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Magnitude Info. Sys. (MAGY – OTC:BB)

Accelerating Adoption and New Features Bode Well

Reason for Report:
Research Upgrade

STRONG BUY

Recent Price: \$0.023

Market Data

Market Capitalization (M)	\$10.1
Fully Diluted Shares (M)	438
Float (mm)	207.32
Avg. Daily Volume (10 day)	433,086
Avg. Daily Volume (90 day)	233,297
Closely-held shares (approx.)	350,000
Exchange	OTC-BB

Company Overview

The Company's Kiwibox.com site boasts an escalating membership of teens and is in the midst of a rapid new user adoption cycle. Kiwibox provides teenagers with teen-focused content, social networking, and a variety of games, music, and other "sticky" features. Kiwibox.com is emerging as the top teen-focused destination on the Web, and is accessible from a traditional Web browser as well as a Web-enabled mobile phone.

Company Contact Information

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www.kiwibox.com

Summary and Investment Opportunity

- **2.0 Website and WAP site for Mobile Phones Spurs Accelerating Growth**

Kiwibox.com recently rolled out its 2.0 website, which more fully integrates social networking features with publishing and content features and added software "widgets" that facilitate the importing of homepage content from MySpace and Facebook. These improvements have caused a dramatic increase in traffic to the site, as well as a tripling of the new user adoption rate – all since the improvements were introduced just over 2 months ago. See Alexa inset below.

- **The Competition is Lagging in the Online World**

The Company's most significant competitors are those few teen-focused magazines that have survived the current industry shakeout, namely Seventeen and Teen Vogue magazines. Although both of these franchises had (and have) rather dominant positions in traditional publishing for teens, their Web initiatives cannot compare with the Company's. Given that the Web is not these organizations core competency, we expect the functionality/quality gap between Kiwibox.com and these companies' site to continue to widen in coming months. Note that these competitive magazines are owned by Hearst and Conde Nast, respectively; either of these publishing behemoths could easily acquire MAGY at a valuation that shareholders would find quite attractive.

- **Upgrading to Strong Buy with 12-month Price Target of \$0.08 per share**

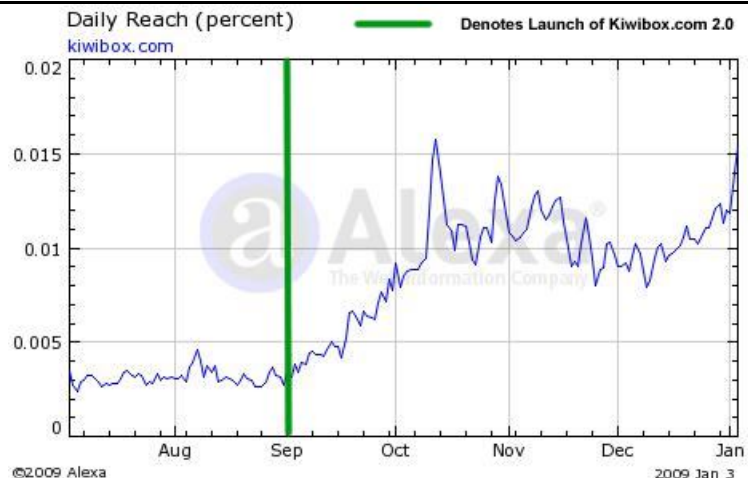
Since our last report, MAGY has made great strides in every area, most notably in the successful acquisition, operation, and improvement of the Kiwibox.com website. This site is now live, with rapidly increasing user adoption, a mobile-optimized website version, and strong future feature/product plans. Furthermore, it has now established itself as the clear leader in teen-only social networking, and has made what we believe to be wise choices in helping teens integrate their Kiwibox pages with MySpace and Facebook. Because of this success, and due to this Web property's inevitable appeal to large publishing and online players, we are upgrading our research rating to Strong Buy and setting our 12-month price target at \$0.08 per share, with significant future upside possible.

