

May 9, 2011

Onstream Media Corporation

(NASDAQ: ONSM)

MarketPlace365™ Launch – Transformational Event

Symbol and Price:	ONSM \$1.20	(FY ends 9/30)	<u>FY2009</u>	<u>FY2010</u>	<u>1Q</u>
52-Week price range:	\$0.72 - \$2.24				(12/31/10)
Shares Outstanding (mil):	9.4	Digital Media Services	\$7,741	\$7,752	\$1,950
Market Capitalization (mil):	\$13.2	Audio/Web Conferencing	<u>9,187</u>	<u>8,833</u>	<u>2,287</u>
% Held by Insiders:	13.1%	Total Revenues	16,585	16,627	4,237
Avg. Daily Shares Traded:	163,000	Gross Profit Margin	67.5%	67.1%	66.7%
L-T Debt (12/31/10) (000)	\$815.6	Net Income (000):	(11,840)	(9,281)	(898)
SH Equity (12/31/10) (000)	\$11,723.0	EPS	(\$1.65)	(\$1.23)	(\$0.10)

Overview

ONSM remains a leading online service provider of live and on-demand Internet video, corporate audio/web communications and content management applications. Recent events could be transformational.

It appears that ONSM may be entering a period of significant growth owing mainly to the recent launch of the virtual tradeshow product, **MarketPlace365™** (MP365). For the stock, we believe a positive inflection point may be reached when investors start to focus on accelerating revenues from this product later this year. Based on contracts currently in hand, management believes sales from MP365 could roughly double the company's revenues over the next 18-24 months.

MP365 combines the many aspects of ONSM's communications and related technology expertise into a multi-dimensional platform. This product should generate gross margins of more than 85%, high recurring revenues and strongly positive cash flow. Since ONSM's overhead expenses are largely absorbed by the core business, **management expects MP365 sales to largely drop to the bottom line.**

ONSM's current market capitalization is less than 1x current revenues. In March, **Polycom, Inc. (PLCM)** acquired Onstream competitor **Accordent Technologies** for \$50 million in cash, which equates to over 5 times revenues. This is an encouraging sign for ONSM shareholders, especially in view of the exciting potential of MP365.

D. H. Talbot

ONSM as of May 9, 2011



Executive Summary

- Onstream is a leading service provider of live and on-demand Internet video, corporate audio and web communications to a blue chip customer base of over 5,000 clients. This core (legacy) business generates roughly \$17 million in annual revenues and supplies the technologies and infrastructure that support new initiatives like of MP365.
- Financial performance is improving with positive cash flow projected over the balance of FY2011 and revenues from new products starting to gradually build. Management estimates that MP365 could double company revenues within the next 18-24 months.
- The virtual tradeshow and conference market is growing at 45-50% and is expected to exceed \$18 billion by 2015. A virtual event has a big economic advantage over its land-based cousin because it is open for business 24/7/365 and attracts global audience.
- ONSM is the only publicly-traded small cap stock in the virtual tradeshow space and the only small company that is vertically-integrated ---- a big cost and logistical advantage over its competitors.
- According to information provided by ONSM management, MP365 offers a new search engine alternative that is less costly than the industry norm and generates more qualified sales leads. MP365 has built-in search engine optimization (SEO) capabilities that help show organizers drive highly qualified traffic to the show and ultimately to its exhibitors.
- MP365 is a potential magnet for social networking. By aggregating all of the major social networking sites, user groups, newsrooms, blogs, and chat rooms in one vertical market online community, MP365 has the ability to leverage all of the components of each of these social networking sites in one specific vertical market.

Virtual Conference and Tradeshow Market

According to a survey by **Market Research Media**, the current virtual tradeshow and conference market approximates \$4-5 billion and will soar to over \$18 billion by 2015. Statistics on the percentage of tradeshow and conference groups that have “gone virtual” are not available, but ONSM management believes penetration is no more than high single digits at this stage.

A tradeshow that might generate \$3 million in revenues could conceivably generate \$6 million or more as a virtual event for the obvious reasons that it would be open for business 24/7/365 and could attract a vast audience from across the worldwide web.

Virtual tradeshows and conferences are not so much a threat to land-based events as they are a highly attractive way to enhance the commercial and social media potential.

