

## Research In Motion (RIMM)

**Downgrading to NEUTRAL Given Decent but Not Great Torch Launch and Long Term Concerns; Lowering Price Target to \$57 from \$65**

- We are downgrading Research In Motion (RIM) to **NEUTRAL**, slightly reducing estimates, and lowering our price target to \$57. We continue to believe that RIM's strategic positioning in the enterprise, alignment with carriers, new products, and international expansion will allow the company to participate in the solid growth of the smartphone market. However, while the Torch launch was decent, we do not see it slowing the oncoming rush of Apple and Google long term, and see risks to its enterprise positioning. We thus expect shares to be largely range bound.
- **Torch launch decent but nothing great.** The BlackBerry Torch device was launched on 8/12/2010. Based on our initial and follow up checks at several AT&T stores, resellers, call centers, and industry contacts, we believe there was a reasonably good reception for Torch though found it modest in comparison to recent iPhone, Droid, and EVO launches. We estimate over the first few days, Torch was selling at the rate of 1-2 units/hour at AT&T stores, and somewhat slower at other resellers. Applying a rate of 1 unit/hour for AT&T owned stores and 2 units/day at partner retailers, and assuming contribution from online and call center sales, we estimate ~750K Torch units sell-through in FQ2, which gives us comfort with our 11.7 million unit estimate for FQ2 ending August 2010.
- **International remains an opportunity.** With only 34% of FQ1 revenue from markets other than the U.S., U.K, and Canada, despite presence in 550 countries and 175 carriers. We believe that there remains strong potential for growth in international markets, which gives us comfort RIM can drive some near term growth. However this depends on a timely resolution of the security concerns in some markets such as India, while also appeasing the enterprise market that data is still protected.
- **Enterprise stickiness and competing OS platforms from Apple and Google increase our long-term concerns.** Despite our belief that the Torch, other device launches, and international expansion can drive growth and allow RIM to meet near-term expectations, we have long term concerns. First, we believe Exchange 2007 and 2010 will make it easier for enterprises to connect and manage a heterogeneous device environment. We believe this risk is accentuated by the fact that consumers are increasingly attracted to Apple and Android-based devices, which both seem to retain a modest lead over Torch in terms of multimedia experience, and significantly larger application support.
- **Our PT of \$57 is based on our DCF analysis and represents a 9.5x multiple on our FY12E non-GAAP EPS estimate of \$5.99.** This is a 36% premium to our projected long-term EPS growth rate of 7%. While this PT represents a material premium, we believe this is reasonable in light of international opportunities, alignment with carriers, and strategic positioning in the enterprise.

FYE FEB	FY10A	FY11E			FY12E		
REV. (\$b)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 May	\$3.4A	\$4.2A			\$5.0E	\$5.0	\$5.1E
Q2 Aug	3.5A	4.5E	\$4.5	\$4.5E	5.1E	5.1	5.3E
Q3 Nov	3.9A	4.8E	4.8	4.9E	5.4E	5.4	5.5E
Q4 Feb	4.1A	5.1E	5.1	5.1E	5.5E	5.6	5.7E
<b>Year**</b>	<b>\$15.0A</b>	<b>\$18.6E</b>	<b>\$18.6</b>	<b>\$18.8E</b>	<b>\$20.9E</b>	<b>\$21.1</b>	<b>\$21.9E</b>
Change	35.1%	24.5%		25.4%	12.2%		17.0%
	FY10A	FY11E			FY12E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 May	\$0.98A	\$1.38A			\$1.45E	\$1.46	\$1.46E
Q2 Aug	1.03A	1.36E	\$1.36	\$1.36E	1.50E	1.51	1.50E
Q3 Nov	1.10A	1.37E	1.37	1.40E	1.51E	1.52	1.55E
Q4 Feb	1.27A	1.42E	1.42	1.45E	1.54E	1.56	1.60E
<b>Year**</b>	<b>\$4.37A</b>	<b>\$5.53E</b>	<b>\$5.53</b>	<b>\$5.55E</b>	<b>\$5.99E</b>	<b>\$6.06</b>	<b>\$6.00E</b>
P/E	11.6x	9.2x		9.2x	8.5x		8.5x
Change	27.2%	26.5%		26.9%	8.3%		8.1%

Consensus estimates are from Thomson First Call.

\* EPS is on a pro forma basis.

\*\* Numbers may not add up due to rounding.

August 17, 2010

Price (as of close 8/16/10)  
**\$50.83**

Rating  
**NEUTRAL**  
(from **OUTPERFORM**)

12- Month Price Target  
**\$57** (from \$65)

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### Company Information

52-Week Range	\$47.42 - \$88.08
Shares Outstand.	0.6 billion
Insider/Institutional	11% / 65%
Public Float	0.5 billion
Market Cap.	\$28.4 billion
ST / LT Debt	\$0.0 M / \$0.0 M
Debt/Capital	0.0%
ROE	41.9%
Net Cash & Inv/Sh.	\$5.85
Book Value/Share	\$11.71

### Company Description

Research In Motion (RIM) was founded in 1984 and is based in Waterloo, Ontario, Canada. RIM manufactures and sells BlackBerry smartphone devices and supporting software and services.



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## Analysis

### Summary of Store Checks

During the launch, we visited AT&T owned and partner stores in San Francisco and Los Angeles; we also made several calls into the call center and visited a T-Mobile and Verizon store. We also made follow on visits to several of the stores. Below in Figure 1 we summarize our store visits.