Alexa Ranking

Alexa.com offers the ability for any user to input any URL and see both its overall popularity ranking and the percentage of total Web users' views it captures, known as the *Daily Reach*.

Since the introduction of its 2.0 Web platform and 1.0 WAP (mobile phone) platform, Kiwibox has seen its Daily Reach expand from an average of 0.0035% to 0.012%, a nearly four-fold increase.

We view this as extremely significant, and believe it bodes very well for MAGY shares.



Please see analyst certification and required disclosures on page 10 of this report.

Company Analysis

Company Description

Kiwibox is a wholly owned subsidiary of Magnitude Information Systems, which trades over-the-counter on the bulletin board under the symbol MAGY. Kiwibox owns and operates Kiwibox.com, a leading destination site for teenagers that boasts an escalating membership of teens and receives 850,000 unique visitors per month. Unlike traditional social networking sites such as MySpace and Facebook, Kiwibox has combined “magazine” content and social networking in a site that is extremely sticky and attractive to teenagers. Furthermore, because all Kiwibox content is edited and posted only after editorial approval, Kiwibox provides advertisers with a superior, worry-free advertising platform. Kiwibox has made great strides recently, with the release of its 2.0 website and a WAP site geared specifically for mobile devices; this progress has resulted in a dramatic acceleration in new user adoption that bodes very well for the future. We expect Kiwibox to continue its successes with strong user growth and rapidly ramping revenues in 2009 and beyond.

User Adoption Strategy

Kiwibox management has chosen to pursue what we believe to be the correct new user adoption strategy, namely employing an integrated content / social networking platform that maximizes users’ involvement with the Kiwibox.com site and brand. If properly executed upon, this strategy will have strong viral marketing benefits, and will create a loyal and highly active teenage user base. This will in turn become ever more appealing to advertisers, who are always seeking effective reach into the highly lucrative teenage marketplace.

Content

Kiwibox provides “magazine-like” content to its user base in the form of weekly issues, which include over 60 editorials and ten or more videos regarding teen-relevant topics. However, this content is mostly created by over 21,000 teens who serve as reporters, editors, advice givers, site monitors, and general purpose “KiwiHelpers.” These members are compensated for their efforts through “KiwiPoints,” which provide the members with various status benefits and free merchandise, and provide the Company with an ultra low cost labor pool. Furthermore, this system ensures that Kiwibox has new and “fresh” content available around-the-clock, maximizing its value to power users who frequently visit and interact with the site through a PC or mobile device.

Kiwibox also provides its users with expanded content in the form of streaming music and video. Based on the Company’s recent agreement with Universal Music Group (UMG), the world’s leading music company, we believe that Kiwibox will soon be able to offer its users advertising-supported music streaming from virtually any recorded artist, providing a strong additional incentive for teens to join Kiwibox.com. Note that we believe the business arrangement underlying the UMG deal is superior to others in the industry, as it is based strictly on a revenue share and creates no negative marginal cash flows for the Company. We expect similar deals with other major music and entertainment companies in the near future.

Social Networking

Much like MySpace and Facebook, Kiwibox provides its users with a solid suite of social networking tools, including member chat and email, a highly customizable homepage (with a unique URL), a blogspace, the ability to poll friends regarding topics of interest, and “content widgets” that allow a high degree of integration with users’ MySpace and Facebook homepages. Furthermore, the Company plans to roll out its SMS (Text Messaging) platform in Q1 of 2009, which will allow users to receive mobile phone alerts from friends regarding topics of interest. However, unlike the major social networking sites, Kiwibox is geared exclusively for teenagers, making it a more attractive social network than those dominated by older individuals. Note that according to Quantcast, only 29% of MySpace users and 32% of Facebook users are teenagers. Since teenagers tend to prefer their own age group and typically consider “older people” to be un-cool, we view this teen-only focus as a significant advantage for Kiwibox.

