ThinkEquity LLC
A Panmure Gordon Company

August 22, 2011
Industry Report

Think Piece: Equity Strategy

Think Conviction: Confidence in the Fundamentals Should Drive Outperformance

THINK SUMMARY:
With this report, we identify those stocks under our current research coverage in which our analysts have the highest degree of conviction in the fundamentals of the company. Given our belief that stock prices reflect fundamentals over the intermediate and longer term, we believe these stocks will outperform the broader market over the next 6-12 months.

KEY POINTS:

- We are adding **LSI (LSI)** and **Skyworks Solutions (SWKS)** to the ThinkEquity Conviction List and believe these companies are well positioned for future growth and outperformance. While we still rate the shares Buy, we are removing **Entropic Communications (ENTR), Fairchild Semiconductor (FCS), NetApp (NTAP) and Ultra Clean Holdings (UCTT)** from the list.

The rest of the list remains unchanged as follows (see below for individual Investment Thesis by company):

- In the Technology/Communications sector, we have confidence in the fundamentals of **ANSYS (ANSS), Fortinet (FTNT), Mellanox Technologies (MLNX), OPNET Technologies (OPNT), Oracle Corp. (ORCL), QUALCOMM (QCOM), RightNow Technologies (RNOW), Spansion (CODE),** and VMware (VMW) and expect outperformance for the shares of these companies.

- In the Internet/Media vertical, we expect continued solid growth for **Active Network (ACTV), Baidu (BIDU), eBay (EBAY)** and **Velti (VELT).** In the Games space, we like the prospects for **Electronic Arts (ERTS).**

- In the Healthcare/Medical Devices industry, we believe **Alnylam Pharmaceuticals (ALNY),** and **NuVasive (NUVA)** are attractive investment ideas.

- In the Cleantech area, we have confidence in the fundamentals of **Ceradyne (CRDN), Johnson Controls (JCI)** and **Rogers Corp. (ROG).**

- In the Consumer vertical, we continue to view **Costco (COST)** as a key investment idea.

Reason for Report:

Equity Strategy

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ThinkEquity LLC

Conviction List

			Price	Price	%	FY EPS		CY P/E		Secular	P/E/G		Mkt Cap
Company	**Symbol**	**Rating**	**22-Aug**	**Target**	**Upside**	**2011E**	**2012E**	**2011E**	**2012E**	**Growth**	**2011E**	**2012E**	**($MM)**
Technology / Communications													
Ansys Inc.	ANSS	Buy	$45.98	$62	35%	$2.50	$2.75	18x	17x	13%	1.4x	1.3x	$4,241
Fortinet Inc.	FTNT	Buy	$17.54	$29	65%	$0.39	$0.48	45x	37x	15%	3.0x	2.4x	$2,685
LSI Corp.	LSI	Buy	$6.29	$9	43%	$0.48	$0.58	13x	11x	14%	0.9x	0.8x	$3,603
Mellanox Technologies Ltd.	MLNX	Buy	$26.48	$35	32%	$1.07	$1.60	25x	17x	20%	1.2x	0.8x	$939
OPNET Technologies Inc.	OPNT	Buy	$29.55	$43	46%	$0.66	$1.00	31x	24x	15%	2.1x	1.6x	$663
Oracle Corp.	ORCL	Buy	$24.78	$40	61%	$2.22	$2.45	11x	10x	15%	0.7x	0.6x	$125,523
QUALCOMM Inc.	QCOM	Buy	$46.52	$75	61%	$3.20	$3.50	14x	13x	18%	0.8x	0.7x	$78,014
RightNow Technologies Inc.	RNOW	Buy	$27.52	$38	38%	$0.58	$0.83	47x	33x	25%	1.9x	1.3x	$915
Skyworks Solutions Inc.	SWKS	Buy	$18.78	$30	60%	$1.88	$2.04	10x	9x	17%	0.6x	0.5x	$3,498
Spansion Inc. Cl A	CODE	Buy	$14.16	$25	77%	$2.55	$2.90	6x	5x	12%	0.5x	0.4x	$875
VMware Inc.	VMW	Buy	$76.76	$110	43%	$2.03	$2.22	38x	35x	30%	1.3x	1.2x	$9,387
Internet / Media													
Active Network Inc.	ACTV	Buy	$16.23	$23	42%	($0.07)	$0.17	n/m	n/m	35%	n/m	n/m	$880
Baidu Inc. ADS	BIDU	Buy	$126.98	$200	58%	$2.91	$4.32	44x	29x	35%	1.2x	0.8x	$34,399
eBay Inc.	EBAY	Buy	$27.16	$41	51%	$2.00	$2.34	14x	12x	10%	1.4x	1.2x	$35,003
Electronic Arts Inc.	ERTS	Buy	$19.31	$28	45%	$0.70	$0.87	23x	17x	20%	1.2x	0.9x	$6,371
Velti PLC	VELT	Buy	$10.64	$22	107%	$0.37	$0.74	29x	14x	35%	0.8x	0.4x	$655
Healthcare / Life Sciences													
Alnylam Pharmaceuticals Inc.	ALNY	Buy	$6.62	$18	172%	($1.61)	($2.25)	n/m	n/m	n/m	n/m	n/m	$282
NuVasive Inc.	NUVA	Buy	$21.08	$39	85%	$1.11	$1.28	19x	16x	10%	1.9x	1.6x	$841
Cleantechnology													
Ceradyne Inc.	CRDN	Buy	$27.17	$45	66%	$3.18	$3.43	9x	8x	25%	0.3x	0.3x	$4,306
Johnson Controls Inc.	JCI	Buy	$28.83	$50	73%	$2.33	$3.31	11x	8x	20%	0.5x	0.4x	$4,570
Rogers Corp.	ROG	Buy	$43.15	$64	48%	$2.85	$3.50	15x	12x	15%	1.0x	0.8x	$6,839
Consumer													
Costco Wholesale Corp.	COST	Buy	$74.36	$90	21%	$3.36	$4.05	21x	19x	12%	1.8x	1.5x	$32,556
AVERAGE								22x	17x	20%	1.2x	1.0x	$16,229
MEDIAN								19x	15x	17%	1.2x	0.8x	$3,922

Source: ThinkEquity LLC estimates, FactSet.

