Mpath Interactive, Inc. (NASDAQ: MPTH)

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KEY CONSIDERATIONS

- Mpath Interactive, Inc. (the Company) is the supplier of Pop.X (POPulation eXplosion), the first commercially available, platform-independent, end-to-end system for rapid deployment to mass-consumer, live community applications on the Internet.

- On July 29, 1999, Media Metrix, a leading Internet measurement firm, reported that Mpath logged its first ten million-minute day. In the past, only seven Web site consolidations have reached this status.

- Although the Company is still unprofitable, we expect gross margins to increase steadily as high margin advertising revenues becomes a substantial part of the total revenues.

- We believe that the company is fairly valued and expect its share price to increase in line with its revenues in the long-term.

Price 8/18/1999	$15.38
52 WK High	$51.25
52 WK Low	$3.06
P/E	N/A
P/Book	19.33
P/Sales	23.08
Market Capitalization	$326.93 M
Shares Outstanding	21.3 M
Float	3.90

EPS

1998	(0.95)
1999E	(1.15)
2000E	(1.85)

Financials

Current Ratio	3.18
Total LT Debt/ Equity	0.17
Total Debt/Equity	0.27

PRICE GRAPH
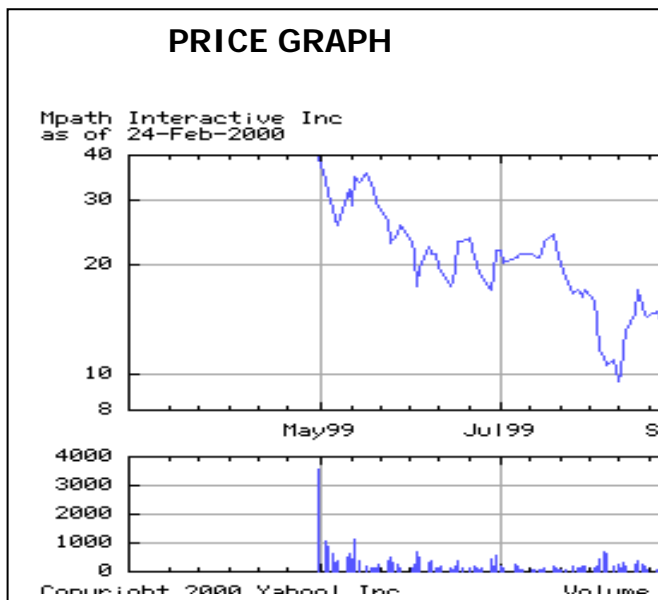
COMPANY PROFILE

Mpath Interactive, Inc. is located at 665 Clyde Avenue, MountainView, California 94043. Mpath Interactive, Inc., develops, licenses and operates technologies that enable Internet sites to create and manage live Internet communities. These communities are characterized by real-time interaction among multiple simultaneous users. Mpath also operates leading live communities, such as HearMe.com and Mplayer.com, serving over 3 million registered users.

This report was prepared by Edward R. Taylor and David R. Rivas, Ph.D.

THE WEB COMMUNITY INDUSTRY

The Internet has become an important medium for communications, content and commerce. According to International Data Corporation, the number of Web users worldwide will grow from 97 million at the end of 1998 to 320 million by the year 2002. Industry analysts believe the Internet represents the fastest growing form of media in history. The Internet is increasingly being used as a medium for direct communication as well as a rapidly growing sales and marketing channel. Jupiter Communications estimates that total online advertising revenue in the U.S. will increase from $1.9 billion in 1998 to $7.7billion by 2002. As the Internet has grown, so too have the efforts to commercialize the Internet for business purposes, such as selling products and services to people who visit Web sites. Although sites representative of the early stages of Internet commercialization provide valuable services, they did not initially enable Web users to interact or communicate with other individuals. Consequently, Internet communities have emerged to satisfy user demand for interaction and communication. We believe that an opportunity exists to create, operate and enable higher quality Internet communities characterized by real-time interaction among multiple users, which we call live communities. Creating successful live communities presents numerous technological challenges, requiring high standards of performance, accessibility, ease-of-use, security, content management and the ability to support thousands of users at the same time. Given the attractiveness of live communities to users, advertisers and Internet retailers, and given the time and effort required to build such communities, we believe a significant opportunity exists for delivering proven online technologies and services that enable rapid creation and management of full-featured live communities on the Internet.