Viral Marketing and “Stickiness”

Kiwibox’s content and social networking platform, by definition, is inherently sticky and has strong viral marketing effects. However, the Company has several other key initiatives that strengthen the degree to which it is virally marketed and adopted. By far, we are most impressed with the Company’s KiwiPoints initiative, which confers points to its members for just about anything they can do that is favorable to the Company, such as: logging in daily; acting as a KiwiHelper, working as an editor or reporter; playing one of the site’s many online games, with more points awarded for the daily high-score leaders; and for referring friends to join the site. Furthermore, unlike many online reward programs’ points, KiwiPoints can be used for items such as game consoles and concert tickets and small items like temporary tattoos and make-up, in addition to conferring online status benefits to the recipient.

Mobile Computing Strategy

While it remains to be seen if the Company’s upcoming SMS/Text service is a hit, we have no doubt that its mobile computing (WAP) initiative is right on the mark. Unlike older generations, today’s teenagers have grown up not just with computers but will fully-feature mobile phones, making them known as “power users.” As new mini-computing platforms such as Apple’s iPhone become more ubiquitous over the next few years, we believe that the teen demographic in particular will begin to use these devices as their primary means of accessing the Web and Web-based social networking and communication tools.

Because of this trend, we view the quality and usability of the Company’s WAP site to be critical to its long-term performance, and we applaud its 1.0 site as an excellent first step in this regard. Also, it is important to note that the Company is well ahead of its competitors in the use of a phone-optimized website, further entrenching its leadership position.

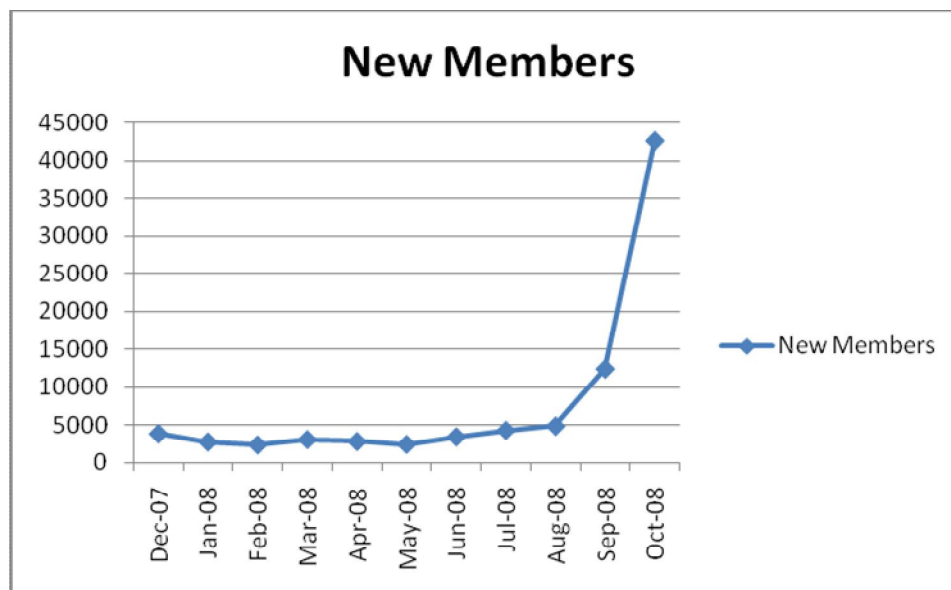
Traditional Marketing Initiatives

The Company has already taken several steps in regards to more “traditional” marketing initiatives, including:

