

PRESS RELEASE

For Immediate Release

Contact: Susan Campagnolo 310.575.5185

Date: April 19, 2007

Time: 5:30 am

RE: Rating Changes

Jefferies & Company, Inc., analyst James Alexander (415.229.1579) downgrades rating on Smith Micro Software (SMSI) to HOLD from Buy.

Technology
Infrastructure Software

United States of America

Company Update
Rating Change
Price Target Change
Estimate Change

Rating: HOLD
Previous: BUY
Price: \$19.73
Price Target: \$21.00
Previous: \$24.00
Bloomberg: NASDAQ: SMSI

Market Data

52-Week Range: \$21.20-\$9.01
Total Entprs. Value (MM): \$499.3
Market Cap. (MM): \$591.9
Insider Ownership: 15.0%
Institutional Ownership: 56.4%
Shares Out. (MM): 30.00
Float (MM): 25.0
Avg. Daily Vol.: 1,038,864

Financial Summary

Book Value/Share: \$4.72
Net Debt (MM): (\$92.56)
Net Cash/Share: \$3.47
Long Term Growth Rate: 25.0%
Gross Margin: 69%
Operating Margin: 37.0%
PE/G: 0.90

USD	2005A	2006A	2007E	2008E
Rev. (MM)	20.3	54.6	86.7	116.0
Prev.	--	--	89.3	117.6
EV/Rev.	24.6x	9.1x	5.8x	4.3x

EPS				
Mar	(0.01)	0.12	0.18	0.24
Prev.	--	--	--	0.25
Jun	0.03	0.13	0.20	0.25
Prev.	--	--	0.21	0.26
Sep	0.10	0.17	0.25	0.28
Prev.	--	--	0.26	0.29
Dec	0.11	0.26	0.31	0.34
Prev.	--	--	0.32	--
FY Dec	0.23	0.67	0.95	1.11
Prev. FY	--	--	0.98	1.14
FY P/E	85.8x	29.4x	20.8x	17.8x
Consensus	—	—	0.84	1.00

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Smith Micro Software (NASDAQ: SMSI)

Near Term Upside Appears Limited - Downgrading To Hold

Investment Summary

We believe Verizon is working down inventory of Windows XP SMSI products before launching its Vista supported products. Combined with a recent lull in new music devices at Verizon, near term revenue upside appears limited; a scenario that we believe could also limit upside to the stock from current levels.

Event

Downgrading SMSI to Hold from Buy and lowering price target to \$21 from \$24. Our lowered estimates reflect what we believe is a recent pause in MEK and QL Mobile ship-in rates at Verizon. SMSI is scheduled to report Q1'07 results after the close on May 2.

Key Points

- **Vista migration could limit near term upside.** Our checks indicate Verizon is working through its inventory of Music Essentials Kits (MEK) and QL Mobile solutions that support Windows XP before introducing new software that supports Vista. We estimate SMSI recognizes approx. 70% of its revenue on a ship-in basis to Verizon. This revenue could slow as Verizon works through its XP inventory.
- **Lack of Vista support has not meaningfully impacted end demand; at least not yet.** Given a fairly limited number of installed Windows Vista users, we believe the number of lost customers or delayed purchases has also been largely limited. We believe Verizon will launch its Vista ready products at some point in the current quarter.
- **A lull in new music centric devices at Verizon could also dampen MEK sales near term.** While we believe the LG Chocolate remains a strong seller, Verizon has not introduced a new MP3 centric handset since its debut in August 2006. This is likely a temporary pause as Verizon formulates a response to increasingly competitive music offerings from Sprint and the upcoming launch of Apple's iPhone at Cingular.
- **Lowering estimates:** Our 2007 revenue and pfEPS estimates move down to \$87mm/95c from \$89mm/98c. Our new \$87mm revenue estimate is slightly above the Street consensus estimate for \$86mm. For 2008 our estimates move down to \$116mm/\$1.12 from \$118mm/\$1.14 previously.
- **We are downgrading SMSI to a Hold rating and a \$21 price target.** Our \$21 target is based on 19x our 2008 pfEPS estimate of \$1.11.

