

PRESS RELEASE

For Immediate Release

Contact: Susan Campagnolo 310.575.5185

Date: June 25, 2007

Time: 8:30 am

RE: Rating Changes

Jefferies & Company, Inc., analyst:

James Alexander (415.229.1579) upgrades rating on Smith Micro Software (SMSI) to BUY from Hold.

Technology
Communications Software

Company Update
Rating Change
Price Target Change
Estimate Change

Rating: BUY
Previous: HOLD
Price: \$14.65
Price Target: \$20.00
Previous: \$14.00
Bloomberg: NASDAQ: SMSI

Market Data

52-Week Range: \$21.20-\$9.01
Total Entprs. Value (MM): \$355.8
Market Cap. (MM): \$449.8
Insider Ownership: 15.0%
Institutional Ownership: 56.4%
Shares Out. (MM): 30.7
Float (MM): 25.0
Avg. Daily Vol.: 1,434,571

Financial Summary

Book Value (MM): \$136.7
Book Value/Share: \$4.45
Net Debt (MM): (\$94.0)
Net Cash/Share: \$3.06
Long Term Growth Rate: 25.0%
Gross Margin: 70%
Operating Margin: 30.0%
PE/G: 0.90

USD	2005A	2006A	2007E	2008E
Rev. (MM)	20.3	54.6	77.2	109.4
Prev.	--	--	76.1	107.4
EV/Rev.	17.5x	6.5x	4.6x	3.3x

EPS

Mar	(0.01)	0.12	0.20A	0.20
Jun	0.03	0.13	0.14	0.22
Sep	0.10	0.17	0.20	0.25
Prev.	--	--	--	0.24
Dec	0.11	0.26	0.29	0.33
Prev.	--	--	0.28	0.31
FY Dec	0.23	0.67	0.84	1.00
Prev. FY	--	--	0.83	0.98
FY P/E	63.7x	21.9x	17.4x	14.6x
Consensus	—	—	0.84	0.99

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Smith Micro Software (NASDAQ: SMSI)

The Vista MEK Issue Appears to Be Over - Upgrading to Buy.

Investment Summary

Verizon appears to have softened its stance on the XP/Vista issue. We also believe SMSI should directly benefit from Sprint and Verizon's competitive response to Apple's iPhone. While the QCOM patent issue remains unresolved, we believe SMSI's risk/reward profile is compelling at 15x 2008 earnings.

Event

Upgrading SMSI to Buy from Hold and raising price target to \$20 from \$14. We are raising our estimates slightly to reflect a softer approach to the XP/Vista issue by Verizon. We now believe SMSI will report Q2'07 results that are in line to slightly above our estimates.

Key Points

- **Checks indicate Verizon has completed MEK Vista testing for several high volume handsets.** With testing completed on these handsets, shipments should begin any day now. With only 6 days remaining in Q2'07, the impact to the quarter will likely be modest with revenue in line to slightly better than our \$14.7MM estimate.
- **We believe Verizon has softened its overall stance on the XP/Vista issue.** Testing has not been completed for all handsets and in some cases Vista drivers are still not available. Given low MEK channel inventory levels, we believe Verizon will now accept normalized shipment levels of legacy XP MEK units.
- **New Vista MEKs could include a bundled copy of QL Music.** We think Verizon could take the opportunity to bundle the QL Music Manager inside Vista compatible MEKs. This could significantly improve the activation attach rate vs. the current download method.
- **We believe Verizon and Sprint are developing a strong response to the iPhone.** Our checks indicate Verizon and Sprint have lined up an impressive portfolio of new music-enabled handsets slated for launch in time for the Q4 holiday season.
- **A prolonged patent dispute between Qualcomm and Broadcom could delay new music handsets.** While this is a clear risk for SMSI, we don't believe these delays should dramatically impact Sprint and Verizon's music marketing efforts.
- **Raising estimates slightly.** Our Q2'07 estimates remain unchanged at \$14.7MM/14c. Our 2007 estimates move up to \$77MM/84c, from \$76MM/83c. Our 2008 estimates move up to \$109MM/\$1.00, from \$107MM/98c previously.