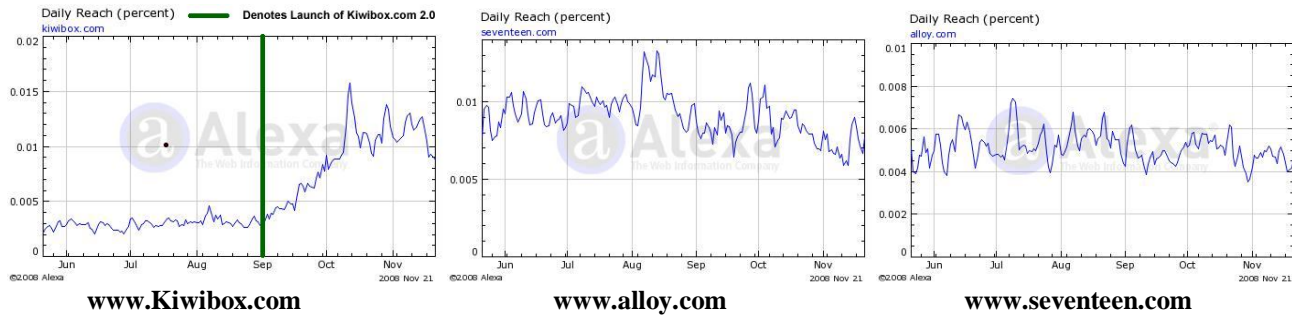
- It has retained Dukas PR, a New York based PR agency, which has already landed it several high-profile newspaper articles. Kiwibox has been mentioned in the L.A. Times, MediaPost, CNET, and many other publications.
- The Company has worked extensively on search engine optimization, known as SEO, and given its huge content base it now appears as a top-ranked item in literally thousands of searches conducted daily
- The Company has several content syndication arrangements in place, including an agreement with Mochila, one of the largest online syndication marketplaces.
- Kiwibox runs frequent promotions and contests in conjunction with its entertainment partners, enhancing Kiwibox brand awareness in a key portion of its target market.

Although we are encouraged by these steps, we believe the Company can and should do more. Specifically, we would like to see additional (and heavy) search engine advertising, and additional affiliate marketing initiatives. Management is in agreement that these are key areas in terms of driving additional users to the site, but note that the Company needs to secure additional financing in order to take full advantage of them.

Overall, Kiwibox has shown itself to be an innovative marketing company that understands its demographic and can drive user adoption. Given the progress at the company in terms of Web traffic, user growth, and technology maturation, we feel comfortable that the Company will indeed be able to secure additional financing and more fully execute on its marketing plan.



Website Traffic Trends May-Nov 2008



Target Market Analysis

In just the United States alone there are an estimated 30 million teenagers ages 13 – 19, and obviously, there are far more internationally. This segment of the U.S. population spends or influences the spending of \$200 billion annually, and nearly 100% of this population segment uses the Internet regularly (93%). Furthermore, Company data suggests that over three-quarters of all U.S. teens have cell phones, and that 90% of those with phones use SMS/Text Messaging and over one-quarter access the Web through their mobile phone.

This amounts to an extremely large target market with enormous spending power and a nearly ubiquitous use of the Internet. Given these fundamental characteristics, this is an extremely attractive target for many Fortune 500 advertisers who typically have advertising budgets in the tens of millions of dollars.

Revenue Generation

Although the major social networking sites have been and certainly still are successful, they have consistently fallen short of the revenue expectations that were embodied in the pricing of the various acquisitions that have occurred. However, Kiwibox has significant advantages over these sites in terms of guaranteed content quality, content subject “classify-ability,” and in several other areas. We believe that these advantages will eventually allow Kiwibox to extract higher revenues per-capita than its more mature social networking counterparts have been able to do.

Specifically, Kiwibox plans to monetize its user base through multiple advertising, product placement marketing, and market research initiatives. Specifically, through:

- **Traditional Banner Advertisements.** When these can be used in conjunction with highly targeted brand campaigns, the Company’s experience leads it to forecast CPMs of \$5 - \$15, whereas site-wide banners typically generate CPMs of between \$1 to \$3.
- **Kiwibox Teen Network.** Kiwibox has partnered with Burst Media, one of the top 20 online advertising agencies in the U.S. to create a vertical ad network called the Kiwibox Teen Network. Kiwibox and Burst will work together to sell advertisements and sponsorships across Kiwibox and a network of other teen oriented sites, and Kiwibox will receive a percentage of all network sales.
- **Mobile Advertisements.** Mobile advertisements represent a very effective way to reach consumers with marketing messaging, and we expect them to become even more effective once GPS enable handsets become the norm. Kiwibox has agreements in place with 4INFO and Burst to sell SMS and mobile web advertisements, respectively.
- **Product Sales.** Kiwibox is in an excellent position to garner commissions from product sales to its users; items it plans to sell include mobile phones and service plans, concert tickets, music downloads, and other appropriate items
- **Integrated Sponsorships.** Larger advertisers are always seeking to move “beyond the banner” and participate in higher value initiatives, such as contests, awards, section sponsorships, and custom games. Some of Kiwibox.com’s current integrated sponsors include: Kmart, Kohls, Tampax, and Universal Music Group (UMG).
- **Market Research.** Although not a primary focus of the Company’s revenue generation strategy, Kiwibox’s unique user base and rich per-user data set make it the ideal testing ground for market research companies.

Clearly, the Company has many avenues available to it in terms of monetizing its user base, and we are confident that as the Company continues to develop and mature it will more fully exploit these opportunities for monetization and revenue generation. However, we must note that the Company has generated only negligible revenues to date, and that it remains to be seen what level of per-user revenue generation it will eventually attain.

Leadership Team

Rudolf Hauke, PhD, (age 60), Chief Executive Officer

In addition to his role at Magnitude, Dr. Rudolf Hauke currently serves as the President and Chief Executive Officer of ATG Advanced US Technology Group Inc., an organization engaged in the development of image classification technologies with a principal focus on the protection of children over the Internet, which he founded in 2006. This company has technology that we believe could be instrumental to Kiwibox in the future. Prior to establishing ATG, Dr. Hauke was a senior executive with TBS North America Inc, a biometrics company headquartered in Herndon VA, where he managed to receive a \$3 million government grant from National Institute of Justice. A business executive and research scientist with more than 25 years experience, Dr. Hauke managed high-tech research initiatives at both privately funded startup companies and business units within large corporations. Dr. Hauke holds a PhD in Applied Physics from the University of Tübingen, Germany, and began his career in 1978 as the head of R&D for CGR Koch & Sterzel where he oversaw the research, design and development of medical diagnostic systems. He became the European Marketing Manager for Toshiba Medical Systems in 1982 and significantly grew Toshiba's European market share. In 1984, he co-developed ultrasound technology for Phillips/Dornier. In 1993 he worked for Kaba Systems Switzerland – a leading provider in access control systems- building distribution networks within the United States. He holds more than 65 patents or patents pending.

Michael Howard, Chief Operating Officer

Michael Howard graduated from Carnegie Mellon University where he was awarded “Entrepreneur of the Year” for his work on Unique Net Solutions, a precursor to Kiwibox. In 1999, Howard was a co-founder of Kiwibox.com and moved the Company to New York in 2000. Howard has been instrumental in both growing the company to one of the largest online communities for teens, with over 1.9 million members worldwide, as well as in monetizing and keeping the company profitable for the first seven years of its existence. He accomplished this by leveraging ad networks and agencies, such as Gorilla Nation, Burst, Double Click, Beyond Interactive, and more. His expertise in the online advertising world is evident in the degree to which his service as consultant to major online ad agencies was sought after during that period.

Paul Farris, Director of Business Development

Paul Farris has been involved with operating and managing profitable Internet companies since he was in high school. He launched a network of popular student resource websites that were featured in Fox News, The New York Post, and Salon.com prior to becoming the first employee of Kiwibox.com in 1999. After a successful stint at Wachovia, where his analytical expertise led to \$5 million in annual compliance expenses savings and accolades from the Office of the Comptroller of the Currency and the FBI Regional Anti-Terrorist Financing team, he rejoined Kiwibox.com in 2007 as Director of Business Development, responsible for building partnerships, optimizing user acquisition strategies, and analyzing internal data to forecast industry trends.

