

# **Motorola Valuation Analysis**

## **MOT - \$7.18, O-M**

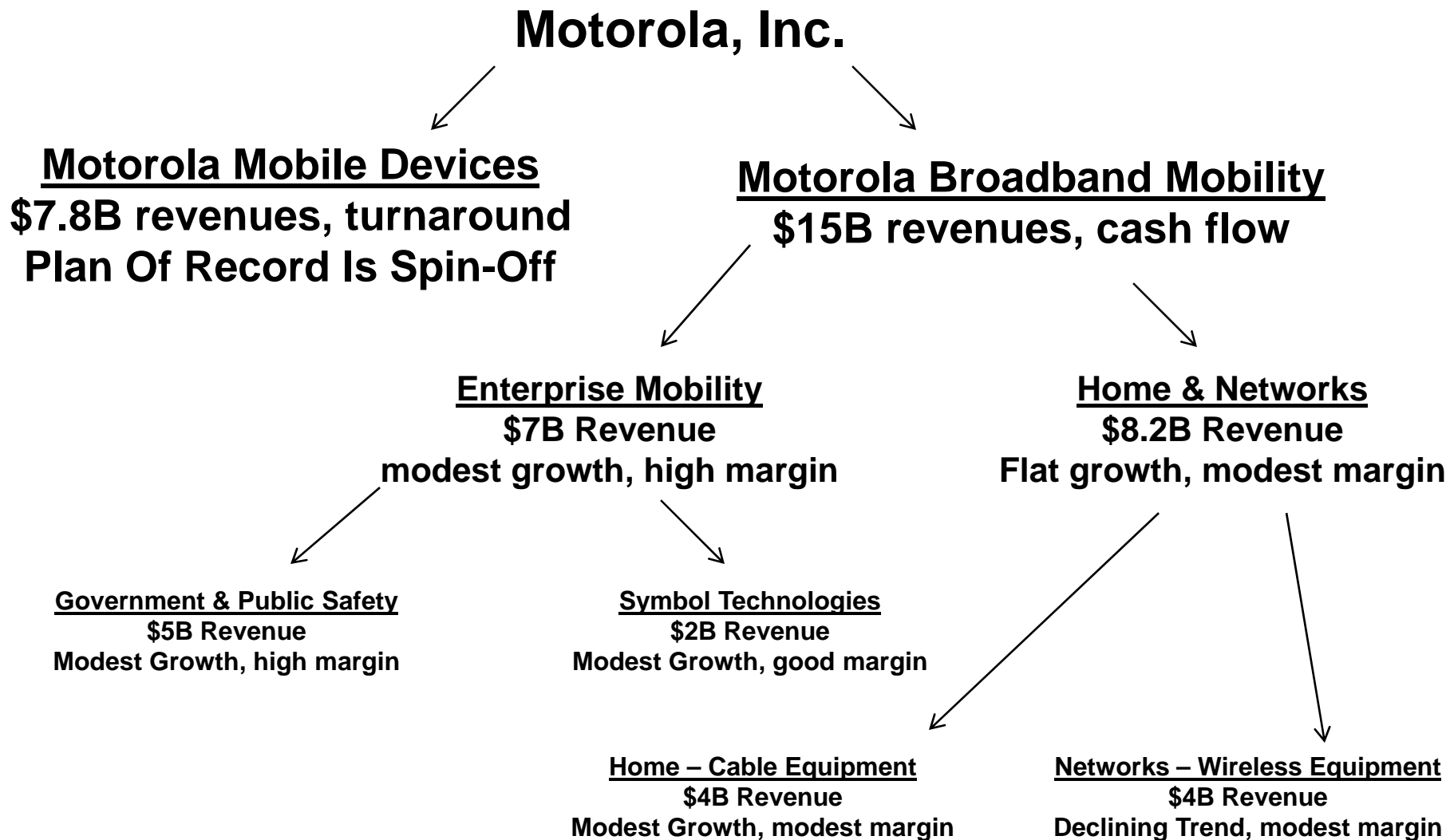
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Sources for all Charts, Tables, Estimates: Motorola SEC documents, Motorola Investor Presentations, Morgan Keegan estimates



