PRESCIENCE POINT
RESEARCH GROUP

Active Network Inc. | ACTV

Recommendation: Strong Sell

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October 31, 2012

The Active Network, Inc. | NYSE: ACTV

We believe shares of The Active Network, Inc. (NYSE:ACTV) are grossly overvalued, reflecting few, if any, of the serious risks that could threaten the company's existence. We believe the company is functionally insolvent and that management has taken to masking the company's weakening financial condition by gaming the accounting. As a result of our concern over the integrity of its financial reporting, we believe Active is at high risk of having to restate its historical financial results. We believe the growth story management has spun to investors is a bill of goods; the real story is between the lines of management share liquidations. ***We believe Active's stock has an intrinsic value today of $2.00 per share, ~75% below current trading levels.***

Research Highlights

Conclusion:	Strong Sell
Current Price:	$9.20
Price Target:	$2.00
Downside:	75%
Ticker:	ACTV
Exchange:	NYSE
Basic shares o/s	59.6
In the money options	4.0
Restricted Stock Units	1.7
Fully Dil. Shares	65.3
Market Cap:	$600.0
Unrestricted Cash:	$0.0
Current Debt (1):	$39.8
Enterprise Value:	$639.8

Fiscal Year Ended December 31,
$ in millions

Street Est.	**LTM**	**2012E**	**2013E**
Sales	$381	$428	$503
Adj. EBITDA	$39	$46	$76
Adj. EPS	(3c)	1c	32c

Valuation	**LTM**	**2012E**	**2013E**
EV/Sales	1.7x	1.5x	1.3x
EV/EBITDA	16.5x	14.0x	8.5x
P/EPS	NM	NM	28.4x
P/Tg. Book	32x		

(1) Working Capital Deficit

Red Flag Warning Signs of Functional Insolvency

- We believe Active, riddled with baggage from 40+ acquisitions, is rapidly speeding toward the brick wall of insolvency. The company appears to be hemorrhaging money, while navigating a cash crunch, and gaming its accounting to mask an increasingly fragile financial profile. We believe the company's $98m net cash position is misleading, and that the company has no excess cash. Active's Registration Fees Payable ("RFP") current liability account is effectively a direct claim on and has grown to exceed its cash balance. Signs of a stressed financial position include: Active is burning free cash flow at an alarming rate; it has doubled its line of credit and is drawing on its revolver; it has stretched to the max the time it takes to pay money owed to event organizers; it has deferred cash bonuses and increased stock-based comp far beyond analyst expectations; it has removed its long-standing CEO; and it has become the subject of increasingly frequent customer complaints claiming fraudulently billing practices.

Financial Statements Misleading at Best, Fabricated at Worst

- We believe that management is putting forth a deliberate effort to obscure a decline in its organic growth rate. In the past it had acquired one company after another and, typically, disclosed nothing of basic deal terms or target financials, enabling an undetectable gaming of growth rates and profitability metrics. With no ammo for new deals, it seems to have turned to accounting gimmickry. We believe Active is engaged in a new business practice enabling it to book 'gross' sales, and that it reports these sales as Net Registration Revenue. Each 'gross registration' is typically 7-10x the dollar value of a 'net registration,' and since Active management frequently cites Net Registration Revenue and Revenue Per Net Registration as key metrics of organic growth, we believe the implied purpose of mixing Gross Registration Revenue with Net Registration Revenue is to inflate revenue growth. Disclosures regarding this program have disappeared from Active's filings, but we believe it is a growing source of Net Registration Revenue.
- We have also found other irregularities in Active's financial accounts. In 2012, its RFP account became dislocated from the accounts that drive it. We estimate it is off by $34.8m, and believe this allows the company to appear more solvent.
- It is a red flag that Active has had 5 CFOs since 2004, for an average tenure of just 2.5 years.