Risks and Competition

In terms of outright risks for Kiwibox and its parent, Magnitude Information Systems, financial risk is by far the most worrisome to us. We are strong believers in the Kiwibox platform, model, and team, and we think that competitive threats are somewhat moderate. However, the Company is going to need an as-of-yet unknown amount of additional capital to reach positive operating cash flow, and without this capital, the future of the Company would be uncertain. That said, the Company and its backers have so far proven to be quite resourceful from a fundraising perspective, and based on this, we feel that the financial risk is both manageable and of an acceptable level.

Because Kiwibox has combined publishing and social networking into a single platform, it really has no direct competitors in the teenage marketplace. However, it does have social networking competitors and publishing competitors that warrant some analysis.

Competitors - Social Networking

Without a doubt, the Company's most significant social networking competitors are MySpace and Facebook, although many other sites are beginning to operate in and around this space as well, most notably YouTube. All of these companies have membership bases and financial resources that dwarf those of the Company, and in our opinion it would be nearly hopeless for the Company to try to unseat these competitors from their leadership positions in the social networking industry. However, based on Kiwibox's strategy of using widgets to export from and/or integrate with these sites, rather than compete with them, we believe that management is in agreement. Given their current strategy, we feel that these sites pose no immediate threat to the Company, as their mass-market approach lacks specific appeal to the Company's target demographic. Other notable competitors include: Friendster, Bebo, LinkedIn, Hi5, and many others. None pose a direct competitive threat to the Company.

Competitors - Publishing

Historically, there have been about a half dozen teen-focused magazines, including: Teen, TeenVogue, Seventeen, ElleGirl, YM, and TeenPeople. Recently, however, all but two of these publications (TeenVogue and Seventeen) have thrown in the towel and ceased publishing, largely due to the shift in teens’ attention from paper-based publications to Web-based content and publications. In this realm, however, Kiwibox has a significant advantage, as the legacy publishers are much better at creating and publishing content than they are at understanding and succeeding with complex technology/publishing hybrids. We believe Kiwibox has a significant lead over the online versions of other teen-focused publications, and based on our research, they are likely to further extend this lead as time progresses. Given that social networks are natural monopolies, where the value of the system comes largely from number and quality of users rather than the underlying software, we feel it is very unlikely that these publications will be able to catch up to the Company on the Web. Interestingly, each of these magazines is published by a true publishing giant – Seventeen by Hearst, and TeenVogue by Conde Nast. We believe that either of these behemoths could benefit by acquiring Kiwibox and basing an online strategy on it; if this were to occur, this would almost certainly represent a windfall to Magnitude’s shareholders. Overall, then, we see these competitors as posing no real threat in the digital world, and perhaps representing a very solid “exit” possibility for current MAGY investors.

In addition to the sites owned and operated by the publishing behemoths, there is one directly competitive site of which we are aware: alloy.com. This site looks and feels similar to the publishers’ sites, and as is evident in the Alexa data, at this point it cannot match the extreme growth of traffic at www.Kiwibox.com.

Potentially Competitive Teen-Focused Websites and Companies

Website URL	
4degreez.com	Unsophisticated looking site for teens and twenty-somethings
Clubpenguin.com	Focused towards teens and pre-teens and heavily gaming influenced
Alloy.com	Pink site seems to target young girls, teenage through college years
Teenspot.com	Photo sharing and management site
Student.com	Looks to be one of the most popular sites, very “student” focused content
Cosmogirl.com	Online version of Cosmo <i>Girl</i> Magazine, basically
Seventeen.com	Online version of Seventeen Magazine, basically
Teentwist.com	Light weight, unsophisticated site.
Youthfire.com	Social networking for youths serious about being Christian
Piczo.com	Personal website creation

Financial Analysis

Like many social networking companies in their early stages of growth and development, Magnitude Systems has had to face significant negative operating cash flows, and should continue to be cash flow negative for at least the next one to two years. While we consider this to be standard for a company in this industry, it does create some level of financial risk, as several million dollars of additional debt or equity financing is going to be required for the Company to reach a point where it is cash flow positive. Although the Company has avoided any toxic financings, which is good news for investors, it was as of its last SEC filing in a fairly precarious financial situation, with a current ratio of just 0.87 and current assets of just under US\$500,000. A slight additional negative is that the Company has recently notified the SEC of its inability to file its next 10-Q on a timely basis.