**FIGURE 1: Summary of Store Checks**

Store	Location	Pre-open Line	Thursday Checks	Follow-on Checks	Initial inventory
1	SF North Bay #1	1	9 first 2.5 hours	~20 left on Sunday	50
2	SF North Bay #2	4	4 first hour	>20 left on Sunday	60
3	SF East Bay	N/A	6 first 2 hours	N/A	N/A
4	SF #1	0	20 first hour*	1-2/hr Friday / Closed Weekends	N/A
5	SF #2	0	Slow, expect weekend pickup	>20 left on Sunday	~50
6	SF #3	0	4 first hour	Closed Sunday	15
7	LA Retail #1	0	Very few in first 2 hours	N/A	N/A

Source: Wedbush Securities. \* 20/first hour unlikely

### Initial Sell-In Analysis

AT&T indicates it has 2,200 company-owned stores and 10,000 partner retail stores including big box and national retailers. Based upon initial inventory levels indicated at both AT&T and partner retail stores, we estimate ~210,000 initial sell-in of the BlackBerry Torch (Figure 2).

**FIGURE 2: Initial Sell-In Analysis**

# AT&T Stores	Shipments / Store	Total Shipments	# Partner Stores	Shipments / Store	Total Shipments
2,200	40	88,000	10,000	5	50,000
2,200	50	110,000	10,000	10	100,000
2,200	60	132,000	10,000	15	150,000

Source: AT&T and Wedbush Securities

### FQ2 Sell-Through Analysis

Based upon our initial and follow on checks, we saw decent initial demand at AT&T stores with lower demand at partner retail locations, which include both big box retailers, kiosks, and others. Not in our analysis is online and call center volumes. We believe online represents ~15-20% of AT&T sales and call centers indicated there was increased interest as with any new device launch. For our analysis, we assume an average of 1 Torch sold per hour through the remainder of FQ2 at AT&T stores (of which some are closed on weekends) and ~2/day at partner retail locations. This gets us to ~640K sell-through for FQ2. With call center and online sales, we believe ~750K is a reasonable sell-through estimate for the 17 days of FQ2. For comparison, iPhone 4 sold 1.7 million units in the first three days through AT&T. With ~100K left in inventory, we see RIM recognizing ~850K units in FQ2. We would finally highlight that a Verizon and T-Mobile stores indicated they expect new RIM devices in the coming months.

**FIGURE 3: FQ2 Sell-Through Analysis**

# Stores	Days Left in Quarter	Avg. Sales / Day / Store	Sell-through	# Stores	Days Left in Quarter	Avg. Sales / Day / Store	Sell-through
2,200	17	6	224,400	10,000	17	1	170,000
2,200	17	8	299,200	10,000	17	2	340,000
2,200	17	10	374,000	10,000	17	3	510,000

Source: AT&T and Wedbush Securities

## International Opportunities, Though Security Resolutions Needed

We continue to believe international presents a material opportunity for RIM in the near term. We would point out that in FQ1, only 34% of revenue was from markets other than the U.S., U.K, and Canada, despite presence in 550 countries and 175 carriers. This is up from 27% in FY10 and 23% in FY09. This is after expanding to another 75 carriers and 15 countries in FY10. With 84% of mobile phone shipments and 85% of smartphone shipments in 2009 outside the U.S. according to IDC, we believe that there remains strong potential for growth in international markets, which is highlighted in Figure 4. However, this depends on a timely resolution of the security concerns in some markets. We would note that several countries in the Middle East, India, and China have expressed concerns getting access to BlackBerry messaging in regards to national security. While RIM has addressed this in Saudi Arabia and is currently working with India, this has also raised concerns with large enterprises regarding the security of their information.

**FIGURE 4: RIM's International Opportunity**

	FY09	FY10	1Q:11
# of RIM Carriers	475	550	
# of RIM Countries	160	175	
% RIM Revenue (x/US, Canada, UK)	23%	27%	34%
% RIM Revenue (x/US)	37%	42%	51%
% IDC Mobile Phone Shipments (x/US)	85%	84%	
% IDC Smartphone Shipments (x/US)	83%	85%	

Source: Research In Motion, IDC, and Wedbush Securities

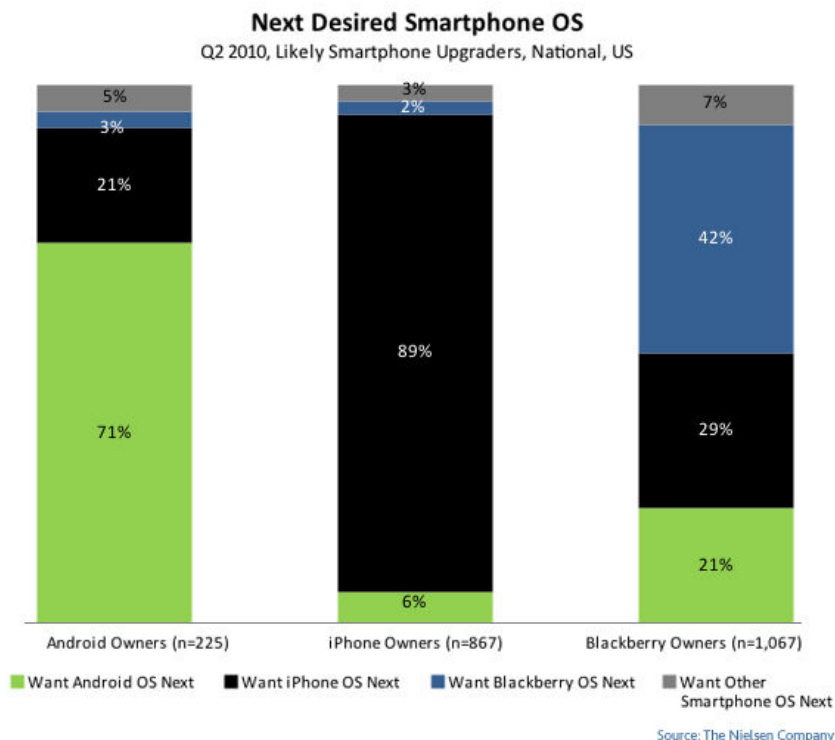
## Long Term Concerns with Enterprise Presence

Based upon our checks with several IT managers, both in-house and outsourced, we believe RIM's sticky position may be at risk more than we initially believed. We would point out that Exchange 2007 has made it easier to manage devices directly through the Exchange server. Exchange 2010 will make it even easier. While the pace of Exchange upgrades will likely remain slow with the macro environment, we believe directly connecting and managing devices via Exchange, as well as the need for only one database, will pose a long-term risk, which we believe is exasperated by the fact that BlackBerry owners have shown increased interest in Apple and Android-based phones.