MPATH PRODUCTS AND SERVICES

Mpath Live Communities: Mpath operates leading live communities, such as HearMe.com and Mplayer.com, serving over 3 million registered users. This business unit competes with other companies for Internet users and advertisers and is the fastest growing component of the company's total revenues.
The Mpath Foundation: This business unit competes with companies marketing software and services for the Internet and historically has generated a majority of the company's total revenues. POP.X is a system that helps Internet-based content or service companies develop and grow their own online communities. It is the first end-to-end system for deploying mass-consumer, people-to-people applications on the Internet. Architected to integrate easily into existing legacy systems, POP.X accelerates the development and deployment of applications that offer:

- Fast access (within seconds)
- Easy installations
- Media-rich, rapidly refreshed content
- Support for millions of users
- Single-or multi-user functionality

Not only does POP.X clear the hurdles stopping consumers from participating in interactive, online experiences; it helps developers extract maximum value from such communities. POP.X collects and leverages customer information including user activity, site performance, and demographics.
Both business units, Mpath Live Communities and Mpath Foundation, are subject to competition that is expected to intensify in the future.

SOURCES OF REVENUE

Technology Products: Mpath Technology Products revenues have accounted for the majority of the company's revenues to date. Historically, it has received a significant portion of its Mpath Technology Products revenues from a limited number of sales and license agreements. Therefore, any downturn in the

business of these customers or potential customers could have a material adverse effect on its revenues and quarterly results of operations. We believe that a customer's decision to license Mpath's technology is relatively discretionary and, for large-scale users, often involves a significant long-term commitment of resources. Currently, Mpath Technology Products has eight customers.

Advertising in live communities: In order to maximize value for advertisers and Internet retailers, Mpath provides an attractive, growing and targeted audience, as well as it delivers innovative advertising products and campaign management techniques. The Mplayer.com and HearMe.com services consist of multiple desirable and demographically distinct communities, with strong membership growth and long average usage times, which, combined with their technology, allow advertisers to present TV-style full-screen advertisements and other rich media advertising products. The Mplayer.com and HearMe.com services allow advertisers to deliver different messages to different users within the same community experience. Advertisers may also conduct integrated campaigns such as event sponsorships coupled with regular branded advertising. Finally, advertisers may use the chat room technology to conduct online focus groups before, during and following an advertising campaign to help plan and measure the effectiveness of a particular campaign. The combination of Mpath's live community context, highly specific and desirable user demographics, and long usage times provides a favorable platform for targeted and cost-effective online advertising and e-commerce.

Mpath has derived a significant portion of its revenues to date from the sale of advertisements. We believe that in the future the majority of its revenues will be generated from this component. Intense competition in the sale of advertising on the Web has resulted in a wide variety of pricing models, rate quotes and advertising services, making it difficult to project future levels of advertising revenues and rates. It is also difficult to predict which pricing models, if any, will achieve broad acceptance among advertisers. Mpath strategy is to continue to emphasize high-gross-margin advertising as a method of generating revenues. Its current business model is therefore highly dependent on the amount of traffic on its Web site.

MAIN COMPETITORS

Mpath's Technology Products division competes with software developers such as BroadVision, iXL Enterprises, US Web. Mpath's advantage is that it specializes in communities software development whereas the other companies focus on more general applications.

Direct competition for Mpath's live communities is in the form of other Web sites/communities providers that offer 11 megabytes or more of free disk space. Some of the Company's major competitors include: GeoCities (which merged with Yahoo!), Tripod, Inc. (subsidiary of Lycos, Inc. (LCOS)), Xoom, Inc. (XMCM), and theglobe.com (GLBC). For more detailed information on any one of these companies, please look at our Geocities report.

Mpath has a competitive advantage over other communities because it specializes on games and audio. Competition is fierce in the Internet communities sector for barriers to entry are low.

