

Radiant Communications Corp. (RCN-V, \$1.05)

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January 18, 2007



Investment Brief – Radiant is very well positioned to provide one-stop national IP connectivity to the growing and underserved SME market. The Company represents an attractive takeover candidate should it succeed widely, or even stumble.

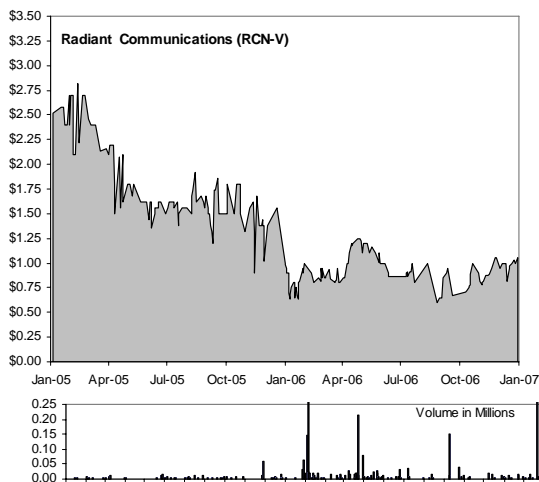
Rating	SECTOR OUTPERFORM
Target Price	\$1.70
Risk	SPECULATIVE

Forecast Risk	High
Financial Risk	High
Valuation Risk	Moderate

Current Price	\$1.05
Return (incl. dividend)	62%
52-Week High / Low	\$1.30 / \$0.56
Dividend / Yield	N/A
Shares O/S	9.8M (basic) / 9.8M (F/D)
Market Capitalization	\$10.3 million
Daily Volume	3,876

Fiscal y/e Dec. 31	2004	2005	2006E	2007E	2008E
Revenue (\$000's)	15,034	17,591	19,520	21,654	24,285
EBITDA (\$000's)	(1,195)	(703)	1,300	1,973	2,865
EPS - F/D (\$)	(0.72)	(0.86)	0.01	0.09	0.14
CFPS - F/D (\$)	(0.06)	(0.23)	0.10	0.20	0.30
FCF (\$000's)	(2,060)	(2,032)	646	270	1,007
Current EV/EBITDA	(11.3)	(13.0)	7.4	4.7	2.9
Target EV/EBITDA	(16.7)	(22.1)	12.3	8.0	5.1
DCF Value		\$1.57	\$1.80	\$2.06	\$2.35
Share Price - Current, Target		\$1.05	\$1.70	\$1.90	\$2.15
DCF Discount - Current, Target		33.2%	5.4%	7.8%	8.6%

Price Performance



Source: Bloomberg

Starting the 3rd Wave – Realizing the Value of Subscribers.

- **Partners with OneConnect.** Radiant announced a partnership with OneConnect (a hosted IP Communications solutions provider). Under this wholesale agreement, Radiant is now able to offer complete hosted voice and multi-media solutions over their (Radiant's) network to new and existing clients – according to management, users should see a 30% savings proposition.
 - **Leveraging large subscriber base – It could be very significant.** Starting with the assumption that 50% penetration of existing DSL subscribers (~11,000) are targeted, we estimate that 15% penetration would equate to 2,900 lines a level that could support incremental EBITDA of roughly \$350K annually. Beyond the potential incremental contribution across the existing subscriber base, adding telephony to the sales proposition could stimulate overall customer adds.
 - **Growth thesis intact –** This partnership highlights Radiant's steadfast focus on organic growth with positive EBITDA while it pursues new products/applications to increase revenue/client. New distribution partners represent potential second wave of growth while new disruptive technology/markets represent third wave of growth.
 - **Acquisition target trading at customer cost of acquisition (COA) yields potential takeout value beyond \$2/share.** Demonstrated stability, EPS positive results and turning FCF should make Radiant a more attractive takeover candidate. We set upside takeout value at \$2.25/share based on 2.5x gross profit. Our value keeps the \$0.45 per share of TLCs as a buffer. Current value at \$936/DSL location who on average generates \$128 per month and carry an estimated COA approaching \$1,100.
- Valuation** – Radiant is currently valued at 4.7/2.9x 2006/07 EV/EBITDA and a 33.2% discount to our C\$1.57 DCF valuation. Our target values Radiant at 8/5.1x 2007/08 EBITDA or 8.3/5.7x CFPS. Excluding takeout potential, our \$1.70 target is at a 5.4% discount to our target DCF of \$1.80.

