

Foundation Medicine (FMI)

1Q14 Preview - Expecting Solid Volumes & Stable Reimbursement - Encouraged by Checks & Retracted S-1 - Reaffirming OUTPERFORM & Top Pick Status

- **Expecting solid 1Q14 results.** We forecast sales of \$11 MM and an EPS loss of (\$0.48) when FMI reports 1Q14 financial results (after the market close) on Thursday May 7, 2014. Wall Street consensus estimates are for sales of \$11.3 MM and an EPS loss of (\$0.48). FMI is hosting a conference call at 4:30 p.m. EST (dial-in: 885-420-0652, passcode: 29386961, investors.foundationmedicine.com).
- **Clinical test volumes remain the key metric. Expecting stronger volumes driven by better sales force momentum.** We are forecasting 1Q14 clinical test volume of 4,852, with acceleration helping drive the company to outstrip its 2014 guidance for 22,000-25,000 tests.
- **Previously published 1Q14 checks on competition and reimbursement help support our long-term thesis.** Competitive checks in the last month supported our view that FMI continues to face little competition commercially and that there is minimal threat of a push by academic medical centers into the community setting. Reimbursement checks, which included conversations with academic medical center heads and payor commentary suggested to us that pushback from large payors may not be as strong as investors believe and that preliminary discussions with CMS have been constructive. (Please contact your Wedbush institutional salesperson for detailed reports referenced above.)
- **Reaffirming OUTPERFORM rating & \$50 PT. Reimbursement-based short thesis lacks meaningful catalysts near term, in our view.** We believe sentiment on shares is medium-low and based primarily on reimbursement concerns. Based on our checks and new clinical utility data expected in 2Q14 and 3Q14 we believe reimbursement is likely to get easier, representing near-term validation for our long-term thesis. Shares of FMI are down 34% in the last 1.5 months versus a 2% gain in the S&P 500 index and a 9% decline in the BTK index. We arrive at our \$50 price target through an EV/sales valuation framework, assuming a ~9x 2016E EV/sales multiple with \$31 MM in net cash and 29 MM shares outstanding, discounted back at 15%. This multiple is justified to us given FMI's hyper growth profile (~89% 3-year CAGR, +70% in 2016), cancer focus and the very early stages of adoption (~10% share in 2016). On a 2015E EV/sales multiple basis, shares of FMI are trading a premium to the current group median (6.5x vs 3.6x).

May 5, 2014

Price
\$28.22

Rating
OUTPERFORM

12-Month Price Target
\$50

Zarak Khurshid
(415) 274-6823
zarak.khurshid@wedbush.com

Company Information

Shares Outst (M)	28
Market Cap (M)	\$794
52-Wk Range	\$20 - \$45
Cash/sh	5
Enterprise Value	656
LT Debt/Cap	0
2015 EV/Sales	6 x
Book Value/sh	5.1

Company Description

Foundation Medicine is the leading provider of test services to oncologists for the deep analysis of genetic alterations in cancer. These test results provide clinically actionable information for rare, recurring & stubborn solid tumors and hematologic cancers.

FYE Dec	2013E	2014E			2015E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$5.2A	\$11.0E		\$11.3E	\$22.3E		\$20.3E
Q2 Jun	\$5.9A	\$13.6E		\$13.1E	\$26.6E		\$23.2E
Q3 Sep	\$8.2E	\$16.4E		\$15.8E	\$31.2E		\$27.3E
Q4 Dec	\$9.7E	\$19.5E		\$18.6E	\$35.7E		\$31.8E
Year*	\$29.0E	\$60.6E		\$58.6E	\$115.8E		\$108.1E
Change	172%	109%			91%		
	2013E	2014E			2015E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$0.64)A	(\$0.48)E		(\$0.48)E	(\$0.38)E		(\$0.38)E
Q2 Jun	(\$0.52)A	(\$0.45)E		(\$0.46)E	(\$0.30)E		(\$0.30)E
Q3 Sep	(\$0.44)E	(\$0.43)E		(\$0.44)E	(\$0.20)E		(\$0.20)E
Q4 Dec	(\$0.48)E	(\$0.38)E		(\$0.43)E	(\$0.17)E		(\$0.17)E
Year*	(\$2.08)E	(\$1.74)E		(\$1.81)E	(\$1.04)E		(\$1.35)E
P/E	NM	NM			NM		
Change	410%	-16%			-40%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.