TECHNOLOGY / COMMUNICATIONS

ANSYS, Inc. (NASDAQ: ANSS, $45.98, Buy, Price Target: $62)
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Investment Thesis
We like what we view as ANSYS' global franchise in advanced simulation applications, and expect the company's cyclical demand fundamentals to continue strengthening over the course of 2011 and 2012. Additionally, we like the alignment between global wireless technology demand, and integration of electro-magnetic simulation with fluid and mechanical multiphysics in the flagship ANSYS product platform. We believe the company's acquisition of Apache Design Solutions, a successful startup with a strategic focus on semiconductor power integrity and low power requirements, will further solidify the company's position as the scale leader in simulation software technology.

Valuation
Our $62 price target is based on a 22.5x P/E on our revised CY2012 EPS estimate of $2.75. ANSS shares trade at a 20x P/E based on our revised CY2011 pro forma EPS estimate of $2.50. Shares of the design peer group median current-year P/E multiple is currently 19x. We believe that ANSS shares deserve a premium valuation compared to the peer group, based on what we view as the company's global franchise, unique competitive strengths, and first-ever scale attributes in fluid, and electromagnetic simulation software applications.

Risks to Price Target
ANSYS is historically acquisitive; acquisitions may involve product and organizational integration challenges: We believe CY11 will see ANSYS more active again with its M&A strategy, perhaps to consolidate market share or possibly add selected vertical market depth to its applications. ANSYS has capital-intensive end markets. Several of ANSYS' largest verticals, including aerospace, automobiles and industrial equipment are very cyclical and subject to the more harsh capital constraints of those particular end markets.

Fortinet Inc. (NASDAQ: FTNT, $17.54, Buy, Price Target: $29)
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Investment Thesis
We regard the recent slump in Fortinet's share price as a buying opportunity because, above all, recent results continue to point to global market share gain, notwithstanding EMEA mid-year deceleration. In 2Q, revenues grew by 40%, or more, in the Americas and Asia-Pacific. Deferred revenue was up qtr/qtr, despite EMEA, implying a healthy pipeline overall for 2H-2011. In our model, we project billings growth of 25% for 2011E. Growth in product revenue (45% of total), which, in turn, generates software subscriptions, which drives deferred revenue, is showing a strong positive trend, up 30-35% yr/yr for the first half of 2011, and renewal rates remain at record high levels. While developments in Europe raise the risk profile of FTNT shares, we continue to have high confidence in the company's competitive position and fundamentals.

Valuation
We base our $29 price target on a FCF per share multiple of 30x our FY12 FCF/share estimate of $0.95, above the current 26x based on our 2011E FCF estimate of $0.84. The security group peer median FCF multiple is currently 21x. We believe investors will continue to pay a premium multiple for the company's ability to potentially outperform estimates. Accordingly, we believe a 31x multiple is appropriate.

Risks to Price Target
Although Fortinet is a leader in high-growth, unified-threat, management technology and appliances, there is a demand relationship to the core firewall technology market, which is mature and likely to experience increasing commoditization over time. As the market of firewall/VPN continues to mature over time, competitive pressures could erode margins and result in market share loss.

LSI Corp. (NYSE: LSI, $6.29, Buy, Price Target: $9)
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Investment Thesis
We are adding LSI to our Conviction List, following our recent upgrade of the stock. While demand across key end markets such as server/computing, data center storage, and wireless infrastructure has become increasingly uncertain, we nonetheless are encouraged by recent success in converting design wins across storage and networking into revenue. We expect revenue uplift from additional hard drive, server and networking design wins in the coming quarters. With room for additional operating leverage, we also expect company operating margins to progress toward the stated goal of 17% versus 2Q11 operating margin of 12.4%.

Valuation
Our price target of $9 represents 15x our new CY12 EPS estimate of $0.58. Our new price target implies a PEG of 1.1x, a slight premium the comparable median of 0.9x reflecting improving design win and share momentum.

Risks to Price Target
The key risks for LSI Corporation include the following: 1) The market for storage and hard drive semiconductors remains competitive and it faces competition from a number of established companies as well as emerging solid-state drive vendors. 2) The market for networking is highly competitive and it faces competition from a number of established companies. 3) The company's revenue stream is exposed to any macro-driven slowdown in the spending in the enterprise and infrastructure end-markets, 4) The company's revenue is concentrated at two large customers, and is exposed to either slowing demand for these customers and/or potential design losses to competitors.

Mellanox Technologies Ltd. (NASDAQ: MLNX, $26.48, Buy, Price Target: $35)
Rajesh Ghai, CFA | 415-249-6365 | rghai@thinkequity.com

Investment Thesis
A strong beat-and-raise quarter with no apparent signs of weakness in any specific geography and vertical showcased MLNX's growth momentum and re-affirmed our conviction in one of our favorite names in our coverage universe. Based on this quarter's performance, we have further evidence to believe that the scale, low latency, and I/O speed requirements, hitherto restricted to the High Performance Computing (HPC) market, are now becoming increasingly common in mainstream Enterprise and Cloud applications, which should continue to drive MLNX on a strong growth path in the foreseeable future. Hence, we reiterate our Buy rating on MLNX shares and continue to include it on our Conviction Buy list.

Valuation
Our price target for MLNX shares is $35, which is based on a 20x P/E multiple on our FY12 EPS estimate of $1.60 and $2.78 cash per share. We believe a 20x P/E multiple is appropriate as it reflects a PEG ratio of 1x on our assumption of an earnings growth rate of 20%.

