

**Aptimus, Inc. (APTM)**

**Buy**

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**Acquisition Should Increase Monetization Rates and Accelerate Path To Profitability; Reiterate Buy**

**Key Metrics**

Price:	\$7.64
Rating:	Buy
52-Week Range:	\$4.34-15.67
Cash (M):	\$3.9
Debt (M):	\$0
Debt/Capital:	NM
Book Value/Share:	\$1.54

**Market Data**

Market Cap (M):	\$57
Enterprise Value (M):	\$53
Shares Out. (M):	7.5
Float (M):	5.1
10-Day Avg. Vol.:	26,000
Institutional Ownership:	34.5%

**Stock Performance**



Source: BigCharts.com

**Valuation (FY06)**

EV/Sales:	3.2x
PEG Ratio:	NM

**Company Description**

*Aptimus is a performance-based online advertising network. It offers marketers a platform to present their offers across an audience of website and email distribution channels. For website distribution partners, it generates revenues and aims to promote compelling offers from quality brands that complement its partners' sites and add value for its customers.*

**Investment Conclusion**

Aptimus acquired High Voltage Interactive, a lead-generation company focused on the education vertical for \$7.5M or less than 1.0x forward sales for a profitable company, which is attractive considering that APTM trades at EV/sales of 2.1x (2007). High Voltage should be a nicely accretive acquisition, should increase revenues in 2007 by nearly 50%, accelerate path to profitability, and should effectively lower valuation multiples for the consolidated entity.

**Summary**

• **Financial impact.** The acquisition is expected to add at least \$1M to 3Q06 revenues and \$2M in 4Q06; this would increase Aptimus' revenues by more than 50% in 4Q06. We believe that the acquisition should add \$8.6M in revenue in FY07 (but likely more with sales synergies), and be accretive to EBITDA. Aptimus also reiterated its organic growth projections for 3Q06 of at least 10% Q/Q.

• **Strategic fit — marrying traffic with advertiser base.** Aptimus has the traffic (especially with AOL in the network now) and the acquisition adds more advertisers, which should lift Aptimus' monetization rates (revenue per thousand page impressions).

• **Raising estimates.** We believe that our revenue estimates in FY07 have further upside from AOL and the acquisition, but also from the upcoming launch with another undisclosed top-five web property in the United States. See page 2 for details.

• **Valuation.** APTM trades at EV/sales of 1.8x (2007) — down from the 2.1x where it traded prior to the acquisition. With FY07 revenues projected to grow 55% organically, plus contribution from the acquisition and more upside likely from AOL and other publisher sign-ups, we believe Aptimus could see expansion in valuation multiples. The recent signing of the AOL agreement also gave us renewed confidence in the company's value proposition and technology edge in the marketplace.

**MCF Estimates**

	FY05A	FY06E		FY07E	
		Prev		Prev	
SALES (M)					
1Q	\$3.9	\$3.0	\$3.0	—	—
2Q	4.5	3.2	3.2A	—	—
3Q	3.9	3.5	4.5	—	—
4Q	3.7	3.9	5.9	—	—
<b>FY (Dec)</b>	<b>\$15.9</b>	<b>\$13.6</b>	<b>\$16.6</b>	<b>\$21.0</b>	<b>\$29.6</b>
EV/S	3.4x	3.9x	3.2x	2.5x	1.8x
EPS					
1Q	\$0.09	(\$0.08)	(\$0.08)	—	—
2Q	0.12	(0.07)	(0.07)A	—	—
3Q	0.00	(0.08)	(0.09)	—	—
4Q	(0.04)	(0.09)	(0.08)	—	—
<b>FY (Dec)</b>	<b>\$0.18</b>	<b>(\$0.33)</b>	<b>(\$0.33)</b>	<b>(\$0.20)</b>	<b>(\$0.19)</b>
P/E	NM	NM	NM	NM	NM

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Please see important disclosures at the end of this report

Estimate Changes

(\$ in millions, except per share data)