Source: Thomson Reuters

Wedbush Securities 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. Please see page 7 of this report for analyst certification and important disclosure information.

Investment Thesis

FMI is a lab services company whose test menu is focused on the genetic analysis of rare, recurring and aggressive tumors. FMI's testing platform leverages next-generation sequencing (NGS) to identify clinically actionable genetic mutations within tumor cells. The company's two tests are FoundationOne, a pan-cancer panel for solid tumors, and FoundationOne Heme, a panel for hematological malignancies (i.e., leukemia, lymphoma & myeloma). These tests are targeted for use by academic and community-based oncologists, as well as biopharmaceutical companies for use in cancer therapeutic R&D. We believe FMI's FoundationOne test represents the first mover and highest-quality test commercially available for detailed genomic workup of tumors. We estimate the company's test volumes and sales will grow above an 85% CAGR for the next three years and we believe FMI has many years of significant growth potential ahead as the opportunity in solid tumors, blood-based cancers and future cancer monitoring products is largely untapped. We believe investors are overly concerned about potential competitive threats and potential challenges to reimbursement near term which are overhangs on the shares currently. We believe continued strong execution by the company, lack of viable competition and continued reimbursement progress with large payors will drive solid financials, thus inspiring confidence and meaningful share price appreciation in the near term. We believe the late 2013 addition of high-quality sales reps, improving sales force efficiency and recent menu expansion, combined with growing physician awareness tees up a strong case for test volume outperformance in the near term. Additionally, we believe sentiment on shares is medium-low and based primarily on reimbursement concerns. Based on our checks and new clinical utility data expected in 2Q14 and 3Q14 we believe reimbursement is likely to get easier, representing near term validation for our long term thesis.

Estimates

Figure 1: 1Q14 Estimates

	1Q14			
	REV (m)	EPS	Volumes*	Reimbursement**
Wedbush	11	(\$0.48)	4,852	\$3,400
Consensus	11	(\$0.48)	NA	NA

*clinical only

*reimbursement per clinical sample

Source: Company data, Wedbush Securities, Inc.

Valuation

We arrive at our 12-month \$50 price target through EV/sales valuation framework where we assume a 9x 2016E EV/sales multiple with \$31 MM in net cash and roughly 29 MM shares outstanding discounted back at 15%. This multiple is justified to us given the 2016 growth profile (~70% y/y), cancer focus and very early penetration story (~10% share in 2016). On a 2015E EV/sales basis, shares of FMI are trading at 6.5x representing a premium to the current group median multiple of 3.6x. Versus the molecular diagnostics lab service growth comps, FMI is trading at a premium on a 2015 EV/sales multiple basis (6.5x vs. 3.3x median).

Figure 2: Potential Catalysts

Catalyst	Timing
Earnings	May-14
ASCO publications	Jun-14
Clinical decisions study with US Oncology	3Q14
Additional product launches/enhancements	2014
CMS coverage decision	??

Source: Company data, Wedbush Securities, Inc.

Risks

Risks to attainment of our price target include a fiercely competitive diagnostics and lab service market. Additionally, clinical adoption for new paradigms of testing in diagnostics is difficult to predict and private payor as well as Medicare reimbursement for *FoundationOne* and *FoundationOne Heme* could prove to be more challenging than expected.

FMI is dependent on Illumina (ILMN, NEUTRAL) for equipment and other materials related to next-generation sequencing. If ILMN were to stop supplying the material or were to enter the space as a competitor, it could lead to an interruption in FMI's ability to perform its menu of tests. The near-term risk of this has been mitigated through a five-year supply agreement FMI signed with ILMN in July 2013.

