BLYTH FUND

Date:	01/17/02
Proposal:	SonicWALL Watch List Proposal
Ticker:	SNWL
Current price:	18.49 (close 01-16-02)
Analyst:	Charles Najda
Profile:	SonicWALL, Inc. designs, develops, manufactures and sells Internet security infrastructure products designed to provide secure Internet access to the Company's broadband customers, and processes secure transactions for enterprises and service providers. The Company also sells security services, including content-filtering services and anti-virus protection, on an annual subscription basis. The Company's transaction security products provide high-performance SSL acceleration and offloading to enable service providers and enterprises to deploy e-commerce applications without degrading Website performance. (From *Yahoo! Finance*)

The Numbers:

Shares Outstanding:	66.1 mln	**Market Cap:**	$1.22 bln
P/E (01) / Forward P/E	59.64 / 46.22	**PEG Ratio**	1.21
EPS Growth (01) **EPS Growth (02)**	0.0% 25.0%	**EPS Growth - 5 years**	38.0%
P/book	2.79	**P/sales**	11.96
Gross Margins	76.57%	**Net Margins**	20.0%
Cash:	$233.6 mln	**Debt/Equity**	0.0
EPS (01) *pro forma*	$0.32	**EPS (02)**	$0.40
ROE	-4.21%	**ROA**	-4.67%
Dividend	N/A	**Dividend Yield**	N/A

Earnings History:

	Dec 2000	Mar 2001	Jun 2001	Sep 2001
Estimate	0.06	0.07	0.08	0.08
Actual	0.07	0.08	0.08	0.08
Difference	0.01	0.01	0.00	0.00
% Surprise	14.3 %	12.5 %	0.0%	0.0%

SonicWALL Analysis:

- SNWL derives 76% of its revenue from selling its hardware products and 24% from service and licensing. It is encouraging that at this early juncture SNWL already derives a large percentage of its revenue from services, which have higher margins and are not a type of one time sale. Services produce a continuous revenue stream.
- Even with the 2000 downturn SonicWALL hasn't had to use its cash reserves or sell off valuable assets. SNWL has over 230 million in cash as well as a total of 508 mln in assets.
- Products account for 21.9% of SNWL's costs, while services account for a very small 1.5%.
- Even during the difficult economic climate of the last year SNWL's gross margins have remained stable. Gross margins are currently 76.4% (last nine months), and were 75.0% (nine months ending Sept. 30, 2000). The gross margins numbers are quite high, especially considering the fact that SonicWALL sells hardware, not software like CHKP.
- The company has a very focused and controlled cost structure. General and administrative costs account for only 9.8% of total operating expenses. Research and development represents 28.7% of total operating expenses, while sales and marketing accounts for 18.4% of total operating expenses.
- SNWL was ranked the overall leader of VPN Firewall Appliance Shipments across all market segments by Cahners In-Stat Group and Infonetics Research.
- For 2001 analysts expect SonicWALL to generate 114 mln in revenue. For 2002 the company will generate 174 mln in revenue, which represents a 52.1% increase over 2001.
- SonicWALL reported revenues of $27.8 million for the third quarter ended September 30, 2001, representing an increase of 51% compared to revenues of $18.4 million for the same period of 2000. Revenues increased by 5% sequentially over the $26.6 million reported in the second quarter of 2001.

- SNWL's strength is reflected in the fact that it has not borrowed money for the last five quarters.

Acquisitions:

- SNWL has made a number of strategic acquisitions in the last two years. The acquired companies help to broad SonicWALL's product line. At the same time, each of the acquisitions was made for a reasonable price, which suggests that management is intent on not wasting any cash or equity.
- SonicWALL recently acquired Ignyte in a tax-free reorganization, which closed on March 6, 2001. The total value of the consideration issued to Ignyte for all of its outstanding shares was approximately $8.6 million, which was comprised of 735,000 shares of common stock and options, and $700,000 of cash. Founded in 1998, Ignyte Technology provides in-depth consulting, design and support for enterprise networking customers, as well as managing their Internet security needs. This reflects SNWL's intention to move its product line up market beyond the low and mid end products it now sells.
- SonicWALL also recently acquired RedCreek Communications, Inc., a privately held provider of VPN and policy management solutions, for $12.5 million in cash. The acquisition of RedCreek further strengthens SonicWALL's leadership position in the enterprise market for VPN infrastructure solutions. RedCreek's VPN appliances and policy management software complement SonicWALL's security products for a broader, more comprehensive enterprise solution.