## Motorola's Businesses – Broadband Mobility Solutions

- Enterprise Mobility
  - 75% Government solutions (20% of which is commercial), 25% Symbol Technologies

### Enterprise Mobility (Pro Forma for Symbol acquisition in 2006)

	2006	2007	2008	2009E	2010E
<b>Revenues</b>	7,222	7,729	8,093	6,955	7,651
% Growth	6.2%	7.0%	4.7%	-14.1%	10.0%
<b>GAAP EBITA</b>	1,133	1,213	1,496	992	1,152
<b>EBITA, ex-charges</b>	1,139	1,243	1,523	1,029	1,152
<b>Depreciation</b>	120	120	120	120	120
<b>EBITDA</b>	1,259	1,363	1,643	1,149	1,272
<b>EBITDA Margin</b>	17.4%	17.6%	20.3%	16.5%	16.6%

- ~80% of Government Solutions revenues are “government”, ~20% are 2 Way radio sales to commercial customers
  - ~50% of revenues are “Devices,” ~20% are “Systems”, and ~30% “Services and Applications.”
- Motorola is the dominant #1 player in Government Solutions, a strong #1 player in bar code, rugged mobile computing
- **Outlook: Enterprise Mobility likely able to grow mid-high single digits in revenues with high teens EBITDA margin**

## Motorola's Businesses – Broadband Mobility Solutions (cont).

- Home and Networks
  - ~50%-50% split between Wireless Infrastructure and Cable CPE and infrastructure

	Home & Networks				
	2006	2007	2008	2009E	2010E
<b>Revenues</b>	9,164	10,014	10,086	8,172	8,172
<b>% Growth</b>	1.4%	9.3%	0.7%	-19.0%	0.0%
<b>GAAP EBITA</b>	787	709	918	646	777
<b>EBITA, ex-charges</b>	787	780	971	718	777
<b>Depreciation</b>	120	120	120	120	120
<b>EBITDA</b>	907	900	1,091	838	897
<b>EBITDA Margin</b>	9.9%	9.0%	10.8%	10.3%	11.0%

- Home (Cable): #1 or #2 in most CPE product categories in STBs and Cable Modems, representing 80% of their business. Significantly underweight infrastructure.
- Home Revenues: ~80% CPE (STBs, cable modems, etc.), ~20% network infrastructure
- Networks (Wireless): ~15% WiMAX, ~5%-10% iDEN, ~50% GSM/3G, ~25%-30% CDMA
  - \$3 billion of GSM/CDMA likely going to \$1.5b in 3-4 years, other wireless revenues stable to up slightly
  - #5 player globally, but strong niches in WiMAX and iDEN.
- **Outlook:** CDMA/GSM will likely fall by \$500mill/year for next few years, but growth in cable, WiMAX and LTE should almost completely offset this
- EBIT Margins should be stable in high-single digit EBIT margin.

## Broadband Mobility – What Core Motorola Would Look Like

<i>Motorola Broadband &amp; Mobility Solution</i>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009E</u>	<u>2010E</u>
Revenue	13,803	14,464	17,634	18,047	15,053	15,751
Segment EBITA (ex-restructuring, stock-based c	2,092	1,745	2,112	2,494	1,710	1,929
Depreciation	220	220	220	220	238	238
EBITDA	2,312	1,965	2,332	2,714	1,948	2,167
Less 50% of Cash Corporate Overhead	128	128	128	128	100	100
<b>Adjusted EBITDA</b>	<b>2,184</b>	<b>1,837</b>	<b>2,204</b>	<b>2,586</b>	<b>1,848</b>	<b>2,067</b>
Less Depreciation/Amort and Stock-base Com	307	307	411	632	622	622
Adjusted EBIT	1,877	1,530	1,794	1,954	1,226	1,445
Adjusted EBIT Margin	13.6%	10.6%	10.2%	10.8%	8.1%	9.2%
Other Income (excludes gains on sales)	(38)	477	113	(207)	-	-
Pretax Income	1,839	2,007	1,907	1,747	1,226	1,445
Tax Expense (assumes 34%)	543	592	648	594	417	491
Net Income	1,296	1,415	1,258	1,153	809	954
EPS	0.51	0.57	0.55	0.50	0.35	0.41
Non-GAAP NI (add back amort/stock comp)	1,354	1,472	1,384	1,425	1,063	1,207
<b>Cash EPS</b>	<b>0.54</b>	<b>0.59</b>	<b>0.60</b>	<b>0.62</b>	<b>0.46</b>	<b>0.52</b>

