

May 14, 2014

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## Foundation Medicine (FMI - OUTPERFORM): Collections & Sales Force Productivity Sensitivity Analysis Suggests 2014 Bar is Low - Nothing Alarming in the 10Q Filing - Maintain OP

Price: \$21.05

12-Month Price Target: \$50

- **Sensitivity analysis helps to understand revenue collection progress and sales force productivity.** With this note we are providing investors with sensitivity analyses to better understand the impact of various scenarios of collection efficiency and sales force productivity on test volume and revenue over the next three years.
- **Based on this analysis, 2014 test volume/revenue guidance and consensus estimates do not appear to assume heroic improvement in collection efficiency or salesforce productivity, in our view.**
- **10Q analysis suggests revenue collection on tests performed within the quarter and on tests from prior quarters is tracking fine.** Details outlined in FMI's 1Q14 10-Q which was issued on 5/13/14 suggest to us that revenue collection efficiency was roughly unchanged from the prior quarter. Approximately 46% of the total tests performed in both 4Q13 and 1Q14 were non-Medicare related and went unpaid in the quarter. This is slightly lower (slightly worse) than the weighted average of roughly 42% for all of 2013, but not inconsistent with early stage lab service test launches. On a more positive note, when one analyzes the number of non-Medicare tests billed and paid within the quarter, 1Q14 posted a 38% level which was a slight step up from the 37% posted in 4Q13. Additionally, the company collected payment in 1Q14 on 827 tests performed in prior periods which accelerated over 4Q13 levels and outperformed our estimate of 636 tests.
- **The bolus of 1Q14 rep hires dragged down productivity per rep. Fortunately, 2014 estimates do not appear to assume significant improvement near term.** Based on the addition of 17 reps in 1Q14 on top of the 26 reps at the end of 4Q13, we calculate the effective production level in 1Q14 at around 136 tests per rep versus the weighted average productivity per rep in 2013 of roughly 211 tests per rep/quarter. Genoptix, which sold services for workup of hematological malignancies directly to the community-based hem/onc, represents one of the few useful proxies for salesforce productivity in the oncology market. Genoptix averaged just north of 200 cases per rep per quarter in its 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> years following launch. At the higher end of the spectrum, SQNM averages around 500 tests per sales rep per quarter and at the lower end Myriad Genetics' oncology reps likely operate at around 150 tests per quarter. We believe FMI has that ability to achieve much higher levels of sales force productivity over time as the company is targeting a larger opportunity (800k-1.8 MM tests annually over time), does not compete with the local pathologist and is the first mover in the area of deep tumor profiling. Our sales productivity sensitivity analysis suggests that if productivity remains flat from 1Q14 levels, the company should achieve its 2014 guidance and if productivity per rep improves modestly there is a good chance of upside (see Figure 3). During 1Q14 the bulk of the reps hired in the quarter were in training mode and thus not actively selling in the field, which likely brought down the average productivity per rep.
- **Form 4 filed by largest shareholder, Third Rock, theoretically reduces ownership from 23% to 17%.** Yesterday 5/13, FMI's largest shareholder, Third Rock Ventures, filed Form 4s outlining dispersal of ~1.7 MM shares to its limited partners. Assuming the limited partners sell their stock, Third Rock would continue to be the largest shareholder with around 5 MM shares or 17% of the company. We don't believe this is a referendum on the company or that Third Rock has specific insight into reimbursement.
- **Maintaining OUTPERFORM rating. Collection and reimbursement fundamentals continue to shape up better than current sentiment. Looking forward to new clinical data at ASCO (5/30-6/3).** We arrive at our \$50 price target through an EV/sales valuation framework, assuming a ~9x 2016E EV/sales multiple with no net cash and 29 MM shares outstanding, discounted back at 15%. This multiple is justified to us given FMI's hyper growth profile (~83% 3-year CAGR, +60% 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 at a premium to the current group median (5x vs 3.6x).

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## 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, new clinical utility data expected in 2Q14 and 3Q14 and better traction with the higher priced FoundationOne heme test, we believe reimbursement is likely to get easier, representing near term validation for our long term thesis.

