

Teavana Holdings (TEA)

Initiating with NEUTRAL and \$21 PT; Believe Street's ongoing Focus on Store-Only Comps Limits Upside in 2012

- We believe lower-than-expected SSS growth, excluding eCommerce, may result in lower consensus estimates, limiting expansion in valuation. Therefore, we initiate with a NEUTRAL rating and \$21 price target.
- **Best-in-class ROI justifies industry-leading unit growth.** We believe Teavana can sustain a 30% unit growth rate, given its 75% year-1 cash-on-cash return, which is the highest in our restaurants universe, including beverage peers. (Page 3)
- **Believe focus on comparable-store-sales growth, excluding eCommerce, as a measure for concept's traction is misplaced, but likely to continue.** We believe that, given characteristics specific to Teavana's business model, the sole sustainable comp contributor, excluding eCommerce, over time is the company's ability to drive a higher price per unit. (Page 5-7)
- **Believe estimates (ex. Teaopia acquisition) lofty due to aggressive consensus SSS, ex. eCommerce expectations.** We believe risk to 2012 Street revenue expectations of \$215.2 million prior to the announcement of the Teaopia acquisition last week exists. Management guidance is \$208-215 million. We attribute the higher consensus expectation to more aggressive store-only SSS growth expectations. (Page 8)
- **Ex. Teaopia impact, we expect resumption in gross and operating margin leverage in 2013, but 2012 margins capped.** With the company's direct sourcing move fully anniversaried in 2011, with 200-300 bp pressure on SG&A 1H:12 due to public company costs, and with a decline in the mix of mature units in 2012, we expect 10 bps of operating margin contraction in 2012. Our 2012 EPS estimate is \$0.60 (ex. Teaopia) vs. consensus of \$0.62 (ex. Teaopia). (Pages 9-10)
- **We believe Teaopia acquisition adds a layer of uncertainty.** While we believe Teaopia's average sales volumes of \$435K (<1/2x Teavana's \$913K avg.) can increase over time, we believe that margins in the near- to medium-term will be pressured. We are not including Teaopia in our model, pending the transaction's close in Q2 (exception of \$0.01 impact in Q1:12). If included, the impact would be a further -\$0.03-0.04 in 2012E and +\$0.02-0.03 in 2013E. (Page 10)
- **Our \$21 price target is based on a 26x multiple on our 2013 EPS estimate.** This multiple is in line with TEA's peer group. Based on our expectation of risk to consensus expectations and the execution risks accompanying the Teaopia acquisition, we do not believe a premium is appropriate, despite TEA's higher 2013 EPS growth rate relative to peers. (Page 11)

April 23, 2012

Price
\$20.60

Rating
NEUTRAL

12-Month Price Target
\$21

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Company Information

Shares Outst (M)	39.2
Market Cap (M)	\$799.9
52-Wk Range	\$14.28 - \$29.01
Book Value/sh	\$1.81
Cash/sh	\$0.91
Enterprise Value (M)	\$764.1
LT Debt/Cap %	0.00

Company Description

Teavana Holdings, based in Atlanta, GA, owns and operates >200 retailers of ~100 varieties of loose-leaf tea, a selection of fresh-brewed teas, and tea-related merchandise.

FYE Jan	2011A	2012E			2013E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	\$34.9A	\$44.9E		\$45.2E	\$56.1E		--
Q2 Jul	31.3A	40.3E		41.7E	50.6E		--
Q3 Oct	33.4A	41.8E		--	51.5E		--
Q4 Jan	68.4E	87.1E		--	108.3E		--
Year*	\$168.1A	\$214.2E		\$216.5E	\$266.5E		\$274.1E
Change	--	27.4%			24.4%		
	2011A	2012E			2013E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Apr	\$0.09A	\$0.09E		\$0.10E	\$0.14E		--
Q2 Jul	0.03A	0.03E		0.03E	0.05E		--
Q3 Oct	0.02A	0.04E		--	0.06E		--
Q4 Jan	0.32E	0.42E		--	0.53E		--
Year*	\$0.46A	\$0.59E		0.58E	\$0.78E		0.78E
P/E	44.1x	34.7x			26.3x		
Change	--	27.0%			31.9%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.



Source: Thomson Reuters

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Table of Contents

Investment Thesis.....	3
We Believe Best-in-Class ROI Justifies Industry-Leading Unit Growth.....	3
Believe Focus on Comps ex. eCommerce is Misplaced, but Likely to Continue	5
Transactions and Average Check	5
Believe Estimates, Excluding Teaopia Acquisition, Lofty	8
Expect Resumption in Gross and Operating Margin Leverage in 2013, but 2012 Margins Capped.....	9
Teaopia Acquisition Adds New Layer of Uncertainty	10
Valuation	11
Company Snapshot	12
Management.....	13
Investment Risks.....	14
Quarterly Revenue Model	15
Quarterly Income Statement.....	16
Annual Income Statement.....	17
Annual Balance Sheet.....	18
Annual Cash Flow State.....	19

Investment Thesis

We believe Best-in-Class ROI Justifies Industry-Leading Unit Growth

We believe Teavana can sustain its industry-leading unit growth rate, given its 75% year-1 cash-on-cash return, which is the highest within our restaurants universe, including beverage peers (Figures 1-2), through 2015. Importantly, management has been able to sustain this level of cash-on-cash returns even as a greater mix of newer units open in Tier-2 malls, and achieve lower expected sales levels of \$600-700K than the current system average of ~\$900K.

Much of the debate has centered on what Teavana's opportunity is, beyond 500 stores in 2015 (from 200 currently), and an examination of the many hypothetical opportunities, both unit growth and other (CPG, licensing, international, etc.) have been exhausted. While we believe Canada adds upside to the 500 unit target, particularly given the pending Teaopia acquisition, we believe a footprint beyond 500 units in the U.S. would not support current economics given the ceiling on locations that can support the company's sales productivity (Figure 3).

Nevertheless, we would note that even if there were no unit growth or other opportunities beyond 500 units in 2015, we believe the company's mature-level cash flow would be enough to repurchase ~11-13% of shares outstanding per year at the current share price, resulting in double-digit EPS growth in 2016, even with relatively conservative assumptions regarding revenue and margins (Figure 4).

Figure 1: 2012E Unit Growth Rate

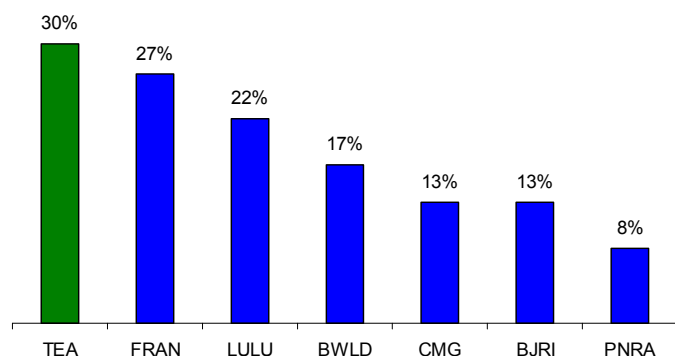
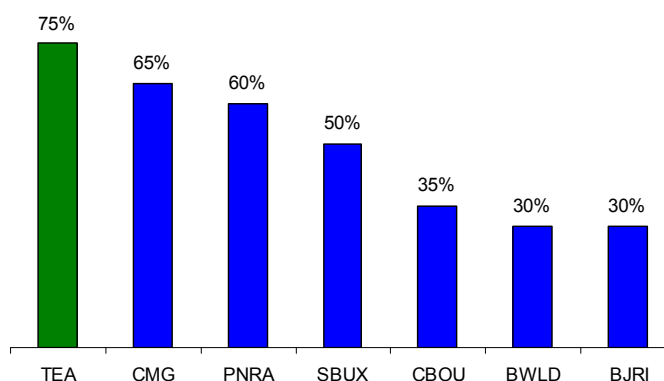


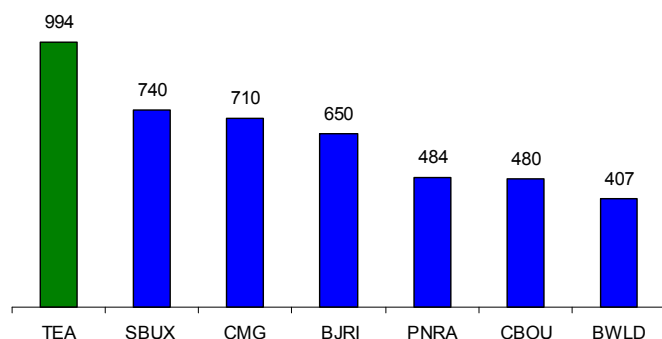
Figure 2: Cash-on-Cash Returns



Source: Company data, Wedbush Securities, Inc.