Risks to Price Target
Mellanox is a component supplier to powerful OEMs that enjoy pricing leverage and are likely to change order patterns rapidly, which may affect revenue visibility for MLNX. Although Mellanox has enjoyed a virtual monopoly in InfiniBand, serious competition in the form of QLogic has begun to emerge in the market. QLogic could potentially cause severe price competition in the future as it tries to gain market share from MLNX. With the acquisition of VOLT, the InfiniBand market has become a two-horse race, in our view. If OEMs determine that they need to dual source their InfiniBand adaptors, QLGC could gain significant share in the market. Additionally, customer inertia may prevent InfiniBand from moving beyond its current niche of High Performance Computing.

OPNET Technologies, Inc. (NASDAQ: OPNT, $29.55, Buy, Price Target: $43)
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Investment Thesis
We like OPNET's product strategy and execution in application performance monitoring (APM), where new challenges of complexity and network diversity among next generation, process-driven applications are creating growth opportunities. We believe OPNET will continue to raise its competitive profile in strategic APM, while taking share from a range of larger incumbents; the company has been reaping benefits of focused efforts to expand and improve the capabilities of its sales function, and we expect this trend to continue.

Valuation
Our $43 per-share price target is based on a P/FCF multiple of 28x based on our FY13E FCF estimate of $1.55 (+25% yr/yr). OPNT shares currently trade at 27x our FY12E FCF per share estimate of $1.24. At our $43 price target 12 months from now, OPNT shares would trade at a 32x P/E based on our FY2013 pro forma EPS estimate of $1.34, compared to the current 33x P/E multiple based on our FY12 estimate of $1.00. We believe investors will continue to pay a high multiple of FCF for OPNT shares in anticipation of strong revenue growth and margin accretion. Accordingly, we believe a 28x multiple is appropriate.

Risks to Price Target
The Network instrumentation market is fragmented, and competition amongst existing vendors could be a source of margin compression. Large players could develop their own solutions and infringe upon OPNET's turf. OPNET occupies a niche in the broader Network Management space. The niche does not have a large vendor in this space. We believe that continued macroeconomic uncertainty could lead to a larger portion of deals getting consummated over longer cycles, hence, delaying revenue recognition.

Oracle Corp. (NASDAQ: ORCL, $24.78, Buy, Price Target: $40)
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Investment Thesis
We believe Oracle today exerts greater global account control than ever, resulting in share gains of customers' IT budgets and a stronger ability to enter new markets. Supplemented by its successful acquisition strategy, Oracle has attained the #1 market share position in both the database and middleware markets, and a #2 position in the application software market. Because this stack is increasingly based on industry standards for programming and exposing data, the marketplace is gravitating toward Oracle's offerings over those of second-tier providers, in our view. Additionally, ORCL has only reported a full-year EPS decline once in the last 12 years (and even then, only 4%), and we believe ORCL's earnings resiliency has improved, as recurring maintenance revenue comprises 50% of revenue, versus 37% in FY02, and Oracle is advantaged by greater economies of scale today. In our view, this earnings resiliency and earnings growth that are more attractive to that of the S&P 500 deserve a premium valuation rather than a discount or market-average valuation, and we believe this equilibrium will be restored over time.

Valuation
On CY: 2012E P/E basis, ORCL trades at 13x (ex-cash) our CY:2012 estimate of $2.54, which is in line with the S&P 500 group average of 13x. Our $40 price target for ORCL shares is based on a 15x (ex-cash) multiple applied to our FY:2013 EPS estimate of $2.67/share. We believe that ORCL maintains a slightly higher valuation multiple for its out-year and believe this multiple is appropriate since, historically, ORCL shares have traded at an in-line to slight premium to the average market multiple of 15x, and we expect the shares to continue to trade at a multiple that is in line with the historical level.

Risks to Price Target
Risks to our price target include but are not limited to: 1) Prolonged weakness in IT spending; 2) macroeconomic fluctuations; 3) acquisition integration challenges; 4) competition; 5) departure of key management personnel could impede our price target.

QUALCOMM Inc. (NASDAQ: QCOM, $46.52, Buy, Price Target: $75)
Mark McKechnie | 415-249-1988 | mmckechnie@thinkequity.com

Investment Thesis
QUALCOMM delivered a solid report and outlook in what we view as a "transitional" quarter ahead of two major 2H11 drivers: Apple's iPhone5 and Nokia's WindowsPhone7 (WP7) models. The quarter confirmed our thesis on QCOM as the best large cap semi play on smart phones and tablets as it powered through rough overall industry waters with improved earnings prospects. We look for potential upside relative to our new forecast to become more apparent as we approach the September reporting period.

Valuation
Our QCOM $75 price target is based on 21.4x our FY12 (September) EPS estimate of $3.50 and does not include $11.97 per share in net cash. We justify the multiple on 1) our view of QCOM's leading royalty and chip position in smart phones, 2) what we see as near-term potential upside from increased chips share with the iPhone5 and NOK's WindowsPhone7, and 3) what we see as potential upside from SnapDragon tablet wins.

Risks to Price Target
Risks to our price target include: 1) Slower-than-anticipated industry unit growth; 2) Faster erosion of handset average selling prices; 3) Increased chip competition; and 4) general compression of market multiples.

RightNow Technologies Inc. (NASDAQ: RNOW, $27.52, Buy, Price Target: $38)
Brian Schwartz | 415-249-1982 | bschwartz@thinkequity.com

Investment Thesis
Our recent survey work indicates the marketplace momentum of replacing legacy, single-channel on premise Customer Experience solutions with multi-channel cloud based solutions is accelerating compared to six month ago. We think RNOW will benefit disproportionately from this replacement cycle since RightNow Technologies is the farthest along in building an Enterprise-scale cloud-based Customer Experience suite of solutions for large B2C businesses, in our view. Additionally, RightNow's business model is positively levered to the mobile tsunami trend due to its volume-based usage pricing model. These strong market tailwinds plus reported TTM current software backlog growth of 27% gives us confidence that new business and cash flow trends are accelerating, and we maintain a positive bias to current consensus expectations. We believe the shares could appreciate through either higher estimate revisions or multiple expansion as the current discount valuation to the SaaS group average narrows over time.