**Figure 1: Intra-Quarter Billing Sensitivity**

% Uncollected private tests/Q	Revenue		
	2014	2015	2016
50%	57	107	173
45% (Wedbush Estimate)	60	111	178
40%	63	115	184
35%	66	119	190
<b>Consensus</b>	<b>58</b>	<b>109</b>	<b>191</b>

\*Assumes 27k, 54k & 86k tests in 2014, 2015, 2016, 2 rep adds per quarter, \$3,400 reimbursement and 72% of unpaid non-medicare samples in Q are paid within 3 quarters

Source: Company data, Wedbush Securities, Inc.

**Figure 2: Prior Period Collection Sensitivity**

% of billings collected over the next 3 quarters	Revenue		
	2014	2015	2016
55%	56	101	161
60%	57	104	166
72% (recent average)	60	111	178
90%	64	122	197
<b>Consensus</b>	<b>58</b>	<b>109</b>	<b>191</b>

\*Assumes 27k, 54k & 86k tests in 2014, 2015, 2016, 2 rep adds per quarter, \$3,400 reimbursement and 45% of non medicare tests are not paid in the quarter, improvement in salesforce productivity

Source: Company data, Wedbush Securities, Inc.

**Figure 3: 2014, 2015 & 2016 Salesforce Productivity Sensitivity**
**2014**

Tests/Rep/q*	Annual Test Volume (k)	Annual Rev. (\$MM)
135 (1Q14 level)	23	55
140	24	56
163 (Wedbush)	27	60
170	29	61
175	29	62
180	30	63
<b>Guidance</b>	<b>22-25</b>	<b>52-58</b>

\*Weighted average productivity

\*\*Assumes 2 rep adds per Q, \$3,400 reimbursement & collection efficiency similar to 1Q14 levels

**2015**

Tests/Rep/q*	Annual Test Volume (k)	Annual Rev. (\$MM)
215	45	100
225	48	103
260 (Wedbush)	54	111
275	57	115
295	61	120
<b>Consensus</b>	<b>NA</b>	<b>109</b>

\*Weighted average productivity

\*\*Assumes 2 rep adds per Q, \$3,400 reimbursement & collection efficiency similar to 1Q14 levels.

**2016**

Tests/Rep/q*	Annual Test Volume (k)	Annual Rev. (\$MM)
280	68	154
300	73	161
335	82	172
354 (Wedbush)	86	178
375	91	184
400	96	192
<b>Consensus</b>	<b>NA</b>	<b>191</b>

\*Weighted average productivity

\*\*Assumes 2 rep adds per Q, \$3,400 reimbursement & collection efficiency similar to 1Q14 levels. Also assumes Medicare sales of \$7 MM

\*\*\*Note consensus assumptions for Medicare are unclear.

Source: Company data, Wedbush Securities, Inc.

Figure 4: Potential Catalysts

Catalyst	Timing
Earnings	May-14
ASCO publications	Jun-14
Clinical decisions study with US Oncology	Jun-14
FoundationOne Solid tumor enhancements	2Q14
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 5: Income Statement**