Valuation/Risks

Our \$20 price target is based on 20x our 2008 pfEPS estimate of \$1.00. Risks include: 74% revenue concentration at Verizon, fluctuating margins, possibly dilutive acquisitions and potential for new handset delays from a prolonged QCOM (Buy, \$42.99) / BRCM (Buy, \$30.52) patent dispute.

It appears Verizon has completed MEK Vista testing for several high volume music handsets. Our checks indicate Verizon has likely completed testing for several high volume music handsets. Shipments of Vista compatible Music Essentials Kits (MEKs) should begin any day now. However, with only six selling days remaining, the impact to Q2'07 will likely be modest. We now expect revenue to be in line to slightly better than our \$14.7MM estimate for the quarter. While the Q2'07 Street consensus estimate looks for \$16MM, we would note that the range of estimates is significant, looking for \$12.9MM to \$18.5MM.

We believe Verizon has softened its overall stance on the XP/Vista issue. While we believe testing has been completed for several high volume music handsets, there are a number of handsets that are still being tested. In some cases it appears the Vista drivers have still not been provided by certain handset OEMs; a requirement before the MEK software can be developed and tested. Our checks indicate very low MEK channel inventory levels at Verizon. We believe Verizon's tolerance for further delays and low inventory levels is limited. As such, we would not be surprised to see Verizon accept normalized shipment levels of legacy XP MEK units in the near future for certain handset models.

New Vista MEKs could also include a bundled copy of QL Music. We think Verizon could take the opportunity to bundle its V Cast Music Essentials Manager Software (QL Music) inside Vista compatible MEKs. We believe this could significantly improve the activation attach rate. Currently customers are pointed to a Verizon website to download and activate a copy of the Music Essentials Manager software. Smith Micro is paid for each download. Under a bundled MEK offering, we believe Smith Micro would be paid once the software was installed and activated, likely at no charge to the end user.

We believe Verizon and Sprint are developing a strong response to the iPhone. Apple's pending launch of the iPhone has raised the bar and overall consumer awareness of wireless music solutions. We believe both Verizon and Sprint are working on a competitive response centered around a strong lineup of new music-enabled handsets targeted for launch in the 2H2007 and in time for the Q4 holiday season. Smith Micro is positioned to directly benefit from the introduction of new music handsets and increased music marketing spend by its carrier customers.

A prolonged patent dispute between Qualcomm and Broadcom could delay new CDMA music handsets at Sprint and Verizon. While this is a clear risk for Smith Micro, we don't believe possible handset delays would dramatically impact Sprint and Verizon's music marketing efforts. In Q3, Smith Micro should benefit from an improved QL Music attach rate and an increase in channel inventory fill for Verizon's existing portfolio of handsets. The impact from any new handset delays would likely be most pronounced in Q4. Hopefully, a settlement or workaround can be implemented before that time.

Raising estimates slightly. Our Q2'07 estimates remain unchanged at \$14.7MM/14c. Our 2007 estimates move up to \$77MM/84c, from \$76MM/83c. Our 2008 estimates move up to \$109MM/\$1.00, from \$107MM/98c previously.

We are upgrading SMSI to Buy from Hold and raising our price target to \$20 from \$14. We are raising our estimates slightly to reflect a softer approach to the XP/Vista MEK issue by Verizon. We now believe Smith Micro should report Q2'07 results that are in line to slightly above our estimates. We also believe the iPhone should result in an impressive response from Sprint/Verizon and Smith Micro should be a direct beneficiary. While the Qualcomm patent dispute remains unresolved, we believe SMSI's risk/reward profile is compelling at 15x 2008 P/E. Our \$20 price target is based on 20x our 2008 pEPS estimate of \$1.00. Risks include: 74% revenue concentration at Verizon, migration to Vista, fluctuating margins, possibly dilutive acquisitions and potential new handset delays from the Qualcomm/Broadcom patent dispute.

