

**Nayna Networks, Inc.**  
**Rating: Speculative Buy Maintained**  
**Price Target: \$1.00**

Share Statistics		Financial Summary				
		\$ Mn	FY05A	FY06E	FY07E	FY08E
Symbol	NAYN.OB	Revenue	0.0	6.5	23.5	38.8
Current Price (5/22/06)	\$0.11	Net Income	-10.0	-4.9	2.3	5.8
High/Low 52 Weeks	\$0.09 - 1.45					
Avg. daily vol. (3m)	120,316	EPS, diluted	(\$0.26)	(\$0.11)	\$0.04	\$0.09
Market Cap., \$ mn	\$4.58	P/S	nm	0.7	0.2	0.1
Shares outst., mn	41.2	P/E	nm	nm	3.07	1.22

Source: Yahoo! Finance, company reports, our estimates

#### ANALYST SUMMARY

***Since our initiation of coverage of NAYN, several important events have taken place. Most importantly, the company has commenced commercial operations. The transaction volume was still small in Q1FY06, however important agreements have been signed: (1) WICE-NET, Ltd. (\$12 million over the next 12 months) and (2) a strategic partnership agreement with Crompton Greaves Ltd, which should materialize into important revenues in FY06.***

***Another important event is the resignation of the company's CFO – Michael Meyer. The reason for his resignation has not been disclosed and the replacement has not yet been found. For a company with intricate financing arrangements and need for further funding, this news is quite worrisome.***

***In addition, the stock price has decreased significantly, increasing the potential dilution even further due to the arrangements linking the number of dilutive shares to the current stock price. Thus, NAYN has updated its SB-2 registration statement to register up to 97.8 million new shares.***

***The company still needs to secure financing to be able to launch full-scale operations and continue its R&D work, thus we should expect to see issuance of new debt or shares before the end of the year.***

***We leave our target and rating the same as assigned on initiation, based on the currently announced deals and no major changes in our projections.***

## RECENT EVENTS

### ***Agreement with WICE-NET, Ltd.***

NAYN has intensified its business activities, signifying the transition from development stage to a fully operational company. Thus, on May 8, NAYN announced that it had **finalized an agreement with WICE-NET, Ltd.**, a provider of broadband access services in the India subcontinent and Africa, whereby Nayna will be the exclusive network systems solutions and equipment provider for WICE-NET's triple-play broadband access deployments. WICE-NET is currently moving forward with a project in Africa and has associations/partnerships with major Indian carriers to provide solutions. Under the terms of the agreement, Nayna will provide advanced equipment for WICE-NET installations, including solutions using Ethernet and SDH-based technologies. Monitoring and control will be done by Nayna's versatile and standards-based element management system "AN NetCharmer". Nayna will also provide WICE-NET with necessary network design, network planning and optimization services, and technical support to enable the deployment of multimedia services in a cost-effective manner with optimal Operating Expenditure (OPEX). The total value of the agreement is expected to be **\$12 million over the next twelve months**. To supply its requirements in Africa and India, WICE-NET has given Nayna initial purchase orders valued at US\$7 million.

### ***Agreement with Crompton Greaves Ltd.***

On March 8, NAYN announced the finalization of a **strategic partnership agreement with Crompton Greaves Ltd.**, a well-recognized manufacturer and supplier of telecom products in India, to market telecom products in India. Crompton Greaves reported 2005 Gross Sales of approximately \$486 million. Under the terms of the agreement, both parties will work together to pursue sales opportunities for Nayna's SDH solutions, including the STM-4 AN12000, STM-1 AN3000 and the STM-1 CPE. Crompton Greaves manufactures, supplies and installs a variety of Telecom Products and Systems such as Electronic Switches, Fiber Optic Transmission Equipment, Access Products, EPABXs, Telephone Instruments, Data Modems etc. Crompton Greaves has modern state-of-the-art manufacturing facilities, marketing/sales and service networks, and experienced R&D professionals.

### ***Showcase of ExpressSTREAM broadband access solution***

In the end of March, NAYN showcased its ExpressSTREAM broadband access solution to decision makers and leading service providers at **Convergence India 2006** in the Pragati Maidan Exhibition Center in New Delhi. Convergence India is an excellent venue for industry leaders and network service providers to experience full-scale, real-time demonstrations of new technologies.

### ***Stock price***

NAYN's stock price has decreased significantly since we initiated coverage – from \$0.32 to \$0.11. This shows the volatility of NAYN's stock discussed in the Risks section of the initiation report. This fall has increased the number of potential dilutive shares, and the company has filed an amendment to its SB-2 registration statement, registering up to 97.8 million new shares. NAYN will not receive any proceeds from the sale of any of these shares. At the same time, the liquidity of NAYN's shares has improved, with the 3-month daily average increasing from 47 thousand at initiation to 120,000.