Source: Company data, Wedbush Securities, Inc.

Figure 3: Sales per Square Foot (\$)



Source: Company data, Wedbush Securities, Inc.

Figure 4: Mature-Level Free Cash Flow and EPS Growth Through Share Repurchases

Retail Sales (\$ '000s, 500 Units @\$800K per Unit)	400,000		
eCommerce Sales (\$ '000s)	40,030		
Total Revenue (\$ '000s)	440,030		
Cost of Sales (@32%, \$000s)	(140,810)		
SG&A (@37%, \$000s)	(162,811)		
EBITDA	136,409		
Maint CapEx (% of Retail Sales)	10%	7.5%	5%
Main. CapEx (\$ '000s)	40,000	30,000	20,000
FCF (\$ '000s)	96,409	106,409	116,409
Est. Shares Outstanding (FYE '15)	41,835		
Share Price (\$)	21		
Shares Repurchases (# '000s)	4,591	5,067	5,543
% of Outstanding	11%	12%	13%

Source: Company data, Wedbush Securities, Inc.

Believe Focus on Comps ex. eCommerce to be Misplaced, but Likely to Continue

We believe that as a Teavana unit matures, characteristics specific to the concept could result in muted average check and transaction growth within the store. Therefore, unlike a typical growth concept, we believe that SSS growth, excluding e-Commerce, is inappropriate as a measure of the concept's ongoing success, and look to SSS growth, including eCommerce, as the appropriate measure. Nevertheless, we believe that continued focus on in-store SSS metrics is likely in the near-term.

We illustrate what we believe is the risk to in-store comparable sales metrics as a unit matures (Figure 5). We believe that average check pressure occurs as a returning visitor no longer needs to purchase accompanying merchandise, and traffic pressure results from migrations to online purchases over time.

Figure 5: High Probability of Smaller Avg. Check and Migration to Online Ordering Over Time

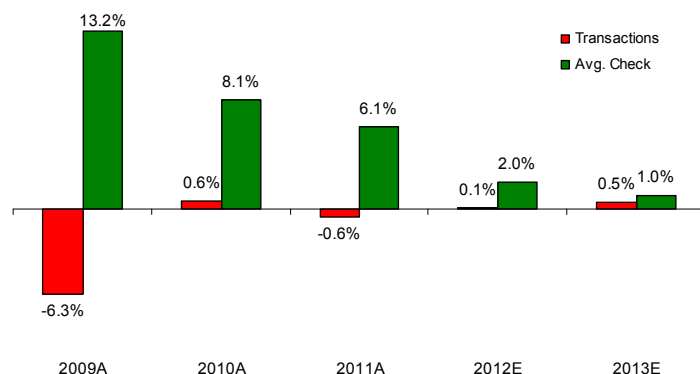
1 st Transaction – <u>Large in-Store Avg. Ticket</u> : 3 2oz. tea samples (\$4.40-25.00 per 4oz.) + tea kettle for loose leaf tea (\$19.99)
2 nd Transaction – <u>Smaller In-Store Average Ticket</u> : Larger size of the preferred tea through either a return visit to the store or purchase online.
3 rd Transaction – <u>Similar Average Ticket, but Migration to Online</u> : Increased probability of purchase online without a return visit to the store.

Source: Wedbush Securities, Inc.

Transactions and Average Check

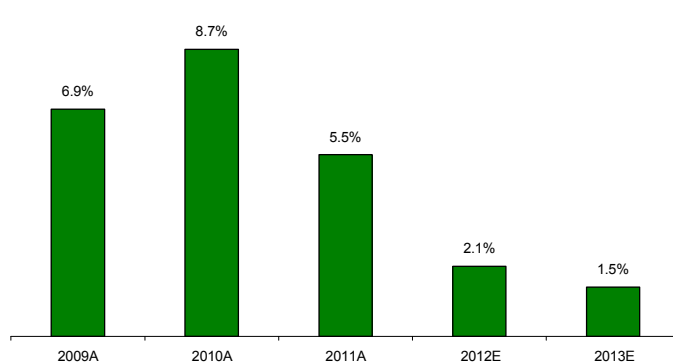
Historically, transactions have remained flat to down, with average check growth being the main driver of SSS growth, ex. eCommerce, (Figures 6-7). While declining beverage sales as a mix of total sales has contributed to the decline in transactions and the growth in average size, in recent years, the beverage mix has stabilized at 4% of sales (Figure 8). We also estimate this impact as no more than 9 bps of improvement in average check per 10 bp decline in the mix of beverage sales (Figure 9).

Figure 6: Transactions VS Avg. Tx Size



Source: Company data, Wedbush Securities, Inc.

Figure 7: SSS Growth (ex. eCommerce)



Source: Company data, Wedbush Securities, Inc.

Figure 8: Product Categories (% of Net Sales)

	2007	2008	2009	2010	2011
Tea		51%	54%	56%	55%
Merchandise		44%	42%	40%	41%
Beverage	8%	5%	4%	4%	4%

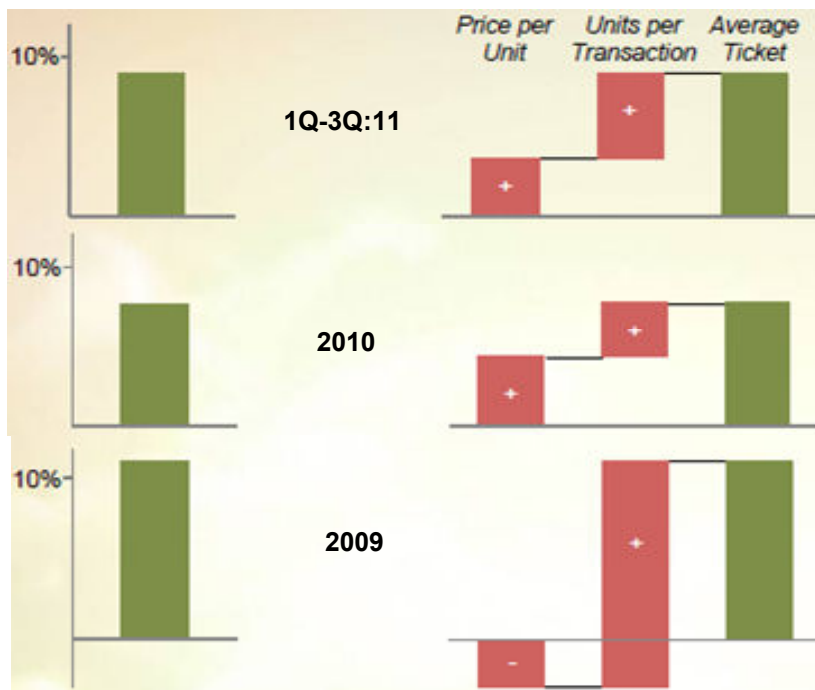
Source: Company data

Figure 9: Estimated Impact on Average Check from a 10 bp Decline in Beverage Sales Mix