- We have built a full I/S for Broadband Mobility back to 2005 (2007 growth aided by Symbol acquisition)
- We have assumed 50% of MOT's depreciation, stock-based comp and cash corporate overhead is attributable to Broadband Mobility, and 100% of amortization is attributable to this group.
- Broadband Mobility has generated EBITDA in the \$2.0b-\$2.6b range the previous 4 years (Symbol not included, but generated \$251m EBITDA in 2006, \$129m in 2005).
- Overall, we view this as a low single-digit grower with slightly improving margins after recovering to over \$2B in EBITDA again in 2010.
- We expect this business to generate FCF of between \$0.60-\$0.80/share depending on usage of deferred tax assets

## Broadband Mobility - Valuation

	Current Price 8/31/2009	Change YTD	Enterprise Value (\$Mil)	EV/ Annualized Revenue	2009E EV/EBITDA	2010E EV/EBITDA	2008 P/E	2009E P/E	2010E P/E
<b>Broadband Mobility</b>									
Cisco - CSCO (Calendar EPS)	\$ 21.60	32.5%	\$100,855	3.0x	9.4x	8.0x	14.2x	17.6x	15.1x
LM Ericsson - ERIC	\$ 9.58	22.7%	\$ 25,906	1.0x	7.2x	6.0x	12.0x	17.7x	12.9x
Alcatel-Lucent - ALU	\$ 3.75	74.4%	\$ 9,981	0.5x	9.9x	5.3x	NM	NM	23.4x
Juniper - JNPR	\$ 23.07	31.8%	\$ 9,894	3.1x	13.4x	11.0x	19.6x	28.8x	23.1x
Arris - ARRS	\$ 13.26	66.8%	\$ 1,517	1.4x	7.9x	7.5x	17.2x	14.4x	13.7x
NetGear - NTGR	\$ 17.08	49.7%	\$ 363	0.6x	11.1x	9.1x	18.6x	71.2x	23.1x
Harmonic - HLIT	\$ 6.60	17.6%	\$ 379	1.2x	11.6x	9.5x	9.4x	31.4x	20.6x
Zebra Technologies - ZBRA	\$ 24.99	23.3%	\$ 1,278	1.7x	12.1x	8.4x	14.7x	29.1x	19.1x
Intermec - IN	\$ 14.22	7.3%	\$ 649	1.0x	29.3x	11.3x	21.9x	203.1x	33.9x
BigBand Networks - BBND	\$ 3.89	-29.5%	\$ 94	0.6x	4.6x	3.1x	11.4x	77.8x	16.9x
Mean:		29.7%		1.4x	11.6x	7.9x	15.4x	54.6x	20.2x
Median:		27.5%		1.1x	10.5x	8.2x	14.7x	29.1x	19.9x
S&P 500	\$ 1,021	13.0%					15.6x	19.3x	15.2x
<b>Motorola - MOT</b>	<b>\$ 7.18</b>	<b>62.1%</b>	<b>\$ 13,563</b>	<b>0.6x</b>	<b>11.7x</b>	<b>5.2x</b>	<b>NM</b>	<b>35.9x</b>	<b>11.8x</b>

- Although 2010E 8.2x EV/EBITDA and 20x Cash P/E is the median valuation, valuations differ by end market.
  - Enterprise-centric Cisco, Intermec, Zebra trade at 8x-11x EV/EBITDA
  - Wireless centric Ericsson/Alcatel Lucent trade at 5x-6x EV/EBITDA
  - Cable-centric Arris, NetGear, Harmonic trade at 8x-10x EV/EBITDA
- Motorola's Enterprise Mobility \$1.3B 2010E EBITDA at 9x = \$11.7B enterprise value
- Motorola's cable business at \$0.45B in 2010E EBITDA at 8x = \$3.6B enterprise value
- Motorola's wireless business at \$0.45B in 2010E EBITDA at 3x (declining forever) = \$1.4 B in enterprise value
- **Total comp valuation of \$16.7B on 2.3B shares = app. \$7.26/share in value**