STRATEGIES FOR GROWTH

• **Expand Sales and Marketing Efforts.** The company plans to target high profile customers for initial and follow-on revenues for packages of diverse products and services through direct sales efforts. We believe that this particular strategy should help position Mpath Interactive, Inc. as a technology leader. Also, the Company plans to develop a well-suited priced, entry-level product with features for smaller Web sites to target customers outside of the entertainment and media market segments.

• **Promote Membership Growth and Usage.** By the end of June 1999, HearMe.com and Mplayer.com's number of registered users had increased by thirty-percent to 4.2M from a total of 3.3 million on March 31, 1999. We believe that the membership increases on HearMe.com and Mplayer.com

are results of the increasing number of co-marketing agreements, the creation of more user-friendly features, and the reduction of registration and installation processes. Whereas competitor Tripod is now requiring members to make regular updates on its Web sites.

- **Maintain and Extend Technology Leadership and Expertise.** The Company develops proprietary technology, Pop.X (POPulation eXplosion) for delivering live community applications on the Internet. Its expertise includes client software, network infrastructure, Internet protocols, security, large systems development, and scaling. During the quarter ending June 1999, Jeremy Verba, Executive Vice-President of Live Communities, former President of E!Online, and Randy Hart, Vice-President of Marketing, former Marketing director at Kensington Technology Group joined Mpath's management team. The Company plans to add new features and capabilities to the Pop.X technology to improve the customer experience in the live community services.

- **Recognition and Targeting of Different Consumer Groups.** Two-thirds of the users polled in a study conducted by Forrester Research could not remember the contents of the last banner advertisement they have seen. This is mostly due to the fact that the majority of Internet marketers target the generic Internet user, disregarding the fact that there are different consumer groups. Mpath's technology allows the advertisers to deliver TV-style full screen advertisements and other rich media products to different audiences within the same live communities. In addition, it may perform integrated campaigns as well as focus groups with regular advertisements and banner ads, therefore creating cost-effective targeted advertising and e-commerce.

- **Pursue Multiple Revenue Streams.** The Company seeks to maximize profits by strategically leveraging its proprietary technology and live communities. The Mpath Technology Products business unit derives the majority of its revenues from licensing its technological solutions, Pop.X, to businesses that wish to create live communities on the Internet. Mplayer.com and Hearme.com, live communities, derive the majority of their revenues from advertisement fees. After the Company adds new features and capabilities to the existing technologies and extents tools beyond the free services, it should be able to increase its subscription premiums and advertisement fees, as well as to attract a broader customer base.

- **Research and Development.** Recently, Mplayer.com has launched an enhanced community for Card and Board game players. It has new easy-to-use features, added programming and activities, plus a wide-selection of game titles such as: Backgammon, Poker, Hearts, Spades, and Scrabble. In combination with HearMe.com's technology, Mplayer users can use their PC-microphones to speak to one another as they play their favorite games. We believe that the Company's patented technology could in the future dominate the mass market of Internet gamers by enhancing their real-time interaction capabilities.

- **MyVoiceChat.** On July 19th, Mpath introduced its second affiliate program from HearMe.com titled MyVoiceChat. It enables any Web site to provide free direct access to HearMe.com voice chat. In the first week of a targeted testing period, 5000 Web sites signed up as affiliates. Their visitors can join HearMe.com voice chat directly from their Web pages. Previously, the Company had formed commercial partnerships to broaden the presence of voice chat over the Internet. Through partnerships with industry-leading consumer sites such as Yahoo!, E! Online, The Black World Today, and Bolt.com, HearMe.com is already bringing voice chat to strong, dedicated communities.

- **Strategic Alliances and Acquisitions.**

    We believe that Mpath's alliances with major Internet players reflect its potential to become a leading Internet company.

    Adrea Electronics Corporation and Mpath. Adrea Electronics Corporation, the designer, developer, and manufacturer of audio technologies and equipment for enhancing applications that require high performance and high quality voice input, such as HearMe.com, entered into a marketing agreement with Mpath Interactive, Inc. Adrea Electronics patent NC-65 Noise Canceling stereo headset enhances PC audio with pre-equalized, digital sound with clear interactive speech commands and chat. During live audio activities, HearMe.com's members use microphones, earphones, and speakers to interact with others. Mpath has agreed to promote the benefits of NC-65 usage to enhance the live audio experience. We believe that this agreement has potential to add brand recognition and expand membership, which in turn should increase Mpath's revenues.