Valuation
Our $38 price target is based on approximately 27x our EV/2012E OCF of $48M (cash from operations), which is a slight discount to the current average SaaS companies' EV/FTM OCF estimated multiple of 29. We use a 27 multiple to derive our price target, as we expect the shares to trade at a multiple that is essentially in line with the SaaS group average.

Risks to Price Target
Risks to our price target include: 1) Competition; 2) macroeconomic fluctuations; 3) acquisition integration challenges; 4) increased churn; and 5) slow customer adoption of Cx solutions.

Skyworks Solutions Inc. (NASDAQ: SWKS, $18.78, Buy, Price Target: $30)
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Investment Thesis
We are adding SWKS to our Conviction List. We expect relative resilience in the smartphone and tablet markets given strong customer interest and product cycles. With multiple smartphone customers ramping new models in the next few quarters, we expect SWKS to benefit from its market leading position in the handset radio frequency components market. We also expect benefit from increasing use of wireless connectivity beyond traditional handsets. Lastly, we are

encouraged by the company's ramp of new competitive filter products to more aggressively address a broader array of market opportunities.

Valuation
Our $30 price target is based on a 14x target multiple on our CY12 EPS estimate of $2.10, implying a PEG of 0.8x, a slight premium to the comparable average 0.7x, which we believe is deserved, given the company's market position and share gain opportunity.

Risks to Price Target
The key risks for Skyworks Solutions include the following: 1) The markets for handset front-end components and analog are highly competitive, and the company faces competition from a number of established competitors, along with competition in analog. 2) Consistency in financial results in recent years leaves the stock more vulnerable than peers to a management execution misstep, in our view. 3) We believe that the increasing complexity of wireless front-end components could expand the risk of product delays and/or issues versus in the past.

Spansion, Inc. (NYSE: CODE, $14.16, Buy, Price Target: $25)
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Investment Thesis
We view Spansion as the leader in the embedded NOR flash memory market for diversified end markets in industrial/automotive, telecom/networking, computing and consumer electronics. Since emerging from bankruptcy, we believe that Spansion has executed well in regaining share in the embedded flash market with consistent revenue growth, higher margins, and free cash flow using its proprietary MirrorBit flash memory technology and a "FabLite" manufacturing strategy. Spansion has what we view as: a diversified customer base of over 4,000 global customers, good design win momentum, a focused new management team, a flexible Fab Lite manufacturing strategy and recent strong revenue and earnings growth.

Valuation
Our $25 price target is based on an approximate 10x P/E on our calendar 2011E pro forma EPS estimate of $2.55 relative to our outlook for 12% secular earnings growth. Given the consolidation in the NOR industry likely leading to more stable pricing with Spansion and Micron technology being the two main competitors in the high-performance embedded NOR flash market, strong demand drivers currently in the embedded NOR market, technology leadership, and good management execution, we believe that a forward multiple of 10x on our calendar 2011E EPS is justified relative to our Spansion secular earnings growth outlook.

Risks to Price Target
The following risks are inherent to investing in Spansion: general business and economic conditions; demand for products; changes in customer order patterns; the pricing of products driven by capacity versus demand; the continued development, qualification, and availability of innovative products in a rapidly changing technological environment; the ability to reduce costs; manufacturing risks; inventory risk; manufacturing yield risks, the ability to recruit and retain skilled engineers and other personnel; and currency risks. In addition, Spansion's recent emergence from Chapter 11 implies that the company has to re-engage and win back new and existing customers who may not have a business relationship. Spansion also has to rapidly transition to a "Fab Lite" flexible, manufacturing strategy of using its captive Fab in Austin, coupled with foundries such as Elpida, SMIC etc. Additionally, Spansion still has significant debt load which may constrain its operational flexibility; especially in weak economic times.

VMware Inc. (NYSE: VMW, $76.76, Buy, Price Target: $110)

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Investment Thesis

Our conviction in VMW's growth story is further enhanced after yet another beat-and-raise in VMW's 2QFY11, driven by broad-based growth across geographies, verticals and product-lines. FCF/share was, once again, well ahead of EPS, indicating to us that VMW continues to be a very strategic vendor for its customers, who remain willing to sign multi-year contracts with VMW and keep driving VMW's deferred revenue higher. We remind investors that, despite VMW's strong investment mode, we think it remains likely to see significant operating margin expansion in future years—potentially a 1000-point expansion over the next three years. In our view, this could lead to a very significant increase in earnings power and FCF generation, well ahead of current, long-term Street estimates. We believe VMW is the undisputed leader in virtualization and Cloud build-out—the top IT secular growth trends today in our view. In our opinion, VMW is poised to extend this lead as it innovates ahead of its competitors and executes effectively, potentially driving stronger FCF generation and significant operating margin expansion in the future. With a new product cycle (vSphere 5) and an upcoming trade show as likely upside catalysts, we continue to include the name on our Conviction Buy list.

Valuation

Our $110 price target is based on an approximate, ex-cash per share, 31x multiple to our FY12 FCF estimate of $3.30 per share. The 31x multiple implies a PEG ratio of 1.03x, assuming a long-term FCF growth rate of ~30%, which, we believe is appropriate, given the early stage of the company's opportunity and its strong strategic positioning.

Risks to Price Target

Competition with Microsoft and the open-source community. Challenges associated with any new technology. EMC owning 97% of voting rights and likely competing with VMware in some areas. Acquisitions could lead to dilution.

INTERNET / MEDIA

Active Network Inc. (NYSE: ACTV, $16.23, Buy, Price Target: $23)
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Investment Thesis
Active is a leading provider of cloud-based reservation and marketing solutions serving a variety of customer groups, including business events, community activities, outdoors, and sports. Our Buy rating is based on: 1) strong growth potential in an underpenetrated $10B North American technology fee opportunity, 2) Active provides a strong value proposition to both organizations and consumers, 3) numerous growth drivers that should lead to mid-teens long-term growth, and 4) attractive financial characteristics with highly predictable revenues and high incremental EBITDA margins.

Valuation
Our $23 per-share price target for ACTV shares is based on 25x our 2012 EBITDA estimate of $54M. We believe a 25x multiple is justified given our view for 35%-plus long-term EBITDA growth.