- For attendees, virtual tradeshows offer a single location for organized content on specific subject that is current and relevant, efficient use of time, stay-at-home convenience, avoidance of travel, and opportunities to social network with industry experts and other attendees.
- For promoters, virtual tradeshows can generate significant recurring revenues, and provide a platform for establishing a social community in their respective fields in addition to building membership.
- For exhibitors, virtual tradeshows offer extremely low-cost lead generation and improved search engine visibility (SEO).

Base revenues for virtual events are generated by rent paid by exhibitors or merchants for booths and storefronts. Additional revenues come from sponsorships, billboard advertising, marketing services, and pay-per-view. The more the sponsor promotes and expands the venue, the more the revenue opportunities grow.

The following table shows the revenue and profit opportunity of a virtual conference using the ONSM model with an average booth rental fee of \$500/month. These projections exclude advertising and related activities that can double the revenue totals. ONSM derives a commission of 30% on booth rental revenues and 15% on other revenues, which is usually paid via credit card on a monthly basis.

	Promoter Benefit		
	Profit Opportunity per MarketPlace365		
Booths	<u>100</u>	<u>500</u>	<u>1,000</u>
Monthly Revs/Booth	\$500	\$500	\$500
Annual Revenues	\$600,000	\$3.0 m	\$6.0 m
Annual Gross Profit	\$420,000	\$2.1 m	\$4.2 m

Source: Company published information

Note: management estimates that startup usually takes 9-12 months from contract signing to the achievement of targeted revenues.

Marketplace 365

According to Wikipedia.org, “the virtual tradeshow” was first publicly described and presented by Onstream’s current CEO Randy Selman in 1993 at an investor conference in New York City. Over the past 15 years, ONSM has created virtual event/streaming video technologies that are now central components to their webcasting and Digital Media Services divisions, and provide the platform for MP365.



ONSM is the only vertically-integrated company in the sector. This is a cost-advantage over competitors like **INEXPO**, **6Connex**, **ON24** and **Unisfair** that depend on outside suppliers for critical components of their virtual systems.

Other important features of the MP365 program are as follows.

- **No rental fees during startup phase.** In order to encourage rapid adoption, ONSM does not charge any fees until the marketplace goes commercially live, and its virtual booth rental rates average of only \$500 per month -- as compared with as much as tens of thousands of dollars for large displays at a 3-4 day land-based tradeshow.
- **Low cost, rapid setup.** MP365 enables show organizers, publishers, associations and entrepreneurs to rapidly and cost-effectively self-deploy and manage their own online tradeshow year round. MP365 delivers valuable lead generation for the exhibitor while striving to create a compelling social media experience for the attendee.
- **User-friendly drag-and-drop interface.** Promoters and exhibitors can constantly update their multi-media information contained in MP365 that is facilitated by a user-friendly drag-and-drop interface that does not require technical knowledge.
- **MP365 venues and booths can support an engaging experience for visitors:** real-time events such as webcasts and conferences; visitor participation via discussion groups; streaming for video and audio presentations; and downloading for white papers, brochures and other collateral materials.

- **ONSM’s search engine optimization (SEO) techniques automatically can improve placement in search engine results.** Visitors are attracted to MP365 by ONSM’s promotional programs and targeted ad placements. As more exhibitors or merchants sign up, the more multi-media content is generated and the more this effect can be multiplied. On this basis, a marketplace has the potential to create an ever-increasing attraction to anyone who is interested in related products or information.
- **“Dynamic Aisle Creation”.** By entering enter a key word search for a product or service of interest, MP365 will then display the resulting booths related to the search criteria and, with the click of a button, automatically arranges those specific booths into a customized aisle. This is a compelling feature for large events where there may be many hundreds of booths spread over hundreds of thousands of square feet of floor space.
- **Trade Show News Network.** ONSM recently announced a partnership with Trade Show News Network to develop a Virtual Marketplace (Tradeshaw Connect) targeting their base of 21,000 trade show organizers and 2,000 industry suppliers.

MP365 Vs. Search Engine Marketing

Search Engine Marketing. One of the more popular means of attracting potential customers is through search engine marketing (a.k.a. pay-per-click advertising or SEM). According to ONSM management, this typically costs the average organization thousands of dollars per month.