	FY05 Act	FY06E		FY07E	
		Old	New	Old	New
<b>Revenues</b>	<b>15.9</b>	13.6	<b>16.6</b>	21.0	<b>29.6</b>
Y/Y Change	14%	-14%	4%	55%	78%
Operating expenses	14.9	16.7	19.9	23.1	32.0
Operating profit (loss)	1.0	(3.1)	(3.3)	(2.1)	(2.3)
<b>Net profit (loss)</b>	<b>1.4</b>	(2.8)	<b>(3.0)</b>	(1.9)	<b>(2.3)</b>
<b>Adjusted diluted EPS</b>	<b>\$0.18</b>	(\$0.33)	<b>(\$0.33)</b>	(\$0.20)	<b>(\$0.19)</b>
<b>Adjusted EBITDA</b>	<b>1.5</b>	(2.0)	<b>(1.7)</b>	(0.9)	<b>(0.2)</b>
Adjusted EBITDA margin	9%	-15%	-10%	-4%	-1%

Source: company reports and MCF & Co. estimates

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**Aptimus Inc**

Consolidated Income Statement  
(\$ in thousands, except per share)

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06E	4Q06E	FY04	FY05	FY06E	FY07E
<b>Revenues</b>	<b>3,852</b>	<b>4,483</b>	<b>3,879</b>	<b>3,680</b>	<b>2,959</b>	<b>3,186</b>	<b>4,528</b>	<b>5,932</b>	<b>13,993</b>	<b>15,894</b>	<b>16,605</b>	<b>29,636</b>
Y/Y Change	113%	51%	-13%	-23%	-23%	-29%	17%	61%	206%	14%	4%	78%
Operating expenses:												
Sales and marketing *	725	735	1,016	1,122	1,099	1,199	1,549	1,774	2,316	3,598	5,621	7,596
Connectivity and network costs *	211	209	186	259	204	223	257	292	812	865	975	1,314
Cost of revenues	1,466	2,036	1,986	1,828	1,363	1,607	2,355	3,262	6,262	7,316	8,587	16,835
Research and development *	167	158	169	164	180	217	227	238	615	658	862	1,067
General and administrative *	558	458	492	496	623	434	549	669	1,564	2,004	2,275	2,976
Depreciation and amortization	65	85	101	105	99	102	263	274	255	356	738	1,203
Loss (gain) on disposal of long-term assets	-	-	-	95	1	-	-	-	-	95	1	-
Stock-based compensation	-	-	-	-	235	126	248	248	-	-	857	992
Total operating expenses	3,192	3,681	3,950	4,069	3,804	3,908	5,447	6,756	11,825	14,892	19,916	31,984
Operating profit (loss)	660	802	(71)	(389)	(845)	(722)	(919)	(825)	2,168	1,002	(3,311)	(2,347)
Interest expense	-	-	-	-	-	-	-	-	(34)	-	-	-
Interest income	21	58	81	101	105	109	50	26	(8)	261	290	47
Gain on warrant liability	-	89	-	-	-	-	-	-	-	-	-	-
Provision for taxes	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net profit (loss)</b>	<b>681</b>	<b>949</b>	<b>10</b>	<b>(288)</b>	<b>(740)</b>	<b>(613)</b>	<b>(869)</b>	<b>(799)</b>	<b>2,126</b>	<b>1,352</b>	<b>(3,021)</b>	<b>(2,300)</b>
Basic EPS	\$0.11	\$0.15	\$0.00	(\$0.04)	(\$0.11)	(\$0.09)	(\$0.13)	(\$0.12)	\$0.38	\$0.22	(\$0.46)	(\$0.33)
<b>Adjusted diluted EPS</b>	<b>\$0.09</b>	<b>\$0.12</b>	<b>\$0.00</b>	<b>(\$0.04)</b>	<b>(\$0.08)</b>	<b>(\$0.07)</b>	<b>(\$0.09)</b>	<b>(\$0.08)</b>	<b>\$0.30</b>	<b>\$0.18</b>	<b>(\$0.33)</b>	<b>(\$0.19)</b>
EPS growth rate		208%	-99%	-128%	-183%	-160%	-7289%	120%	NM	-39%	-282%	-42%
Basic shares	6,005	6,420	6,469	6,505	6,530	6,536	6,616	6,697	5,630	6,350	6,595	6,905
Diluted shares	7,342	7,704	7,663	7,700	7,300	7,300	7,500	7,550	7,182	7,602	7,413	7,675
<b>EBITDA</b>	<b>725</b>	<b>887</b>	<b>30</b>	<b>(189)</b>	<b>(510)</b>	<b>(494)</b>	<b>(408)</b>	<b>(303)</b>	<b>2,423</b>	<b>1,453</b>	<b>(1,715)</b>	<b>(152)</b>