Follow the Money! **Insiders are Cashing Out**

- Insiders have been liquidating their shareholdings at a rapid pace. Most concerning, total overall management ownership has fallen from 24.4% pre-IPO to 18.5% immediately post-IPO (one and a half years ago) to 2.3% today. Recently demoted CEO David Alberga and current CEO Matt Landa have liquidated almost their entire stakes. The linkage between shareholder interests and executive wealth is almost completely broken.
- There's still more to grab out of the piggy bank. The Board has a history of rewarding management despite missing incentive performance targets. Further, it recently changed management compensation policies to justify management salary increases of >20%, against the backdrop of shareholders suffering a 40% post-IPO share price decline.

ACTV's Rebranding as a Fast Growth "SaaS/Cloud" Company is Misleading; Shares are Significantly Overvalued

- Active's financial and operational profile look nothing like the high growth and margin profiles of other SaaS companies – gross margins are 1,100 bps lower than peers, while average revenue per employee is 50% lower.
- Active's core markets are maturing, hence the need for persistent acquisitions or accounting gimmickry to meet the Street's lofty growth expectations. Sell-side analysts continue to fall hook, line and sinker into the company's flawed pitch. As a group, they have shown embarrassingly large forecast error since Active came public. We contend that analysts are misguided in awarding the company the high end of SaaS peer multiples, when in reality Active is a collection of mediocre Web 1.0 and business process outsourcing (BPO)-type revenue models deserving a much lower multiple.

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Executive Summary

We believe shares of The Active Network, Inc. ("the company," "Active," or "ACTV"), trading with a $600 million fully diluted market valuation (16.5x LTM EBITDA), are grossly overvalued, reflecting few, if any, of the serious risks that could threaten its existence.[1] In this report we discuss the glaring signs of financial strain that have appeared in the face of declining organic growth. We believe that management has taken to masking the company's weakening financial condition by gaming the accounting and reducing investor disclosures. As a result of our exposure of these issues with Active's financial reporting, we believe it will restate its historical financial results.

We believe the story management has spun in selling investors is a bill of goods; the real story is between the lines of management share liquidations. **We believe Active's stock has an intrinsic value today of $2.00 per share, ~75% below current trading levels.**

Red flag warning signs of functional insolvency – Active, now 13 years old and riddled with baggage from 40+ acquisitions, seems to have morphed into a Frankenstein-like organization on course to collapse under the weight of a functional insolvency. To the naked eye, Active appears to have a strong excess cash position (net cash of $98m); but, its Registration Fees Payable ("RFP") current liability account – effectively a direct claim on that cash – has grown to exceed it. Active is now exhibiting red flag warning signs typical of a company with a stressed financial position:

- It rapidly burned through its strong, post-IPO excess cash position. We believe it now has no excess cash.
- It recently doubled its line of credit in July 2012 with no explanation.
- It deferred management cash bonuses that were to be paid earlier in the year into Restricted Stock Units (RSUs) in August.
- It undertook sudden managerial changes, effectively removing the company's long-tenured CEO, thereby cutting his salary.
- It is the subject of increasingly frequent customers complaints claiming that Active is engaged in fraudulent billing practices.
- It may be having trouble retaining employees, evidenced by dramatic increases in stock-based compensation expenses. Initially expected to be $3.5m for 2012, analysts are now expecting an expense of $15m.
- It has made no cash or equity-based acquisitions YTD, which is at odds with management's prior guidance for acquisitions in 2012 and with the company's historical pattern.
- It has stretched to the maximum the number of days to pay money owed to event organizers, a measure we refer to as Days Due to Customers Outstanding.

Ongoing effort to mask waning organic growth – We believe Active's low organic growth rate is at the root of its strained financial state and that management is putting forth a deliberate effort to obscure its decline. Its modus operandi has been to acquire one company after another and, typically, to disclose nothing of basic deal terms or target financials, enabling an undetectable gaming of growth rates and profitability metrics. With Active out of dry powder for new deals, this is no longer an option. However, we believe management has taken to a new, insidious scheme to mislead investors.

Financial statements misleading at best, fabricated at worst – Active seems to be juicing its Net Registration Revenue, resulting in the appearance of stronger organic growth, and/or manipulating its financial accounts, resulting in the appearance if greater solvency.