Risks to Price Target
Risks for Active Network include risks of integrating acquisitions; competition; slower adoption of web-based reservation systems; the macroeconomic environment; transition to the ActiveWorks platform; expansion into new businesses and risks surrounding International expansion.

Baidu Inc. (NASDAQ: BIDU, $126.98, Buy, Price Target: $200)
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Investment Thesis
We remain positive on BIDU shares, and expect continued strong growth driven by 1) continued consumer Internet adoption – we expect China to add another 70 million Internet users in 2011 up from approximately 450M at the end of 2010 (33% online penetration); 2) continued merchant adoption – we estimate Baidu has approximately 5% market share among its addressable market of 5 million larger SMEs in China; 3) strong growth in emerging categories including eCommerce; 4) continued monetization improvements. We believe these factors should lead to 60% plus top-line growth in 2011 and we expect continued strong incremental margins which we expect to lead to 70% plus EPS growth.

Valuation
Our $200 price target for BIDU shares is based on a 45x P/E to our 2012 pro forma EPS estimate. We believe a 45x multiple is justified, given our outlook for 40%-plus long-term EPS growth.

Risks to Price Target
Key risks for Baidu include an economic slowdown in China, increased regulatory action, increased competition, and lack of a developed eCommerce market.

eBay Inc. (NASDAQ: EBAY, $27.16, Buy, Price Target: $41)
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Investment Thesis
eBay reported a solid quarter with strength in both Payments (29% Y/Y FX neutral vs. 27% last quarter) and improved Marketplace GMV (10% Y/Y vs. 8% in 1Q). U.S. GMV accelerated to 14% Y/Y, driven primarily by an improved user experience, better search, and more top- rated sellers. We are encouraged by the improved business fundamentals and solid traction of the company's growth initiatives, such as mobile payment. Payments growth momentum continued with total payment revenue up 29% Y/Y FX neutral (vs. 27% last quarter), driven by further penetration on both Merchant Services and on-eBay. Segment margin expanded 200 bps Y/Y benefiting from stable transaction margin, continuing operating leverage and improvement in BML. Both U.S. and international were solid in the quarter: U.S. non-vehicle GMV accelerated 400 bps sequentially, mainly driven by improvement in the user interface, search experience (i.e., removal of

duplicate listings), and more sales from trusted sellers. Solid European growth and stabilizing Korean growth led to 200 bps sequential growth acceleration for international in 2Q.

Valuation
Our $41 EBAY price target is based on approximately 16x our 2012 PF EPS estimate of $2.34 plus net cash, which we believe is appropriate given our outlook of 5-10% long-term growth for the marketplace business and 15-20% long-term growth for the payment business. For our price target, we apply a 12x multiple to Marketplace 2012E PF EPS, a 25x multiple to Payments 2012E EPS, and add $4 in cash/investments, which equates to our $41 PT.

Risks to Price Target
Key risks for eBay include competition, adverse currency movements, inability to improve eBay's user experience, and economic weakness.

Electronic Arts Inc. (NASDAQ: ERTS, $19.31, Buy, Price Target: $28)
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Investment Thesis
We are positive on ERTS's proposed acquisition of PopCap, given growth in social and smart phone games that was faster than we had expected; better than we expected EPS accretion from the deal; the quality of PopCap assets; and a potential to accelerate growth in higher-quality Games-as-a-Service business. We are raising our estimates and now expect EPS growth at 21% Y/Y and 39% Y/Y EPS during FY12 and FY13 respectively, driven largely by growing revenue contribution from relatively lucrative Games-as-a-Service segment.

Valuation
Our $28 price target on ERTS shares is based on a 26x PE (net of cash) on our FY12 EPS estimate of $0.82 versus a 13x average for the shares of the peer group. We think that the premium is appropriate, given that we believe that the company has strong franchises and the potential to monetize these franchises on emerging platforms and given the company's focus on the faster-growing Games-as-a-Service segment.

Risks to Price Target
Gaming continues to be a hit-or-miss-driven business, and predicting successful titles versus unsuccessful titles is extremely difficult. The risk is especially high for the new and unproven IPs, and a company's reliance on the new IPs and the titles in the established franchises to reach the revenue target opens it to risk of a revenue miss. Additionally, we believe there are macro headwinds given the increasing popularity of the used games and free-to-play online games.

Velti PLC (NASDAQ: VELT, $10.64, Buy, Price Target: $22)
Robert Coolbrith | (415) 249-6363 | rcoolbrith@thinkequity.com

Investment Thesis
Velti reported a strong Q2 result (revenue of $34.4M was up 57% Y/Y and came in 8% higher than our forecast), but the stock traded down we believe in reaction to higher OpEx investments and negative (and we believe misplaced) read-through from Motricity's negative Q2 earnings report. We believe that the sell-off in VELT shares is misguided and that shares represent a compelling value at 8.2x our FY12E EBITDA estimate of $87M. At current levels, we believe investors have the unique opportunity to acquire a leading SaaS tools/solutions provider serving the rapidly emerging mobile marketing and advertising ecosystem for a “traditional media” multiple. We believe that shares will rebound during the company's seasonally strong 2H and that shares should be aggressively acquired at the current valuation.

Valuation
We note that shares of interactive marketing services peers currently trade at an average FY12E EV/EBITDA multiple of approximately 8x, while SaaS companies currently trade at an average of 16x FY12E EV/EBITDA. Given the company's growing SaaS revenue streams and what we view as its superior growth and long-term margin prospects, we believe VELT shares should trade toward the higher end of the 8-16x range, especially given the fact that the company is likely to

grow significantly faster than SaaS peers for the foreseeable future, in our view. Accordingly, we apply a 14x multiple against our 2012 EBITDA estimate of $86.8M to derive our $22 12-month price target.

Risks to Price Target
Risks to our price target include the very early stage of development of the mobile marketing/advertising technology opportunity, customer/category concentration, geographic risk, ongoing development of internal controls, working capital requirements, competition, and the high degree of seasonality present in the business.