	1Q05	2Q05	3Q05	4Q05	1Q06	2Q06	3Q06E	4Q06E	FY04	FY05	FY06E	FY07E
<b>Common size statement</b>												
Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Operating expenses:												
Sales and marketing	19%	16%	26%	30%	37%	38%	34%	30%	17%	23%	34%	26%
Connectivity and network costs	5%	5%	5%	7%	7%	7%	6%	5%	6%	5%	6%	4%
Partner fees	38%	45%	51%	50%	46%	50%	52%	55%	45%	46%	52%	57%
Research and development	4%	4%	4%	4%	6%	7%	5%	4%	4%	4%	5%	4%
General and administrative	14%	10%	13%	13%	21%	14%	12%	11%	11%	13%	14%	10%
Depreciation and amortization	2%	2%	3%	3%	3%	3%	6%	5%	2%	2%	4%	4%
Equity-based compensation	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Restructuring costs	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total operating expenses	83%	82%	102%	111%	129%	123%	120%	114%	85%	94%	120%	108%
Operating profit (loss)	17%	18%	-2%	-11%	-29%	-23%	-20%	-14%	15%	6%	-20%	-8%
Interest expense	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Interest income	1%	1%	2%	3%	4%	3%	1%	0%	0%	2%	2%	0%
<b>Net profit (loss)</b>	<b>18%</b>	<b>21%</b>	<b>0%</b>	<b>-8%</b>	<b>-25%</b>	<b>-19%</b>	<b>-19%</b>	<b>-13%</b>	<b>15%</b>	<b>9%</b>	<b>-18%</b>	<b>-8%</b>

Source: MCF & Co. estimates and company reports

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### Aptimus Inc

*Consolidated Balance Sheet*  
(\$ in thousands, except per share)

	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06	Jun-06
<b>ASSETS</b>							
Cash and cash equivalents	3,610	9,391	9,640	7,259	4,349	998	1,176
Accounts receivable, net	2,857	2,539	3,315	2,738	2,498	2,085	2,398
Prepaid expenses and other assets	130	122	158	195	140	173	141
Short-term investments	-	-	-	3,015	6,091	9,227	8,725
<b>Total current assets</b>	<b>6,597</b>	<b>12,052</b>	<b>13,113</b>	<b>13,207</b>	<b>13,078</b>	<b>12,483</b>	<b>12,440</b>
Fixed assets, net of accumulated depreciation	549	648	719	680	690	661	935
Intangible assets, net	15	10	149	137	20	8	8
Deposits	45	37	37	38	39	39	39
<b>Total assets</b>	<b>7,206</b>	<b>12,747</b>	<b>14,018</b>	<b>14,062</b>	<b>13,827</b>	<b>13,191</b>	<b>13,422</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Accounts payable	1,375	650	846	489	1,016	817	855
Accrued and other liabilities	631	401	568	826	325	371	1,052
<b>Total current liabilities</b>	<b>2,006</b>	<b>1,051</b>	<b>1,414</b>	<b>1,315</b>	<b>1,341</b>	<b>1,188</b>	<b>1,907</b>
Common stock warrants		955	-	-	-	-	-
<b>Total liabilities</b>	<b>2,006</b>	<b>2,006</b>	<b>1,414</b>	<b>1,315</b>	<b>1,341</b>	<b>1,188</b>	<b>1,907</b>
Commitments and contingent liabilities (note 9)							
Common stock	63,495	69,018	69,066	69,199	69,223	69,245	69,245
Additional paid-in capital	2,644	1,981	2,847	2,847	2,850	3,085	3,210
Accumulated deficit	(60,939)	(60,258)	(59,309)	(59,299)	(59,587)	(60,327)	(60,940)
<b>Total shareholders' equity</b>	<b>5,200</b>	<b>10,741</b>	<b>12,604</b>	<b>12,747</b>	<b>12,486</b>	<b>12,003</b>	<b>11,515</b>
<b>Total liabilities and shareholders' equity</b>	<b>7,206</b>	<b>12,747</b>	<b>14,018</b>	<b>14,062</b>	<b>13,827</b>	<b>13,191</b>	<b>13,422</b>