The company operates a CLIA certified lab at their Cambridge, MA headquarters where they conduct *FoundationOne*. Operating as a CLIA lab allows the company to avoid the FDA regulatory 510(k)/PMA pathway for diagnostic devices. The FDA could more tightly regulate CLIA lab-based tests as medical devices, which would likely cause significant disruption to the business.

Figure 3: Income Statement

	2011	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Product Revenue	2,057	10,645	5,200	5,920	8,208	9,662	28,990	11,021	13,599	16,421	19,547	60,589	115,838	197,057
Total Revenues	2,057	10,645	5,200	5,920	8,208	9,662	28,990	11,021	13,599	16,421	19,547	60,589	115,838	197,057
Cost of revenues	258	5,681	2,378	2,219	2,858	4,204	11,659	4,298	5,032	5,747	5,864	20,942	34,284	56,478
COGS as % of sales			46%	37%	35%	44%	36%							
Gross profit	1,799	4,964	2,822	3,701	5,350	5,458	17,331	6,723	8,568	10,673	13,683	39,647	81,554	140,580
Gross Margins	87.5%	46.6%	54.3%	62.5%	65.2%	56.5%	59.8%	61.0%	63.0%	65.0%	70.0%	65.4%	70.4%	71.3%
Selling and Marketing	1,555	3,454	1,811	3,057	3,038	4,602	12,508	5,511	6,120	6,897	7,819	26,346	41,254	60,887
General and administrative	6,992	8,644	3,150	4,755	6,448	7,512	21,865	7,700	7,900	8,200	8,500	32,300	34,950	35,200
Research and development	9,023	14,777	4,982	6,097	6,988	6,834	24,901	7,100	7,300	7,600	8,000	30,000	35,000	35,900
Total operating expenses	17,570	26,875	9,944	13,910	16,475	18,948	59,275	20,311	21,320	22,697	24,319	88,646	111,204	131,987
Operating Income	(15,771)	(21,911)	(7,122)	(10,209)	(11,125)	(13,490)	(41,944)	(13,588)	(12,752)	(12,023)	(10,636)	(48,999)	(29,650)	8,593
Interest income	(421)	(421)	(76)	(65)	(1,278)	(33)	(1,452)	311	286	251	216	1,064	570	272
Other	(845)	(61)	(6)	(96)	(61)	432	269	0	0	0	0	0	0	0
Income before taxes	(17,037)	(22,393)	(7,204)	(10,370)	(12,464)	(13,091)	(43,127)	(13,277)	(12,466)	(11,773)	(10,420)	(47,935)	(29,080)	8,865
Provision for income taxes	0	0	0	0	0	0	-	0	0	0	0	0	0	576
Tax Rate														0
Net income	(17,037)	(22,393)	(7,204)	(10,370)	(12,464)	(13,091)	(43,129)	(13,277)	(12,466)	(11,773)	(10,420)	(47,935)	(29,080)	8,288
Accretion of convertible preferred stock	(296)	(286)	(50)	(42)	(47)	0	(139)	0	0	0	0	0	0	0
Net Income	(17,333)	(22,679)	(7,254)	(10,412)	(12,511)	(13,091)	(43,268)	(13,277)	(12,466)	(11,773)	(10,420)	(47,935)	(29,080)	8,288
GAAP EPS -Basic	(\$3.52)	(\$0.41)	(\$0.64)	(\$0.52)	(\$0.46)	(\$0.48)	(\$2.09)	(\$0.48)	(\$0.45)	(\$0.43)	(\$0.38)	(\$1.74)	(\$1.05)	\$0.30
GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$0.64)	(\$0.52)	(\$0.44)	(\$0.48)	(\$2.08)	(\$0.48)	(\$0.45)	(\$0.43)	(\$0.38)	(\$1.74)	(\$1.05)	\$0.30
Non-GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$0.64)	(\$0.52)	(\$0.44)	(\$0.48)	(\$2.08)	(\$0.48)	(\$0.45)	(\$0.43)	(\$0.38)	(\$1.74)	(\$1.05)	\$0.30
Weighted average shares - basic	4,930	55,642	11,339	20,129	27,336	27,505	21,577	27,560	27,601	27,643	27,684	27,622	27,864	28,046
Weighted average shares - diluted	4,930	55,642	11,339	20,129	28,138	27,505	21,778	27,560	27,601	27,643	27,684	27,622	27,864	28,046
		proforma												
Cash and Equivalents	10,852	54,838	45,832	35,965	138,088	124,293	124,293	114,507	100,283	86,413	70,422	70,422	28,964	17,789
Net Cash	10,852	54,838	45,832	35,965	138,088	124,293	124,293	114,507	100,283	86,413	70,422	70,422	28,964	17,789
Net Cash/share			4	2	5	5	5	4	4	3	3	3	1	1
NOLs					(39,900)	(52,991)	(52,991)	(66,268)	(78,734)	(90,506)	(100,926)	(100,926)	(130,006)	(121,718)
% of Sales	2011	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Gross Margins	87%	47%	54%	63%	65%	56%	60%	61%	63%	65%	70%	65%	70%	71%
Sales and Marketing	76%	32%	35%	52%	37%	48%	43%	50%	45%	42%	40%	43%	36%	31%
General and administrative	340%	81%	61%	80%	79%	78%	75%	70%	58%	50%	43%	53%	30%	18%
Research and development	439%	139%	96%	103%	85%	71%	86%	64%	54%	46%	41%	50%	30%	18%
Total operating expenses	854%	252%	191%	235%	201%	196%	204%	184%	157%	138%	124%	146%	96%	67%
EBIT	-767%	-206%	-137%	-172%	-136%	-140%	-145%	-123%	-94%	-73%	-54%	-81%	-26%	4%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	7%
Net income	-843%	-213%	-139%	-176%	-152%	-135%	-149%	-120%	-92%	-72%	-53%	-79%	-25%	4%
Free Cash Flow	-1015%	-199%	0%	0%	-89%	-95%	-122%	-77%	-93%	-73%	-71%	-78%	-27%	2%
y/y Δ	2011	2012	1Q13	2Q13	3Q13	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E
Total Revenues	NA	418%	750%	226%	170%	87%	172%	112%	130%	100%	102%	109%	91%	70%
Cost of revenues	NA	2102%	235%	98%	60%	104%	105%	81%	127%	101%	39%	80%	64%	65%
Gross Margins	NA	-47%	-442%	63%	59%	-6%	28%	12%	1%	0%	24%	9%	8%	1%
Sales and Marketing	NA	122%	260%	262%	258%	266%	262%	204%	100%	127%	70%	111%	57%	48%
General and administrative	NA	24%	88%	135%	202%	167%	153%	144%	66%	27%	13%	48%	8%	1%
Research and development	NA	64%	65%	69%	96%	49%	69%	43%	20%	9%	17%	20%	17%	3%
Total operating expenses	NA	53%	92%	115%	152%	119%	121%	104%	53%	38%	28%	50%	25%	19%
EBIT	NA	39%	35%	77%	110%	144%	91%	91%	25%	8%	-21%	17%	-39%	-129%
Tax rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income	NA	31%	31%	74%	125%	134%	91%	83%	20%	-6%	-20%	11%	-39%	-129%