Valuation/Risks

Our \$21 price target is based on 19x our 2008 pfEPS estimate of \$1.11. Risks include: 77% revenue concentration at Verizon, a pipeline of new products that remain largely unproven, fluctuating margins and possible future acquisitions that could prove to be dilutive.

A Vista inventory transition and a lull in new music centric devices at Verizon could limit near term upside. We believe Verizon is working through its inventory of MEK and QL Mobile products that support Windows XP before introducing new software that supports Vista. Combined with a recent lull in new music centric devices at Verizon, we believe upside to Q1'07 and Q2'07 could be limited. We estimate approximately 70% of total revenue is currently derived from products that could be impacted by the Vista inventory transition. Our checks indicate healthy sell through trends and we expect Verizon will launch its Vista ready products at some point in the current quarter. As such, we believe the impact will be limited to diminished upside over the next 2 quarters; a scenario the we believe could also limit upside to the stock from current levels. **We are downgrading SMSI to a Hold rating and reducing our price target to \$21.**

Lowering estimates: Our 2007 revenue and pfEPS estimates move down to \$87mm/95c from \$89mm/98c. Our new \$87mm revenue estimate is slightly above the Street consensus estimate for \$86mm. For 2008 our estimates move down to \$116mm/\$1.12 from \$118mm/\$1.14 previously.

Vista inventory migration could limit near term upside. Our checks indicate Verizon is working through its inventory of Music Essentials Kits (MEK) and QL Mobile solutions that support Windows XP before introducing new software that supports Vista. Under its current contract with Verizon, we do not believe Verizon can return legacy XP inventory to Smith Micro. We believe Verizon assumes the bulk of inventory risk associated with stocking its 15k+ direct and indirect retail locations. However, Smith Micro recognizes most of its revenue from MEK and QL Mobile sales on a ship-in basis. An inventory work down could slow ship-in sales significantly until Verizon decides to launch support for Vista. We believe this will happen in the current quarter.

Lack of Vista support has not meaningfully impacted end demand; at least not yet. Given a fairly limited number of installed Windows Vista users, we believe the number of lost end customers or delayed purchases has also been largely limited. However, Smith Micro's Vista software products are backwardly compatible with Windows XP. When presented with a choice we believe consumers would opt for the newer Vista solutions over the legacy XP solutions, regardless of which operating system they currently use. We believe this was a key part of Verizon's decision to reduce inventory levels of Windows XP products before introducing Vista supported products.

A recent lull in new music centric devices at Verizon could also dampen MEK sales. We believe the LG Chocolate remains a strong seller, at least for now. Verizon has not introduced a new MP3 centric handset since the LG Chocolate debuted in August 2006. This is likely a temporary pause as Verizon formulates a response to increasingly competitive music offerings from Sprint and the upcoming launch of Apple's iPhone at Cingular. Each new music handset requires a unique MEK to support it.

We are downgrading SMSI to Hold from Buy and reducing our price target to \$21 from \$24 previously. The long-term opportunity around music remains intact. We believe the impact from an inventory transition to Vista and fewer than expected new music handsets will be limited to diminished upside over the next two quarters. Given a track record of consistently exceeding Street estimates by a wide margin, largely inline results could prove disappointing. The company is scheduled to report Q1'07 results after the close on May 2. Our \$21 target is based on 19x our 2008 pfEPS estimate of \$1.11. Risks include: 77% revenue concentration at Verizon, a pipeline of new products that remain largely unproven, fluctuating margins and possible future acquisitions that could prove to be dilutive.