Industry & Company Profile

Radiant Communications provides high-speed IP-based data communication services, Internet connectivity, network security, web hosting, web development and marketing services. The company is headquartered in Vancouver and currently serves over 10,000 business customers, primarily in Canada and the US.

Revisions, Date of Record

Rating – SECTOR OUTPERFORM SPECULATIVE rating maintained since June 10, 2005.
Target – \$1.70 since May 8, 2006

Company CEO:

David Buffet

Company Web Site:

www.radiant.net

Please see rating structure, important disclosure, risk profile parameters, disclaimers, and notes on pages 8 – 11 of this report.

Radiant Communications Corp. (RCN-V)
Rating: Sector Outperform
Target: \$1.70



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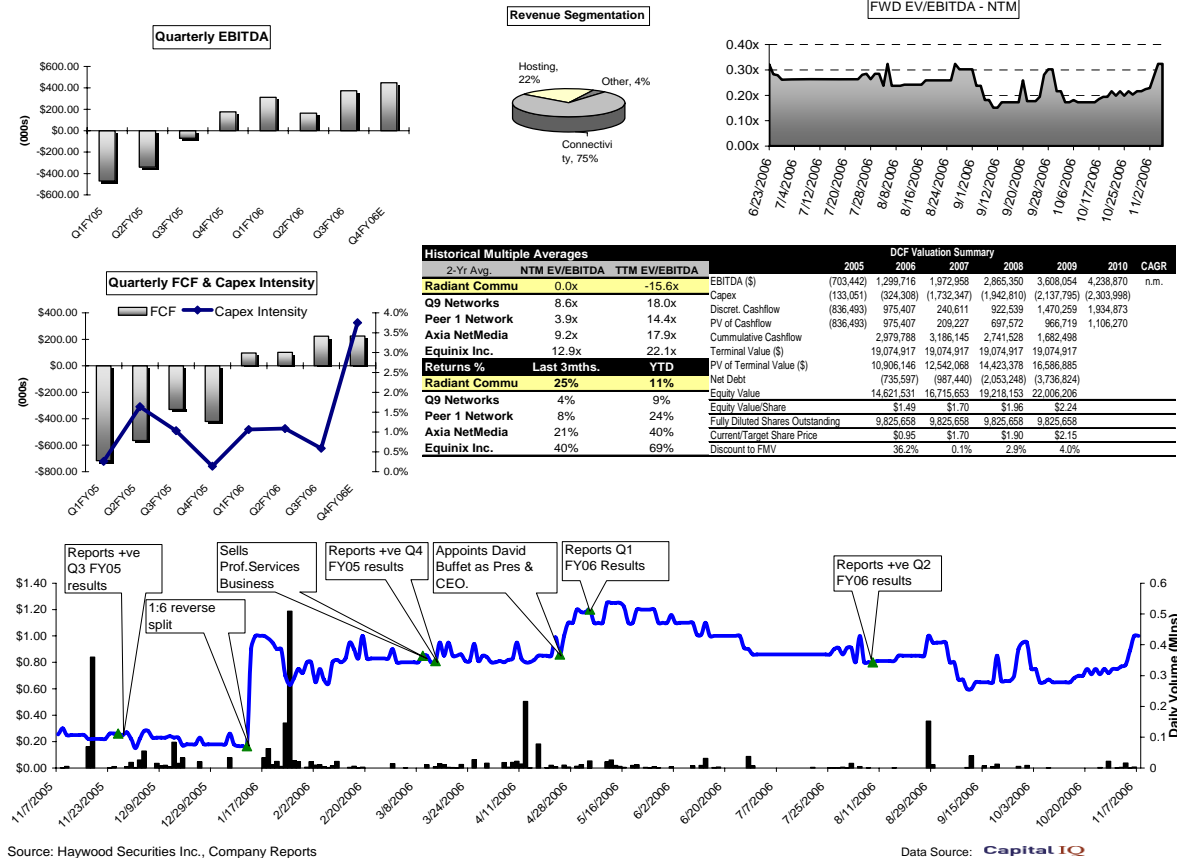
Catalysts - Acquisition news - as acquirer or acquiror.