HEALTHCARE / LIFE SCIENCES

Alnylam Pharmaceuticals Inc. (NASDAQ: ALNY, $6.62, Buy, Price Target: $18)
Marko Kozul, M.D. | 415-249-6364 | mkozul@thinkequity.com

Investment Thesis
ALNY is making solid progress towards its 5x15 goals by advancing numerous early stage programs and preparing for 2 important 4Q11 dataset announcements. In 4Q11, we are primarily focused on ALN-TTR proof of concept (POC) data that will be presented at a major Amyloid meeting. We view ALN-TTR as one of ALNY's most promising emerging pipeline compounds based on due diligence with our KOLs and therapeutic potential in a disease with unmet medical need and clear genetically defined targets. Given a low $60M EV and near-term drivers, ALNY represents an attractive risk reward, in our view.

2H11 Drivers: We believe the next two years (and especially 2H11) will show two additional important pipeline proof of concept (POC) data sets that we expect could drive shares significantly from current levels. In 3Q11, ALNY plans to announce Phase 1 POC data for ALN-TTR01 in TTR Amyloidosis. The trial's primary goal is to evaluate safety, but it also includes secondary end points the Street should find meaningful, such as ALN-TTR treatment's effect on circulating TTR plasma levels measured as percentage (%) lowering of TTR from pretreatment/baseline TTR levels. Our TTR consultants would be encouraged to observe 10-20% plasma TTR reductions while they believe up to 50% is also possible in this trial. They generally believe a 50% plasma TTR reduction is enough to cause TTR plaque regression or slow progression of the disease by 50% (factor of 2). By YE11, we believe ALN-PCS data for hypercholesterolemia patients should become available. ALNY has not yet specified the end points for this trial, but we believe it is also committed to measuring efficacy in a manner that would be appreciated by the Street. In 2011, ALNY further plans to disclose two additional pipeline programs. In 2012, ALNY plans to enter ALN-ALN-HTT for Huntington's Disease and ALN-HPN for refractory anemia into the clinic.

Valuation
Our 12-month price target of $18 is based on a sum-of-parts analysis by estimating YE11 cash (12-month forward) at approximately $8-9 per share and adding $9 per share ($410M) in pipeline technology value. Risks include IP litigation; delivery failures; clinical, regulatory, and competitive risks for pipeline candidates; and extended timelines to potential profitability.

Risks to Price Target
ALNY's lead product candidates appear to be at least a few years from market and may face significant clinical, regulatory, and competitive risks. Additionally, IP litigation and failure to make advances in RNAi delivery could lead to extended timelines to potential profitability. We also anticipate significant changes to the marketplace as new medicines are introduced. To reiterate, primary investment risks include IP litigation; delivery failures; clinical, regulatory, and competitive risks for pipeline candidates; and future financing risk.

NuVasive Inc. (NASDAQ: NUVA, $21.08, Buy, Price Target: $39)
Sameer Harish | 415-249-1989 | sharish@thinkequity.com

Investment Thesis
We expect NuVasive sales growth to accelerate through 2012. We expect significant upside to NUVA's share price if the company continues to meet or beat numbers and demonstrates additional leverage in 2011. NuVasive's suite of minimally invasive spine implants and instruments are designed to improve surgical outcomes, reduce blood loss and pain, and speed recovery. The company has successfully created a market for its lateral access spine products and continues to increase the number of physician users. Additionally, NuVasive has a high-margin business model boasting 80%+ gross margins implant business and serves the robust and fast growing minimally-invasive spine market.

Momentum in minimally invasive and lateral spine surgery is building. NuVasive expects this segment of the spine market to grow 15% in 2011 despite a flat to down market for total spine procedures. However, a key driver for the market interest is the recent flurry of competitive product introductions. Ultimately, we believe the heightened interest in minimally invasive and lateral access surgery may increase overall surgeon interest in XLIF and NeuroVision. We believe NuVasive will be able to convert many of these surgeons to XLIF in the future with superior nerve avoidance technology, supportive clinical data, and a market-leading portfolio of lateral focused implants and tools. Channel checks have shown more established physicians tend to seek XLIF training, often seeking better techniques to benefit their patients after years of limited clinical success. These surgeons tend to be stickier, longer-term adopters of technology, we believe, and less likely to pursue lower cost alternatives which may lack critical features. Notably, driving physician utilization through training is at the center of NuVasive's near-term growth strategy. Operating leverage will also be driven by sale force maturation, as well as an expanding product offering, and fixed-cost efficiencies, in our view.

We believe international markets offer significant potential growth opportunities to complement U.S. growth. We expect NuVasive to invest heavily in international markets, which represent approximately $20% of the global $9 billion spine market. Currently international revenues comprise only 5% of NuVasive's revenues; however, the company expects international revenues to comprise approximately 10% of revenues as the company approaches $1B in revenues.

Valuation
Our $39 price target is based upon 3x our 2012 revenue estimate of $602.9 million. This is a discount to the comparable medtech companies' averages of 3.8x 2012 revenues. NuVasive shares are trading at 1.8x our 2012 revenues and 2.1x our 2011 revenues of $532.8 million, compared to the medtech companies'' average of 3.9x 2011 revenues.

Risks to Price Target
NuVasive operates in a highly competitive and dynamic industry—new technology and innovation from other organizations may change NuVasive's ability to successfully grow in their markets and may make the company's technology obsolete. Additional near-term risks include pricing or reimbursement pressures, slowing market for spine surgery, timing and/or loss of orders to large hospital or physician groups, clinical guideline changes, delays in regulatory filings and supply and manufacturing disruptions.