In the 2011 10-K (page 43), but not in prior years, Active made a brief disclosure hinting at a potential change in its business practice: It had begun a program of pre-purchasing registrations from event organizers. Based on our research, Active advances those funds to race directors in order to finance events and then books the entire value of these pre-purchases as Net Registration Revenue (when in fact it is clearly 'Gross Revenue'). Each 'gross registration' is typically 7 - 10x the dollar value of a 'net registration', and since Active

[1] Assumes 59.6 basic shares outstanding shares, an additional 4.0m shares from stock options under the treasury stock method, 1.7m shares of unvested restricted stock units, and stock price of $9.20 per share

management frequently cites Net Registration Revenue and Revenue Per Net Registration as key metrics of organic growth, we believe the implied purpose of mixing Gross Registration Revenue with Net Registration Revenue is to inflate revenue growth.

Active appears to be intentionally obfuscating its disclosures around this program, which is internally referred to as "*Active Exchange*", having made no mention of it on its website, press releases, investor presentations, or conference calls. Moreover, in Q1'2012 Active altered its revenue recognition policy, referring to itself as a "merchant of record" (Q1'2012 10-Q, page 24) as opposed to an "agent of event organizers" (Q3'2011 10-Q, page 7). This change may have given Active cover to stop disclosing gross registration sales recorded as Net Registration Revenue; indeed, it has omitted any mention of these transactions from its 2012 filings. However, three clues indicate that Active Exchange is growing to become a material source of the company's revenue: 1) The inventory account, where pre-purchases are held on the balance sheet, is growing quickly; 2) The definition of Cost of Revenue was altered to include inventory costs (3Q 2011, page 7), and gross margins since inception of this program are increasingly under pressure; and 3) Anecdotal conversations with race directors confirm the practice is more prevalent than disclosed.

We emailed management to request more information on September 21, 2012, and did not receive a reply until 6 days later, at which time they informed us the company was in quiet period. A quiet period that begins prior to the end of the quarter? This is the only public company we have encountered that manufactures its own quiet periods!

Based upon our review – and that of an independent accounting expert – of FASB EITF Issue 99-19, we do not believe there is a basis for Active to mix gross and net revenues, as it is acting in differing capacities with clients, and facing different business risks. If new gross registrations have been recorded as Net Registration Revenue in 2012, we believe this could be a cause for a restatement of Active's financial results for each reporting period subsequent to Q2' 2011, when this practice was first disclosed.

Furthermore, we have found other inexplicable irregularities in Active's financial accounts. In 2012, its Registration Fees Payable account has become severely dislocated from the accounts that drive it. The Registrations, Total Due to Customers (Prescience Point estimate), and Registration Fees Payable accounts are all part of the same accounting entry and should be growing at approximately the same rate over the long term. However, from Q1 to Q2'2012, RFP increased 2% while registration counts increased 56%. We estimate that the RFP account is off by \$34.8m. Since both registration revenue and Registration Fees Payable are recorded when received, we believe it is highly likely that Net Registration Revenue and/or Registration Counts are being inflated or that Registration Fees Payable is being deflated. We note that if the RFP account grows too large relative to Active's cash balance, it becomes readily apparent that Active has lost its ability to pay its debts and has become structurally insolvent.

To conclude, we believe Active is booking increasing amounts of Gross Revenue as Net Registration Revenue, which would juice its organic growth, or that it is suppressing its RFP account, which would hide a frail financial state, or both. It is no wonder Active has had 5 CFOs since 2004, each having an average tenure of just 2.5 years.