	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Product Revenue	2,057	10,645	28,990	11,455	13,534	16,099	19,000	60,088	21,772	25,760	29,807	33,692	111,032	178,510
Total Revenues	2,057	10,645	28,990	11,455	13,534	16,099	19,000	60,088	21,772	25,760	29,807	33,692	111,032	178,510
Cost of revenues	258	5,681	11,659	5,291	6,090	7,244	8,550	27,176	8,709	10,304	11,923	13,477	44,413	66,647
COGS as % of sales			36%											
Gross profit	1,799	4,964	17,331	6,164	7,444	8,854	10,450	32,912	13,063	15,456	17,884	20,215	66,619	111,862
Gross Margins	87.5%	46.6%	59.8%	53.8%	55.0%	55.0%	55.0%	54.8%	60.0%	60.0%	60.0%	60.0%	60.0%	62.7%
Selling and Marketing	1,555	3,454	12,508	5,690	7,308	7,244	7,600	27,843	8,491	9,789	9,836	11,455	39,572	55,172
General and administrative	6,992	8,644	21,865	5,700	6,000	6,400	7,500	25,600	7,600	7,700	7,800	7,850	30,950	35,200
Research and development	9,023	14,777	24,901	6,915	7,300	7,600	7,700	29,515	8,300	8,600	8,900	9,200	35,000	36,000
Total operating expenses	17,570	26,875	59,275	18,305	20,608	21,244	22,800	82,958	24,391	26,089	26,536	28,505	105,522	126,372
Operating Income	(15,771)	(21,911)	(41,944)	(12,141)	(13,165)	(12,390)	(12,350)	(50,046)	(11,328)	(10,633)	(8,652)	(8,290)	(38,903)	(14,509)
Interest income	(421)	(421)	(1,452)	(25)	280	257	225	737	183	166	135	108	593	209
Other	(845)	(61)	269	0	0	0	0	0	0	0	0	0	0	0
Income before taxes	(17,037)	(22,393)	(43,127)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,300)
Provision for income taxes	0	0	-	0	0	0	0	0	0	0	0	0	0	10
Tax Rate														(0)
Net income	(17,037)	(22,393)	(43,129)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,310)
Accretion of convertible preferred stock	(296)	(286)	(139)	0	0	0	0	0	0	0	0	0	0	0
Net Income	(17,333)	(22,679)	(43,268)	(12,166)	(12,885)	(12,133)	(12,125)	(49,308)	(11,144)	(10,467)	(8,517)	(8,182)	(38,310)	(14,310)
GAAP EPS - Basic	(\$3.52)	(\$0.41)	(\$2.09)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$2.08)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
Non-GAAP EPS -Diluted	(\$3.52)	(\$0.41)	(\$2.08)	(\$0.44)	(\$0.46)	(\$0.44)	(\$0.44)	(\$1.77)	(\$0.40)	(\$0.37)	(\$0.30)	(\$0.29)	(\$1.37)	(\$0.51)
Weighted average shares - basic	4,930	55,642	21,577	27,734	27,775	27,817	27,859	27,796	27,914	27,956	27,998	28,040	28,040	28,223
Weighted average shares - diluted	4,930	55,642	21,778	27,734	27,775	27,817	27,859	27,796	27,914	27,956	27,998	28,040	28,040	28,223
		proforma												
Cash and Equivalents	10,852	54,838	124,293	112,000	102,983	89,905	73,348	73,348	66,378	54,005	43,318	28,159	28,159	2,204
Net Cash	10,852	54,838	124,293	112,000	102,983	89,905	73,348	73,348	66,378	54,005	43,318	28,159	28,159	2,204
Net Cash/share			5	4	4	3	3	3	2.38	1.93	1.55	1.00	1	0
NOLs			(52,991)	(65,157)	(78,042)	(90,174)	(102,299)	(102,299)	(113,444)	(123,911)	(132,428)	(140,609)	(140,609)	(154,920)
% of Sales	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Gross Margins	87%	47%	60%	54%	55%	55%	55%	55%	60%	60%	60%	60%	60%	63%
Sales and Marketing	76%	32%	43%	50%	54%	45%	40%	46%	39%	38%	33%	34%	36%	31%
General and administrative	340%	81%	75%	50%	44%	40%	39%	43%	35%	30%	26%	23%	28%	20%
Research and development	439%	139%	86%	60%	54%	47%	41%	49%	38%	33%	30%	27%	32%	20%
Total operating expenses	854%	252%	204%	160%	152%	132%	120%	138%	112%	101%	89%	85%	95%	71%
EBIT	-767%	-206%	-145%	-106%	-97%	-77%	-65%	-83%	-52%	-41%	-29%	-25%	-35%	-8%
Tax rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net income	-843%	-213%	-149%	-106%	-95%	-75%	-64%	-82%	-51%	-41%	-29%	-24%	-35%	-8%
Free Cash Flow	-1015%	-199%	-132%	-59%	-86%	-70%	-77%	-74%	-22%	-39%	-27%	-37%	-32%	-7%
y/y Δ	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E
Total Revenues	NA	418%	172%	120%	129%	96%	97%	107%	90%	90%	85%	77%	85%	61%
Cost of revenues	NA	2102%	105%	122%	174%	153%	103%	133%	65%	69%	65%	58%	63%	50%
Gross Margins	NA	-47%	28%	-1%	-12%	-16%	-3%	-8%	12%	9%	9%	9%	10%	4%
Sales and Marketing	NA	122%	262%	214%	139%	138%	65%	123%	49%	34%	36%	51%	42%	39%
General and administrative	NA	24%	153%	81%	26%	-1%	0%	17%	33%	28%	22%	5%	21%	14%
Research and development	NA	64%	69%	39%	20%	9%	13%	19%	20%	18%	17%	19%	19%	3%
Total operating expenses	NA	53%	121%	84%	48%	29%	20%	40%	33%	27%	25%	25%	27%	20%
EBIT	NA	39%	91%	70%	29%	11%	-8%	19%	-7%	-19%	-30%	-33%	-22%	-63%
Tax rate	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net income	NA	31%	91%	68%	24%	-3%	-7%	14%	-8%	-19%	-30%	-33%	-22%	-63%

Source: Company data, Wedbush Securities, Inc.