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)

June 24, 2007

James Alexander

Jefferies & Company

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	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	Q1/07A	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	17,667	14,717	19,352	25,486	23,510	25,355	27,568	32,939	20,258	54,469	77,223	109,371
Cost of goods sold	345	545	1,165	2,048	3,026	4,978	5,831	5,304	5,367	2,752	4,954	7,289	6,724	7,099	7,650	8,811	4,103	19,139	20,362	30,284
Gross profit	1,685	2,785	5,731	5,954	6,859	7,577	8,970	11,924	12,300	11,965	14,398	18,197	16,786	18,255	19,918	24,127	16,155	35,330	56,860	79,087
Sales and marketing	440	369	1,294	1,307	1,524	1,489	1,651	1,833	2,330	2,911	3,151	3,528	3,668	3,857	4,079	4,717	3,410	6,497	11,921	16,322
Research and development	697	697	1,244	1,325	1,426	1,676	1,730	1,979	2,269	2,649	2,798	3,007	3,150	3,329	3,521	3,767	3,963	6,811	10,724	13,767
General and administrative	776	1,161	1,430	1,254	1,185	1,411	1,588	1,679	2,396	2,428	2,550	2,665	2,505	2,589	2,776	2,850	4,621	5,863	10,039	10,721
Operating income	(228)	558	1,763	2,068	2,724	3,001	4,001	6,433	5,305	3,976	5,899	8,996	7,463	8,480	9,542	12,792	4,161	16,159	24,177	38,277
Interest income	100	214	161	192	224	265	381	532	1,226	993	1,067	1,238	1,451	1,599	1,737	1,989	667	1,402	4,524	6,777
Income cash tax expense	-	8	47	49	39	33	68	-	326	497	697	1,023	2,674	3,024	3,384	4,435	104	140	2,543	13,516
Net income	(128)	764	2,253	2,596	2,909	3,233	4,314	6,965	6,205	4,472	6,269	9,211	6,240	7,055	7,896	10,347	5,485	17,421	26,158	31,538
Pro-forma EPS	(\$0.01)	\$0.03	\$0.10	\$0.11	\$0.12	\$0.13	\$0.17	\$0.26	\$0.20	\$0.14	\$0.20	\$0.29	\$0.20	\$0.22	\$0.25	\$0.33	\$0.23	\$0.67	\$0.84	\$1.00
Amortization and stock-based comp	-	-	376	385	1,097	2,150	1,864	2,261	4,363	3,094	3,094	3,094	3,094	3,094	3,094	3,094	761	7,372	13,645	12,376
GAAP net income	(128)	764	1,877	2,211	1,812	1,063	2,450	3,610	1,842	1,125	2,323	4,284	3,492	4,191	4,911	7,013	4,724	10,049	12,513	19,162
GAAP EPS	\$0.01	\$0.03	\$0.08	\$0.09	\$0.07	\$0.04	\$0.09	\$0.14	\$0.06	\$0.04	\$0.07	\$0.14	\$0.11	\$0.13	\$0.16	\$0.22	\$0.20	\$0.35	\$0.31	\$0.62
Fully diluted shares outstanding	19,665	22,713	23,222	23,900	24,284	25,598	25,794	26,691	30,684	30,899	31,053	31,240	31,365	31,490	31,616	31,774	20,295	25,592	30,969	31,561
% of Total Revenues																				
Gross Margin	83%	84%	83%	74%	69%	60%	61%	69%	70%	81%	74%	71%	71%	72%	72%	73%	80%	65%	74%	72%
Sales and marketing	22%	11%	19%	16%	15%	12%	11%	10.6%	13%	19.8%	16.3%	13.8%	15.6%	15.2%	14.8%	14.3%	17%	12%	15%	15%
Research and development	34%	21%	18%	17%	14%	13%	12%	11.5%	13%	18.0%	14.5%	11.8%	13.4%	13.1%	12.8%	11.4%	20%	13%	14%	13%
General and administrative	38%	35%	21%	16%	12%	11%	11%	9.7%	14%	16.5%	13.2%	10.5%	10.7%	10.2%	10.1%	8.7%	23%	11%	13%	10%