### ***Management***

On April 14, 2006, **Michael Meyer resigned** as Nayna's Chief Financial Officer. Will Wong, Nayna's Controller, will act as interim Chief Financial Officer until a new CFO is appointed. So far, NAYN has not announced a new CFO.

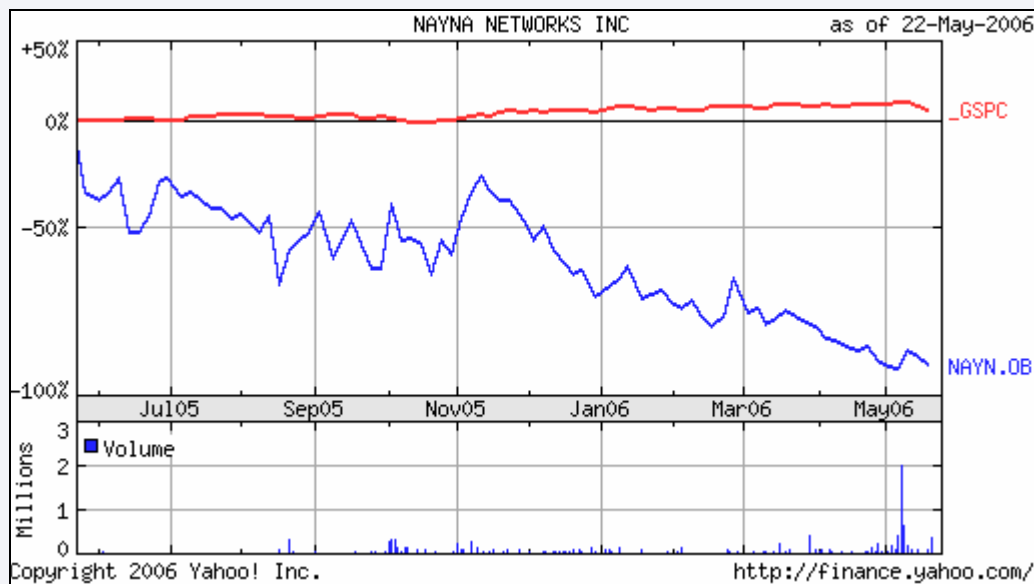
On March 28, NAYN announced that Dr. Raj Jain, Nayna's chief technology officer, received **ACM SIGCOMM's Test of Time Award**. The ACM SIGCOMM Test of Time Award recognizes a paper published 10 to 12 years in the past in Computer Communications Review or any SIGCOMM sponsored or co-sponsored conference that is deemed to be an outstanding paper whose contents are still a vibrant and useful contribution today. Dr. Jain received this award for his paper on the DECbit scheme for traffic management published at the 1988 ACM SIGCOMM conference. At the time of publication, the paper was selected as the best paper at the conference. Then in 1995, the paper was selected for reprinting in the 25th anniversary issue of SIGCOMM's Computer Communications Review. Founded in 1947, ACM has 80,000 members and is a major force in advancing the skills of information technology professionals and students worldwide. SIGCOMM is ACM's special interest group on data communications.

## RECENT FINANCIAL PERFORMANCE

The most significant financial development is the company's commencement of commercial operations in Q1FY06. However, the revenues of \$317,000 are far from the break even level. Thus, operating expenses were \$1.7 million during the quarter and the company recorded net loss of \$1.9 million. This situation represents a delay relative to our initial forecasts, however the recent deals with WICE-NET, which has already placed \$7 million worth of orders as part of a \$12-million deal, and Crompton Greaves Ltd. should accelerate the company's sales and we feel no need to review our projections at this time.

Among other important financial developments, on March 27, 2006, NAYN and the purchasers of its convertible notes agreed to convert all \$2,338,785 of the convertible debt into shares of the company's common stock at a price of \$1.00 per share.

## NAYN VERSUS S&P500: 1 YEAR



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He received his Masters of Business Administration (MBA) from the Peter F. Drucker School of Management at Claremont Graduate University, where he also received his undergraduate Bachelors of Arts (BA) degree in Economics. Mr. Lytel is a Chartered Financial Analyst (CFA) and an active member of the CFA Institute and the Los Angeles Society of Financial Analysts (LASFA). He has frequently served as a Senior Grader for CFA Institute's Examination and has been a Regional Expert for CFA Institute's advisory panel on investment management covering: institutional portfolio management, individual portfolio management, analysis of alternative investments, macro strategy formulation, and quantitative modeling applications. Mr. Lytel has been cited and/or published in Barons, Financial Planning Magazine, Physicians Financial News, Forbes, Wealth Manager, among others.

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