CLEANTECHNOLOGY

Ceradyne Inc. (NASDAQ: CRDN, $27.17, Buy, Price Target: $45)
Colin Rusch | 212-468-7015 | crusch@thinkequity.com

Investment Thesis
We believe CRDN is uniquely positioned to benefit from the secular trend toward increased applications of advanced ceramics in the industrial and energy market due to lightweight, heat, and wear advantages versus incumbent materials. Near term, we believe the company is getting better yield on its military business as it more effectively meets product specs. Second, the company is getting better utilization of its manufacturing assets having closed two facilities in 2010 and getting better utilization as revenue increases. Third, the company's mix of products is migrating to higher margin opportunities in solar and industrial applications. We believe these three drivers will remain intact going forward. We are also encouraged by the company's investment in additional Boron separation capacity this year along with the accelerated

traction of its Petrochem and bioglass products. We believe CRDN's improving product mix and end-market exposure are sufficient to drive material growth over the next several years.

Valuation
We give shares of CRDN a Buy rating and a price target of $45 based on 13x our 2012E EPS of $3.43, which we believe is appropriate as it is in line with peers.

Risks to Price Target
1) Defense Demand Risk; 2) Non-Defense Demand Risk; 3) Operational Risk; 4) Competition Risk; 5) Foreign Market Risk.

Johnson Controls Inc. (NYSE: JCI, $28.83, Buy, Price Target: $50)
Colin Rusch | 212-468-7015 | crusch@thinkequity.com

Investment Thesis
We continue to highlight JCI as a core holding for Cleantech investors with exposure to energy efficiency and the electrification of the transportation market. We continue to believe the company's Power Solutions and Automotive Experience segments are positioned for improvement. We also continue to believe that the company is well positioned to benefit from multi-year revenue and margin growth in its Building Efficiency segment. In addition, we note that JCI's entry into the demand response (DR) market signals that the DR market is a large enough addressable opportunity to warrant investment and that the economics of DR contracts are likely to change substantially over time and move more toward commodity pricing. We believe that JCI's entry into the DR market may be driven in part by a desire to retain customers. We also note interest from global energy regulators. In the United States, we note that FERC's Order 745 sets up a framework for DR providers to receive Locational Marginal Pricing, while the TVA's recent Integrated Resource Plan has increased focus on Energy Efficiency and DR. The European Energy Commission's recent communication on its 2011 Energy Efficiency Plan states continued focus on Building Efficiency improvements. We also note statements from various news sources that Germany plans to increase its focus on Offshore Wind and Building Efficiency.

Valuation
We gives shares of JCI a Buy rating and price target of $50, based on 15x our FY2012E EPS estimate of $3.31, a modest premium to diversified industrial peers due to our expectation for JCI to grow faster than peers. JCI is at a slight premium to shares of diversified industrial peers due to its exposure to strong growth markets and positive product mix shift, in our opinion. We also view JCI as a core holding for cleantech investors with exposure to energy efficiency and the electrification of the transportation market.

Risks to Price Target
Operating Risk, Market Acceptance Risk, Customer Concentration Risk, Competition Risk, Subsidy Risk, and Intellectual Property Risk.

Rogers Corp. (NYSE: ROG, $43.15, Buy, Price Target: $64)
Shawn Severson | 415-249-1986 | sseverson@thinkequity.com

Investment Thesis
We are of the belief that Rogers is only in the early stages of a multi-year growth story built on key applications in the cleantech, Internet and mass transit markets. We think many of the company's products are high value added components, yet account for a relatively small portion of the bill of materials. This is a very important distinction as it can provide some price protection and insulation from competition as commercial volumes scale in markets such as electric vehicles and smart phones/tablets, in our view. We think the current valuation provides a significant opportunity for investors to build a position and we expect multiple expansion and solid earnings growth to prevail over the coming 12 months.

Valuation
Our price target for ROG shares is $64, based on a PE of 18x our FY12 EPS estimate of $3.43. Our target multiple is in line with the shares' average valuation since 2005. We believe the multiple expansion from the current level will be driven by investors recognizing what we view as strong secular megatrends developing for the company and the potential effect on earnings over the next three years.

Risks to Price Target
Although we believe the company is likely to benefit from positive megatrends, the company is still likely to be sensitive to broader economic conditions. As was displayed clearly during the financial crisis and subsequent recession, ROG's products and, hence, revenues are subject to cyclical trends. As we have stated previously, we believe ROG has solid growth opportunities in some key sectors, but this would not be enough to offset a meaningful decline in the global economy. Failure of key growth markets to materialize. Our investment thesis is dependent a couple key markets and any significant or permanent disruption in those markets could have a sustained negative effect on the shares. Specifically, the prospects for 4G deployment, rail infrastructure in developing countries, and the adoption rate of HEV/EV around the world.

CONSUMER

Costco Wholesale (NASDAQ: COST, $74.36, Buy, Price Target: $90)
Edward Weller | 415 249 1377 | eweller@thinkequity.com

Investment Thesis
With high gas prices and food inflation both intensifying the consumer’s usual quest for value, the combination of Costco’s always extremely aggressive pricing and what appears to be improving customer service seem to us to be driving increased frequency among existing members and new customer sign-ups, as well. Comp store customer traffic has been rising by 4% month after month for more than two years now and we believe that customers will continue to favor Costco for more of their purchases. What’s more, international operations (ex the UK business) seems to be firing on all cylinders and an incipient recovery in Southern California, historically Costco’s most profitable regions, can have a disproportionately favorable impact on profitability for the next couple of years. We expect that ROIs will continue to rise, that Costco will increase its growth rate and, by putting more capital to work at those high ROIs, drive increasing shareholder value. We reiterate our Buy on Costco.

Valuation
The rising valuations that we foresee in coming years derive directly from this recovery to “normal” – or recently normal – returns, and those rising returns should drive richer valuations in our view. These generally rising returns, in combination with our estimates of slowly rising company investment suggest a price target a year from now of $90. (See our extensive valuation methodology in our report entitled *COST: Closes Quarter Strong, Recovery Still Building in Southern California*, dated May 18th, 2011.

Risks to Price Target
Potential risks to our forecasts and to our estimates and price target for Costco include: yet a further general economic slowdown in the United States, Canada, or other region important to the company; interruptions in merchandise availability; continued upward pressure on operating expenses; and greater-than-anticipated competitive pressures.