Operating margin	-11%	17%	26%	31%	28%	24%	27%	37%	30%	27%	30%	35%	32%	33%	35%	39%	21%	30%	31%	35%
Cash tax rate	0%	1%	2%	2%	1%	1%	2%	0%	5%	10%	10%	10%	30%	30%	30%	30%	2%	1%	10%	30%
GAAP tax rate	0%	1%	2%	2%	1%	1%	2%	0%	5%	40%	40%	40%	40%	40%	40%	40%	2%	1%	40%	40%
Pro-forma net income	-6%	23%	33%	32%	29%	26%	29%	40%	35%	30%	32%	36%	27%	28%	29%	31%	27%	32%	34%	29%
Qtr/Qtr % Change																				
Revenue	-51.1%	64.0%	107.1%	16.0%	23.5%	27.0%	17.9%	16.4%	2.5%	-16.7%	31.5%	31.7%	-7.8%	7.8%	8.7%	19.5%	52.1%	168.9%	41.8%	41.6%
Gross profit (pro-forma)	-49.6%	65.3%	105.8%	3.9%	15.2%	10.5%	18.4%	32.9%	3.2%	-2.7%	20.3%	26.4%	-7.8%	8.8%	9.1%	21.1%	55.2%	118.7%	60.9%	39.1%
Sales and marketing	24.3%	-16.1%	250.7%	1.0%	16.6%	-2.3%	10.9%	11.0%	27.1%	25.0%	8.2%	12.0%	4.0%	5.2%	5.7%	15.7%	124.5%	90.5%	83.5%	36.9%
Research and development	9.9%	0.0%	78.5%	6.5%	7.6%	17.5%	3.2%	14.4%	14.7%	16.8%	5.6%	7.5%	4.7%	5.7%	5.8%	7.0%	55.0%	71.9%	57.5%	28.4%
General and administrative	9.0%	49.6%	23.2%	-12.3%	-5.5%	19.1%	12.5%	5.7%	42.7%	1.4%	5.0%	4.5%	-6.0%	3.4%	7.2%	2.7%	61.1%	26.9%	71.2%	6.8%
Operating income	-113.9%	-344.7%	215.9%	17.3%	31.7%	10.2%	33.3%	60.8%	-17.5%	-25.0%	48.4%	52.5%	-17.0%	13.6%	12.5%	34.1%	20.2%	288.3%	49.6%	58.3%
Pro-forma net income	-107.8%	-696.9%	194.9%	15.2%	12.1%	11.1%	33.4%	61.5%	-10.9%	-27.9%	40.2%	46.9%	-32.3%	13.1%	11.9%	31.1%	59.2%	217.6%	50.2%	20.6%
GAAP net income	-107.8%	-696.9%	145.7%	17.8%	-18.0%	-40.2%	126.2%	47.3%	-49.0%	-38.9%	106.5%	84.4%	-18.5%	20.0%	17.2%	42.8%	37.1%	112.7%	24.5%	53.1%
Year/Year % Change																				
Revenue	-18.4%	6.8%	93.9%	92.6%	386.9%	277.0%	114.6%	115.3%	78.7%	17.2%	30.8%	47.9%	33.1%	72.3%	42.5%	29.2%				
Gross profit	-6.3%	16.8%	98.8%	78.3%	307.1%	172.1%	56.5%	100.3%	79.3%	57.9%	60.5%	52.6%	36.5%	52.6%	38.3%	32.6%				
Sales and marketing	9.2%	-4.7%	245.1%	269.2%	246.4%	303.5%	27.6%	40.2%	52.9%	95.5%	90.8%	92.5%	57.4%	32.5%	29.5%	33.7%				
Research and development	4.3%	12.2%	96.5%	109.0%	104.6%	140.5%	39.1%	49.4%	59.1%	58.1%	61.8%	52.0%	38.8%	25.7%	25.8%	25.3%				
General and administrative	22.6%	58.4%	81.0%	76.1%	52.7%	21.5%	11.0%	33.9%	102.2%	72.1%	60.6%	58.7%	4.5%	6.6%	8.9%	6.9%				
Total operating expenses	12.3%	27.9%	120.7%	128.6%	116.2%	105.5%	25.2%	41.3%	69.2%	74.6%	71.0%	67.6%	33.3%	22.4%	22.1%	23.2%				
Operating income	NM	-13.4%	62.5%	26.1%	NM	437.8%	126.9%	211.1%	NM	32.5%	47.4%	39.8%	40.7%	113.3%	61.7%	42.2%				
Pro-forma net income	-224.3%	20.5%	109.2%	59.2%	-237.2%	323.2%	91.5%	168.3%	113.3%	38.3%	45.3%	32.2%	0.6%	57.7%	25.9%	12.3%				
GAAP net income	-224.3%	20.5%	74.3%	35.6%	-1515.6%	41.8%	30.5%	63.3%	1.7%	3.9%	-5.2%	18.7%	89.6%	272.4%	111.4%	63.7%				
Key Metrics:																				
DSOs	77	72	63	76	48	30	42	51	46											
Backlog	820	1,300	2,000	4,000	4,600	4,100	4,300	NM	NM											