Source: Company data, Wedbush Securities, Inc.

Figure 4: Balance Sheet

	2011	2012	2013E	2014E	2015E	2016E
Current assets:						
Total Cash and Cash Equivalents	10852	54,838	124,293	74,859	37,883	31,232
Accounts Receivable	278	2,195	6,262	9,774	17,852	29,623
Inventory	318	803	1,763	1,629	2,975	4,937
Prepaid expenses and other Current Assets	313	550	992	992	992	992
Total current assets	11,761	58,386	133,310	87,254	59,702	66,785
Property, Plant and Equipment	7,902	12,154	22,104	25,133	30,925	40,778
Accumulated Depreciation	(1,796)	(4,689)		(4,613)	(10,018)	(16,853)
Restricted cash and other non-current assets	198	188	1,854	1,854	1,854	1,854
Total assets	18,065	66,039	157,268	109,629	82,464	92,563
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts Payable and accrued expenses	2,408	5,072	7,007	7,286	9,140	10,848
Deferred revenue and Other Current Liabilities	1,832	3,458	8,752	8,752	8,752	8,752
Total current liabilities	4,240	8,530	15,759	16,038	17,892	19,600
Long-term liabilities:						
Long Term Debt	3,041	1,441	0	0	0	0
Other long term liabilities	632	807	9,798	9,798	9,798	9,798
Total liabilities	7,913	10,778	25,557	25,836	27,690	29,398
Stockholders' equity:						
Preferred Stock	32,455	98,658	0	0	0	0
Common Stock, APIC, RE	(22,303)	(43,397)	131,711	83,793	54,774	63,165
Total liabilities and stockholders' equity	18,065	66,039	157,268	109,629	82,464	92,563

Source: Company data, Wedbush Securities, Inc.

Figure 5: Cash Flow Statement

	2011	2012	2013	2014E	2015E	2016E
Cash Flows from Operating Activities:						
Net (loss) income	(17,037)	(22,393)	(42,944)	(47,918)	(29,019)	8,391
Depreciation	1,520	2,894	5,006	4,613	5,405	6,836
change in FV of investor rights obligation	1,067	0	0	0	0	0
change in FV of warrant liability	34	131	1,380	0	0	0
Stock-based compensation expense	73	1,535	7,316	0	0	0
common stock issued for services	0	0	4	0	0	0
non-cash interest expense/impairment	111	104	497	0	0	0
Change in working capital	99	480	(2,025)	(3,099)	(7,570)	(12,025)
Net cash provided by operating activities	(14,133)	(17,249)	(30,766)	(46,405)	(31,184)	3,202
Cash Flows from Investing Activities:						
Purchase of property and equipment	(5,410)	(3,183)	(6,930)	(3,029)	(5,792)	(9,853)
increase in restricted cash	0		(1,564)	0	0	0
Net cash used in investing activities	(5,410)	(3,183)	(8,494)	(3,029)	(5,792)	(9,853)
Cash Flows from Financing Activities:						
Proceeds from Issuance of Restricted Stock	114	70	49	0	0	0
proceeds from issuance of preferred stock	26,338	65,917	(10)	0	0	0
proceeds from issuance of common stock	0	0	110,381	0	0	0
change in notes payable	2,534	(1,569)	(1,705)	0	0	0
Net cash provided by financing activities	28,986	64,418	108,715	0	0	0
Net increase (decrease) in cash and cash equivalents	9,443	43,986	69,455	(49,434)	(36,976)	(6,651)
Cash and cash equivalents, beginning of period		10,852	54,838	124,293	74,859	37,883
Cash and cash equivalents, end of period	10,852	54,838	124,293	74,859	37,883	31,232

Source: Company data, Wedbush Securities, Inc.

Company	Ticker	Rating	Price Target	Current Price
Illumina	ILMN	NEUTRAL	\$140	\$139

Analyst Biography

Zarak Khurshid is a senior equity research analyst covering the Medical Diagnostics and Life Science Tools sectors. Prior to joining Wedbush in January 2010, Mr. Khurshid was Vice President and senior equity research analyst with Caris & Company where he covered the Medical diagnostics and Life Sciences Tools sectors from 2006 to 2010. Mr. Khurshid's aggressive risk/reward focused investment style is supported by data points from a diverse network of contacts from industry, hospitals, clinical labs, and academia. Mr. Khurshid was ranked #1 in the Life Science Tools and Services sectors and #4 on Wall Street for earnings accuracy in 2012 by *Starmine*. Prior to his start on Wall Street with Pacific Growth Equities in 2004, Mr. Khurshid was a Research Associate with Cytokinetics and an Associate Bioengineer with Aurora Biosciences. Mr. Khurshid received a BS in Bioengineering and a BA in Economics from the University of California, San Diego.

Analyst Certification

I, Zarak Khurshid, 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.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ114.pdf>

Investment Rating System:

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).*

Rating Distribution (as of March 31, 2014)	Investment Banking Relationships (as of March 31, 2014)
Outperform: 54%	Outperform: 22%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

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.