Company Description

Smith Micro provides connectivity and data handling software solutions that address many of the challenges associated with next generation wireless and broadband data services. The company sells its software on both a direct and OEM basis to service providers, hardware manufacturers and enterprises worldwide. Its products include a connectivity software client that ships with many of the leading PC card and laptop manufacturers, multi-media file management applications, data compression technology and connectivity kits that provide all the hardware and software required to manage services between a wireless device and a PC. The company was founded in 1982 by co-founder William B. Smith and is headquartered in Aliso Viejo, California.

Smith Micro Software, Inc.

Income Statement

(dollars in millions, except EPS)

April 18, 2007

James Alexander

Jefferies & Company

(415) 229-1579

	Fiscal Year 2005				Fiscal Year 2006				Fiscal Year 2007				Fiscal Year 2008				Fiscal Year Ends December			
	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	2005A	2006E	2007E	2008E
	Q1/05A	Q2/05A	Q3/05A	Q4/05A	Q1/06A	Q2/06A	Q3/06A	Q4/06A	Q1/07E	Q2/07E	Q3/07E	Q4/07E	Q1/08E	Q2/08E	Q3/08E	Q4/08E				
Revenue	2,030	3,330	6,896	8,002	9,885	12,555	14,801	17,228	17,489	19,945	22,655	26,588	25,156	27,058	29,639	34,185	20,258	54,587	86,677	116,039
Cost of goods sold	345	545	1,165	2,048	3,026	4,978	5,831	5,304	5,987	6,220	6,644	7,515	7,681	8,172	8,999	10,027	4,103	19,139	26,366	34,879
Gross profit	1,685	2,785	5,731	5,954	6,859	7,577	8,970	11,924	11,502	13,725	16,011	19,073	17,476	18,886	20,640	24,159	16,155	35,448	60,311	81,160
Sales and marketing	440	369	1,294	1,307	1,524	1,489	1,651	1,833	2,099	3,191	3,512	3,988	3,773	4,086	4,416	5,230	3,410	6,497	12,790	17,506
Research and development	697	697	1,244	1,325	1,426	1,676	1,730	1,979	2,553	2,852	3,104	3,270	3,207	3,382	3,616	3,760	3,963	6,811	11,780	13,966
General and administrative	776	1,161	1,430	1,254	1,185	1,411	1,588	1,679	1,784	2,034	2,130	2,393	2,340	2,543	2,727	2,974	4,621	5,863	8,341	10,584
Operating income	(228)	558	1,763	2,068	2,724	3,001	4,001	6,433	5,066	5,647	7,266	9,422	8,155	8,874	9,881	12,194	4,161	16,277	27,401	39,104
Interest income	100	214	161	192	224	265	381	532	1,220	1,291	1,354	1,470	1,762	1,884	2,020	2,187	667	1,402	5,335	7,852
Income tax expense	-	8	47	49	39	33	68	-	629	694	862	1,089	2,479	2,689	2,975	3,595	104	140	3,274	11,739
Net income	(128)	764	2,253	2,596	2,909	3,233	4,314	6,965	5,658	6,244	7,758	9,802	7,438	8,068	8,925	10,786	5,485	17,539	29,463	35,217