SNWL Analyst Coverage & Product:

- Recently 5 analysts initiated coverage on SNWL at either Buy or Outperform; they include Salomon Smith Barney, Lehman Brothers, SG Cowan, USB Piper Jaffray, and SWS Securities.
- SonicWALL recently introduced a new generation of appliances that includes an ICSA-certified stateful packet inspection firewall, Denial of Service (DoS) attack prevention and Internet content filtering. In addition, all SonicWALL products support a broad set of additional security functionality including ASIC-based accelerated VPN, network anti-virus, enhanced web content filtering, vulnerability assessment and strong authentication using digital certificates.
- The TELE3 is an easy-to-use Internet security appliance that minimizes the time and expense of establishing and maintaining secure access while maximizing user productivity. The TELE3 is designed for remote users or telecommuters and has a list price of $495.
- Third quarter (Sept, 30) SNWL introduced version 2.0 of SonicWALL Global Management System (SGMS), a powerful and highly scalable security management software tool that allows service providers and large enterprises to centrally manage of SonicWALL Internet security appliances across geographically distributed enterprises
- Last quarter SNWL began shipments of a proprietary VPN ASIC which greatly increases VPN performance and reduces cost

1-Year Chart:

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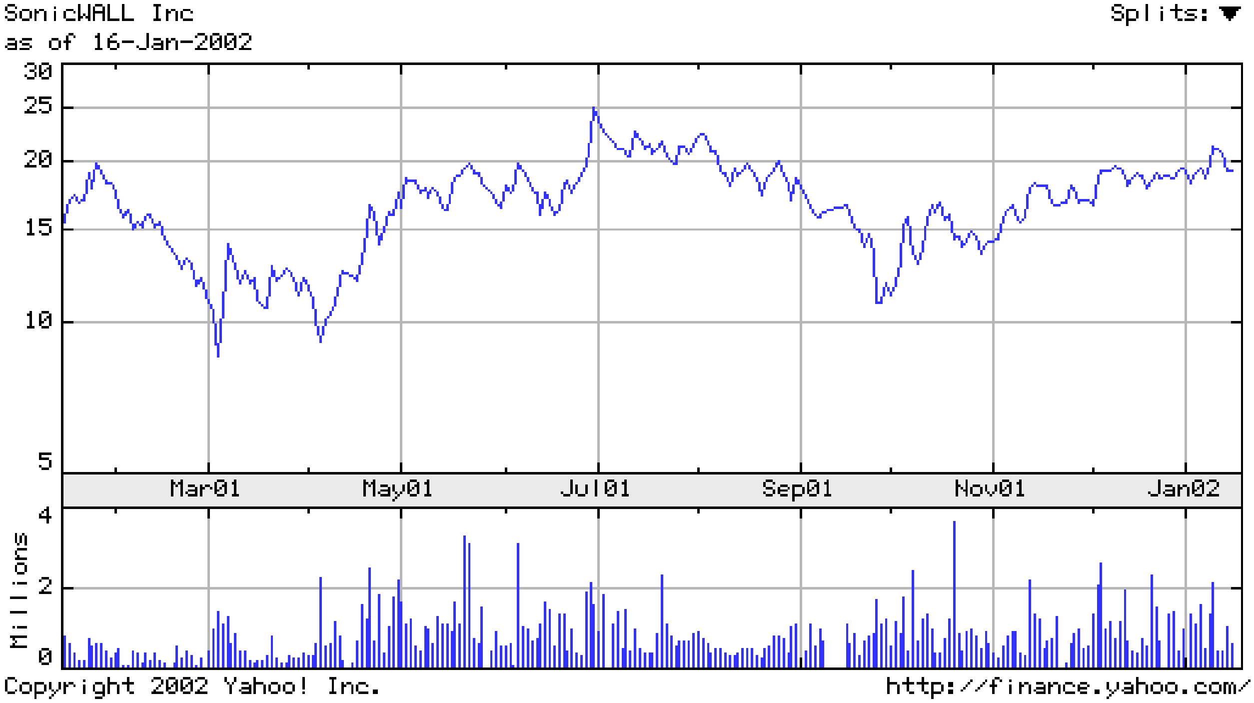

SonicWALL Inc
as of 16-Jan-2002
Splits:
30
25
20
15
10
5
Mar01
May01
Jul01
Sep01
Nov01
Jan02
4
2
0
Millions
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