**Figure 6: Balance Sheet**
**Current assets:**

Total Cash and Cash Equivalents

Accounts Receivable

Inventory

Prepaid expenses and other Current Assets

**Total current assets**

Property, Plant and Equipment

Accumulated Depreciation

Restricted cash and other non-current assets

**Total assets**
**LIABILITIES AND STOCKHOLDERS' EQUITY**
**Current liabilities:**

Accounts Payable and accrued expenses

Deferred revenue and Other Current Liabilities

**Total current liabilities**
**Long-term liabilities:**

Long Term Debt

Other long term liabilities

**Total liabilities**
**Stockholders' equity:**

Preferred Stock

Common Stock, APIC, RE

**Total liabilities and stockholders' equity**

	2011	2012	2013E	2014E	2015E	2016E
Total Cash and Cash Equivalents	10852	54,838	124,293	73,348	28,159	2,204
Accounts Receivable	278	2,195	6,262	9,500	16,846	26,412
Inventory	318	803	1,763	1,583	2,808	4,402
Prepaid expenses and other Current Assets	313	550	992	992	992	992
<b>Total current assets</b>	<b>11,761</b>	<b>58,386</b>	133,310	85,423	48,805	34,010
Property, Plant and Equipment	7,902	12,154	22,104	25,108	30,660	39,586
Accumulated Depreciation	(1,796)	(4,689)		(4,615)	(10,003)	(16,731)
Restricted cash and other non-current assets	198	188	1,854	1,854	1,854	1,854
<b>Total assets</b>	<b>18,065</b>	<b>66,039</b>	157,268	107,771	71,316	58,719
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities:</b>						
Accounts Payable and accrued expenses	2,408	5,072	7,007	6,818	8,673	10,387
Deferred revenue and Other Current Liabilities	1,832	3,458	8,752	8,752	8,752	8,752
<b>Total current liabilities</b>	<b>4,240</b>	<b>8,530</b>	15,759	15,570	17,425	19,139
<b>Long-term liabilities:</b>						
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
<b>Total liabilities</b>	<b>7,913</b>	<b>10,778</b>	25,557	25,368	27,223	28,937
<b>Stockholders' equity:</b>						
Preferred Stock	32,455	98,658	0	0	0	0
Common Stock, APIC, RE	(22,303)	(43,397)	131,711	82,403	44,093	29,782
<b>Total liabilities and stockholders' equity</b>	<b>18,065</b>	<b>66,039</b>	157,268	107,771	71,316	58,719

Source: Company data, Wedbush Securities, Inc.

**Figure 7: Cash Flow Statement**

	2011	2012	2013	2014E	2015E	2016E
<b>Cash Flows from Operating Activities:</b>						
Net (loss) income	(17,037)	(22,393)	(42,944)	(49,308)	(38,310)	(14,310)
Depreciation	1,520	2,894	5,006	4,615	5,388	6,728
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)	(3,247)	(6,716)	(9,447)
<b>Net cash provided by operating activities</b>	<b>(14,133)</b>	<b>(17,249)</b>	<b>(30,766)</b>	<b>(47,941)</b>	<b>(39,637)</b>	<b>(17,030)</b>
<b>Cash Flows from Investing Activities:</b>						
Purchase of property and equipment	(5,410)	(3,183)	(6,930)	(3,004)	(5,552)	(8,925)
increase in restricted cash	0		(1,564)	0	0	0
<b>Net cash used in investing activities</b>	<b>(5,410)</b>	<b>(3,183)</b>	<b>(8,494)</b>	<b>(3,004)</b>	<b>(5,552)</b>	<b>(8,925)</b>
<b>Cash Flows from Financing Activities:</b>						
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
<b>Net cash provided by financing activities</b>	<b>28,986</b>	<b>64,418</b>	<b>108,715</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,443</b>	<b>43,986</b>	<b>69,455</b>	<b>(50,945)</b>	<b>(45,189)</b>	<b>(25,955)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>10,852</b>	<b>54,838</b>	<b>124,293</b>	<b>73,348</b>	<b>28,159</b>
<b>Cash and cash equivalents, end of period</b>	<b>10,852</b>	<b>54,838</b>	<b>124,293</b>	<b>73,348</b>	<b>28,159</b>	<b>2,204</b>