On a positive note, the Company's currently accelerated new user adoption level bodes VERY well for its ability to secure additional financing, and for its ability to attract additional advertisers and advertising networks. Overall, we do not feel that the Company is subject to an inordinate amount of financial risk and it has a reasonably sound balance sheet – all of which is certainly consistent with the situations of other early stage social networks that have ended up being quite successful.

Investment Thesis and Valuation Comps

The Company currently trades at just over \$0.023 per share, implying a total market capitalization of just over US\$10,100,000. Obviously, this is an exceptionally low market capitalization, and one that we think creates a rather exceptional investment opportunity. To put this in perspective, Bebo, a general social network that is particularly strong in the United Kingdom, was recently acquired by AOL (March 2008) for a staggering US\$850M, which on a per-user basis was \$21/member. Given Kiwibox's new user adoption rate and highly sought-after demographic, we feel a similar per-user value is appropriate, which would currently value the Company at approximately US\$39.9M, almost four times its current market capitalization. Furthermore, as growth continues and accelerates in the coming months and quarters, we expect that Kiwibox could become even more valuable in a acquisition by a major publisher.

Conclusion

All-in-all, we believe that Kiwibox and its parent Magnitude Information Systems represent perhaps the best social networking value available in the market today. While new and unproven social networks are out trying to raise capital at \$20M and \$30M pre-money valuations, MAGY offers investors a proven and rapidly growing real social network at just a fraction of the per-user value. Although there can certainly be no guarantee that MAGY will fulfill its promise, we are very encouraged by the success of the Company's next-generation platform in generating accelerating user adoption, which is the holy grail of the social networking business. Furthermore, we believe that some of the Company's initiative for future product enhancements are quite unique and exciting, strengthening our enthusiasm about the Company's prospects and likely future valuation and share price. Therefore, we are upgrading MAGY shares to a rating of Strong Buy, and set a 12-month price target of \$0.08 per share.

Appendix A - Industry Background and Analysis

Introduction – Social Networking

Social networking is a term that has gone mainstream in recent years. It essentially refers to any online application that allows users that share an interest or a demographic to come together and interact. Because it is online, this interaction transcends the barriers of geography and chance meeting and allows millions of relationships to form where none otherwise would have.

The largest and most famous social networking sites include MySpace, a site focused on the 18 and up market; Facebook, a site originally focused on university students; YouTube, a site which allows people to upload and share their personal videos online, and LinkedIn, a business-related site that facilitates the formation of professional networks. All of these sites allow, among other things, users to create personal networks of friends and associates, which other friends and associates can use to find other “birds of a feather”; YouTube in particular is focused on allowing its users to post video and other content online.

Introduction – Web 2.0

“Web 2.0” is a term used to describe a family of applications that have recently become dominant on the Web. The value of these applications is based on Metcalfe’s Law, which states that the value of a network is equal to the square of its members; this is also known as the network effect. These applications offer extreme value to users once they are highly adopted, and tend to have one or two major winners in each category. Examples of this type of application include eBay, the now-famous Internet auction site, and MySpace, a social networking site whose parent company was recently purchased by News Corporation for approximately \$580 million. In the case of MySpace and other social networking sites, however, we expect several major winners; individuals typically belong to a variety of networks both business and social, and we believe that this behavior will be mirrored online as they maintain membership in several online networks.