Risks - Pricing Pressures from increased competition or general economic slowdown.

Key Statistics	Financial Forecasts
Current Price \$0.80	FY-end Dec 31
1-Yr. Expected Total Return 112.5%	2005
52wk Hi / Lo \$1.30 / \$0.15	Q2/2006
Shares O/S (mlns)	Q3/2006
Basic	2006E
F.D.	2006 Guid.
Float	2007E
Dividend Yield 0.0%	2008E
Short Interest -	Revenues(\$000s)
Short Interest % of Float 0.0%	17,591
Daily Volume 3,876	4,744
Market Cap. 7.9	4,937
Enterprise Value 6.0	19,520
Cash 1.8	Rev. Growth %
Debt -	17.0%
Net Cash / Share \$0.19	11.3%
Tang. Book Value / Share \$0.00	11.2%
Company CEO David Buffet	11.0%
Company Website www.radiant.net	10.9%
	12.1%
	NA
	NA
	NA
	NA
	0
	0
	0.09
	0.14
	72%
	0.00
	0.00
	0.23
	0.33
	NA
	NA
	270
	1,007
	2005
	2006
	2007
	2008
	Analyst Ratings: Capital IQ
	Potential Upside
	Average Target
	Median Target
	Sector Outperform
	Sector Perform
	Sector Underperform
	# of Analysts
	1
	1
	113%
	113%
	1
	0
	0
	1

Comparables	Stock Price	Pot.	TEV/EBITDA	EBITDA Growth	P/CFPS	Capex Intensity	Net Debt/	Div/Distr Yld.							
	8-Nov-06	Target	Return	2006	2007	Target	2006	2007	2006	2007	2005	Last Qtr.	EBITDA(LTM)	(%)	
Radiant Comm.	\$0.80	\$1.70	113%	4.9x	3.3x	7.2x	nfm	nfm	8.1x	3.9x	0.8%	1.1%	nfm	0.0%	
Q9 Networks	\$10.44	\$13.50	29%	10.1x	7.0x	11.9x	391.8%	44.6%	13.5x	10.2x	16.9%	41.2%	nfm	0.0%	
Peer 1 Network	\$0.61	\$0.95	56%	4.4x	3.3x	5.1x	50.9%	44.3%	4.8x	3.0x	61.2%	11.9%	1.9x	0.0%	
Axia NetMedia Corp.	\$3.46	\$3.75	8%	10.8x	6.8x	7.4x	-48.7%	86.8%	8.3x	4.3x	12.8%	3.9%	nfm	0.0%	
Consensus based targets, forecasts															
Equinix Inc.*	\$69.89	\$75.00	7%	21.2x	15.7x	16.8x	70.5%	34.9%	NA	NA	60.6%	63.2%	1.6x	0.0%	
Average				11.6x	8.2x	10.3x	116.1%	52.7%	8.8x	5.8x	37.9%	30.0%	1.7x	0.0%	

* All data - target, return and forecasts are consensus based using CapitalIQ.



Source: Haywood Securities Inc., Company Reports

Data Source: CapitalIQ

Investment Thesis

We continue to believe that Radiant is well positioned to provide national IP data services to the historically underserved SME marketplace. Our basic thesis finds support in the consistent growth in DSL connections (11%-13% YOY) as the company has rationalized its workforce from 103 FTEs one year ago to the current 77 FTEs. We see continued subscriber volume growth supplemented by higher revenue/subscriber through new applications. We see significant value in the DSL customer connection/relationship.