## Broadband Mobility - Valuation

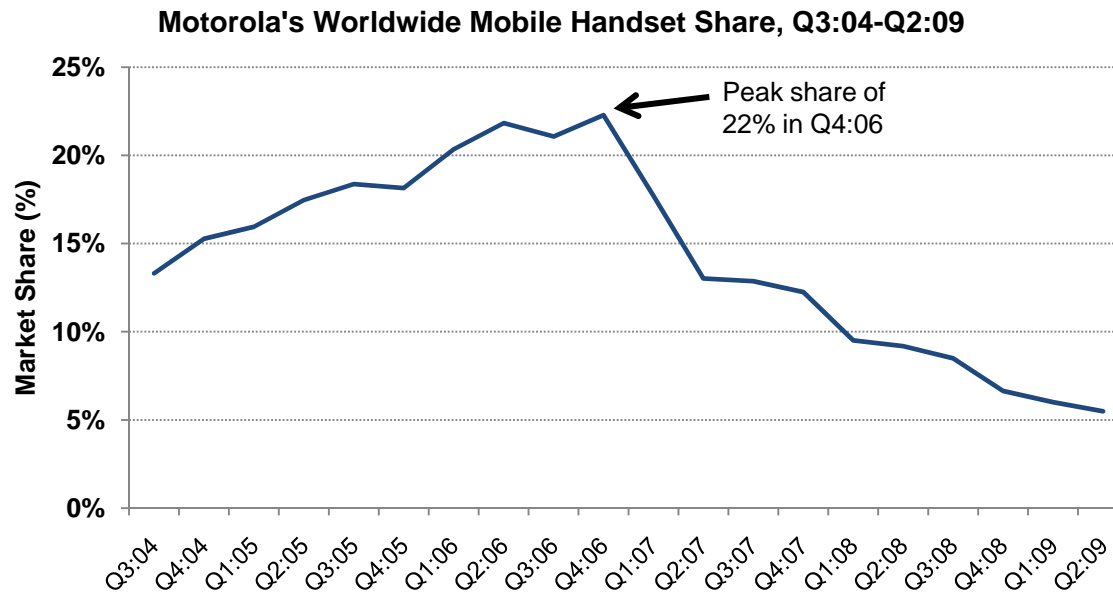
Valuation (using 2010 estimates) at:

	Share Price	P/E
5x EBITDA	\$ 4.49	8.6
6x EBITDA	\$ 5.39	10.3
7x EBITDA	\$ 6.29	12.0
8x EBITDA	\$ 7.19	13.7
9x EBITDA	\$ 8.09	15.4
10x EBITDA	\$ 8.99	17.1

- Every EBITDA turn in valuation is \$0.90 in share value.
- P/E is on a Cash P/E basis – Broadband Mobility will have about \$0.11/share/year in stock-comp and amortization (\$0.04 in Stock comp, \$0.07 in amortization dropping to zero by 2012.)
- If we take the analysis on the previous page, Broadband Mobility would be valued right at 8x 2010E EV/EBITDA, slightly below the median of its peer group, about \$7.26/share. This would equate to about 14x 2010E Cash EPS prior to any balance sheet effects, well below peer group median of 19.9x.
- ~70%, or \$5.09/share, of value would be attributable to enterprise mobility, \$0.61/share or \$1.4 billion attributable to wireless infrastructure, and about \$1.57/share or \$3.6 billion attributable to cable infrastructure.

## Motorola's Businesses – Mobile Devices

- Has stated intent for future spin-off Mobile Devices to shareholders
- Formerly the 2<sup>nd</sup> largest mobile handset company in the world
- Weak 3G and smartphone devices → Ceded (1,630bps) of share in 2 ½ years
- Now a niche player in iDEN and Android-based smartphones



Sources: IDC, Morgan Keegan & Co.