Pro-forma EPS	(\$0.01)	\$0.03	\$0.10	\$0.11	\$0.12	\$0.13	\$0.17	\$0.26	\$0.18	\$0.20	\$0.25	\$0.31	\$0.24	\$0.25	\$0.28	\$0.34	\$0.23	\$0.67	\$0.95	\$1.11
Amortization and stock-based comp	-	-	376	385	1,097	2,150	1,864	2,261	2,261	2,261	2,261	2,261	2,261	2,261	2,261	2,261	761	7,372	9,044	9,044
GAAP net income	(128)	764	1,877	2,211	1,812	1,083	2,450	3,610	2,415	2,806	3,816	5,178	4,593	5,098	5,784	7,272	4,724	10,167	20,419	26,173
GAAP EPS	-\$0.01	\$0.03	\$0.08	\$0.09	\$0.07	\$0.04	\$0.09	\$0.14	\$0.08	\$0.09	\$0.12	\$0.17	\$0.15	\$0.16	\$0.18	\$0.23	\$0.20	\$0.35	\$0.46	\$0.71
Fully diluted shares outstanding	19,665	22,713	23,222	23,900	24,284	25,598	25,794	26,691	30,850	31,004	31,097	31,315	31,472	31,708	31,945	32,185	20,295	25,592	31,067	31,827
% of Total Revenues																				
Wireless and OEM	82%	89%	63%	63%	72%	81%	81%	82%	83%	82%	83%	83%	84%	85%	85%	85%	69%	80%	83%	85%
Consumer	9%	6%	35%	35%	25%	17%	17%	16%	14%	12%	12%	11%	10%	9%	9%	9%	27%	18%	12%	9%
Enterprise	1%	1%	1%	1%	1%	1%	1%	1%	2%	4%	5%	5%	4%	5%	5%	5%	1%	1%	4%	5%
Services	8%	5%	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	3%	1%	1%	1%
Gross Margin	83%	84%	83%	74%	69%	60%	61%	69%	66%	69%	71%	72%	69%	70%	70%	71%	80%	65%	70%	70%
Sales and marketing	22%	11%	19%	16%	15%	12%	11%	10.6%	12.0%	16.0%	15.5%	15.0%	15.0%	15.1%	14.9%	15.3%	17%	12%	15%	15%
Research and development	34%	21%	18%	17%	14%	13%	12%	11.5%	14.6%	14.3%	13.7%	12.3%	12.8%	12.5%	12.2%	11.0%	20%	12%	14%	12%
General and administrative	38%	35%	21%	16%	12%	11%	11%	9.7%	10.2%	10.2%	9.4%	9.0%	9.3%	9.4%	9.2%	8.7%	23%	11%	10%	9%
Operating margin	-11%	17%	26%	31%	28%	24%	27%	37%	29%	28%	32%	35%	32%	33%	33%	36%	21%	30%	32%	34%
Cash tax rate	0%	1%	2%	2%	1%	1%	2%	0%	10%	10%	10%	10%	25%	25%	25%	25%	2%	1%	10%	25%
GAAP tax rate	0%	1%	2%	2%	1%	1%	2%	0%	40%	40%	40%	40%	40%	40%	40%	40%	2%	1%	40%	40%
Pro-forma net income	-6%	23%	33%	32%	29%	26%	29%	40%	32%	31%	34%	37%	30%	30%	30%	32%	27%	32%	34%	30%
Qtr/Qtr % Change																				
Wireless and OEM	-55.8%	78.5%	45.7%	16.2%	42.0%	42.0%	18.8%	18.1%	2.0%	13.2%	14.5%	17.4%	-4.0%	8.3%	10.1%	15.1%	NM	211.4%	64.9%	37.2%
Consumer	-19.9%	2.2%	1188.1%	16.3%	-10.9%	-12.2%	15.3%	12.0%	-10.0%	-1.5%	5.0%	12.0%	-10.0%	-2.5%	5.0%	12.0%	NM	80.0%	5.9%	3.4%
Enterprise	NM	72.2%	41.9%	59.1%	70.0%	-34.5%	28.2%	100.0%	32.4%	211.0%	25.9%	31.7%	-21.2%	17.9%	8.6%	26.3%	NM	204.9%	602.1%	56.6%
Services	-2.3%	-11.7%	1.3%	-4.6%	19.9%	10.3%	-5.7%	-19.8%	50.7%	13.6%	0.0%	10.0%	9.1%	8.3%	7.7%	14.3%	-32.6%	12.1%	43.0%	38.2%