We believe the company's national capabilities, focus and independence are sufficient sustainable competitive advantages to carve out a positive profile against the larger incumbents with significant network cost advantages but typically with lower customer service levels. The company's renewed focus on its core data provision to the SME market has clearly lead to improved profit measures. For the first 9 months of 2006, revenues have increased 11.6% while operating expenses have declined -12%. The previous attention given to large potential contracts failed to yield wins while it diverted management attention. Furthermore, the divested professional services division was a lower margin, non-core business where Radiant did not have a unique value proposition.

From a company perspective, Radiant has taken the appropriate, albeit painful, steps necessary to establish an efficient platform to build on. Balance sheet issues have been addressed by the refinancing that leaves \$2.36M of cash against debt of \$1.02M (lease obligations). Non-core businesses have been divested and the FTE employee count reduced significantly.

Looking ahead, we look for continued growth in DSL connections at roughly 11%-13%. Our forecasts are primarily driven on the first wave of organic growth. The company looks to increase customer revenues through the introduction of additional service applications. Feedback from customers has supported interest in data archiving, email archiving and digital voice. Furthermore, Radiant's contract with MTS will allow it to introduce level two connectivity service for private network services beginning with the new year. Evidence of this second wave of growth should begin to emerge over the next year. Radiant has deliberately chosen suppliers interested in wholesale or white label services to minimize its capital and operating expenses.

Looking further ahead, the company considers new disruptive markets and/or technologies as a final wave of growth. We recognize the potential for new distribution partners to build sales growth beyond current capabilities in a business where direct sales efforts can be expensive. Management is committed to minimizing capital expenditure and maintaining positive EBITDA. We view this partnership with OneConnect as consistent with this strategy. We expect investors to maintain a wait and see attitude for the additional waves beyond the core.

Our near term focus remains on revenue growth and EBITDA flow-through. – For its Q3/06, year over year quarter revenues gained \$497K or 11% while cost rationalization allowed year over year quarter EBITDA gain of \$443.9K. Looking to 2007, we conservatively forecast revenue growth of 11%

and EBITDA flow-through at 31.5%. These assumptions support 2007 EPS/CFPS of \$0.09 and \$0.20, respectively.

We believe the past three quarters give clear evidence that management has successfully restructured/refocused, rationalized and refinanced its operations. As the company records the important milestone of a profit in this quarter, we look for Radiant to continue building its base in a consistent fashion, while it introduces applications to drive ARPU from its customer base.

Takeover potential limits downside, increases upside.

We believe Radiant would represent an attractive strategic and financial acquisition target for incumbents such as Bell Canada, Allstream/MTS or independents such as Rogers, or Q9 Networks. The list could include TELUS although we are not confident of regulatory approval. While never comfortable relying on takeout protection to mitigate downside risk, the proposition is less risky with Radiant now generating positive free cash.

We believe Radiant is extremely attractive as a takeover candidate considering both the potential revenue synergies and cost savings available to an existing provider. A potential acquirer would value the more than 11,000 DSL connections (3,500 customers) where Radiant has a customer relationship that a buyer could look to upsell additional products. The current enterprise capitalization of Radiant equates to \$936 per DSL subscriber. This compares with an average recurring revenue of \$128 per month or \$1,536 annually per DSL location. Furthermore, the current capitalization falls below the cost of acquisition that would approach \$1,100 per DSL connection for the existing subscriber base.

A potential acquirer could apply a multiple of 2.5 times the 2006e gross profit at \$10 million that would imply a valuation of \$2.25 per fully diluted share after allowing \$3 million for closing down the operations and terminating the leases. With >90% of revenues recurring under typical 2-3 year contracts, Radiant would command a reasonable valuation given the list of potential acquirors. We are excluding an estimated value of \$4 million or \$0.45 per share for Radiant's \$21 million of tax loss pools as another cushion for costs associated with closing/relocating Radiant's facilities and potential client turnover.