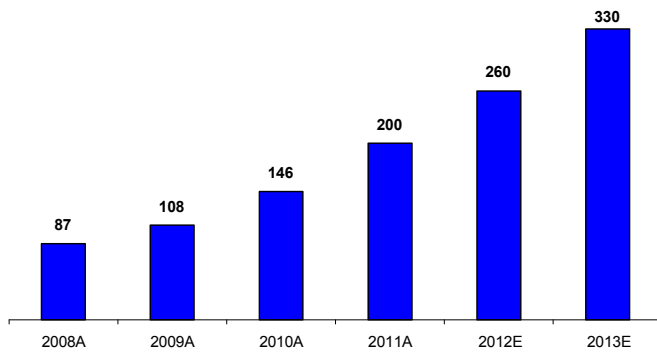
	Q1:11A	Q2:11A	Q3:11A	Q4:11A		Q1:12E	Q2:12E	Q3:12E	Q4:12E
Beverage (% of Sales)	4.0%	4.0%	4.0%	2.0%		3.9%	3.9%	3.9%	1.9%
Non-Beverage (% of Sales)	96.0%	96.0%	96.0%	98.0%		96.1%	96.1%	96.1%	98.1%
Beverage Avg. Check (\$)	\$5.00	\$5.00	\$5.00	\$5.00	➔	\$5.00	\$5.00	\$5.00	\$5.00
Non-Beverage Avg. Check (\$)	\$38.33	\$38.33	\$40.42	\$42.76		\$38.33	\$38.33	\$40.42	\$42.76
All-in Avg. Check	\$37.00	\$37.00	\$39.00	\$42.00		\$37.03	\$37.03	\$39.04	\$42.04
Change in Avg. Check Given a 10 bp decline in beverage sales						0.09%	0.09%	0.09%	0.09%

Source: Company data, Wedbush Securities, Inc.

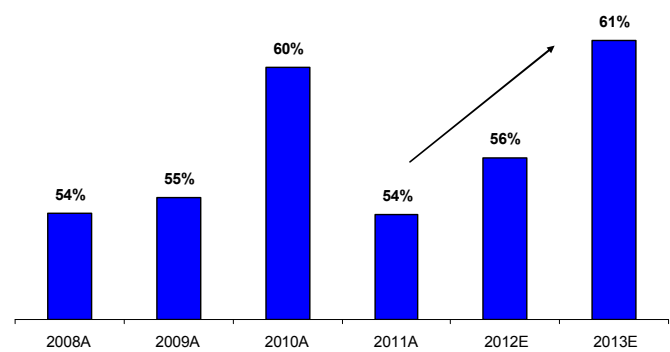
The most significant contributor to increased average ticket has been a higher price paid per unit and a higher number of units per transaction (Figure 10). The company does not typically increase menu prices, and we believe the impact of a higher number of units per transaction is offset by a decline in the number of transactions over time. Therefore, we believe the sole sustainable comp contributor is the company's ability to drive a higher price per unit by consistently driving customers to trade up to higher-priced teas. We believe the marginal impact of this driver diminishes as a unit matures, with an increasing mix of units in their second year or older starting in 2012 (Figures 11-12). Combined with the impact of a higher proportion of sales that we believe migrate online as a store matures and enters the comp base (Figure 13), we are not surprised that management's 2012 guidance of "mid-single-digit" SSS growth, including eCommerce, implies a deceleration in ex-eCommerce SSS growth to the low-single-digits from 5.5% in 2011 and 8.7% in 2010.

Figure 10: Components of Average Ticket Growth


Source: Company data

Figure 11: FYE Units


Source: Company data, Wedbush Securities, Inc.

Figure 12: Mix of Units In Second Year or Older


Source: Company data, Wedbush Securities, Inc.

Figure 13: New Entrants Into Comparable Store Base (Est., 2009-2012)

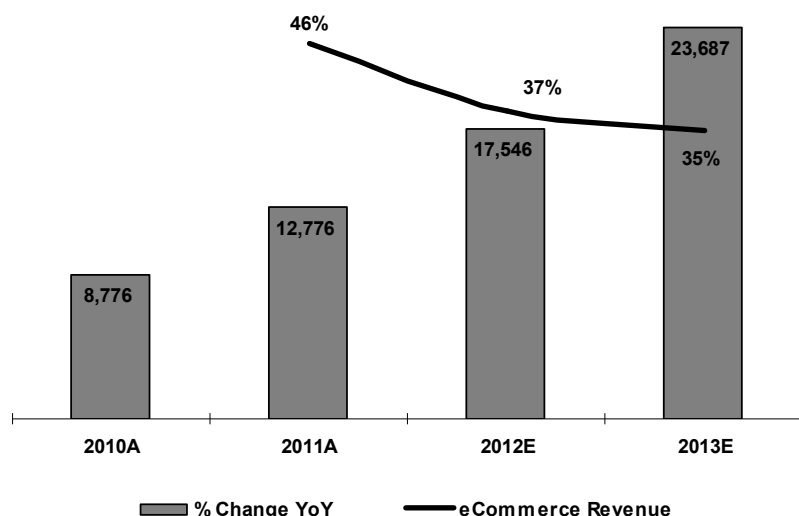
	2009	2010	2011	2012E
Stores in Comp Base	87	105	138	188
Total Stores	108	146	200	260
New Entrants Into Comp Base		18	33	50
New Entrants (% of prev. FY's comp base)		21%	31%	36%

Source: Company data, Wedbush Securities, Inc.

Believe Estimates, Excluding Teaopia, Acquisition, are Lofty due to Aggressive Consensus Comps ex. eCommerce Expectations

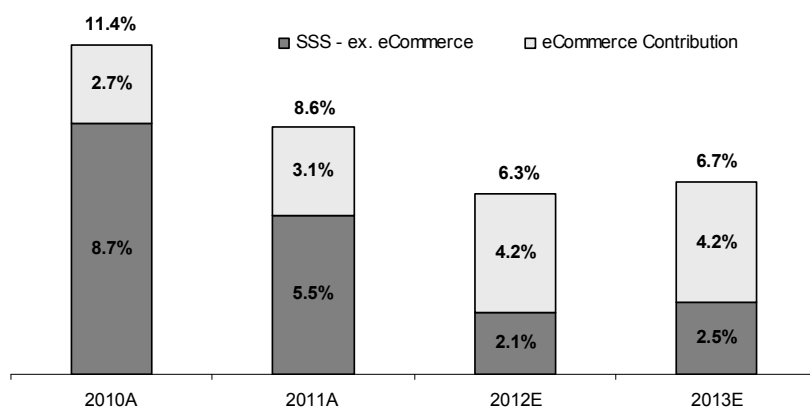
Given 2012 revenue guidance of \$208-215 million, on SSS growth including eCommerce of “mid-single digits”, we believe downside to Street revenue expectations (prior to the Teaopia acquisition announcement last week) of \$215.2 million exists. We estimate eCommerce revenue in 2011 was \$12.8 million, and expect 37% growth in 2012 to \$17.6 million (Figure 14). Our analysis indicates that eCommerce growth will contribute 4.2% to 2012 SSS growth, with a 2.1% contribution from in-store SSS growth (Figure 15). We believe the higher Street expectations relative to management guidance and our expectation is the result of more aggressive in-store (ex. eCommerce) SSS growth expectations.

Figure 14: eCommerce Revenue (\$ '000s, 2010-2013E)



Source: Company data, Wedbush Securities, Inc.

Figure 15: SSS Growth (inc. eCommerce, 2010-2013)



Source: Company data, Wedbush Securities, Inc.