## Apple and Google Bearing Down on RIM

While we believe Torch closes the gap with Apple and Android-based phones, we do not see a leapfrog in technology. While iPhones still remain unfriendly for a messaging centric user, we are seeing comparatively priced Android phones with QWERTY keyboards such as Epic (\$250 w/two-year contract) at Sprint. We expect these phones to drop further in price, which could then gain market share or put pricing pressure on RIM. Based upon a recent survey from Nielsen, while iPhone and Android OS users appear pretty loyal, BlackBerry OS users seem more open to other OS-based phones (Figure 5). Lastly, with RIM trailing on the app store front, having almost 9K applications, compared to ~70K for Android and ~225K for iPhone, we believe this could prove a key weakness over time.

**FIGURE 5: Next Desired Smartphone OS**



Source: Nielsen, August 2, 2010

**Valuation**

While we are comfortable RIM can meet near-term expectations and drive international growth, we believe long-term concerns with Enterprise stickiness and competing OS platforms from Apple and Google will keep shares range bound. We are therefore, downgrading to NEUTRAL and lowering our price target to \$57 from \$65. Our PT of \$57 is based on our DCF analysis and represents a 9.5x multiple on our FY12E non-GAAP EPS estimate of \$5.99 (ex stock comp and amortization). This is a 36% premium to our projected long-term EPS growth rate of 7%. While this PT represents a material premium, we believe this is reasonable in light of international opportunities, alignment with carriers, and strategic positioning in the enterprise.

**FIGURE 6: DCF VALUATION**

	Terminal Growth				
	1%	2%	3%	4%	5%
<b>12.0%</b>	\$61.69	\$65.42	\$69.98	\$75.68	\$83.01
<b>13.0%</b>	\$56.78	\$59.77	\$63.36	\$67.74	\$73.22
<b>14.0%</b>	\$52.64	\$55.07	<b>\$57.94</b>	\$61.39	\$65.60
<b>15.0%</b>	\$49.09	\$51.09	\$53.43	\$56.19	\$59.50
<b>16.0%</b>	\$46.02	\$47.69	\$49.62	\$51.86	\$54.52

Source: Wedbush Securities

**Risks**

Risks to the attainment of our price target include increased smartphone competition, enterprise support for heterogeneous devices, lack of adoption by consumers, and support for O/S and app store.

**REVENUE MODEL**
**Research In Motion Revenue Model**

(in USD millions, except per share data and ratios)