COMPANIES MENTIONED IN THIS REPORT:

Company	Exchange	Symbol	Price	Rating
Alnylam Pharmaceuticals, Inc.	NASDAQ	ALNY	$6.62	Buy
ANSYS, Inc.	NASDAQ	ANSS	$45.98	Buy
Apple Inc.	NASDAQ	AAPL	$356.03	Buy
Baidu, Inc.	NASDAQ	BIDU	$126.98	Buy
Ceradyne, Inc.	NASDAQ	CRDN	$27.17	Buy
Costco Wholesale Corporation	NASDAQ	COST	$74.36	Buy
eBay Inc.	NASDAQ	EBAY	$27.16	Buy
Electronic Arts Inc.	NASDAQ	ERTS	$19.31	Buy
EMC Corporation	NYSE	EMC	$20.28	Buy
Entropic Communications, Inc.	NASDAQ	ENTR	$3.61	Buy
Fairchild Semiconductor International	NYSE	FCS	$12.04	Buy
Fortinet, Inc.	NASDAQ	FTNT	$17.54	Buy
Johnson Controls Inc.	NYSE	JCI	$28.83	Buy
LSI Corp.	NYSE	LSI	$6.29	Buy
Mellanox Technologies, Ltd.	NASDAQ	MLNX	$26.48	Buy
NetApp, Inc.	NASDAQ	NTAP	$35.95	Buy
Nokia	NYSE	NOK	$5.80	Hold
NuVasive, Inc.	NASDAQ	NUVA	$21.08	Buy
OPNET Technologies, Inc.	NASDAQ	OPNT	$29.55	Buy
Oracle Corporation	NASDAQ	ORCL	$24.78	Buy
QLogic Corporation	NASDAQ	QLGC	$12.31	Hold
QUALCOMM Inc.	NASDAQ	QCOM	$46.52	Buy
RightNow Technologies, Inc.	NASDAQ	RNOW	$27.52	Buy
Rogers Corporation	NYSE	ROG	$43.15	Buy
Skyworks Solutions, Inc.	NASDAQ	SWKS	$18.78	Buy
Spansion Inc.	NYSE	CODE	$14.16	Buy
The Active Network, Inc.	NYSE	ACTV	$16.23	Buy
Ultra Clean Holdings, Inc.	NASDAQ	UCTT	$4.90	Buy
Velti plc	NASDAQ	VELT	$10.64	Buy
VMware, Inc.	NYSE	VMW	$76.76	Buy

Important Research Disclosures

Analyst Certification

We, Atul Bagga, Robert Coolbrith, Daniel Cummins, Sujeeva (Suji) De Silva, CFA, Rajesh Ghai, CFA, Sameer Harish, Aaron Kessler, CFA, Marko Kozul, M.D., Mark McKechnie, Colin Rusch, Brian Schwartz, Shawn Severson, Krishna Shankar, and Ed Weller, hereby certify that all of the views expressed in this research report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The analyst(s) responsible for preparing this report has/have received compensation based on various factors, including the firm's total revenues, a portion of which is generated by investment banking activities. The analyst(s) also receive compensation in the form of a percentage of commissions from trades made through the firm in the securities of the subject company of this report, although not for any investment banking transactions with or involving the subject company.

ThinkEquity LLC and/or an affiliate managed or co-managed a public offering of securities for The Active Network, Inc. in the past 12 months.

ThinkEquity LLC and/or an affiliate managed or co-managed a public offering of securities for Spansion Inc. in the past 12 months.

ThinkEquity LLC and/or an affiliate received compensation for investment banking services from Ceradyne, Inc. in the past 12 months.

ThinkEquity LLC and/or an affiliate managed or co-managed a public offering of securities for Velti plc in the past 12 months.

ThinkEquity LLC makes a market in The Active Network, Inc., Alnylam Pharmaceuticals, Inc., ANSYS, Inc., Baidu, Inc., Spansion Inc., Costco Wholesale Corporation, Ceradyne, Inc., eBay Inc., Entropic Communications, Inc., Electronic Arts Inc., Fairchild Semiconductor International, Fortinet, Inc., Johnson Controls Inc., LSI Corp., Mellanox Technologies, Ltd., NetApp, Inc., NuVasive, Inc., OPNET Technologies, Inc., Oracle Corporation, QUALCOMM Inc., RightNow Technologies, Inc., Rogers Corporation, Skyworks Solutions, Inc., Ultra Clean Holdings, Inc., Velti plc, VMware, Inc., Apple Inc., Nokia, QLogic Corporation, and EMC Corporation securities; and/or associated persons may sell to or buy from customers on a principal basis.

ThinkEquity LLC has made affirmative disclosures concerning each of the covered securities mentioned in this report, including analyst holdings (if any), rating definitions and overall ratings distributions. These disclosures can be found in the most recent complete research report for each of the respective companies. Reports are available upon request.

Rating Definitions

Effective October 7, 2009, ThinkEquity LLC moved from a four-tier Buy/Accumulate/Source of Funds/Sell rating system to a three-tier Buy/Hold/Sell system. The new ratings appear in our Distribution of Ratings, Firmwide chart. To request historical information, including previously published reports or statistical information, please call: 866-288-8206, or write to: Director of Research, ThinkEquity LLC, 600 Montgomery Street, San Francisco, California, 94111.

Buy: ThinkEquity expects the stock to generate positive risk-adjusted returns of more than 10% over the next 12 months. ThinkEquity recommends initiating or increasing exposure to the stock.

Hold: ThinkEquity expects the stock to generate risk-adjusted returns of +/-10% over the next 12 months. ThinkEquity believes the stock is fairly valued.

Sell: ThinkEquity expects the stock to generate negative risk-adjusted returns of more than 10% during the next 12 months. ThinkEquity recommends decreasing exposure to the stock.

Distribution of Ratings, Firmwide

ThinkEquity LLC

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	**138**	**63.00**	**20**	**14.49**
HOLD [H]	**78**	**35.60**	**6**	**7.69**
SELL [S]	**3**	**1.40**	**0**	**0.00**