Excluding Teaopia Impact, Expect Resumption in Gross and Operating Margin Leverage in 2013, but 2012 Margins Capped

Excluding the pending Teaopia acquisition, we expect 2012 operating margin of 18.7% vs. 2011 operating margin of 18.8%. We expect operating margin expansion in 2013 to 19.8% (Figures 16-17). With the company's direct sourcing move fully anniversaried in 2011, we expect any gross margin benefit to come from the natural maturation process of stores, as higher-margin tea sales increase relative to merchandise sales. Nevertheless, we believe the benefit from this maturation process over time may currently be overblown. With a new store's tea sales mix growing to 60% of sales from 50% at opening, and tea gross margins ~10% above non-tea gross margins, a store's gross margins expand no more than 1% (Figure 18). In 2012, we believe this impact will be somewhat diminished by the reacceleration in new unit growth that took place in 2010, as the mix of mature units dips slightly (Figure 19). Combined with higher growth of lower-gross-margin eCommerce sales, we are modeling only a 20 bp increase in gross margins in 2012, accelerating to 50 bps in 2013 as the impact of immature units begins to decrease (Figure 20). We expect SG&A costs to pressure operating margins by 30 bps in 2012 as the first half of 2012 is impacted 200-300 bps from public company costs not present in 1H:11, deleverage that is mostly recouped in 2H:12 (Figures 21-22). Our 2012 EPS expectation, excluding the impact of Teaopia, is \$0.60, below the pre-acquisition consensus of \$0.62. Management guidance is \$0.58-0.61.

Figure 16: Drivers of 2012 Operating Margin

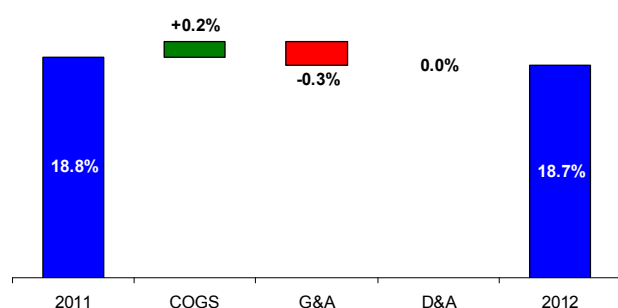
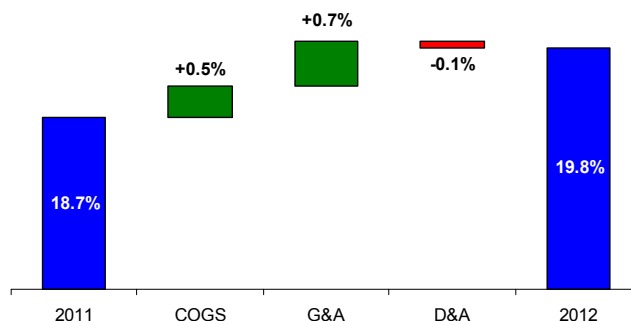


Figure 17: Drivers of 2013 Operating Margin



Source: Company data, Wedbush Securities, Inc.

Source: Company data, Wedbush Securities, Inc.

Figure 18: Gross Margin Benefit from Higher Tea Sales Mix as a Unit Matures

	Opening Day	Year 1	Year 2	Year 3	Notes
Tea (% of Sales)	50%	53%	57%	60%	
Gross Margin Impact		+0.3%	+0.4%	+0.3%	Tea GM 10% higher than merchandise sales

Source: Company data, Wedbush Securities, Inc.

Figure 19: Mix of Units In Third Year or Older

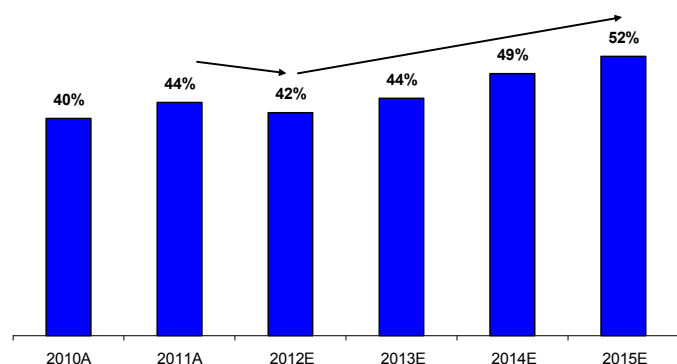
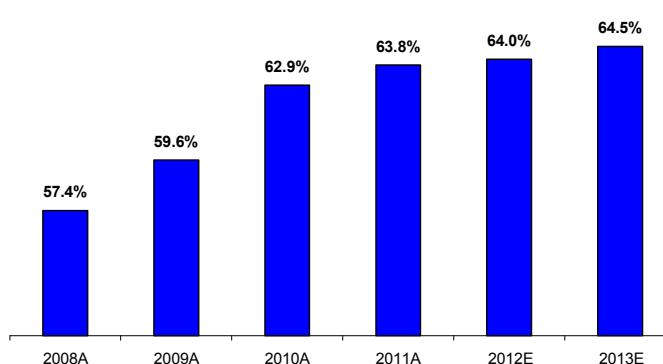
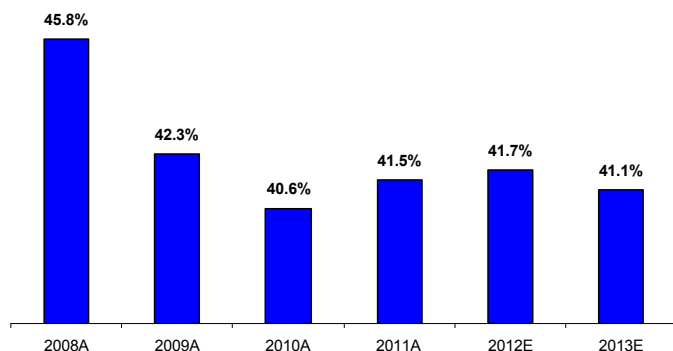


Figure 20: Gross Margin (2008-2013E)

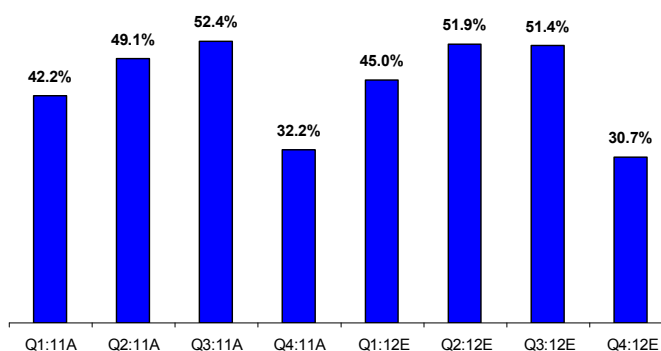


Source: Company data, Wedbush Securities, Inc.

Source: Company data, Wedbush Securities, Inc.

Figure 21: SG&A (% of Sales, 2010-2013E)


Source: Company data, Wedbush Securities, Inc.

Figure 22: SG&A (% of Sales, 1Q11-4Q12E)


Source: Company data, Wedbush Securities, Inc.

Believe Pending Teaopia Acquisition Adds New Layer of Uncertainty, Given Expected Adverse Impact on Margins in Near-to-Medium Term

While the pending Teaopia acquisition answers some strategic questions and we believe Teavana can benefit from lifting Teaopia's average unit volumes over time, the only certainty accompanying the acquisition is that near- to mid-term margins will be pressured. Although management provided no details on the acquisition call regarding Teaopia's margins, given that average Teaopia sales per store of \$435K are less than half of Teavana's average of \$913K, that loose-leaf tea as a % of revenue of ~50% is less than Teavana's 55%, and that absolute dollar occupancy costs are at 100% of Teavana occupancy costs, we believe both gross and operating margins are meaningfully lower.