Wedbush Equity Research Disclosures as of May 5, 2014

Company	Disclosure
Foundation Medicine	1
Illumina	1

Research Disclosure Legend

1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.
10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts

Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.

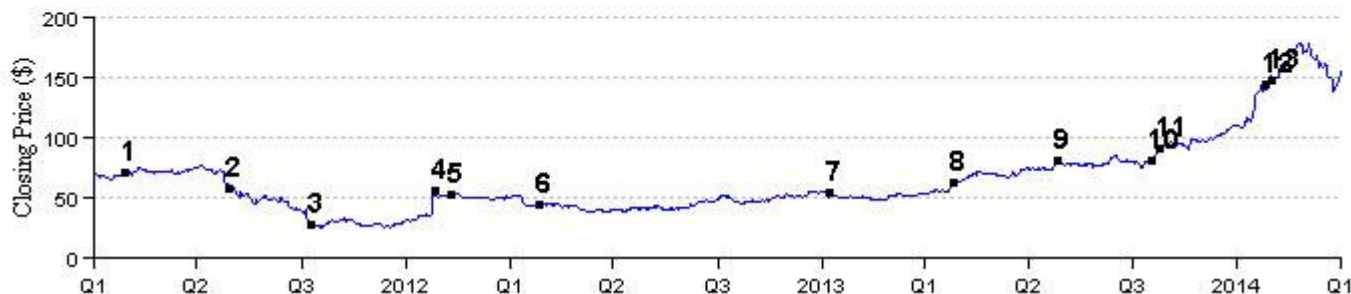
FMI

1) 03/04/14
OUTPERFORM \$50



ILMN

1) 04/27/11	2) 07/27/11	3) 10/07/11	4) 01/25/12	5) 02/08/12	6) 04/24/12	
OUTPERFORM \$80	OUTPERFORM \$78	OUTPERFORM \$35	OUTPERFORM \$50	OUTPERFORM \$65	OUTPERFORM \$52	
7) 01/04/13	8) 04/23/13	9) 07/24/13	10) 10/15/13	11) 10/22/13	12) 01/23/14	13) 01/29/14
NEUTRAL \$52	NEUTRAL \$55	NEUTRAL \$60	NEUTRAL \$65	NEUTRAL \$72	NEUTRAL \$130	NEUTRAL \$140



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

Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cm/g/equities-division/research/equity-research> 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, 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.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

The information herein is based on sources that we consider reliable, but its accuracy is not guaranteed. The information contained herein is not a representation by this corporation, nor is any recommendation made herein based on any privileged information. This information is not intended to be nor should it be relied upon as a complete record or analysis; neither is it an offer nor a solicitation of an offer to sell or buy any security mentioned herein. This firm, Wedbush Securities, its officers, employees, and members of their families, or any one or more of them, and its discretionary and advisory accounts, may have a position in any security discussed herein or in related securities and may make, from time to time, purchases or sales thereof in the open market or otherwise. The information and expressions of opinion contained herein are subject to change without further notice. The herein mentioned securities may be sold to or bought from customers on a principal basis by this firm. Additional information with respect to the information contained herein may be obtained upon request.

WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products

Rommel T. Dionisio (212) 938-9934
Alicia Reese (212) 938-9927

Footwear, Apparel and Accessories

Corinna Freedman (212) 668-9876

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines

Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology

Craig Irwin (212) 938-9926

Environmental Services / Building Products

Al Kaschalk (213) 688-4539

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Enterprise Security

Sanjit Singh (415) 273-7323

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

Entertainment: Retail

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Media and Gaming

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Social Media, Advertising & Technology

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Semiconductors

Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES AND HEALTH CARE

Biotechnology/Biopharmaceuticals/BioDefense

Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861
Dilip Joseph (415) 273-7308

Emerging Pharmaceuticals

Liana Moussatos, Ph.D. (415) 263-6626

Healthcare Services - Managed Care

Sarah James (213) 688-4503

Medical Devices

Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com