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.

Jefferies makes a market in Broadcom Corporation.

Jefferies makes a market in Qualcomm Inc.

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

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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.

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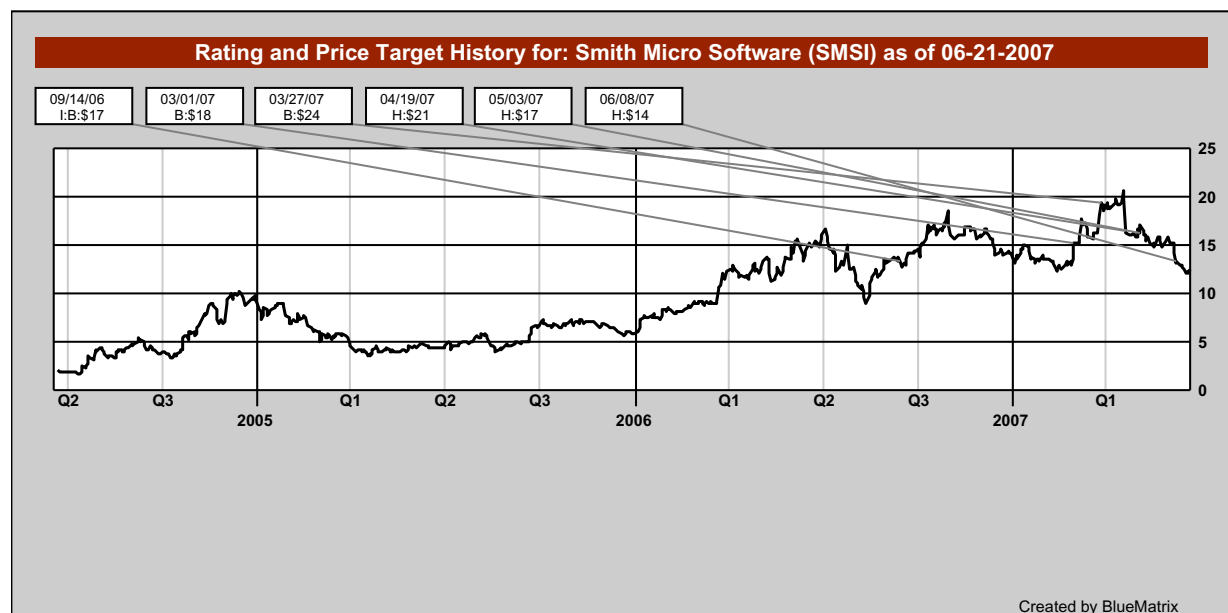
Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