Recent Contract Wins

Since the second half of last year, the company has announced several major contract wins (Collega, Sprint Canada and 7-Eleven were amongst those added this quarter), which we believe will not only add over \$2 mm in incremental revenue over the next 12 months, supporting our YoY growth estimate of 11%, but may provide some upside to our estimates as market demand appears encouraging. In addition, these contract wins carry additional marquee value solidifying Radiant's position across multiple verticals, while gaining an inroad into the retail/fashion vertical. If margins can be kept under control, we expect further contract wins across verticals to provide upside to our estimates.

Another encouraging announcement we note is the partnership with MTS/Allstream to expand service offering to customers. We note this is a

positive as our discussions with management leads us to believe Radiant is building on its strategy to upsell add on services into its existing customer base and adding to its service offering to increase organic growth, all while maintaining its focus in the SME space. We expect the company to announce further partnerships as this strategy rolls out.

Forecasts, Outlook.

Fiscal year end Dec 31	2004	Q2A	Q3A	Q4A	2005	Q1A	Q2A	Q3A	Q3E	Q4E	2006 New	2006 Old	2007 New	2007 Old	2008E	2009E	2010E
Revenue	15,034,139	4,262,019	4,433,540	4,739,579	17,590,542	4,672,737	4,744,357	4,930,938	4,826,270	5,171,612	19,519,644	19,414,975	21,654,341	21,654,341	24,285,131	26,722,435	28,799,974
YOY revenue gain \$	-482,319	644,560	476,525	706,737	2,556,403	517,333	482,338	497,398	392,730	432,033	1,929,102	1,824,433	2,134,697	2,239,366	2,630,790	2,437,304	2,077,540
Consec. Rev. gain \$	-482,319	106,615	171,521	306,039	2,556,403	-12,917,805	71,620	186,581	81,913	240,674	1,929,102	1,824,433	2,134,697	2,239,366	2,630,790	2,437,304	2,077,540
YOY revenue gain %	-3.1%	17.8%	12.0%	17.5%	17.0%	12.4%	11.3%	11.2%	8.9%	9.1%	11.0%	10.4%	10.9%	11.5%	12.1%	10.0%	7.8%
Consec. Rev. gain %	-3.1%	2.6%	4.0%	6.9%	17.0%	-73.4%	1.5%	3.9%	1.7%	4.9%	11.0%	10.4%	10.9%	11.5%	12.1%	10.0%	7.8%
Cost of Revenue (\$)	7,112,135	2,074,628	2,152,225	2,342,817	8,670,986	2,233,717	2,308,065	2,439,065	2,340,741	2,558,113	9,538,960	9,390,754	10,711,217	10,502,355	12,012,524	13,218,125	14,245,770
YOY growth (%)	-14.0%	-13.8%	-11.6%	18.4%	21.9%	6.3%	11.3%	13.3%	-14.4%	9.2%	10.0%	8.3%	12.3%	11.8%	12.1%	10.0%	7.8%
As a % of revenue	47%	49%	49%	49%	49%	48%	49%	49%	49%	49%	49%	48%	49%	49%	49%	49%	49%
Gross Profit (\$)	7,922,004	2,187,391	2,281,315	2,396,762	8,919,556	2,439,020	2,436,292	2,491,873	2,485,529	2,613,499	9,980,684	10,024,221	10,943,124	11,151,966	12,272,606	13,504,310	14,554,204
YOY gross profit gain \$	677,215	977,292	758,370	342,909	997,552	384,932	248,901	210,558	786,914	216,737	1,061,128	1,104,665	982,441	1,127,765	1,329,482	1,231,703	1,049,895
Consec. GP gain \$	677,215	133,303	93,924	115,447	997,552	-6,480,536	-2,728	55,581	49,237	121,626	1,061,128	1,104,665	982,441	1,127,765	1,329,482	1,231,703	1,049,895