Source: MCF & Co. estimates and company reports

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Rating	Percent of Universe	No. of Stocks	Description	Percent of companies under research coverage from which MCF & Co. received compensation for investment banking services provided in the previous 12 months or expects to receive or intends to seek in the next three months
Buy	71%	127	MCF & Co. expects the stock price to appreciate 10% or more over the next 12 months. Initiate or increase position.	12%
Neutral	28%	51	MCF & Co believes the stock price is fairly valued at current levels. Maintain position or take no action.	4%
Sell	1%	2	MCF & Co. expects the stock price to depreciate over the next 12 months. Sell or decrease position.	0%

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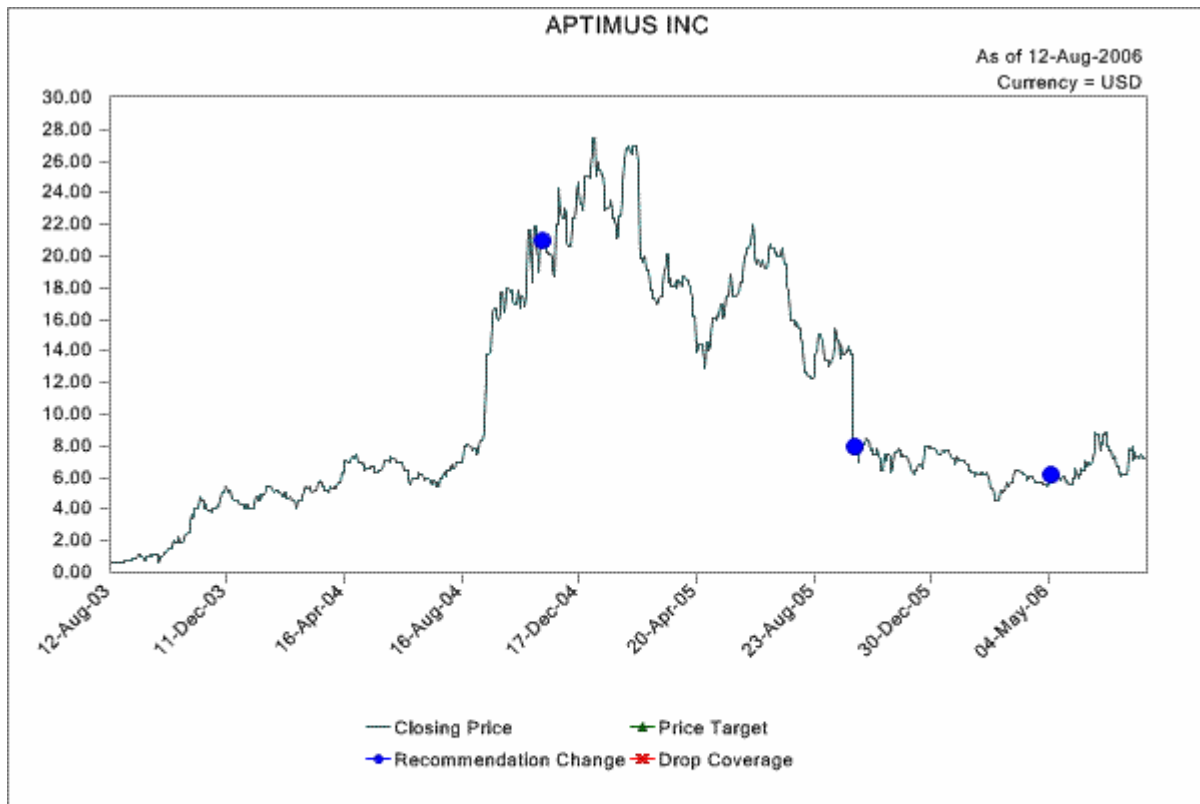
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**APTIMUS INC**

Currency = USD

Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
05-May-2006	6.14	BUY			
07-Oct-2005	7.95	NEUTRAL			
05-Nov-2004	21.00	BUY			