	FY10				FY11				FY12			
	May-09 Q1:10A	Aug-09 Q2:10A	Nov-09 Q3:10A	Feb-10 Q4:10A	May-10 Q1:11A	Aug-10 Q2:11E	Nov-10 Q3:11E	Feb-11 Q4:11E	May-11 Q1:12E	Aug-11 Q2:12E	Nov-11 Q3:12E	Feb-12 Q4:12E
<b>Key Metrics</b>												
Units Sold (000s)	7,816	8,317	10,105	10,469	11,200	11,704	12,582	13,211	12,881	13,203	14,193	14,548
ASP	\$357	\$345	\$317	\$311	\$299	\$301	\$304	\$301	\$296	\$292	\$287	\$283
Est. Subscriber Accounts Added	3,800	3,800	4,400	4,900	4,900	5,023	5,274	5,405	5,351	5,244	5,507	5,644
Subscriber base	28,500	32,000	36,000	41,000	46,000	50,103	54,374	58,692	62,870	66,857	71,026	75,250
Monthly Service Revenue/Sub	\$5.27	\$5.22	\$5.25	\$5.21	\$5.02	\$4.97	\$4.92	\$4.87	\$4.82	\$4.78	\$4.73	\$4.69
<b>Revenue Analysis</b>												
<b>Revenue</b>												
Devices	2,788	2,866	3,207	3,254	3,350	3,518	3,820	3,971	3,813	3,851	4,079	4,120
Service	451	501	567	641	693	747	803	858	910	958	1,008	1,058
Software	62	61	67	69	85	90	97	103	110	115	121	127
Other	123	98	83	116	108	114	123	131	139	147	154	162
<b>Total Revenue</b>	<b>3,424</b>	<b>3,526</b>	<b>3,924</b>	<b>4,080</b>	<b>4,235</b>	<b>4,470</b>	<b>4,842</b>	<b>5,063</b>	<b>4,972</b>	<b>5,071</b>	<b>5,362</b>	<b>5,467</b>
<b>Revenue Mix</b>												
Devices	81%	81%	82%	80%	79%	79%	79%	78%	77%	76%	76%	75%
Service	13%	14%	14%	16%	16%	17%	17%	17%	18%	19%	19%	19%
Software	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Other	4%	3%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Q/Q Revenue Growth</b>												
Devices	-3.3%	2.8%	11.9%	1.5%	2.9%	5.0%	8.6%	4.0%	-4.0%	1.0%	5.9%	1.0%
Service	8.5%	11.1%	13.2%	13.0%	8.2%	7.8%	7.4%	6.9%	6.1%	5.3%	5.2%	4.9%
Software	6.0%	-2.7%	10.9%	2.1%	23.5%	6.2%	7.4%	6.9%	6.1%	5.3%	5.2%	4.9%
Other	15.9%	-20.1%	-14.9%	39.4%	-7.3%	6.2%	7.4%	NA	NA	NA	NA	NA
<b>Total Revenue</b>	<b>-1.1%</b>	<b>3.0%</b>	<b>11.3%</b>	<b>4.0%</b>	<b>3.8%</b>	<b>5.5%</b>	<b>8.3%</b>	<b>4.6%</b>	<b>-1.8%</b>	<b>2.0%</b>	<b>5.7%</b>	<b>1.9%</b>
<b>Y/Y Revenue Growth</b>												
Devices	51.7%	35.4%	42.4%	12.9%	20.2%	22.7%	19.1%	22.0%	13.8%	9.5%	6.8%	3.8%
Service	54.1%	50.1%	56.9%	54.3%	53.8%	49.2%	41.6%	33.9%	31.3%	28.2%	25.6%	23.3%
Software	-6.4%	-5.8%	7.9%	16.7%	36.0%	48.5%	43.8%	50.6%	29.3%	28.2%	25.6%	23.3%
Other	170.8%	55.8%	-22.1%	9.8%	-12.2%	16.7%	47.4%	13.0%	29.3%	28.2%	25.6%	23.3%
<b>Total Revenue</b>	<b>52.7%</b>	<b>36.8%</b>	<b>41.1%</b>	<b>17.8%</b>	<b>23.7%</b>	<b>26.8%</b>	<b>23.4%</b>	<b>24.1%</b>	<b>17.4%</b>	<b>13.4%</b>	<b>10.7%</b>	<b>8.0%</b>
<b>Gross Profit Analysis</b>												
Cost of Sales	1,932	1,971	2,249	2,217	2,312	2,503	2,809	2,937	2,834	2,878	3,110	3,171
Gross Profit	1,492	1,554	1,675	1,863	1,923	1,967	2,034	2,127	2,138	2,193	2,252	2,296
Gross Margin	43.6%	44.1%	42.7%	45.7%	45.4%	44.0%	42.0%	42.0%	43.0%	43.3%	42.0%	42.0%
<b>Geographic Concentration</b>												
<b>% of Revenue</b>												
Canada	5%	5%	7%	6%	6%							
United States	65%	65%	57%	46%	49%							
United Kingdom	8%	9%	10%	12%	11%							
Other	22%	21%	27%	36%	34%							
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>							
<b>Revenue</b>												
Canada	155	190	257	242	234							
United States	2,226	2,286	2,225	1,883	2,074							
United Kingdom	273	311	376	487	469							
Other	770	739	1,066	1,467	1,458							
<b>Total</b>	<b>3,424</b>	<b>3,526</b>	<b>3,924</b>	<b>4,080</b>	<b>4,235</b>							
<b>Y/Y Change</b>												
Canada	-11.7%	-6.3%	-8.5%	6.0%	50.9%							
United States	59.5%	28.6%	37.2%	-13.4%	-6.8%							
United Kingdom	97.1%	130.2%	87.7%	105.1%	72.0%							
Other	<u>44.4%</u>	<u>60.0%</u>	<u>56.8%</u>	<u>78.1%</u>	<u>89.3%</u>							
<b>Total</b>	<b>52.7%</b>	<b>36.8%</b>	<b>41.1%</b>	<b>17.8%</b>	<b>23.7%</b>							
<b>Q/Q Change</b>												
Canada	-32.1%	22.5%	35.0%	-5.7%	-3.3%							
United States	2.4%	2.7%	-2.7%	-15.4%	10.1%							
United Kingdom	14.8%	14.0%	21.1%	29.5%	-3.7%							
Other	<u>-6.5%</u>	<u>-4.1%</u>	<u>44.4%</u>	<u>37.6%</u>	<u>-0.6%</u>							
<b>Total</b>	<b>-1.1%</b>	<b>3.0%</b>	<b>11.3%</b>	<b>4.0%</b>	<b>3.8%</b>							

Source: Company data and Wedbush Securities

## QUARTERLY INCOME STATEMENT

### Research In Motion Quarterly Income Statement

(in USD millions, except per share data and ratios)