Additionally, while we believe management's ability in lifting Teaopia's sales levels is aided by the fact that Teaopia is essentially a copycat operation, down to the POS system used (Figures 23-24), management did state that it plans to increase labor expense ahead of sales growth, which we believe could impact 2013's expected \$0.03-0.04 of accretion should the expected sales lift come in below expectations. Excluding transaction costs of \$0.04-0.05, mostly in Q1-Q3, management expects the acquisition to have no impact on 2012 EPS. We are not including the ~\$16 million in annual revenues, or any EPS impact, in our model pending the acquisition's close in Q2. We are, however, including a penny of transaction costs in 1Q:12, which lowers our 2012 EPS expectation to \$0.59 from \$0.60. Should we include the entire impact in our model, our 2012 EPS expectation would decrease to \$0.55-0.56 and our 2013 EPS estimate would increase by \$0.02-0.03.

Figure 23: Teavana


Source: Company data

Figure 24: Teaopia


Source: Company data

Valuation

Based on both consensus and our 2013 EPS expectations, Teavana is currently trading in line with its closest comparables. Given the company's brief trading history since its late July IPO, we do not believe a historical valuation analysis is appropriate. Based on Teavana's 36% expected EPS growth rate in 2013 relative to the peer average of 27%, a premium to peers would be appropriate. However, within the context of our expectation that there is risk to consensus expectations, combined with the execution risk of integrating this relatively large-sized acquisition, we believe a valuation in line with the 26x peer multiple is appropriate. Therefore, we initiate on shares of Teavana with a NEUTRAL rating and \$21 price target, which represents a 26x multiple on our 2013 EPS estimate of \$0.79 (Figure 25).

Figure 25: Valuation Comparables

Company	Ticker	Price	Market	Ent	P/E		EV/Sales		EV/EBITDA		Revenue	PF EPS
		04/21/12	Cap (\$ Mil.)	Value (\$ Mil.)	2012	2013	2012	2013	2012	2013	Growth 2013/12	Growth 2013/12
PEERS												
Starbucks Corporation	SBUX	\$59.16	\$45,464	\$43,741	31.8x	25.5x	3.3x	2.9x	16.6x	14.0x	11%	25%
Green Mountain Coffee Roasters, Inc.	GMCR	\$44.26	\$7,054	\$7,440	16.6x	12.0x	1.7x	1.3x	8.8x	6.5x	30%	38%
Dunkin' Brands Group, Inc.	DNKN	\$31.05	\$3,738	\$4,965	25.3x	21.6x	7.5x	7.0x	15.2x	13.6x	7%	17%
Peet's Coffee & Tea, Inc. - Cons.	PEET	\$72.93	\$974	\$939	40.9x	32.2x	2.3x	2.1x	17.3x	15.0x	9%	27%
Caribou Coffee Company, Inc.	CBOU	\$16.45	\$345	\$301	32.6x	25.4x	0.8x	0.8x	8.9x	7.3x	11%	28%
Unweighted Average (ex. Outlier)					32.7x	26.2x	3.5x	3.2x	14.5x	12.5x	14%	27%
Unweighted Average					29.5x	23.3x	3.1x	2.8x	13.4x	11.3x	14%	27%
Teavana Holdings, Inc.	TEA	\$20.77	\$811	\$793	35.1x	26.0x	3.6x	2.8x	16.7x	12.3x	26%	35%
Premium/(Dicount)					8%	-1%	3%	-11%	15%	-1%		
Teavana Holdings, Inc. - Wedbush	TEA	\$20.77	\$811	\$793	35.6x	26.2x	3.7x	3.0x	16.9x	12.6x	24%	36%
Premium/(Dicount)					9%	0%	6%	-7%	16%	1%		
OTHER GROWTH PEERS												
Buffalo Wild Wings, Inc.	BWLD	\$84.09	\$1,567	\$1,464	25.6x	21.4x	1.4x	1.2x	9.1x	7.7x	17%	20%
Bj's Restaurants, Inc. (Cons.)	BJRI	\$46.80	\$1,370	\$1,325	35.3x	28.5x	1.9x	1.6x	14.2x	11.5x	17%	24%
Panera Bread Company	PNRA	\$150.27	\$4,418	\$4,196	26.8x	22.5x	2.0x	1.8x	11.9x	10.1x	13%	19%
Chipotle Mexican Grill, Inc.	CMG	\$419.26	\$13,352	\$12,899	47.3x	37.9x	4.7x	4.0x	23.7x	19.3x	18%	25%
Unweighted Average			\$5,177	\$4,971	33.8x	27.6x	2.5x	2.1x	14.7x	12.2x	0.2x	0.2x

Source: Company data, Wedbush Securities, Inc.

Company Snapshot

Figure 26: Company Snapshot

Segment
Subsegment
Peers

Snacks
Tea
Teaopia, David's Tea, Peet's

System Units (US)* 209

Avg. Check (Est.) \$40.00

Sales Breakdown
Loose Leaf Teas 56%
Tea-Related Merchandise 40%

2011
Gross Margin 63.8%
Operating Margin 18.8%
Net Margin 10.6%

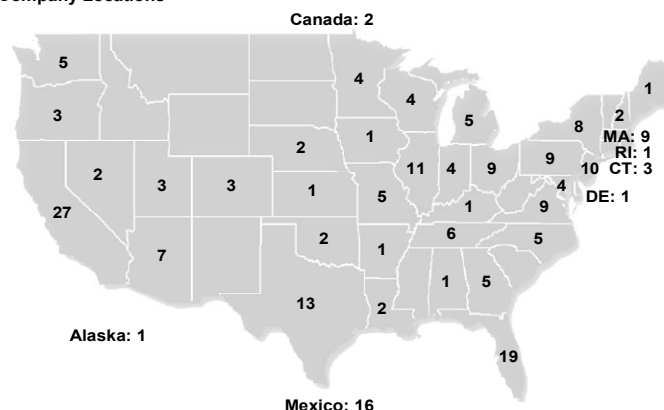
Unit Level Data **FY'11**
Avg. Unit Volume (AUV) \$913,000
Avg. Weekly Sales \$17,558
Avg. Square Feet 920
Sales / Sq. ft. \$992

Four-Wall Economics **New Units**
Avg. Unit Volume \$650,000
4 Wall Contribution Margin 25%

Avg. Total Investment \$225,000
Cash-on-Cash ROI 72%



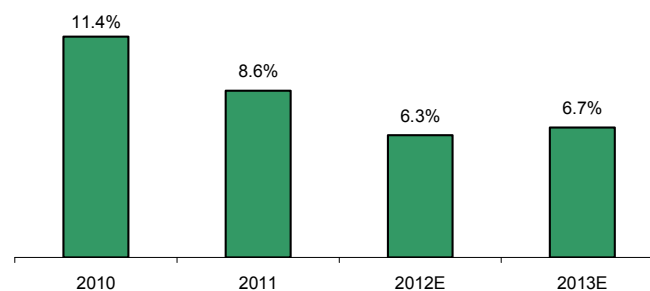
Company Locations



Net Company Development

2008 (+28); 2009 (+21); 2010 (+38); 2011 (+54); 2012E (+60); 2013E (+75)

SSS Growth (YoY % Change, inc. eCommerce)



*Note: April 12, 2012

Source: Company data, Wedbush Securities, Inc.

Management

Andrew T. Mack – Chairman of the Board, Chief Executive Officer

Andrew Mack founded Teavana in 1997 and has served as the Chief Executive Officer since that time. Prior to founding Teavana, Mr. Mack held various management positions within the restaurant industry. Mr. Mack received his marketing degree from East Tennessee State University.

Daniel P. Glennon – Executive Vice President, Chief Financial Officer

Daniel Glennon has served as Executive Vice President, Chief Financial Officer since 2010. Prior to joining Teavana, Mr. Glennon was a manager at Marakon Associates. His other roles have included auditor at Arthur Anderson, chief financial officer or vice president of finance of three early stage corporations. Mr. Glennon received his accounting degree from the University of Georgia, MBA from Harvard, and is a certified public accountant.