YOY growth (%)	9.3%	80.8%	49.8%	16.7%	12.6%	18.7%	11.4%	9.2%	46.3%	9.0%	11.9%	12.4%	9.6%	11.3%	12.1%	10.0%	7.8%
As a % of revenue	53%	51%	51%	51%	51%	52%	51%	51%	52%	51%	51%	52%	51%	52%	51%	51%	51%
Gross Profit Flow-through																	
YOY basis %	-140.4%	151.6%	159.1%	48.5%	39.0%	74.4%	51.6%	42.3%	200.4%	50.2%	55.0%	60.5%	45.1%	50.4%	50.5%	50.5%	50.5%
Consec. Quarter basis %	-140.4%	125.0%	54.8%	37.7%	39.0%	50.2%	-3.8%	29.8%	60.1%	50.5%	55.0%	60.5%	45.1%	50.4%	50.5%	50.5%	50.5%
Operating Expenses (\$)	10,203,724	2,795,602	2,674,453	2,952,274	11,198,274	2,376,145	2,513,287	2,347,402	2,443,872	2,395,682	9,632,516	9,728,905	10,079,548	10,084,921	10,951,779	11,757,336	12,423,600
YOY opex gain \$	-110,845	-187,289	1,311	647,849	994,550	-399,799	-282,315	-327,051	-369,043	-556,592	-1,565,758	-1,469,369	447,031	356,016	872,231	805,557	666,264
Consec. opex gain \$	-110,845	19,658	-121,149	277,821	994,550	-8,822,129	137,142	-165,885	-69,415	48,280	-1,565,758	-1,469,369	447,031	356,016	872,231	805,557	666,264
YOY growth (%)	-1.1%	-6.3%	0.0%	28.1%	9.7%	-14.4%	-10.1%	-12.2%	-13.1%	-18.9%	-14.0%	-13.1%	4.6%	3.7%	8.7%	7.4%	5.7%
As a % of revenue	68%	66%	60%	62%	64%	51%	53%	48%	51%	46%	49%	50%	47%	47%	45%	44%	43%
EBITDA	-1,195,295	-340,669	-69,800	176,728	-703,442	311,994	164,509	374,057	274,395	449,156	1,299,716	1,249,936	1,972,958	2,189,474	2,865,350	3,608,054	4,238,870
YOY EBITDA gain \$	251,884	1,175,266	811,538	169,284	491,853	781,694	505,178	443,857	1,059,714	272,428	2,003,158	1,953,378	673,243	939,539	892,392	742,704	630,817
Consec. EBITDA. gain \$	251,884	129,031	270,869	246,528	491,853	1,015,436	-147,485	208,548	109,886	75,099	2,003,158	1,953,378	673,243	939,539	892,392	742,704	630,817
YOY growth (%)	-17%	-78%	-92%	2274%	-41%	-166%	-148%	-636%	-135%	154%	-285%	-278%	52%	75%	45%	26%	17%
As a % of revenue	-8%	-8%	-2%	4%	-4%	7%	3%	8%	6%	9%	7%	6%	9%	10%	12%	14%	15%
EBITDA Flow-through																	
YOY basis %	-52.2%	182.3%	170.3%	24.0%	19.2%	151.1%	104.7%	89.2%	269.8%	63.1%	103.8%	107.1%	31.5%	42.0%	33.9%	30.5%	30.4%
Consec. Quarter basis %	-52.2%	121.0%	157.9%	80.6%	19.2%	-7.9%	-205.9%	112.3%	134.2%	31.2%	103.8%	107.1%	31.5%	42.0%	33.9%	30.5%	30.4%
Income before D.O. (\$)	-3,447,827	-1,145,525	-2,183,569	-674,908	-5,279,300	25,066	-173,747	109,563	8,393	186,817	147,699	91,747	890,805	1,094,239	1,403,103	1,889,373	2,371,177
Net Income (\$)	-3,374,856	-1,087,972	-2,156,062	-647,087	-5,168,552	-200,756	-174,948	214,418	8,393	186,817	125,531	-35,276	890,805	1,094,239	1,403,103	1,889,373	2,371,177
Cash Flow - Pre W/C	-1,623,437	-494,743	-284,558	-414,101	-1,623,319	146,473	152,368	252,979	241,132	418,156	969,976	1,003,266	2,002,538	2,219,001	2,949,978	3,752,805	4,481,796
Capex (\$)	436,559	69,798	45,806	6,584	133,051	49,685	51,572	29,116	180,985	193,835	324,308	476,178	1,732,347	1,732,347	1,942,810	2,137,795	2,303,988
+ % of Revenue	2.9%	1.6%	1.0%	0.1%	0.8%	1.1%	1.1%	0.6%	3.8%	3.8%	1.7%	2.5%	8.0%	8.0%	8.0%	8.0%	8.0%
Free Cash Flow (\$)	-2,059,998	-564,541	-330,364	-420,685	-2,032,273	96,788	100,796	223,863	60,147	224,221	645,668	527,088	270,191	486,653	1,007,167	1,615,011	2,177,798