    Infoseek and Mpath. Mpath has improved its brand recognition through agreements with Infoseek to distribute a customized co-branded version of the Mplayer.com client software and to create, on Infoseek's GO Network, co-branded pages with access to Mplayer.com. Together they plan to engage in cross-promotional activities and certain e-commerce opportunities.

    Xoom.com and Mpath. Together, Xoom.com and Mpath will distribute a co-branded version of the Mplayer.com client software for the use of Xoom.com members and site visitors. It will be promoted on the Xoom.com site as "Xoom.com Games powered by Mplayer.com".

    Intel. Intel advantageously promotes its MMX technology with the help of Mplayer.com's multiple screen shots and other Mpath promotional materials.

    Yahoo! Yahoo!, one of the world's largest Internet networks, has agreed to purchase 192,000 shares of Mpath's common stock. In exchange, Mpath will license Yahoo! Hearme.com's audio chat technology for an initial six-month period.

    Excite and Mpath. Excite and Mpath have agreed to develop and distribute co-branded versions of the Mplayer.com client software. Together they will promote each other's services on the Internet.

    Macromedia and Mpath. Macromedia and Mpath Technology Products have agreed to develop, license, and co-market certain products and services. Their goals include creating interactive and large-scale Internet services and communities. Macromedia and Mpath have licensed Pop.X and FlashPlayer, respectively. In addition, Mpath will participate in their Macromedia's Traffic Affiliate Program.

    Gtech. Gtech, a licensee of Pop.X technology, creates entertainment and government sanctioned online lottery systems. We believe that the adaptation of the Pop.X technology validates this technology and creates a new market for it.

    Sega. Sega is the first licensee of Mplayer.com technology. SegaSoft Networks' online services (www.heat.net) are powered by this technology. Meanwhile, the parent company of SegaSoft, CSK Corporation is a major investor in Mpath.

    Cox Interactive Media. Cox Interactive Media and Mpath have contracted to develop co-branded web pages, to distribute Mplayer.com client software, and to create a game channel for

Cox. In fact, Cox Technology Investments, Inc., a Cox affiliate, continues to invest funds into the Mpath business.

KEY RISK FACTORS

- The Company has a limited operating history.
- The Company currently has no quarterly or annual profits and we anticipate losses in the future.
- Short-term advertising contracts made by third parties make up the majority of the Company's revenues; therefore, the Company must increase the levels of traffic on Mplayer.com and Hearme.com services.
- The Company may be unable to protect its intellectual property and proprietary rights.
- In this volatile industry, certain mergers and acquisitions could create more risks that would adversely effect its business.
- The Company must manage their expanding business effectively.
- As of July 1999, the Company is unaware of any Y2K problems in its computer systems or technologies that may cause interruptions in its services.
- The Company is subject to litigation regarding possible patent infringements resulting from November 1996 acquisition of Catapult Entertainment, Inc.
- Competition is heavy amongst Web communities and businesses.
- Increased competition may lead to varying advertising rates, which in turn have a direct effect on the Company's business.
- The Company's performance is highly dependent on the performance of senior management and other essential employees. (Mpath Interactive, Inc. has employed three members of the management team for less than three months.)
- Legislation could damage the growth of the Internet, therefore decreasing the demand for the Company's products and services.

FINANCIALS

- **Revenue.** We expect a strong revenue growth rate due to increases in the number of technology products licencees, advertisers, premiere commerce partners, and Web site traffic. Advertising and technology products revenues should continue to grow with annual growth rates of approximately 150% and 50%, respectively. We believe that advertising revenue will take the lead and start making up for the majority of revenues by the end of this year (see Income Statement below). This should also result in higher gross margins

- **Research and Development Margin.** Since the core of its technology has already been developed, we believe that the research and development margin will continue to decrease.

- **Sales and Marketing Margin.** We expect Mpath's sales and marketing margin to continue to be high as the company competes for developing brand name recognition and market share, and seeks alliances with well-established companies.

- **General and Administrative Margin.** General and Administrative margins should drop because the core of their infrastructure is already set up.