## Motorola Mobile Devices

<i>Mobile Device Division</i>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009E</u>	<u>2010E</u>
<b>Revenue</b>	<b>21,459</b>	<b>28,383</b>	<b>18,988</b>	<b>12,099</b>	<b>7,766</b>	<b>9,579</b>
Segment EBITA (ex-restructuring)	2,192	2,690	(688)	(1,458)	(917)	282
<u>Depreciation</u>	<u>220</u>	<u>220</u>	<u>220</u>	<u>220</u>	<u>238</u>	<u>238</u>
EBITDA	2,412	2,910	(468)	(1,238)	(679)	520
<u>Less 50% of Cash Corporate Overhead</u>	<u>128</u>	<u>128</u>	<u>128</u>	<u>128</u>	<u>100</u>	<u>100</u>
<b>Adjusted EBITDA</b>	<b>2,284</b>	<b>2,782</b>	<b>(596)</b>	<b>(1,366)</b>	<b>(779)</b>	<b>420</b>
<u>Less Depreciation/Amort and Stock-base Comp</u>	<u>307</u>	<u>307</u>	<u>317</u>	<u>312</u>	<u>338</u>	<u>338</u>
Adjusted EBIT	1,977	2,475	(913)	(1,678)	(1,117)	82
Adjusted EBIT Margin	9.2%	8.7%	-4.8%	-13.9%	-14.4%	0.9%
<u>Other Income (assumes spun-off with \$2b cash)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>	<u>-</u>	<u>-</u>
Pretax Income	1,977	2,475	(913)	(1,618)	(1,117)	82
<u>Tax Expense (assumes 34%)</u>	<u>583</u>	<u>730</u>	<u>(310)</u>	<u>(550)</u>	<u>(380)</u>	<u>28</u>
Net Income	1,394	1,745	(602)	(1,068)	(737)	54
EPS	\$ 0.55	\$ 0.70	\$ (0.26)	\$ (0.46)	\$ (0.32)	\$ 0.02
Non-GAAP NI (add back amort/stock comp)	1,481	1,832	(506)	(976)	(637)	154
<b>Cash EPS</b>	<b>\$ 0.59</b>	<b>\$ 0.73</b>	<b>\$ (0.22)</b>	<b>\$ (0.42)</b>	<b>\$ (0.28)</b>	<b>\$ 0.07</b>

- We have built a complete I/S for Mobile Devices Back to 2005 assuming 50% of stock comp/depreciation in this business.
- Motorola was a #2 scale volume producer, now it will largely be a niche iDEN and smartphone player
- They will never come close again to \$20B+ in annual revenues or \$2B+ in EBITDA
- However, there is a rational turnaround plan that can return Motorola to a profitable niche player in the industry on a sustainable basis. We note our 2010 estimates are highly sensitive to changes in assumptions.

## Motorola Mobile Devices Summary

- **A Look at Motorola's Mobile Device Business Today – iDEN**
  - Still a near monopoly, with \$150-ish ASPs and high gross margins (we assume 30%-ish)
  - Sprint re-investing in iDEN as a prepaid network through Boost Mobile
  - Core Nextel iDEN base may stabilize as the economy improves
  - iDEN network remains substantially under-utilized making it economically viable for Sprint to add subs to it incrementally
  - We believe Motorola is shipping 4-5 million iDEN handsets/quarter right now
  - iDEN postpaid customer base worldwide about 16 million, supporting about 8-9mm replacement sales,
  - 4.4 million prepaid iDEN subs on BoostMobile.
  - Just supporting the churn in Boost Mobile's base will be almost 4 million/year assuming a 6% churn rate.
  - Boost has also added 674k net adds in Q2 as it pushed its \$50 unlimited plan.
  - iDEN was once seen as a dying revenue stream, but it has grown this year, and can likely stabilize in the current shipment range
  - At 4.5 million iDEN handsets/quarter – we estimate iDEN generates over \$200 million of gross margin contribution/quarter for Motorola
- **A Look At Motorola's Mobile Device Business Today – Feature/Low End**
  - Sold about 10-11 million last quarter, and likely shrinking for some time
  - Currently very little (if any) gross margin and an ASP of about \$100
  - However, Motorola is moving to an ODM strategy, which will bring higher gross margins and much less risk
  - If we assume this business bases at 5 million devices/quarter, a \$100 ASP, and 20% GM, we can assume about \$100 million GM contribution/quarter
- **A Look At Motorola's Mobile Device Business Today – Smartphones**
  - Essentially non-existent today
  - 2 Android handsets are launching in Q4:09 in the U.S. and Internationally
  - We assume 10-15 new Android –based smartphones in 2010.
  - We assume a starting ASP of \$350 trending to \$300 over time, with 30% GM
  - About a 200 million smartphone unit market worldwide, likely growing 20%-30% as the economy improves