Valuation

We forecast compound annual revenue growth of 10.4% over the 2005 to 2010 period, with capital expenditure intensity moving to 8.0% of sales. We apply a terminal valuation of 4.5x EBITDA, or 9.2x free cash flow. Our discount rate is 15% to reflect the execution and competitive risks for Radiant Communications. We estimate the current share price is at a 33.2% discount to our DCF valuation of \$1.57 per share. Our \$1.70 one-year target represents a discount of 5.4% to our 1 year DCF valuation. Increasing our terminal multiple by one percent point would add \$0.26 to our DCF valuation. Similarly, moving our discount rate to 14% would add \$0.05 to our DCF valuation. Given the strength of recent results, we believe our 15% discount rate may be conservative.

Discounted Cash Flow Analysis

Radiant Communications Corp.							CAGR
DCF Analysis	2005	2006	2007	2008	2009	2010	05 - 10
Revenue (\$)	17,590,542	19,519,644	21,654,341	24,285,131	26,722,435	28,799,974	10.4%
Revenue Growth	17.0%	11.0%	10.9%	12.1%	10.0%	7.8%	
EBITDA (\$)	(703,442)	1,299,716	1,972,958	2,865,350	3,608,054	4,238,870	n.m.
EBITDA Growth	-41.1%	-284.8%	51.8%	45.2%	25.9%	17.5%	
EBITDA Margin	-4.0%	6.7%	9.1%	11.8%	13.5%	14.7%	
Amortization (\$)	(1,441,666)	(826,891)	(984,724)	(1,419,865)	(1,736,423)	(1,983,610)	
EBIT (\$)	(2,145,108)	472,824	988,234	1,445,484	1,871,631	2,255,261	
Less Taxes (\$)	0	0	0	0	0	0	
Plus Amortization (\$)	1,441,666	826,891	984,724	1,419,865	1,736,423	1,983,610	
Less Capital Expenditures (\$)	(133,051)	(324,308)	(1,732,347)	(1,942,810)	(2,137,795)	(2,303,998)	
Capital Intensity	0.8%	1.7%	8.0%	8.0%	8.0%	8.0%	
Unlevered Free Cash Flow (\$)	(836,493)	975,407	240,611	922,539	1,470,259	1,934,873	
PV of Unlevered FCFs (\$)	(836,493)	975,407	221,773	739,401	1,024,687	1,172,605	
Valuation Assumptions:							
Discount Rate	15.0%						
Terminal Multiple	4.5						
DCF Implied Valuations	EV/EBITDA	2005	(20.9)	2006	12.8	2007	9.2
Terminal FCF Multiple	FCF	2010	9.9				
Valuation Analysis:							
	Current	1-Yr Trgt	2-Yr Trgt	3-Yr Trgt			
Total PV of FCFs (\$)	3,158,465	3,377,196	2,905,918	1,783,386			
Terminal Value (\$)	19,074,917	19,074,917	19,074,917	19,074,917			
PV of Terminal Value (\$)	11,560,113	13,294,130	15,288,249	17,581,486			
Net debt less cash (\$)	(735,597)	(987,440)	(2,053,248)	(3,736,824)			
Total Value to Shareholders(\$)	15,454,175	17,658,766	20,247,415	23,101,696			
DCF Value/Share	\$1.57	\$1.80	\$2.06	\$2.35			
Fully Diluted Shares Outstanding	9,825,658	9,825,658	9,825,658	9,825,658			
Current/Target Share Price	\$1.05	\$1.70	\$1.90	\$2.15			
Discount to FMV	33.2%	5.4%	7.8%	8.6%			