	FY10				FY11				FY12			
	May-09 Q1:10A	Aug-09 Q2:10A	Nov-09 Q3:10A	Feb-10 Q4:10A	May-10 Q1:11A	Aug-10 Q2:11E	Nov-10 Q3:11E	Feb-11 Q4:11E	May-11 Q1:12E	Aug-11 Q2:12E	Nov-11 Q3:12E	Feb-12 Q4:12E
<b>Revenue</b>	<b>3,424</b>	<b>3,526</b>	<b>3,924</b>	<b>4,080</b>	<b>4,235</b>	<b>4,470</b>	<b>4,842</b>	<b>5,063</b>	<b>4,972</b>	<b>5,071</b>	<b>5,362</b>	<b>5,467</b>
Cost of Revenue	1,932	1,971	2,249	2,217	2,312	2,503	2,809	2,937	2,834	2,878	3,110	3,171
<b>Gross Profit</b>	<b>1,492</b>	<b>1,554</b>	<b>1,675</b>	<b>1,863</b>	<b>1,923</b>	<b>1,967</b>	<b>2,034</b>	<b>2,127</b>	<b>2,138</b>	<b>2,193</b>	<b>2,252</b>	<b>2,296</b>
<b>Operating Expenses:</b>												
Research and Development	220	236	242	267	288	309	315	329	336	342	349	355
Sales, Marketing and Administration	418	430	466	498	483	527	581	620	584	596	643	656
Depreciation and Amortization	67	73	83	87	94	82	82	82	69	69	69	69
<b>Total Operating Expenses</b>	<b>705</b>	<b>739</b>	<b>791</b>	<b>851</b>	<b>865</b>	<b>919</b>	<b>977</b>	<b>1,031</b>	<b>989</b>	<b>1,007</b>	<b>1,061</b>	<b>1,080</b>
Operating Income (Loss)	786	816	884	1,012	1,059	1,048	1,056	1,096	1,149	1,186	1,191	1,216
<b>Non-GAAP Operating Income (Loss)</b>	<b>855</b>	<b>891</b>	<b>976</b>	<b>1,105</b>	<b>1,154</b>	<b>1,146</b>	<b>1,154</b>	<b>1,193</b>	<b>1,234</b>	<b>1,271</b>	<b>1,276</b>	<b>1,301</b>
Investment income	9	8	6	5	9	8	9	11	12	14	16	18
Litigation	-	(164)	-	-	-	-	-	-	-	-	-	-
FX impact of functional currency tax rules	(54)	-	-	-	-	-	-	-	-	-	-	-
Provision for tax for stock options	(42)	-	-	-	-	-	-	-	-	-	-	-
Other income, (expense), net	-	-	-	-	-	-	-	-	-	-	-	-
Interest and other income (expense)	(87)	(156)	6	5	9	8	9	11	12	14	16	18
<b>GAAP Pretax Income</b>	<b>699</b>	<b>660</b>	<b>891</b>	<b>1,017</b>	<b>1,068</b>	<b>1,056</b>	<b>1,066</b>	<b>1,106</b>	<b>1,162</b>	<b>1,200</b>	<b>1,207</b>	<b>1,234</b>
GAAP Income Taxes (benefit)	56	184	262	307	299	296	298	310	349	360	362	370
<b>GAAP Net Income</b>	<b>643</b>	<b>476</b>	<b>628</b>	<b>710</b>	<b>769</b>	<b>761</b>	<b>767</b>	<b>796</b>	<b>813</b>	<b>840</b>	<b>845</b>	<b>863</b>
Total Pro Forma Adjustments	(96)	(164)	-	-	-	-	-	-	-	-	-	-
<b>Proforma Pretax Income</b>	<b>796</b>	<b>823</b>	<b>891</b>	<b>1,017</b>	<b>1,068</b>	<b>1,056</b>	<b>1,066</b>	<b>1,106</b>	<b>1,162</b>	<b>1,200</b>	<b>1,207</b>	<b>1,234</b>
Proforma Income Taxes	231	235	262	307	299	296	298	310	349	360	362	370
<b>Proforma Net Income</b>	<b>564</b>	<b>588</b>	<b>628</b>	<b>710</b>	<b>769</b>	<b>761</b>	<b>767</b>	<b>796</b>	<b>813</b>	<b>840</b>	<b>845</b>	<b>863</b>
Stock Compensation	13	13	16	16	16	16	16	16	16	16	16	16
Amortization of Intangibles	56	63	76	77	79	82	82	82	69	69	69	69
<b>Non-GAAP Pretax Income</b>	<b>865</b>	<b>899</b>	<b>982</b>	<b>1,110</b>	<b>1,163</b>	<b>1,154</b>	<b>1,163</b>	<b>1,204</b>	<b>1,246</b>	<b>1,285</b>	<b>1,292</b>	<b>1,318</b>
Non-GAAP Income Taxes	251	257	289	335	326	323	326	337	374	386	388	395
<b>Non-GAAP Net Income</b>	<b>613</b>	<b>642</b>	<b>693</b>	<b>775</b>	<b>837</b>	<b>831</b>	<b>837</b>	<b>867</b>	<b>872</b>	<b>900</b>	<b>904</b>	<b>923</b>
<b>Earnings (Loss) Per Share:</b>												
GAAP	\$1.12	\$0.83	\$1.10	\$1.27	\$1.38	\$1.36	\$1.37	\$1.42	\$1.45	\$1.50	\$1.51	\$1.54
<b>Proforma EPS (ex. one time)</b>	<b>\$0.98</b>	<b>\$1.03</b>	<b>\$1.10</b>	<b>\$1.27</b>	<b>\$1.38</b>	<b>\$1.36</b>	<b>\$1.37</b>	<b>\$1.42</b>	<b>\$1.45</b>	<b>\$1.50</b>	<b>\$1.51</b>	<b>\$1.54</b>
Diluted Shares Outstanding	573	574	571	561	558	559	559	560	560	561	561	562

#### EBITDA

Depreciation & Amortization	129	141	166	181	186	185	198	206	202	211	219	227
EBITDA	915	956	1,050	1,193	1,245	1,234	1,254	1,302	1,352	1,397	1,410	1,443
EBITDA Margin	26.7%	27.1%	26.7%	29.2%	29.4%	27.6%	25.9%	25.7%	27.2%	27.5%	26.3%	26.4%