Revenue	-51.1%	64.0%	107.1%	16.0%	23.5%	27.0%	17.9%	16.4%	1.5%	14.0%	13.6%	17.4%	-5.4%	7.6%	9.5%	15.3%	52.1%	169.5%	58.8%	33.9%
Gross profit (pro-forma)	-49.6%	65.3%	105.8%	3.9%	15.2%	10.5%	18.4%	32.9%	-3.5%	19.3%	16.7%	19.1%	-8.4%	8.1%	9.3%	17.0%	55.2%	119.4%	70.1%	34.6%
Sales and marketing	24.3%	-16.1%	250.7%	1.0%	16.6%	-2.3%	10.9%	11.0%	14.5%	52.1%	10.0%	13.6%	-5.4%	8.3%	8.1%	18.4%	124.5%	90.5%	96.9%	36.9%
Research and development	9.9%	0.0%	78.5%	6.5%	7.6%	17.5%	3.2%	14.4%	29.0%	11.7%	8.8%	5.4%	-1.9%	5.5%	6.9%	4.0%	55.0%	71.9%	72.9%	18.6%
General and administrative	9.0%	49.6%	23.2%	-12.3%	-5.5%	19.1%	12.5%	5.7%	6.2%	14.0%	4.7%	12.4%	-2.2%	8.7%	7.2%	9.1%	61.1%	26.9%	42.3%	26.9%
Operating income	-113.9%	-344.7%	215.9%	17.3%	31.7%	10.2%	33.3%	60.8%	-21.2%	11.5%	28.7%	29.7%	-13.4%	8.8%	11.3%	23.4%	20.2%	291.2%	68.3%	42.7%
Pro-forma net income	-107.8%	-696.9%	194.9%	15.2%	12.1%	11.1%	33.4%	61.5%	-18.8%	10.4%	24.3%	26.3%	-24.1%	8.5%	10.6%	20.8%	59.2%	219.8%	68.0%	19.5%
GAAP net income	-107.8%	-696.9%	145.7%	17.8%	-18.0%	-40.2%	126.2%	47.3%	-33.1%	16.2%	36.0%	35.7%	-11.3%	11.0%	13.4%	25.7%	37.1%	115.2%	100.8%	28.2%
Year/Year % Change																				
Revenue	-18.4%	6.8%	93.9%	92.6%	386.9%	277.0%	114.6%	115.3%	76.9%	58.9%	53.1%	54.3%	43.8%	35.7%	30.8%	28.6%				
Gross profit	-6.3%	16.8%	98.8%	78.3%	307.1%	172.1%	56.5%	100.3%	67.7%	81.1%	78.5%	60.0%	51.9%	37.6%	28.9%	26.7%				
Sales and marketing	9.2%	-4.7%	245.1%	269.2%	246.4%	303.5%	27.6%	40.2%	37.7%	114.3%	112.7%	117.6%	79.8%	28.0%	25.8%	31.1%				
Research and development	4.3%	12.2%	96.5%	109.0%	104.6%	140.5%	39.1%	49.4%	79.1%	70.2%	79.4%	65.3%	25.6%	18.6%	16.5%	15.0%				
General and administrative	22.6%	58.4%	81.0%	76.1%	52.7%	21.5%	11.0%	33.9%	50.5%	44.2%	34.1%	42.5%	31.2%	25.0%	28.0%	24.3%				
Total operating expenses	12.3%	27.9%	120.7%	128.6%	116.2%	105.5%	25.2%	41.3%	55.6%	76.5%	76.0%	75.8%	44.8%	23.9%	23.0%	24.0%				
Operating income	NM	-13.4%	62.5%	26.1%	NM	437.8%	126.9%	211.1%	86.0%	88.2%	81.6%	46.5%	61.0%	57.2%	36.0%	29.4%				
Pro-forma net income	-224.3%	20.5%	109.2%	59.2%	-2372.7%	323.2%	91.5%	168.3%	94.5%	93.1%	79.8%	40.7%	31.5%	29.2%	15.0%	10.0%				
GAAP net income	-224.3%	20.5%	74.3%	35.6%	-1515.6%	41.8%	30.5%	63.3%	33.3%	159.1%	55.7%	43.4%	90.2%	81.7%	51.6%	40.4%				
Key Metrics:																				
DSOs	77	72	63	76	48	30	42	51												
Backlog	820	1,300	2,000	4,000	4,600	4,100	4,300	NM												
Free cash flow	(54)	389	2,015	348	3,578	6,060	NM	NM												