At Radiant Communication's development stage, valuation considerations are beginning to move from revenue multiples and DCF valuations towards EBITDA and CFPS. As evident below, EV/EBITDA and P/CF valuation support awaits a move to forecast 2007 and 2008 financials. Notably our target price of \$1.70 reflects a 18.8x multiple on our 2007 EPS estimate at \$0.09. **Growing confidence in 2007 and 2008 forecasts should drive material gains ahead of our target.**

Trading Multiples

	2005	2006E	2007E	2008E
EV / EBITDA				
Current	-13.0	7.4	4.7	2.9
Target	-22.1	12.3	8.0	5.1
EBITDA	(703,442)	1,299,716	1,972,958	2,865,350
P / CFPS				
Current	-4.6	10.6	5.2	3.5
Target	-7.4	17.2	8.3	5.7
CFPS	-0.23	0.10	0.20	0.30
P / E				
Current	-1.2	82.2	11.6	7.4
Target	-2.0	133.1	18.8	11.9
EPS	-0.86	0.01	0.09	0.14
EV / Revenues				
Current	0.5	0.5	0.4	0.3
Target	0.9	0.8	0.7	0.6
Revenues	17,590,542	19,519,644	21,654,341	24,285,131

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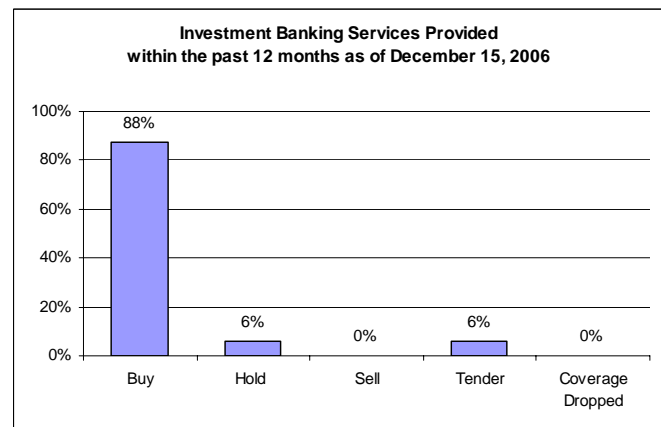
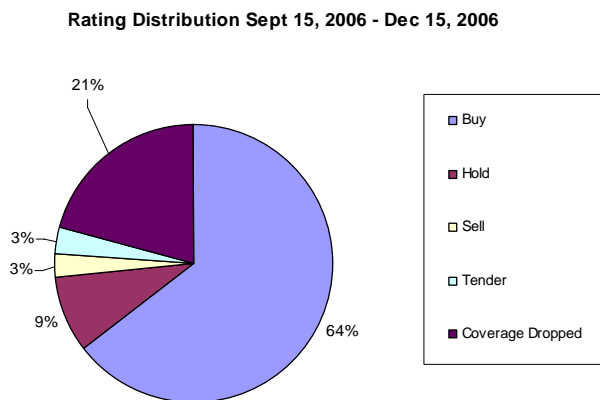
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