#### Margin Analysis

Gross Margin	43.6%	44.1%	42.7%	45.7%	45.4%	44.0%	42.0%	42.0%	43.0%	43.3%	42.0%	42.0%
Research and development	6.4%	6.7%	6.2%	6.5%	6.8%	6.9%	6.5%	6.5%	6.8%	6.8%	6.5%	6.5%
Sales, Marketing and Administration	12.2%	12.2%	11.9%	12.2%	11.4%	11.8%	12.0%	12.3%	11.8%	11.8%	12.0%	12.0%
Amortization	2.0%	2.1%	2.1%	2.1%	2.2%	1.8%	1.7%	1.6%	1.4%	1.4%	1.3%	1.3%
Operating Margin	23.0%	23.1%	22.5%	24.8%	25.0%	23.4%	21.8%	21.6%	23.1%	23.4%	22.2%	22.2%
Non-GAAP Operating Margin (ex Amortizati)	25.0%	25.3%	24.9%	27.1%	27.2%	25.6%	23.8%	23.6%	24.8%	25.1%	23.8%	23.8%
GAAP Pre Tax Margin	20.4%	18.7%	22.7%	24.9%	25.2%	23.6%	22.0%	21.8%	23.4%	23.7%	22.5%	22.6%
Non-GAAP Pre Tax Margin	23.2%	23.4%	22.7%	24.9%	25.2%	23.6%	22.0%	21.8%	23.4%	23.7%	22.5%	22.6%
Adjusted Pre Tax Margin	25.3%	25.5%	25.0%	27.2%	27.5%	25.8%	24.0%	23.8%	25.1%	25.3%	24.1%	24.1%
GAAP Tax Rate	8.0%	27.9%	29.4%	30.2%	28.0%	28.0%	28.0%	28.0%	30.0%	30.0%	30.0%	30.0%
Non-GAAP Tax Rate	29.1%	28.5%	29.4%	30.2%	28.0%	28.0%	28.0%	28.0%	30.0%	30.0%	30.0%	30.0%
Adjusted Tax Rate	29.1%	28.5%	29.4%	30.2%	28.0%	28.0%	28.0%	28.0%	30.0%	30.0%	30.0%	30.0%
GAAP Net Margin	18.8%	13.5%	16.0%	17.4%	18.2%	17.0%	15.8%	15.7%	16.4%	16.6%	15.8%	15.8%
Non-GAAP Net Margin	16.5%	16.7%	16.0%	17.4%	18.2%	17.0%	15.8%	15.7%	16.4%	16.6%	15.8%	15.8%
Adjusted Net Margin	17.9%	18.2%	17.7%	19.0%	19.8%	18.6%	17.3%	17.1%	17.5%	17.7%	16.9%	16.9%

#### Year/Year Growth

Revenues	52.7%	36.8%	41.1%	17.8%	23.7%	26.8%	23.4%	24.1%	17.4%	13.4%	10.7%	8.0%
Gross Profit	31.1%	18.9%	32.0%	34.7%	28.9%	26.5%	21.4%	14.1%	11.2%	11.5%	10.7%	8.0%
Research and development	72.0%	29.9%	25.5%	46.4%	30.9%	31.4%	29.9%	23.2%	16.7%	10.6%	10.7%	8.0%
Sales, Marketing and Administration	27.9%	13.2%	21.6%	22.4%	15.6%	22.7%	24.8%	24.6%	21.0%	13.0%	10.7%	5.8%
Amortization	84.4%	68.0%	56.8%	40.5%	39.7%	11.4%	-1.8%	-5.7%	-27.0%	-15.8%	-15.8%	-15.8%
Operating Income	27.2%	21.1%	42.9%	39.3%	34.9%	28.5%	18.3%	8.0%	7.0%	10.9%	10.6%	9.0%
Pre Tax Profit	19.6%	14.5%	32.5%	36.8%	34.2%	28.3%	19.7%	8.7%	8.8%	13.6%	13.3%	11.5%
Net Profit	17.0%	18.7%	31.7%	37.0%	36.2%	29.3%	22.1%	12.2%	5.8%	10.5%	10.2%	8.4%

#### Quarter/Quarter Growth

Revenues	-1.1%	3.0%	11.3%	4.0%	3.8%	5.5%	8.3%	4.6%	-1.8%	2.0%	5.7%	1.9%
Gross Profit	7.8%	4.2%	7.8%	11.2%	3.2%	2.3%	3.4%	4.6%	0.5%	2.6%	2.7%	1.9%
Research and development	20.4%	7.2%	2.9%	10.2%	7.6%	7.6%	1.7%	4.6%	2.0%	2.0%	1.8%	1.9%
Sales, Marketing and Administration	2.8%	2.8%	8.4%	6.9%	-3.0%	9.2%	10.2%	6.7%	-5.8%	2.0%	8.0%	1.9%
Amortization	9.4%	8.7%	13.4%	4.1%	8.8%	-13.3%	0.0%	0.0%	-15.8%	0.0%	0.0%	0.0%
Operating Income	7.9%	4.2%	9.5%	13.3%	4.4%	-0.7%	0.7%	3.4%	3.4%	3.0%	0.4%	1.9%
Pre Tax Profit	7.0%	3.5%	8.1%	14.2%	5.0%	-1.1%	0.9%	3.8%	5.0%	3.3%	0.6%	2.2%
Net Profit	8.9%	4.3%	6.8%	13.0%	8.3%	-1.1%	0.9%	3.8%	2.1%	3.3%	0.6%	2.2%

Source: Company reports and Wedbush Securities estimates.

**ANNUAL INCOME STATEMENT**
**Research In Motion Annual Income Statement**

(in USD millions, except per share data and ratios)