A company pays the search engine group to deliver people to their website as a result of them entering a specific key word, such as “insurance”, and clicking on the company’s advertisement. Depending upon the popularity of the keyword, this can cost a business anywhere from \$1 to \$50 per click. But the total cost is much higher because on average only about 4% of individuals that click through to a destination actually turn out to be viable sales leads for the advertiser.



With a price-per-click of \$10, for example, if a company spends \$10,000 a month with a conversion rate of 4%, the company would obtain 40 qualified leads. This would translate to a cost of \$250 to obtain a single lead. This is a substantial amount of money, yet most businesses must resort to such an approach because there are few viable, known SEM alternatives.

MP365 as a potentially less costly and more productive alternative. MP365 has built-in search engine optimization (SEO) capabilities that help show organizers drive highly qualified traffic to the show and ultimately to its exhibitors. As the marketplace becomes more relevant (in relation to a specific key term) in the eyes of a search engine, the cost per click is driven down. Moreover, utilizing a small contribution from the revenues generated from each of the shows' exhibitors and sponsors, a show organizer has more money to spend in the aggregate on key search terms --- with a goal of driving more traffic back to the overall marketplace.

In addition, ONSM management points out that visitors to the marketplace will likely visit more than one booth, thus lowering the per lead cost for exhibitors. This contact information is shared with the appropriate exhibitors via the show's automatically generated lead report, offering more qualified leads and visibility into booth visitors. Management estimates that the combination of the SEO, keyword relevance, collective purchasing power, and multiple booth visits can drive down the cost per lead by 90% or more, for both the organizer and the exhibitor.

Marketplace365 as a Search Engine

Studies show that a very high percentage of search engine results are irrelevant. For example, as ONSM management points out, entering the key words "health insurance" into Google, you garner 127 million results. We understand the reasons for this avalanche are as follows:

- Much of today's Internet content is peppered with search engine optimization (SEO) elements (i.e. keyword tags) in order to appear high on search engine results pages.
- The advent of "content farms" (topic/industry-specific websites that aggregate content from related websites into one page to better attract search engines) is creating millions of pages of web content with little or no value.
- The same holds true for paid-for listings (SEM).

As a consequence, search results on the Internet are becoming less relevant and less useful, often leaving consumers without viable destinations for the rich content they are seeking.

With MP365, hundreds or even thousands of like-minded vendors, subject-matter experts, content publishers, offering related products and services, all congregate in one location, under a single marketplace URL. When web surfers click on a link to the marketplace, they are presented with access to vendors, social media forums and other relevant information. When visitors search within the marketplace (using the keyword search tool), they can drill down in terms of the content and vendors they are seeking. On the open Internet, comparable research would be impossible.

Another aspect of using MP365 for vertical market research is that all content and sources are homogenously accessed. All booths use the same metaphor in terms of information presentation, layout, multi-media access, click patterns, terminology, etc. Once the user learns how to navigate a booth or show for content once, he/she can use the same approach throughout the site for even easier and faster navigation.

Outside of MP365, consumers do not enjoy these same luxuries. They must troll through hoards of disparate sites (many irrelevant), only to find a fraction of what they are really seeking. These different destinations typically have varying styles of navigation, terminology, information presentation, and so on. This slows the research process and can hinder discovery of pertinent content.

A MP365 successfully aggregates a broad range of relevant content for the consumer, including rich media, white papers, brochures, presentations, subject matter experts and more, all in one place. Moreover, management believes that the depth of the content is much greater, as countless ancillary sources are at one's fingertips when inside the marketplace. Conceivably, visitors do not have to leave the show to find all of the information and material they are looking for.

As a result, MP365 has the potential to become the recurring destination of source material on a given vertical market. Visitors can go back to the specific marketplace again and again for additional material without having to again resort to the arduous process of scouring the Web via misdirected search engine listings. Also, once the results are found, MP365 allows the user to socialize the results with other attendees and subject matter experts in order to verify and confirm the results.

Aggregating the Power of Social Media

One of the fundamental aspects of MP365 is its designed accommodation of social networking. By aggregating all of the major social networking sites, user groups, newsrooms, blogs, RSS feeds, and chat rooms in one vertical market online community, MP365 has the ability to leverage all of the components of each of these social networking sites in one specific vertical market.