Peter M. Luckhurst – Executive Vice President, Operations

Peter Luckhurst has served as Executive Vice President, Operations since 2010. Prior to joining Teavana, Mr. Luckhurst was president at HMV North America. Mr. Luckhurst received his behavioral science degree from the University of Aston in Birmingham.

Juergen W. Link - Vice President, Distribution

Juergen Link has served as Vice President, Distribution since 2005. Prior to joining Teavana, Mr. Link was the founder and president of SpecialTeas Inc. Mr. Link received his business management degree from the University of Munich.

Investment Risks

Decrease in Demand for Teas

Teavana is heavily reliant on the sale of premium loose leaf teas and tea-related products, therefore any decrease in the demand of teas from changing consumer tastes away from teas to substitute products could adversely impact sales.

Increasing Competition in the Beverage Industry

The beverage industry is highly competitive with an abundance of substitutes for premium loose leaf teas. We believe that increased competition from other tea and beverage retailers could adversely impact sales.

Sourcing of Teas

Teavana is reliant on its ability to source a wide variety of premium loose leaf teas at reasonable prices. We believe that any failure to innovate, develop, source, or market new varieties of teas could negatively impact sales. Additionally, any rise in the prices of loose leaf teas could negatively impact Teavana's margins.

Expansion into New Markets

As Teavana expands into new markets, there is a risk that the new unit openings may not achieve sales levels appropriate to meet the company's return on investment hurdles. We believe that new store openings may place increased demands on management and distribution. Additionally, management does not have the experience of opening the number of new stores that are planned annually.

Deterioration in Economic Conditions

The company is dependent on consumer confidence and spending and any deterioration in economic conditions could adversely impact sales. We believe that sales could be negatively impacted by rising unemployment rates and increases in fuel and other energy costs.

Teavana Revenue Model

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12E	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue Analysis												
Revenue												
Net Sales	34,940	31,313	33,426	68,422	44,887	40,313	41,813	87,139	56,114	50,610	51,497	108,289
Total Revenues	34,940	31,313	33,426	68,422	44,887	40,313	41,813	87,139	56,114	50,610	51,497	108,289
YoY % Change												
Restaurant Sales	35.6%	36.3%	35.1%	33.6%	28.5%	28.7%	25.1%	27.4%	25.0%	25.5%	23.2%	24.3%
Total Revenues	35.6%	36.3%	35.1%	33.6%	28.5%	28.7%	25.1%	27.4%	25.0%	25.5%	23.2%	24.3%
Company Units												
BOP Restaurants	146	161	179	196	200	219	238	256	260	282	304	325
Restaurants Opened	15	18	17	4	19	19	18	4	22	22	21	5
Restaurants Closed or Relocated	0	0	0	0	0	0	0	0	0	0	0	0
Restaurants Acquired from Franchisees	0	0	0	0	0	0	0	0	0	0	0	0
Restaurants Sold to Franchisees	0	0	0	0	0	0	0	0	0	0	0	0
EOP Restaurants	161	179	196	200	219	238	256	260	282	304	325	330
Same Store Sales												
SSS (inc. e-commerce, % Growth)	9.3%	8.7%	8.5%	8.6%	3.6%	6.2%	6.1%	9.2%	6.6%	6.5%	5.9%	7.6%
SSS (ex. e-commerce, % Growth)	6.0%	6.9%	6.0%	4.4%	-0.5%	3.0%	2.0%	4.0%	2.0%	3.0%	2.0%	3.0%

Source: Company data and Wedbush Securities

Teavana Quarterly Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2011A				2012E				2013E			
	Apr-11 Q1:11A	Jul-11 Q2:11A	Oct-11 Q3:11A	Jan-12 Q4:11A	Apr-12 Q1:12E	Jul-12 Q2:12E	Oct-12 Q3:12E	Jan-13 Q4:12E	Apr-13 Q1:13E	Jul-13 Q2:13E	Oct-13 Q3:13E	Jan-14 Q4:13E
Revenue	34,940	31,313	33,426	68,422	44,887	40,313	41,813	87,139	56,114	50,610	51,497	108,289
Cost of Goods Sold	12,451	12,186	12,749	23,517	15,906	15,487	15,739	29,950	19,604	19,038	18,972	36,895
Gross Profit	22,489	19,127	20,677	44,905	28,981	24,826	26,074	57,189	36,510	31,572	32,525	71,394
Selling, General and Administrative Expenses	14,758	15,367	17,511	22,045	20,216	20,913	21,487	26,768	24,767	25,987	26,214	32,616
Depreciation and Amortization	1,275	1,428	1,554	1,671	1,647	1,826	1,973	2,122	2,138	2,350	2,525	2,698
Non-Recurring (Gain) or Loss	-	-	-	-	600	-	-	-	-	-	-	-
Total Operating Expenses	28,484	28,981	31,814	47,233	38,370	38,226	39,198	58,841	46,509	47,375	47,712	72,209
Operating Income (Loss)	6,456	2,332	1,612	21,189	6,518	2,088	2,615	28,298	9,605	3,235	3,786	36,080
Interest Income	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	689	742	122	120	128	128	128	128	128	128	128	128
Other (Income) Expense, net	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	5,767	1,590	1,490	21,069	6,390	1,960	2,487	28,171	9,477	3,108	3,658	35,952
Provision for Income Taxes	(2,444)	(559)	(554)	(8,600)	(2,708)	(689)	(925)	(11,499)	(4,016)	(1,093)	(1,360)	(14,675)
Net Income	3,323	1,031	936	12,469	3,682	1,271	1,562	16,672	5,461	2,015	2,298	21,277
Non-Recurring Items	-	-	-	-	346	-	-	-	-	-	-	-
Adjusted Net Income	3,323	1,031	936	12,469	4,028	1,271	1,562	16,672	5,461	2,015	2,298	21,277
Earnings (Loss) Per Share:												
Pro Forma	0.09	0.03	0.02	0.32	0.10	0.03	0.04	0.42	0.14	0.05	0.06	0.53
GAAP	0.09	0.03	0.02	0.32	0.09	0.03	0.04	0.42	0.14	0.05	0.06	0.53
Basic Shares Outstanding	36,749	36,762	38,138	38,251	38,401	38,551	38,701	38,851	39,001	39,151	39,301	39,451
Diluted Shares Outstanding	37,636	37,802	38,965	39,059	39,209	39,359	39,509	39,659	39,809	39,959	40,109	40,259
EBITDA												
Depreciation & Amortization	1,275	1,428	1,554	1,671	1,647	1,826	1,973	2,122	2,138	2,350	2,525	2,698
EBITDA	7,731	3,760	3,166	22,860	8,165	3,914	4,588	30,421	11,743	5,585	6,311	38,778
Margin Analysis												
COGS/Sales	35.6%	38.9%	38.1%	34.4%	35.4%	38.4%	37.6%	34.4%	34.9%	37.6%	36.8%	34.1%
Gross Margin	64.4%	61.1%	61.9%	65.6%	64.6%	61.6%	62.4%	65.6%	65.1%	62.4%	63.2%	65.9%
G&A/Sales	42.2%	49.1%	52.4%	32.2%	45.0%	51.9%	51.4%	30.7%	44.1%	51.3%	50.9%	30.1%
D&A/Sales	3.6%	4.6%	4.6%	2.4%	3.7%	4.5%	4.7%	2.4%	3.8%	4.6%	4.9%	2.5%
Operating Margin	18.5%	7.4%	4.8%	31.0%	14.5%	5.2%	6.3%	32.5%	17.1%	6.4%	7.4%	33.3%
Pre Tax Margin	16.5%	5.1%	4.5%	30.8%	14.2%	4.9%	5.9%	32.3%	16.9%	6.1%	7.1%	33.2%
Tax Rate	42.4%	35.2%	37.2%	40.8%	42.4%	35.2%	37.2%	40.8%	42.4%	35.2%	37.2%	40.8%
Net Income	9.5%	3.3%	2.8%	18.2%	8.2%	3.2%	3.7%	19.1%	9.7%	4.0%	4.5%	19.6%
EBITDA Margin	22.1%	12.0%	9.5%	33.4%	18.2%	9.7%	11.0%	34.9%	20.9%	11.0%	12.3%	35.8%
Year/Year Growth												
Revenues	35.6%	36.3%	35.1%	33.6%	28.5%	28.7%	25.1%	27.4%	25.0%	25.5%	23.2%	24.3%
COGS	24.2%	28.9%	24.5%	42.0%	27.7%	27.1%	23.5%	27.4%	23.2%	22.9%	20.5%	23.2%
Gross Margin	42.8%	41.4%	42.5%	29.6%	28.9%	29.8%	26.1%	27.4%	26.0%	27.2%	24.7%	24.8%
G&A	36.6%	42.2%	44.5%	30.9%	37.0%	36.1%	22.7%	21.4%	22.5%	24.3%	22.0%	21.8%
D&A	31.0%	34.7%	40.0%	37.2%	29.2%	27.9%	26.9%	27.0%	29.8%	28.7%	28.0%	27.2%
Operating Income	62.3%	40.7%	26.1%	27.8%	1.0%	-10.5%	62.2%	33.6%	47.4%	55.0%	44.8%	27.5%
Pre Tax Profit	71.8%	57.6%	151.3%	32.1%	10.8%	23.3%	66.9%	33.7%	48.3%	58.5%	47.1%	27.6%
Net Income	72.4%	78.1%	175.3%	36.2%	10.8%	23.3%	66.9%	33.7%	48.3%	58.5%	47.1%	27.6%
EBITDA	56.1%	38.4%	32.6%	28.4%	5.6%	4.1%	44.9%	33.1%	43.8%	42.7%	37.6%	27.5%
Quarter/Quarter Growth												
Revenues	-31.8%	-10.4%	6.7%	104.7%	-34.4%	-10.2%	3.7%	108.4%	-35.6%	-9.8%	1.8%	110.3%
COGS	-24.8%	-2.1%	4.6%	84.5%	-32.4%	-2.6%	1.6%	90.3%	-34.5%	-2.9%	-0.3%	94.5%
Gross Margin	-35.1%	-14.9%	8.1%	117.2%	-35.5%	-14.3%	5.0%	119.3%	-36.2%	-13.5%	3.0%	119.5%
G&A	-12.4%	4.1%	14.0%	25.9%	-8.3%	3.4%	2.7%	24.6%	-7.5%	4.9%	0.9%	24.4%
D&A	4.7%	12.0%	8.8%	7.5%	-1.4%	10.8%	8.1%	7.6%	0.8%	9.9%	7.5%	6.9%
Operating Income	-61.1%	-63.9%	-30.9%	1214.5%	-69.2%	-68.0%	25.2%	982.2%	-66.1%	-66.3%	17.0%	853.0%
Pre Tax Profit	-63.8%	-72.4%	-6.3%	1314.0%	-69.7%	-69.3%	26.9%	1032.6%	-66.4%	-67.2%	17.7%	882.8%
Net Income	-63.7%	-69.0%	-9.2%	1232.2%	-70.5%	-65.5%	22.9%	967.1%	-67.2%	-63.1%	14.0%	825.9%
EBITDA	-56.6%	-51.4%	-15.8%	622.0%	-64.3%	-52.1%	17.2%	563.1%	-61.4%	-52.4%	13.0%	514.5%