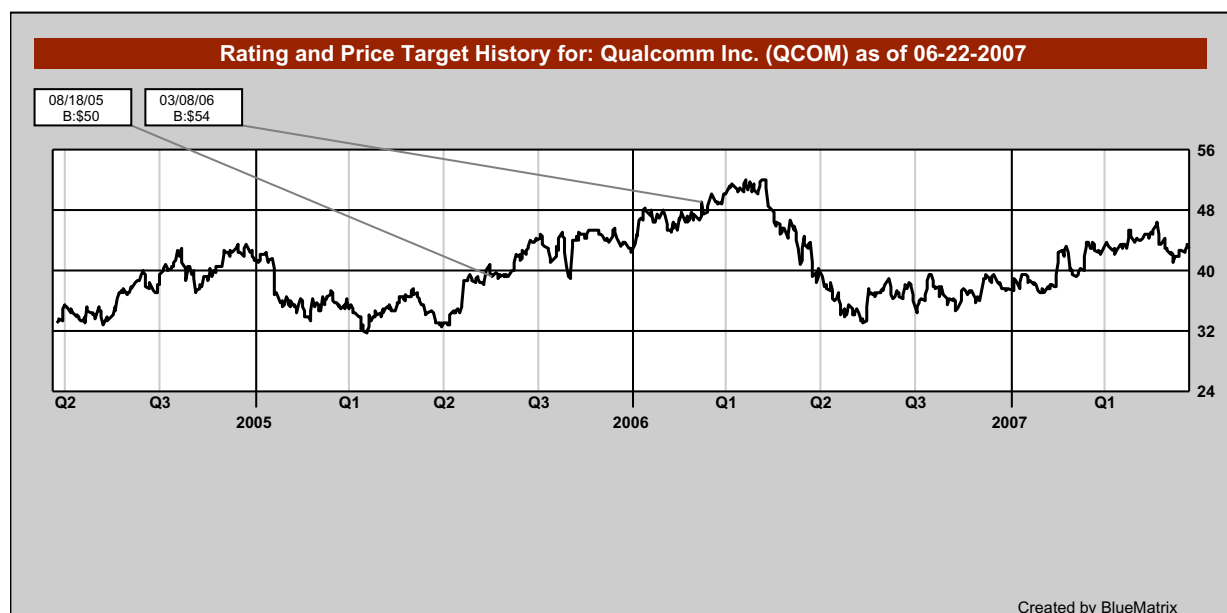
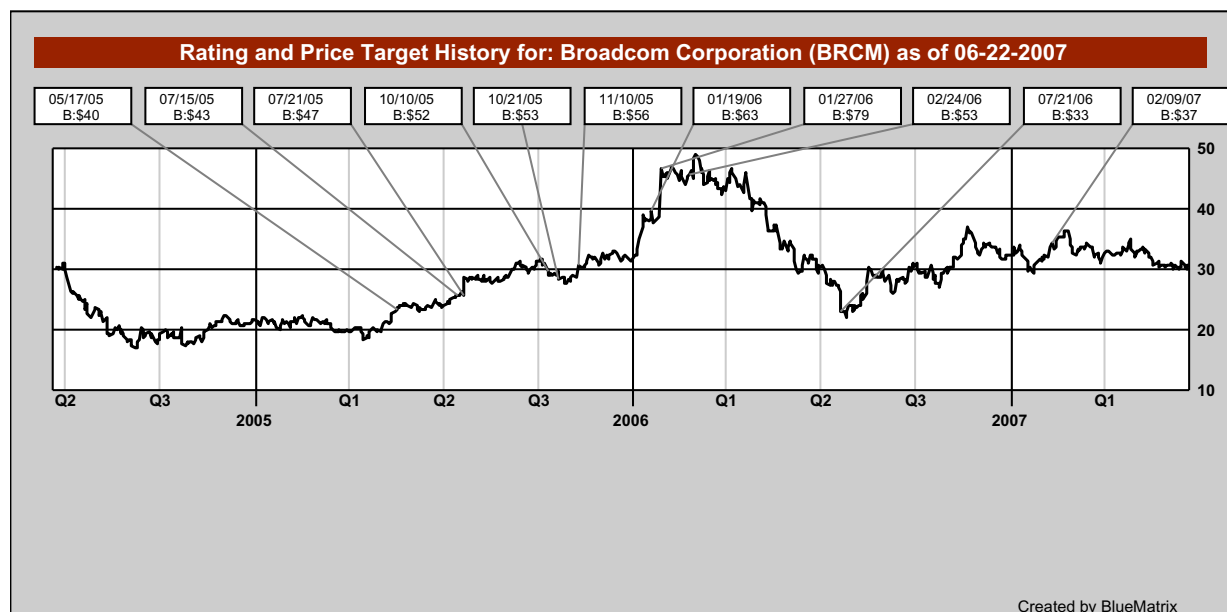
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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [BUY/SB]	432	54.20	57	13.19
HOLD [HOLD]	329	41.28	28	8.51
SELL [UNPF/SU]	36	4.52	5	13.89

OTHER DISCLOSURES

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