Source: Company data, Wedbush Securities, Inc.

Company	Ticker	Rating	Price Target	Current Price
Illumina	ILMN	NEUTRAL	\$140	\$145
Sequenom	SQNM	OUTPERFORM	\$4	\$2.7

### 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).\*

<b>Rating Distribution (as of March 31, 2014)</b>	<b>Investment Banking Relationships (as of March 31, 2014)</b>
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 14, 2014

Company	Disclosure
Foundation Medicine	1
Illumina	1
Sequenom	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.

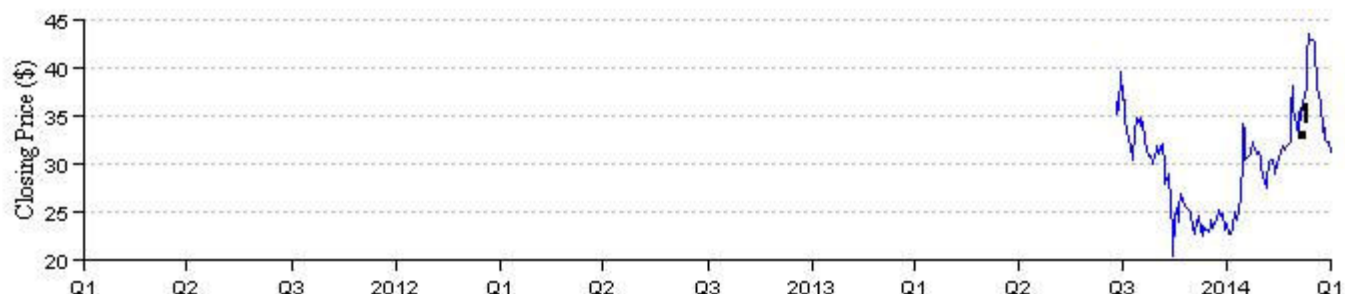
### Price Charts

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.



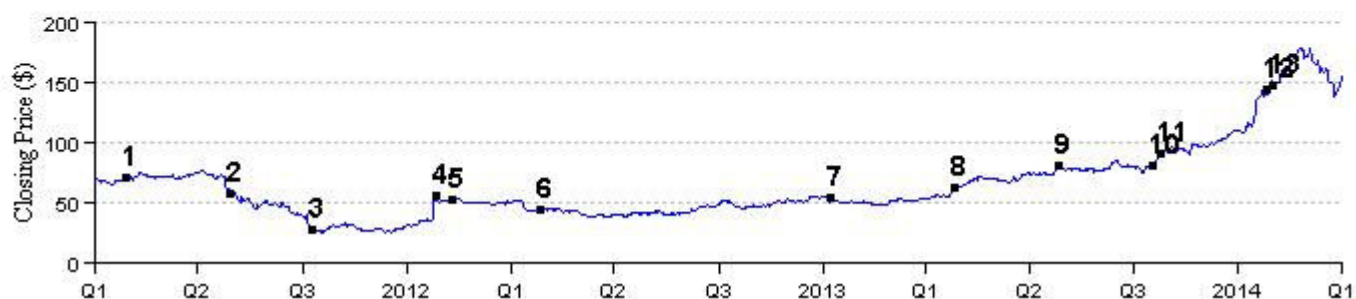
### FMI

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



### SQNM

1) 08/05/11	2) 04/24/12	3) 07/26/12	4) 01/07/13	5) 04/04/13	6) 02/28/14
UNDERPERFORM \$3	NEUTRAL \$5	NEUTRAL \$4	NEUTRAL \$5	OUTPERFORM \$5	OUTPERFORM \$4



\* 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/cmg/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](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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