Source: Company reports and Wedbush estimates.

Teavana Annual Income Statement

(in 000's, except per share data and ratios, FY ends December 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Total Revenue	63,861	90,262	124,701	168,101	214,153	266,510
Cost of Goods Sold	27,193	36,435	46,275	60,903	77,082	94,508
Gross Profit	36,668	53,827	78,426	107,198	137,071	172,002
Selling, General and Administrative Expense	29,242	38,142	50,571	69,681	89,384	109,584
Depreciation and Amortization	2,666	3,489	4,361	5,928	7,568	9,712
Non-Recurring (Gain) or Loss	-	-	-	-	600	-
Total Operating Expenses	107,897	115,553	123,899	136,512	146,398	155,642
Operating Income (Loss)	4,760	12,196	23,494	31,589	39,519	52,706
Interest Income	-	-	-	-	-	-
Interest Expense	2,061	2,435	2,585	1,673	510	510
Other (Income) Expense, net	-	-	-	-	-	-
Income Before Taxes	2,699	9,761	20,909	29,916	39,008	52,196
Provision for Income Taxes	(1,502)	(4,470)	(8,906)	(12,157)	(15,821)	(21,144)
Net Income	1,197	5,291	12,003	17,759	23,187	31,051
Non-Recurring (Gain) or Loss	-	-	-	-	357	-
Adj. Net Income			12,003	17,759	23,544	31,051
Earnings (Loss) Per Share:						
GAAP	0.03	0.14	0.32	0.46	0.59	0.78
Adj.			0.32	0.46	0.60	0.78
Basic Shares Outstanding	36,749	36,749	36,749	37,475	38,626	39,226
Diluted Shares Outstanding	37,095	37,322	37,725	38,365	39,434	40,034

EBITDA

Depreciation & Amortization	2,666	3,489	4,361	5,928	7,568	9,712
EBITDA	7,426	15,685	27,855	37,517	47,087	62,418

Margin Analysis

COGS/Sales	42.6%	40.4%	37.1%	36.2%	36.0%	35.5%
Gross Margin	57.4%	59.6%	62.9%	63.8%	64.0%	64.5%
G&A/Sales	45.8%	42.3%	40.6%	41.5%	41.7%	41.1%
D&A/Sales	4.2%	3.9%	3.5%	3.5%	3.5%	3.6%
Operating Margin	7.5%	13.5%	18.8%	18.8%	18.5%	19.8%
Pre Tax Margin	4.2%	10.8%	16.8%	17.8%	18.2%	19.6%
Tax Rate	55.7%	45.8%	42.6%	40.6%	40.6%	40.5%
Net Income	1.9%	5.9%	9.6%	10.6%	10.8%	11.7%
EBITDA Margin	11.6%	17.4%	22.3%	22.3%	22.0%	23.4%

Year/Year Growth

Revenues	41.3%	38.2%	34.8%	27.4%	24.4%
Cost of Goods Sold	34.0%	27.0%	31.6%	26.6%	22.6%
Gross Profit	46.8%	45.7%	36.7%	27.9%	25.5%
Selling, General and Administrative Expenses	30.4%	32.6%	37.8%	28.3%	22.6%
Depreciation and Amortization	30.9%	25.0%	35.9%	27.7%	28.3%
Operating income	156.2%	92.6%	34.5%	25.1%	33.4%
Net Income	342.0%	126.9%	48.0%	30.6%	33.9%
EPS	339.3%	124.4%	45.5%	27.0%	31.9%

Source: Company reports and Wedbush Securities estimates

Teavana Annual Balance Sheet

(in 000's, except per share data and ratios, FY ends December 31)