International Master Agent Licensing Program

During fiscal 2011, in order to extend its global reach, ONSM plans to launch an international MP365 Master Agent Licensing Program. Although all of the terms have not been finalized, preliminary indications are as follows:

- ONSM will seek qualified Master Agents who are in a position to rapidly deploy the **MP365** solution throughout their assigned territory
- Ideal candidates include: Major Trade Show Organizers and Mangers, Publishers, and companies that service the trade show industry
- Total limited to 25 Target Markets outside the US and Canada

MarketPlace365™
Summary of Benefits

Promoter:

- **Significant Recurring Revenue**
 - Booth fees
 - Advertising fees and Sponsorships
 - Fees for marketing tools
 - Communications fees
 - Lead fees
- **Quality User Experience**
- **Establish Itself as the Social Community and Subject Matter Expert**
- **Owns Expanding Profiles and Behavioral Databases on Visitors (Attendees)**

Exhibitor:

- **Low-Cost Lead Generation**
- Highly qualified leads
- Lead profiling
- Lead nurturing

- **Improved Search Engine Visibility (SEO)**
- For their marketplace participation
- For their own website

- **Collective Purchasing of Services**
- Pay Per Click SEO
- Chat services
- Email marketing

Attendee:

- Single Location for Organized Content on Specific Subject that is Current and Relevant
- Efficient Use of Time
- Eliminates Travel and Other Expenses
- Business Opportunities
- 24/7 365 Availability
- Training and Education
- Social Networking with Experts and Other Attendees



Base (Legacy) Business

ONSM is a leading online service provider of live and on-demand Internet video, corporate audio and web communications and content management applications.

ONSM has a diversified, blue chip customer base of over 5,000 customers, and over 750 Fortune 1,000 companies have used ONSM products or services. The customer base includes 800 media and entertainment companies and over 20 Federal and state government agencies. The legacy business generates gross margins of 66-68% (excluding MP365) and positive cash flow is projected starting this fiscal year.

Digital Media Services Group

(47% of revenues)

	<u>Encoding</u>	<u>DMSP</u>	<u>Webcasting</u>	<u>Other</u>	<u>Total</u>
FY2010 Revenues (000)	\$1014	\$1,024	\$5,741	83	\$7,861

The Digital Media Services Group consists of the Webcasting division and the DMSP (“Digital Media Services Platform”) division.

Webcasting

This division is one of ONSM’s largest, hosting over 8,000 webcasting events annually for roughly 2,000 clients and 60 reseller groups. Group revenues are comprised mainly of fees for hosting/storage, search/retrieval and distribution/streaming of digital assets as well as encoding and production fees.

Key Features and Benefits of ONSM’s Webcasting Solution:

- **Control Panels:** Allows for separate host, presenter and attendee views that enable hosts to manage meeting functions behind the scenes.
- **In Person Audio and Video:** Enables users to stream video in real-time for face-to-face meetings and to talk in real time or save for rebroadcasts on-demand.
- **Polling, Results & Q&A:** Allowing for participant participation, confirmation, hand-raising, and moderated questioning and answering sessions.

- **Collaboration:** The ability to view, share, annotate, and comment for all to see.
- **Recording:** Save meetings and presentations for future playback.
- **Scalable:** Supports virtually unlimited number of attendees.
- **Language:** Conduct meetings in the language of a user's choice.
- **Platform Support:** Windows, MAC, Linux and Solaris.
- **Secure Encryption:** Ability to hold meetings in confidence within secure environments.

British Telecom. Under a strategic global reseller agreement, BT Conferencing offers ONSM's webcasting services to its clients through its global sales organization of over 180 agents. BT Conferencing is one of the largest telecommunications companies in the world operating in over 170 countries. Customers range from large multi-national companies to small and medium enterprises. Four of the 10 largest enterprise users of conferencing are customers of BT Conferencing, along with nearly 20% of the Fortune 100 companies in North America. BT Conferencing is the foremost player in the UK conferencing services market and the leading supplier of video conferencing services worldwide. This relationship provides ONSM with significant opportunity for penetration within large enterprises and foreign markets.