	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Revenue</b>	<b>3,037</b>	<b>6,009</b>	<b>11,065</b>	<b>14,953</b>	<b>18,611</b>	<b>20,872</b>
Cost of Revenue	1,379	2,929	5,968	8,369	10,560	11,993
<b>Gross Profit</b>	<b>1,658</b>	<b>3,081</b>	<b>5,097</b>	<b>6,584</b>	<b>8,050</b>	<b>8,879</b>
<b>Operating Expenses:</b>						
Research and Development	236	360	685	965	1,241	1,382
Sales, Marketing and Administration	538	881	1,496	1,811	2,212	2,480
Depreciation and Amortization	77	108	195	310	339	275
<b>Total Operating Expenses</b>	<b>851</b>	<b>1,349</b>	<b>2,375</b>	<b>3,086</b>	<b>3,792</b>	<b>4,136</b>
Operating Income (Loss)	807	1,731	2,722	3,498	4,259	4,743
<b>Non-GAAP Operating Income (Loss)</b>	<b>826</b>	<b>1,778</b>	<b>2,885</b>	<b>3,827</b>	<b>4,647</b>	<b>5,082</b>
Investment income	52	79	78	29	37	60
Litigation	-	-	-	(164)	-	-
FX impact of functional currency tax rules	-	-	-	(54)	-	-
Provision for tax for stock options	-	-	-	(42)	-	-
Other income, (expense), net	-	-	-	-	-	-
Interest and other income (expense)	52	79	78	(232)	37	60
<b>GAAP Pretax Income</b>	<b>859</b>	<b>1,811</b>	<b>2,800</b>	<b>3,267</b>	<b>4,296</b>	<b>4,803</b>
GAAP Income Taxes (benefit)	227	517	908	809	1,203	1,441
<b>GAAP Net Income</b>	<b>632</b>	<b>1,294</b>	<b>1,893</b>	<b>2,457</b>	<b>3,093</b>	<b>3,362</b>
<b>Proforma Adjustments</b>						
Litigation	-	-	-	(164)	-	-
FX impact of functional currency tax rules	-	-	-	(54)	-	-
Provision for tax for stock options	-	-	-	(42)	-	-
Other income, (expense), net	-	-	-	-	-	-
<b>Total Pro Forma Adjustments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(260)</b>	<b>-</b>	<b>-</b>
<b>Proforma Pretax Income</b>	<b>859</b>	<b>1,811</b>	<b>2,800</b>	<b>3,527</b>	<b>4,296</b>	<b>4,803</b>
Proforma Income Taxes	227	517	827	1,035	1,203	1,441
<b>Proforma Net Income</b>	<b>632</b>	<b>1,294</b>	<b>1,974</b>	<b>2,491</b>	<b>3,093</b>	<b>3,362</b>
Stock Compensation	19	34	38	58	64	64
Amortization of Intangibles	-	13	125	271	324	275
<b>Non-GAAP Pretax Income</b>	<b>878</b>	<b>1,857</b>	<b>2,963</b>	<b>3,856</b>	<b>4,684</b>	<b>5,142</b>
Non-GAAP Income Taxes	232	530	875	1,132	1,311	1,543
<b>Non-GAAP Net Income</b>	<b>646</b>	<b>1,327</b>	<b>2,088</b>	<b>2,724</b>	<b>3,372</b>	<b>3,599</b>
<b>Earnings (Loss) Per Share:</b>						
GAAP	\$1.10	\$2.26	\$3.30	\$4.31	\$5.53	\$5.99
<b>Proforma EPS (ex. one time)</b>	<b>\$1.10</b>	<b>\$2.26</b>	<b>\$3.44</b>	<b>\$4.37</b>	<b>\$5.53</b>	<b>\$5.99</b>
Non-GAAP EPS (PF ex. comp & amort)	\$1.13	\$2.32	\$3.64	\$4.78	\$6.03	\$6.42
Basic Shares Outstanding	556	560	565	564	555	557
Diluted Shares Outstanding	572	573	574	570	559	561
<b>EBITDA</b>						
Depreciation & Amortization	126	177	328	616	776	859
EBITDA	933	1,909	3,050	4,114	5,034	5,602
EBITDA Margin	31%	32%	28%	28%	27%	27%
<b>Margin Analysis</b>						
Gross Margin	55%	51%	46%	44%	43%	43%
Research and development	8%	6%	6%	6%	7%	7%
Sales, Marketing and Administration	18%	15%	14%	12%	12%	12%
Depreciation & Amortization	3%	2%	2%	2%	2%	1%
Operating Margin	27%	29%	25%	23%	23%	23%
Non-GAAP Operating Margin (ex Amortization)	27%	30%	26%	26%	25%	24%
GAAP Pre Tax Margin	28%	30%	25%	22%	23%	23%
Non-GAAP Pre Tax Margin	21%	22%	18%	17%	17%	16%
Adjusted Pre Tax Margin	21%	22%	19%	18%	18%	17%
GAAP Tax Rate	26%	29%	32%	25%	28%	30%
Non-GAAP Tax Rate	26%	29%	30%	29%	28%	30%
Adjusted Tax Rate	26%	29%	30%	29%	28%	30%
GAAP Net Margin	21%	22%	17%	16%	17%	16%
Non-GAAP Net Margin	21%	22%	18%	17%	17%	16%
Adjusted Net Margin	21%	22%	19%	18%	18%	17%
<b>Year/Year Growth</b>						
Revenues		98%	84%	35%	24%	12%
Gross Profit		86%	65%	29%	22%	10%
Research and development		52%	90%	41%	29%	11%
Sales, Marketing and Administration		64%	70%	21%	22%	12%
Depreciation & Amortization		41%	80%	59%	9%	-19%
Operating Income		115%	62%	33%	21%	9%
Pre Tax Profit		111%	55%	26%	22%	12%
Net Profit		105%	53%	26%	24%	9%

Source: Company reports and Wedbush Securities estimates.

## BALANCE SHEET

### Research In Motion Annual Balance Sheet Statement

(in USD millions, except per share data and ratios)