	2009A	2010A	2011A	2012E	2012E
Assets:					
Cash and cash equivalents	1,314	7,901	17,818	16,421	23,061
Accounts Receivable - Other	284	-	-	-	-
Inventory	11,615	16,928	25,676	37,868	46,648
Current Deferred Tax Asset	772	1,629	1,839	1,839	1,839
Prepaid expenses and other current assets	1,003	2,333	2,475	2,475	2,475
Other	1,061	1,400	1,856	1,856	1,856
Total Current Assets	16,049	30,191	49,664	60,459	75,879
Property and Equipment, net	22,513	31,028	42,785	57,792	76,187
Goodwill	2,394	2,394	2,394	2,394	2,394
Deferred Tax Asset, non-current	184	-	-	-	-
Other Assets	627	513	775	775	775
Total Assets	41,767	64,126	95,618	121,420	155,234
Liabilities:					
Unearned Franchise Fees	-	-	-	-	-
Accounts payable	2,564	3,631	3,898	4,964	6,115
Income taxes payable	3,994	4,809	1,821	1,821	1,821
Deferred revenue	1,083	1,344	1,813	2,309	2,869
Other Current Liabilities	3,395	5,539	5,034	5,034	5,034
Current Maturities of Notes and Debentures	250	12,992	-	-	-
Total Current Liabilities	11,286	28,315	12,566	14,128	15,840
Long-term debt	1,000	1,000	-	-	-
Deferred Lease Credits, net of current	3,851	7,524	12,905	12,905	12,905
Deferred Income Taxes	-	420	2,570	2,570	2,570
Other long-term liabilities	11,448	525	575	575	575
Total Liabilities	27,585	37,784	28,616	30,178	31,890
Common stock, no par value	21,889	81,405	1	1	1
Additional paid-in capital	-	-	276,782	276,782	276,782
Retained Earnings	(7,707)	(55,060)	(209,792)	(186,605)	(155,553)
Accumulated Other Comprehensive Income (Loss)	-	-	11	1,063	2,115
Treasury stock (at cost)	-	-	-	-	-
Total Shareholders' Equity	14,182	26,345	67,002	91,241	123,345
Total Liabilities and Shareholders' Equity	41,767	64,129	95,618	121,420	155,234

Return Ratios

Return on Sales	5.9%	9.6%	10.6%	10.8%	11.7%
Total Asset Turnover	2.16	1.94	1.76	1.76	1.72
Financial Leverage	0.34	0.41	0.70	0.75	0.79
Return on Equity	4.3%	7.7%	13.0%	14.4%	15.9%
Return on Assets	12.7%	18.7%	18.6%	19.1%	20.0%
Sustainable Growth	4.3%	7.7%	13.0%	14.4%	15.9%

Liquidity/Leverage

Current Ratio	1.4	1.1	4.0	4.3	4.8
Quick Ratio	0.1	0.3	1.4	1.2	1.5
Debt to Equity	8.8%	53.1%	0.0%	0.0%	0.0%
Debt to Capital	4.7%	34.2%	0.0%	0.0%	0.0%
Net Working Capital	4,763	1,876	37,098	46,331	60,039
Book Value per Share	\$0.38	\$0.70	\$1.75	\$2.31	\$3.08
Tangible Book Value per Share	\$0.32	\$0.63	\$1.68	\$2.25	\$3.02
Cash & Investments per Share, Net	\$0.00	(\$0.16)	\$0.46	\$0.42	\$0.58

Source: Company reports, Wedbush Securities estimates.

Teavana Annual Cash Flow Statement

(in 000's, except per share data and ratios, FY ends January 31)

	2008A	2009A	2010A	2011A	2012E	2013E
Cash Flow from Operating Activities:						
Net income	1,197	5,291	12,003	17,759	23,187	31,051
Depreciation & Amortization	2,666	3,489	4,361	5,927	7,568	9,712
Non-Cash Interest Expense	1,709	1,925	2,279	1,327	-	-
Deferred income taxes	(610)	532	(253)	1,940	-	-
Stock Based Compensation	207	169	157	790	1,052	1,052
Excess Tax Benefit from the Exercise of Stock Options	-	-	-	(2,925)	-	-
(Gain) Loss from Short-Term Investments	-	-	-	-	-	-
Other	-	-	130	160	-	-
Accounts Receivable	167	-	-	-	-	-
Inventory	(1,810)	(3,646)	(5,313)	(8,748)	-	-
Income Taxes Receivable	-	-	-	-	-	-
Prepaid expenses and Other Assets	(713)	46	(1,114)	(117)	-	-
Prepaid rent	(222)	(276)	(338)	(456)	-	-
Accounts Payable	903	(1,558)	669	13	-	-
Income Taxes Payable	(224)	2,772	815	(63)	-	-
Deferred Rent	1,066	1,124	3,673	5,381	-	-
Deferred Revenue	219	326	260	469	-	-
Other Long-Term Liabilities	396	877	2,068	(502)	-	-
Changes in operating assets and liabilities, net	-	-	-	-	(10,630)	(7,069)
Net Cash Provided by Operating Activities	4,951	11,071	19,397	20,955	21,178	34,746
Cash Flow from Investing Activities:						
Purchase of Property and Equipment	(8,798)	(6,640)	(12,560)	(17,566)	(22,575)	(28,107)
Acquisitions, net of cash acquired	-	-	-	-	-	-
Net Cash Used in Investing Activities	(8,798)	(6,640)	(12,560)	(17,566)	(22,575)	(28,107)
Cash Flow from Financing Activities:						
Proceeds from Revolving Credit Facility	50,946	93,980	132,239	181,414	-	-
Long-Term Debt Payments and Debt Transaction Costs	(46,286)	(98,265)	(132,489)	(182,414)	-	-
Proceeds from Exercise of Stock Options	-	-	-	637	-	-
Excess Tax Benefit from Stock Option Exercises	-	-	-	2,925	-	-
Proceeds from issuance of common stock	-	-	-	15,079	-	-
Cash Paid for Financing Costs	(406)	-	-	(433)	-	-
Other	-	-	-	(10,683)	-	-
Net Cash Provided by Financing Activities	4,254	(4,285)	(250)	6,525	-	-
Effect of exchange rate changes on cash	-	-	-	3	-	-
Net increase (decrease) in cash flows from continuing ops.	407	146	6,587	9,917	(1,397)	6,639
Net Increase (Decrease) in Cash and Cash Equivalents	407	146	6,587	9,917	(1,397)	6,639
Cash and Equivalents, beginning of period	761	1,168	1,314	7,901	17,818	16,421
Cash and Equivalents, end of period	1,168	1,314	7,901	17,818	16,421	23,061
FCF	(3,847)	4,431	6,837	3,389	(1,397)	6,639

Source: Company reports and Wedbush Securities estimates.

Analyst Certification

I, Nick Setyan, 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/DisclosureQ112.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.

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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, 2012)	Investment Banking Relationships (as of March 31, 2012)
Outperform: 59%	Outperform: 13%
Neutral: 35%	Neutral: 2%
Underperform: 6%	Underperform: 6%

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.

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Wedbush Equity Research Disclosures as of April 23, 2012

Company	Disclosure
Teavana Holdings	1

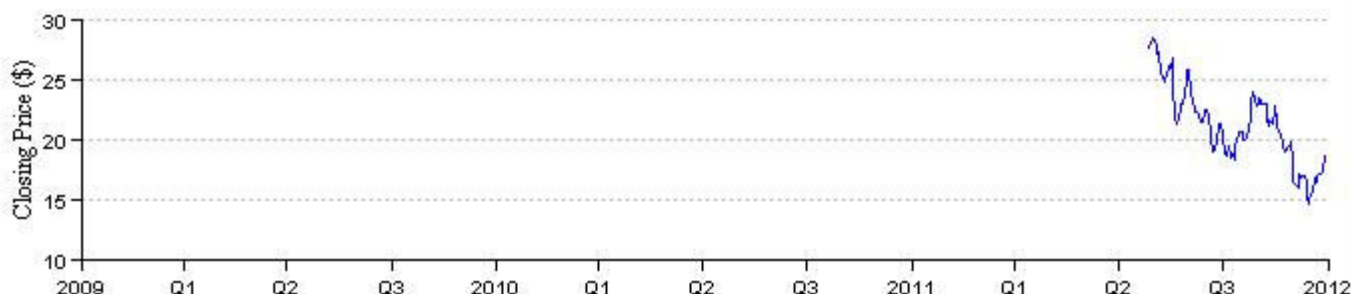
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TEA



* 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, 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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