## Motorola Mobile Device Value

### What is Motorola's breakeven level in handsets?

- We believe operating costs are about \$2 billion/year in mobile devices currently, which supports substantial smartphone development
- We expect iDEN will generate about \$800 million in gross profit annually and feature phones will contribute \$400 million annually.
- To get to a break even level, Motorola will roughly need an incremental ~\$800 million in Gross Profit dollars
- If we conservatively assume a \$300 ASP and 30% GM for its smartphones, Motorola would need to sell about 9 million smartphones annually to get to breakeven, or about 5% of the worldwide market.

### Mobile Device Breakeven Analysis

Units in Millions	Annual Units	ASP	GM	Gross Profit \$ (Millions)
iDEN Handsets	18	\$150	30.0%	810
Feature Phones	20	\$100	20.0%	400
Smartphones	9	\$300	30.0%	810
Total	47	\$157.45	25.7%	2,020
Operating Expenses				2,000
EBIT				20

- Incremental Profitability – Every 1 million smartphones sold annually would lead to roughly \$90 million in EBITDA and \$0.03 in EPS, or roughly another \$0.40 in MOT value

## Mobile Device Valuation Sensitivity

Incremental Value Creation Analysis Of Motorola Mobile Devices

Annual Unit Volume	EBITDA (\$-millions)	EPS	EV at 10x EBITDA	EV at 15x P/E
9	-	\$0.00	\$0.00	\$0.00
10	90	\$0.03	\$0.39	\$0.45
11	180	\$0.06	\$0.78	\$0.90
12	270	\$0.09	\$1.17	\$1.35
13	360	\$0.12	\$1.57	\$1.80
14	450	\$0.15	\$1.96	\$2.25
15	540	\$0.18	\$2.35	\$2.70
16	630	\$0.21	\$2.74	\$3.15
17	720	\$0.24	\$3.13	\$3.60
18	810	\$0.27	\$3.52	\$4.05
19	900	\$0.30	\$3.91	\$4.50
20	990	\$0.33	\$4.30	\$4.95
21	1,080	\$0.36	\$4.70	\$5.40
22	1,170	\$0.39	\$5.09	\$5.85
23	1,260	\$0.42	\$5.48	\$6.30
24	1,350	\$0.45	\$5.87	\$6.75
25	1,440	\$0.48	\$6.26	\$7.20
26	1,530	\$0.51	\$6.65	\$7.65
27	1,620	\$0.54	\$7.04	\$8.10
28	1,710	\$0.57	\$7.43	\$8.55
29	1,800	\$0.60	\$7.83	\$9.00
30	1,890	\$0.63	\$8.22	\$9.45



Reasonable potential in next 2-3 years



Unlikely outcome, but there is potential

- For perspective, in 2010, Nokia will likely sell about 60-70 million smartphones, RIM about 40 million, Apple about 30 million, HTC about 10 million, Samsung about 10 million, Palm about 7 million
- A major benefit Motorola will have is significant global distribution given its brand and history
- Can Motorola differentiate on Android? Only time will tell.

## Motorola Balance Sheet Value

- Total Cash/Investments = **\$6.9 billion**
- Total Debt = **\$3.9 billion**
- Net Cash = **\$3.0 billion or \$1.30/share**
- Pension Liability\* = **\$2.4b or \$1.03/share**
- Deferred Tax Assets\* = **\$3.4 billion or \$1.50/share**
- **Total Balance Sheet Value = \$4.0 billion or \$1.75/share**

\*We assume discounting Pension Liability and Deferred Tax Assets would roughly offset each other, so no discount rate was applied

## Motorola Valuation Summary

- Broadband Mobility Value Likely ~\$7.26/share
- Balance Sheet Value Likely ~\$1.75/share
  - **\$9.00/share in value excluding Mobile Devices**
- Mobile Devices' Value: anywhere from \$0-\$5/share is reasonable in the next 2- 3 years, with potential for more if its smartphone strategy is Über-successful.