	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Assets:</b>						
Cash and Cash Equivalents	677.144	1,184.398	835.546	1,550.861	3,487.865	6,370.908
ST Investments	310	421	683	361	498	498
Trade Receivables	573	1,175	2,112	2,594	3,376	3,644
Other Receivables	40	75	158	206	136	136
Inventories	256	396	682	622	816	881
Other Current Assets	42	136	187	286	310	310
Deferred Income Tax Asset	22	91	184	194	228	228
Other	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>1,919</b>	<b>3,477</b>	<b>4,842</b>	<b>5,813</b>	<b>8,851</b>	<b>12,068</b>
LT Investments	426	739	721	958	919	919
Capital Assets	488	706	1,335	1,957	2,674	3,342
Intangible Assets	138	470	1,067	1,326	1,054	779
Goodwill	110	114	138	151	162	162
Deferred Income Tax Asset	8	5	0	-	-	-
Other LT Assets	-	-	-	-	-	-
<b>Total Assets</b>	<b>3,089</b>	<b>5,511</b>	<b>8,101</b>	<b>10,204</b>	<b>13,660</b>	<b>17,270</b>
<b>Liabilities:</b>						
Accounts Payable	130	271	448	616	844	911
Accrued Liabilities	288	690	1,239	1,638	2,109	2,209
Income Taxes Payable	100	475	361	96	78	78
Deferred Revenue	28	37	54	68	68	85
Deferred Income Tax Liability	-	-	13	15	26	26
Current Portion of LT Debt	0	0	-	-	-	-
Other	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>547</b>	<b>1,474</b>	<b>2,115</b>	<b>2,432</b>	<b>3,126</b>	<b>3,310</b>
LT Debt	6	7	-	-	-	-
Deferred Income Tax Liability	53	65	88	141	135	135
Income Taxes Payable	-	31	24	29	29	29
Other LT Liabilities	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>605</b>	<b>1,578</b>	<b>2,227</b>	<b>2,602</b>	<b>3,289</b>	<b>3,473</b>
<b>Shareholders' Equity</b>						
Capital Stock	2,100	2,170	2,208	2,208	2,198	2,198
Treasury Shares	-	-	-	(94)	(97)	(97)
Retained Earnings	359	1,653	3,546	5,274	7,980	11,342
Additional Paid-in Capital	36	80	120	164	218	282
Accumulated Other Comprehensive Income (Loss)	(12)	30	0	51	71	71
<b>Total Shareholders' Equity</b>	<b>2,484</b>	<b>3,934</b>	<b>5,874</b>	<b>7,603</b>	<b>10,371</b>	<b>13,796</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>3,089</b>	<b>5,511</b>	<b>8,101</b>	<b>10,204</b>	<b>13,660</b>	<b>17,270</b>
<b>Return Ratios<sup>1</sup></b>						
Return on Sales	20.1%	21.9%	21.5%	19.2%	17.2%	15.0%
Total Asset Turnover	1.20	1.37	1.53	1.50	1.45	1.71
Financial Leverage	1.24	1.40	1.32	1.39	1.43	1.38
Retention Ratio	100%	100%	100%	100%	100%	100%
Return on Equity	30.2%	41.9%	43.5%	40.1%	35.7%	35.3%
Return on Assets	24.3%	29.9%	32.9%	28.8%	24.9%	25.6%
Sustainable Growth	30.2%	41.9%	43.5%	40.1%	35.7%	35.3%
<b>Activity Ratios</b>						
Receivables Turnover	6.5	6.4	6.3	5.8	6.1	6.6
Days Receivable	55.4	56.2	57.3	61.7	59.2	54.9
Payables Turnover	28.6	27.8	29.7	16.1	18.1	30.9
Days Payable	13	13	12	22	20	12
Inventory Turnover	6.8	9.2	9.6	9.9	10.1	12.2
Inventory Days	53	39	38	36	36	30
<b>Liquidity/Leverage</b>						
Current Ratio	3.5	2.4	2.7	2.3	2.0	2.3
Quick Ratio	3.0	2.1	2.4	2.0	1.8	2.0
Debt to Equity	0%	0%	0%	0%	0%	0%
Debt to Capital	0%	0%	0%	0%	0%	0%
Net Working Capital	1,373	2,003	2,297	2,365	2,317	2,726
ST Debt	0	0	7	7	-	-
LT Debt	6	7	-	-	-	-
Book Value per Share	\$4.35	\$6.85	\$7.72	\$8.61	\$9.32	\$10.26
Tangible Book Value per Share	\$3.92	\$5.84	\$6.56	\$6.90	\$7.29	\$8.15
Cash & Investments per Share, Net	\$2.46	\$4.07	\$3.60	\$3.88	\$4.34	\$3.91

Source: Company reports, Wedbush Securities estimates.

<sup>1</sup>Pro Forma Basis

**COVERED PUBLIC COMPANIES MENTIONED IN THIS REPORT (AS OF CLOSE 8/16/10)**

Company	Ticker	Rating	Current Price	Price Target
GOOGLE	GOOG	UNDERPERFORM	\$485.59	\$525

**WEDBUSH SECURITIES**

*Wedbush does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.*

**ANALYST CERTIFICATION**

I, Scott P. Sutherland, CFA, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

**IMPORTANT DISCLOSURES**



**INVESTMENT RATINGS**

**OUTPERFORM** – Expect the total return of the stock to outperform relative to the median total return of the analyst’s (or the analyst’s team) coverage universe over the next 6-12 months.

**NEUTRAL** – Expect the total return of the stock to perform in-line with the median total return of the analyst’s (or the analyst’s team) coverage universe over the next 6-12 months.

**UNDERPERFORM** – Expect the total return of the stock to underperform relative to the median total return of the analyst’s (or the analyst’s team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst’s coverage universe (or the analyst’s team coverage).\*

**DISTRIBUTION OF RATINGS (as of June 30, 2010)**

**OUTPERFORM** – 51% (10% of this rating category were investment banking clients within the last 12 months).

**NEUTRAL** – 38% (1% of this rating category were investment banking clients within the last 12 months).

**UNDERPERFORM** – 11% (0% of this rating category were investment banking clients within the last 12 months).

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The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS’ total revenues, a portion of which are generated by WS’ investment banking activities.

WS makes a market in the securities mentioned herein.

WS managed a public offering of securities for Image Sensing Systems (ISNS) within the last 12 months.

WS has received compensation for investment banking services from Image Sensing Systems (ISNS) and Telecommunications Systems (TSYS) within the last 12 months.

WS provided investment banking services to Image Sensing Systems (ISNS) and Telecommunications Systems (TSYS) within the last 12 months.

\* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

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Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to [ellen.kang@wedbush.com](mailto:ellen.kang@wedbush.com), or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

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