- **Net Income**. We expect Mpath Interactive, Inc. to continue to loose money for the foreseeable future.

Mpath Interactive, Inc. Statement of Income)					
($000, except per share data)					
Year Ending December 31,	**1996**	**1997**	**1998**	**1999E**	**2000E**
Net Revenues	124	2727	8027	14000	32000
Cost of revenues	125	2428	3011	6000	11000
Gross profit (Loss)	-1	299	5016	8000	21000
Operating expenses:					
Research and development	5261	2436	3132	8000	12000
Sales and marketing	3937	6906	7847	15000	39000
General administrative	2877	2841	3274	6000	11000
Stock based compensation	383	1676	2601	4000	4000
Write-off of aquired intangibles	12876	0	0	0	0
Total operating expenses	25334	13859	16854	33000	66000
Loss from operations	-25335	-13500	-11838	-25000	-45000
Interest and other income (expense),net	291	-93	-111	2000	2500
Loss before provision for income taxes	-25044	-13653	-11949	-23000	-42500
Provision for income taxes	-1	-1	-2	0	0
Net Income (Loss)	-25045	-13654	-11951	-23000	-42500
Pro forma diluted EPS			-0.94527	-1.15	-1.84783
Number of shares (for pro forma calculation)			12643	20000	23000
Margin Analysis (%age of revenue)					
Gross Margin	-1%	11%	62%	57%	66%
Research and development	4243%	89%	39%	57%	38%
Sales and marketing	3175%	253%	98%	107%	122%
General administrative	2320%	104%	41%	43%	34%
Growth					
Net Revenue	N/A	2099.19%	194.35%	74.41%	128.57%

VALUATION and INVESTMENT OPINION

All of the web-based communities are still unprofitable to date and their future performance largely relies on their alliances with larger Internet companies. Therefore, in this case price to earnings ratios and discounted cash flow models cannot be accurately used to assess valuations. However, other ratios such as price to sales can be used to compare these companies. Other pertinent factors, such as revenues, margins, sector leadership, and strategic alliances are crucial in the assessment of the relative value of a web-based community. We believe that an emphasis on the aforementioned factors can be used to determine the valuation of a company.

Price-to-Sales. The price to sales ratio of Mpath is approximately 23, which we believe it to be fairly valued for a specialized community like MPTH. For example, iVillage.com (IVIL), the leading women's network, is trading with a P/S ratio of 26 and SportsLine (SPLN), a sports' network, trades with a P/S of 13 and both of them have lower gross margins than MPTH.

A Relative Approach To Valuation

Stock	Recent Price	Market Value	Q/Q Growth%	P/S	Gross Margin	Key Metric	Price(million)/ Millions of page views per month
IVIL	35	852.85	10%	26.78	30.45%	102 million page views per mth	8.36
SEEK	31	1,939.2	-2%	13.53	16%	45 million page views per day	1.4
LCOS	44.75	3,904.8	15%	28.51	79.76%	60 million page views per day	2.2
YHOO	155	40,144	13%	110.13	85.02%	235 million page views per day	5.69
SPLN	24.5	557.35	19%	12.48	48.53%	8.8 million page views per day	2.1
STRM	44	2,517.7	-51%	70.5	100%	60 million page views per month	41.96
TGLO	10.62	281.88	14%	14.81	58.38%	10.2 million visitors per month	27.6
XMCM	37.62	682.14	26%	26.9	55.8%	6.9 million members	Lower than 100

Investment Opinion

We believe that Mpath is well positioned to remain at the forefront of the Web-based communities sector. Mpath's technology products, its end-to-end communities software solution, in combination with its niche communities, Mplayer.com and HearMe.com, have given it a unique position. We believe that Mpath's technology innovation capabilities and strategic alliances with leading Internet companies, such as Yahoo!, Infoseek, Xoom.com, Excite and Macromedia reflect Mpath's value and potential. We also believe that the future of Mpath lies in the success of these alliances and the expansion of such types of alliances.

In our opinion, Mpath shares are currently fairly valued and we expect them to appreciate in line with its revenues growth in the long term. As it represents a potentially high return on investment we give Mpath an ACCUMULATE recommendation.