## Motorola – Is There A Plan “B”?

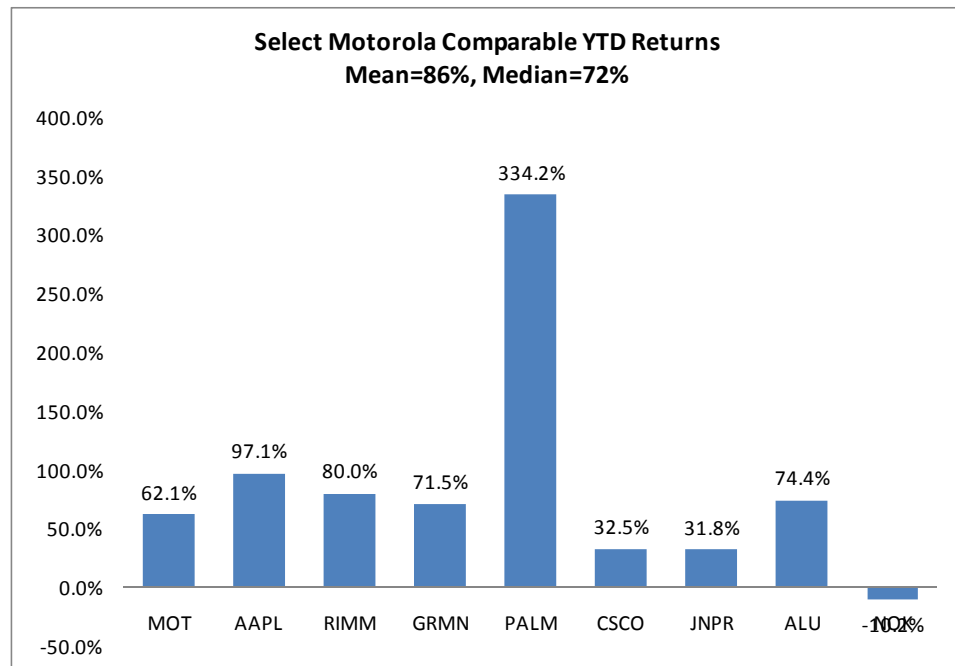
- One of the biggest concerns we hear from investors is that the Mobile Devices business has been bleeding cash for 3 years now.
- Their big fear – what if this continues into perpetuity?
- We don't believe Motorola is willing to support continued losses, and there are reasonable Plan “B” options available should the turnaround not succeed.

## The Most Likely Plan “B” (Our View)

- Run the iDEN business for cash flow
- Shut down the remaining 2 manufacturing facilities and all other handset operations
- Sell the Intellectual Property (RIM has paid over \$1 billion in GSM and LTE IP assets in the last 2 years)
- This would likely net out to less than \$1/share in liquidation value of Mobile Devices.
- More importantly, we believe fears of long term cash flow losses within Motorola’s Mobile Device division are unlikely to come to fruition.

## Motorola – What Has Changed?

- MOT shares were hovering around \$3-\$5/share from Nov.-March.
  - Question – What's changed (other than the market)?
- MOT has actually lagged a number of its peers
- Liquidity
- A Boost From Sprint
- Android Placements Secured



## What Has Changed? Liquidity

- Liquidity was a perceived issue with less than \$700 million of cash in the U.S. late last fall and substantial negative FCF projections.
- Motorola repatriated \$1.3 billion of cash into the U.S., boosting the domestic cash position to over \$2 billion (as of Q2), more than enough to cover the \$1.5 billion in debt due between now and 2013.
- Additionally, Motorola expects cash to grow in 2H:09 and we expect just about every quarter from this point forward will be cash flow positive.