In general, these types of applications allow the user to accomplish certain tasks with ease and efficiency that would otherwise be difficult if not impossible to accomplish. For example, MySpace (much like Kiwibox 2.0) allows users to create a custom “home page,” and then use the system to locate, communicate with, and create relationships with other users on the system. Because the system allows users to search for others based on keywords, interests, location, or other factors, it allows individuals to create relationships with others whom they would never otherwise meet. The net result of the use of this system is a rich network of relationships that transcend the boundaries (such as geography) that previously limited the formation of relationships – and this ability to create new relationships in a new, more efficient and effective way has brought over 100,000,000 users to MySpace.

Venture capitalists and other investors have been paying close attention to success stories like MySpace and have been pouring more than \$200 million per quarter into the Web 2.0 industry. Because Web 2.0 applications deliver such extreme value to users and have monopoly-like characteristics, they tend to have very loyal users and the ability to set prices that capture a large percentage of the value they provide. These characteristics make Web 2.0 companies some of the best investment opportunities available today.

Web 2.0 Industry and Selected Investment Transactions

- **MySpace**’s parent company was acquired by News Corp. for \$580 million. Industry pundits now consider this to be a “bargain” price and many believe MySpace’s current value to exceed several billion dollars.
- **YouTube**, the personal online video application, was acquired by Google for \$1.65 billion in Google stock. This is the largest Web 2.0 acquisition in financial terms to date.
- **Bebo**, a social network targeting teens that is very popular in the U.K. and Ireland was acquired by AOL for \$850 million.
- **Facebook**, a student-based site, received an investment from Microsoft for \$240 million at a \$15 billion valuation.
- **Friendster**, one of the first social networking sites, raised \$20 million in a VC financing led by Kleiner Perkins and Benchmark Capital.

- **Multiply**, a social network with an emphasis on blogging and photo sharing received a \$5 million investment at a \$100 million valuation.
- Other companies that recently received investment include LinkedIn, RockYou, Social Gaming Network, and WePlay.

As in many industries, up-and-coming Web 2.0 successes are now most commonly focused on specialized user groups, which tend to exist in a single industry or demographic. We believe Kiwibox represents just an up-and-coming Web 2.0 site, which should make it very attractive to both open market investors and those entities that could acquire it outright.

Select Web 2.0 Acquisitions			
Target Company	Acquiring Company	Estimated Price	Business Description
Blogger	Google	\$20 million	General blog site
Nexo	Shutterfly	\$15 million	Social network for families and small groups
Oddpost	Yahoo!	\$20 million	Mail system technology site
Webshots	Cnet Networks	\$71 million	Photo sharing and management site
LiveJournal	SixApart	\$20 million	Blend of journal, blog, and social networking site
Bloglines	IAC (AskJeeves)	\$25 million	Blend of blog and online news clipping site
Flickr	Yahoo!	\$30-35 million	Photo sharing and management site
Pluck	Demand Media	\$75 million	Social network platform provider
MySpace	News Corp	\$580 million	Connected social networking site (<i>July 2005</i>)
Skype	Ebay	\$2.6 billion	Internet phone calls
Weblogs Inc.	AOL	\$25 million	Blogs and podcasts
Bebo	AOL	\$850 million	Social network for teens
Rupture	Electronic Arts (EA)	\$30 million	Social network for video game players
del.icio.us	Yahoo!	\$30-35 million	Online bookmarking and "social bookmarking" application
Plaxo	Comcast	\$75 million	Social contact management service
Zyb	Vodafone	\$48.7 million	Mobile Social Network
Writely	Google	Approx. \$10 million	Online document creation and sharing site
Grouper	Sony	\$65 million	Online video site - similar to YouTube
YouTube	Google	\$1.65 billion	Online video sharing site
BlogLog	Yahoo!	\$10-12 million	Specialized blogger networking site

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated “Speculative Buy” or “Strong Speculative Buy” are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

Explanation of Ratings Issued by Harbinger Research

STRONG BUY	We believe the enrolled company will appreciate more than 20% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 10% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 20% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 10% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

Analyst Certification

I, Brian R. Connell, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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Analyst Highlight

Brian R. Connell, CEO and Senior Research Analyst - Technology

Mr. Connell has over 10 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder

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