Buy), Occam Networks (rated at Buy) and Adtran (rated at Hold). Infinera (rated at Hold) could also benefit somewhat.

We believe that the independent operating companies will be the primary beneficiaries of the stimulus. We note that ADC generates a "mid-single-digit" percentage of revenue from independent telecom accounts. They've stated that the company could potentially claim \$100 million to \$150 million of \$400 million to \$500 million market opportunity associated with the stimulus plan in the 2010 to 2011 time frame.

For Adtran, we estimate that independent operating companies account for 10% to 20% of Adtran's quarterly revenue. While the push-outs are an incremental negative for these vendors, investors should continue to focus on the stimulus plan as a sizable and positive benefit for vendors into 2011.

-- George C. Notter -- James Kisner -- Rajiv Jenveja

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