### What Has Changed? A Boost from Sprint

- At the beginning of this year, one would have thought iDEN handsets would be down significantly for Motorola given their traditional niche in the construction industry
- Sprint's \$50 unlimited prepaid plan on Boost Mobile "boosted" Motorola's Mobile Devices business substantially, and allowed the trough in sales and cash flow to not be nearly as bad as it could have been.
- This was a lucky break, and probably contributed 1-2 million high margin devices sold in each of the first 2 quarters of this year.

# What Has Changed? Android Placements Secured

- Although the smartphone strategy has not changed since earlier this year, Motorola has been vocal in indicating that it has had good reception for its new handsets and is on time with 2 launches in Q4 for the U.S. and multiple launches internationally
- Motorola also expects most of its new handsets next year to be Android-based, and nearly every major wireless carrier has indicated it will carry Android-based phones. We believe every significant carrier will eventually carry Motorola's Android-based smartphones given the brand recognition
- In a market rife with missed product launches, this was a significant risk that now appears to be mitigated.
- Whether Motorola's smartphones will prove successful is a different story, but we believe proprietary application development, a global brand, and well known leadership give it a fighting chance.

## How Will it Play Out? Scenario 1

- The smartphone turnaround is successful
- The Mobile Device business is spun out to investors in 2011 at a value of anywhere from \$1-\$5/share, depending on level of success
- The remaining MOT trades at about \$9/share (i.e., the value of the Broadband Mobility business and balance sheet assets)

## How Will it Play Out? Scenario 2

- The smartphone turnaround ultimately fails
- Within 18 months, Motorola begins winding down all but the iDEN business
- The stock becomes volatile, but ultimate finds a home at about \$9/share (\$7.25 for broadband mobility, \$1.75 for balance sheet assets, minimal value for iDEN). Any liquidation value of the Mobile Device business would be upside to this valuation.

## Summary

- The story at \$7.18/share
  - MOT looks like a reasonable 1-3 year bet based on valuation and potential smartphone turnaround success with limited downside and meaningful upside.
- If market valuations remain constant, what's the fair value range?
  - **Anything from \$9-\$14/share looks reasonable for MOT's over the next 18 months.**
- **Takeaway:** While MOT has more than doubled from its lows, the risks are much less today than they were 6 months ago due to improving liquidity and cash flow, and the reward is still substantial, especially if the mobile device turnaround is successful.

## Motorola

- Q&A

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\*REITs' performance benchmark is total return relative to the NAREIT Equity Index.  
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Outperform / Buy	49%
Market Perform / Hold	46%
Underperform / Sell	1%
Not Rated	4%

**Investment Banking Clients within last 12 months:**

Outperform / Buy	5%
Market Perform / Hold	5%
Underperform / Sell	0%
Not Rated	0%

For purposes of the NYSE and NASDAQ, rating distribution disclosure requirements, our rating of Outperform, Market Perform and Underperform closely correspond to Buy, Hold and Sell, respectively.

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## Disclosures

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Investment Banking

Outperform / Buy	49%	Outperform / Buy	5%
Market Perform / Hold	46%	Market Perform / Hold	5%
Underperform / Sell	1%	Underperform / Sell	0%
Not Rated	4%	Not Rated	0%

For purposes of the NYSE and NASDAQ, rating distribution disclosure requirements, our rating of Outperform, Market Perform and Underperform closely correspond to Buy, Hold and Sell, respectively.

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## Additional Information Available Upon Request

## Pricing/Ratings

- Motorola (MOT, O-M, \$7.18)
- Apple (AAPL, O-M, \$168.21)
- Research in Motion (RIMM, O-S, \$73.06)
- Nokia (NOK, M-M, \$14.01)
- Sprint (S, NR, \$3.66)
- Palm (PALM, M-S, \$13.33)
- Cisco (CSCO, O-M, \$21.60)
- Ericsson (ERIC, NR, \$9.58)
- Alcatel Lucent (ALU, O-S, \$3.75)
- Juniper (JNPR, M-S, \$23.07)
- Arris (ARRS, O-S, \$13.26)
- Netgear (NTGR, NR, \$17.07)
- Harmonic (HLIT, M-S, \$6.60)
- Intermec (IN, M-S, \$14.22)
- BigBand (BBND, M-S, \$3.89)
- Zebra Technologies (ZBRA, NR, \$24.99)
- Garmin (GRMN, M-S, \$32.87)