Digital Media Services Platform

ONSM simplifies the process for companies and organizations to share data, video, and voice assets with co-workers, customers, partners and investors. The company enables customers to streamline the entire process of rich media management, lower storage and streaming costs, enable customers to retrieve, preserve, locate, edit, share and distribute digital assets on command. Currently, there are approximately 400 companies using utilizing Onstream's Digital Media Services platform. The DMSP can be summarized as follows:

Full-service, web-based publishing solution

- Archives, manages, monetizes ever-increasing base of digital media assets through advanced search capabilities

Key Benefits:

- Aggregates, automates, simplifies workflows
- Allows more time for content creation and monetization vs. cost-consuming administrative tasks
- Centralizes and automates functions into one highly intuitive, easy-to-use tool
- Results in greater productivity and profitability potential
- *Targeted to non-tech savvy users*

Audio and Web Conferencing Group
(53% of total revenues)

	<u>Infinite</u> <u>Conferencing</u>	<u>EDNet</u> <u>Usage</u>	<u>EDNet</u> <u>Equipment</u>	<u>Total</u>
FY 2010 Revenues (000)	\$6,832	\$1,876	\$124	\$8,833

Infinite Conferencing

This division operates primarily from the New York City area and provides “reservationless” and operator-assisted audio and web conferencing services.

Infinite’s best-in-class support has made it one of the leading providers of conferencing and virtual events in North America. In March 2011, Infinite was rated the #1 conferencing company by *Top Ten Reviews*. Infinite offers a wide range of capabilities and features that help any business organization hold effective presentations supporting up to 1,000 participants at a time.

Infinite has grown to serve more than 2,500 direct customers, not including over 10,000 indirect customers through their agents and affiliates. Infinite integrates the industry’s best technologies for each customer’s specific need and delivers it as a service via the company’s commitment to providing quality support.

Key Benefits

- Infinite's core focus is helping small to medium-sized businesses gain access to global, tier one conferencing services previously only available to the world's largest organizations.
- Infinite offers the industry's only true end-to-end, white-glove virtual event management services, tailored to a businesses specific needs and requirements.
- Infinite can customize and brand every aspect of an audio & web-based conference - from dial-in numbers to web conference logins and more.
- Backed by one of the world's most reliable and scalable global conferencing infrastructure providers--BT Conferencing, Infinite can offer its clients the highest levels of resiliency possible to ensure service continuity.

EDNet

This long-standing division provides connectivity within the entertainment and advertising industries through its San Francisco based managed network, which encompasses production and post-production companies, advertisers, producers, directors, and talent. EDNet is a private network for collaboration and transport of digitized audio and video, which is used by over 600 clients in the media and entertainment industry. **Select EDNet clients include:**

TV Shows

Simpsons, Letterman, Human Target, CSI -Miami and NY, NCSI, Fringe, Body of Proof, Medium, Mad Men, Parenthood, Desperate Housewives, True Blood, Borgias, Clone Wars, Oprah

Movies

Tron, Salt, Cars 2, Toy Story 3, Scream 4, Secretariat, I am Number Four, How Do You Know, How to Train Your Dragon, Burlesque, Lincoln Lawyer, Black Swan, Green Lantern, Shrek”

Advertising

McDonalds, Taco Bell, KFC, Wendy’s, Pepto Bismol, Best Buy, Old Navy, WalMart, Sears, JC Penny, Macys, Ikea, Kroger, USPS, Match Dot Com, State Farm, Cadillac, Chevrolet, Ford, Chrysler, Mazda, Toyota, Sprint, MasterCard, Home Depot.

Summary Consolidated Balance Sheet
12-31-10

(thousands)	<u>December 31, 2010</u>
Cash	\$137.7
Current Assets	3,089.0
Plant and Equipment, net	2,824.9
Intangibles, net	1,160.9
Goodwill, net	12,396.9
TOTAL ASSETS	19,576.1
Total Current Liabilities	6,881.1
Convertible Debt, net of discount	836.3
TOTAL LIABILITIES	8,066.4
Common Stock	0.9
Additional Paid in Capital	136,151.7
Accumulated Deficit	124,384.5
Shareholders' Equity	11,510.0
Total Liabilities and Shareholders' Equity	\$19,576.1

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