Please see important disclosure information on pages 4 - 6 of this report.

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Jefferies & Company, Inc.

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ANALYST CERTIFICATIONS

I, James Alexander, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Jefferies makes a market in Smith Micro Software.

Meanings of Jefferies & Company, Inc. Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus or minus 15% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

Our focus on mid-capitalization and growth companies implies that many of the companies we cover are typically more volatile than the overall stock market, which can be amplified for companies with an average stock price consistently below \$10. For companies in this category only, the expected total return (price appreciation plus yield) for Buy rated stocks is 20% or more within a 12-month period. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies & Company, Inc. policies.

CS - Coverage Suspended. Jefferies & Company, Inc. has suspended coverage of this company.

NC - Not covered. Jefferies & Company, Inc. does not cover this company.

Speculative Buy - Describes stocks we view with a positive bias, whose company fundamentals and financials are being monitored, but for which there is insufficient information for Jefferies & Company, Inc. to assign a Buy, Hold or Underperform Rating. At the discretion of the analyst, a Speculative buy-rated stock could also include stocks with a price under \$5, or where the company is not investment grade to highlight the risk of the situation.

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Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no

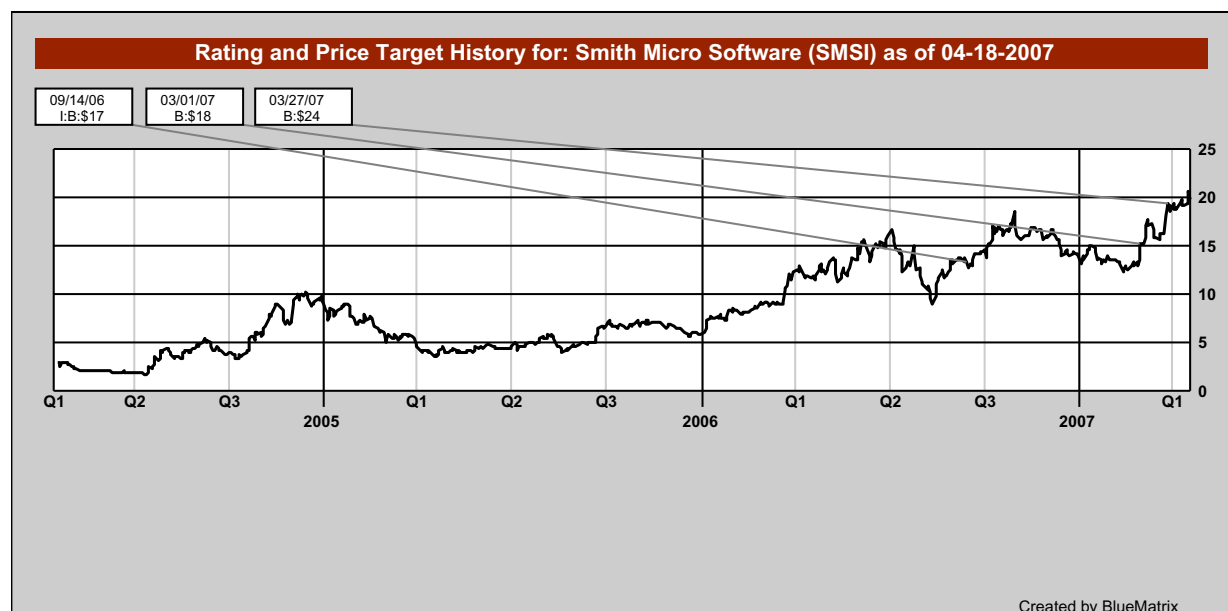
financial projections or opinions on the investment merits of the company are provided.

Valuation Methodology

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Risk which may impede the achievement of our Price Target

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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