A horrible track record of capital allocation – Management's track record in allocating capital is dismal. Since just 2007, management has invested \$600 million for acquisitions, R&D and capital expenditures, with no return absent a continual bleeding of free cash flow. Active has now completed 40+ acquisitions and grown to process over 80 million registration transactions annually, but has yet to realize benefits from operating leverage. Management seems to have failed in integrating its business and we doubt it ever fully implemented an Oracle ERP system. According to Oracle, Active rushed the implementation in "less than 2 months" (ahead of the IPO), potentially a Guinness Book World Record or at least worthy *of Ripley's Believe it or Not*! A proper implementation should span 14-18 months, according to a recent study conducted by Panorama Consulting Solutions that was based on a survey of over 2,000 companies. One of Active's founders coined the phrase "Turning Chaos Into Financial Opportunity"; indeed, chaos seems to have been created and resulted in enormous amounts of wealth for the early investors and current insiders who have cashed out. What remains seems a tangled financial and operational mess of businesses for current shareholders to digest.

Beyond the Pitch – Active has spun its story to portray itself to the investment community as a SaaS and cloud company that will benefit from network effects. We put the cloud/SaaS claims to the test with an exhaustive financial benchmarking analysis, and found no evidence to support management's claims. Sell-side analysts continue to fall hook, line and sinker into the flawed pitch, perhaps motivated to collect fat banking fees for the next round of dilution. As a group, analysts have shown embarrassing and tremendous forecasting error since Active came public. We contend that analysts are misguided in awarding the company the high end of SaaS peer multiples, when in reality Active is a collection of mediocre Web 1.0 businesses.

Follow the money! Insiders cashing out – The real story is between the lines. Insiders began cashing out in the IPO, but they have been selling much more aggressively since. The selling is broad-based among large institutional backers and members of the management team – at all levels. They have liquidated >$160m worth of shares, $116m of which have been liquidated since the IPO. Most concerning is that total overall management ownership in the company today stands at 2.3%, a far cry from the 24.4% ownership stake going into the IPO and 18.5% stake immediately following it. The CEO & COO have almost completely liquidated their stakes. Recently demoted CEO David Alberga has sold his ownership stake down from 5.6% of shares outstanding pre-IPO to 0.5% of shares outstanding post-IPO, raking in ~$13m in the process. Similarly, current CEO Matt Landa has taken his 4.6% pre-IPO ownership stake down to a 0.5% ownership stake, cashing out ~$10m. There is now an almost complete break in the linkage between shareholder interests and executive wealth.

But there is still room to reach into the piggy bank. The company has missed its annual incentive performance targets in 2 of the past 3 years, yet the Compensation Committee still decided to reward management with cash bonuses. The board had set goals, management missed its targets, but still got paid! And as if a misaligned incentive structure were not enough, the Board recently changed management compensation policies to justify and reward management in the form of fatter base salaries. Consider that Active's peer company reference group, used as a basis for determining executive salaries, was changed for FY 2012 to eliminate smaller/lower revenue companies and include larger/higher revenue companies. Active's sales and EV/sales are 40% and 50% below the average company added and only 18% and 30% above the average company deleted. As a result of this change in comps, management's average salary increased ~21.5%; this took place against the backdrop of Active's shareholders having suffered a 40% decline in their stock price since the IPO!

We have connected the dots for shareholders and have followed management's lead. We are short shares of The Active Network, Inc.

Red Flag Warning Signs of Functional Insolvency

We believe Active is rapidly speeding toward the brick wall of insolvency. The company appears to be hemorrhaging money, while navigating a cash crunch, and gaming its accounting to mask an increasingly fragile financial profile.

Several red flag warning signs hint that Active's financial position is stressed:

- It rapidly burned through its strong, post-IPO excess cash position and recently doubled its line of credit with no explanation.
- It deferred management cash bonuses that were to be paid earlier in the year into Restricted Stock Units (RSUs) in August.
- It undertook sudden managerial changes, effectively removing the company's long-tenured CEO, thereby cutting his salary
- It is the subject of increasingly frequent customers complaints claiming that Active is engaged in fraudulent billing practices
- It may be having trouble retaining employees, evidenced by dramatic increases in stock-based compensation expenses. Initially expected to be $3.5m for 2012, analysts are now expecting over an expense of $15m
- It has made no cash or equity-based acquisitions YTD, which is at odds with management's prior guidance for acquisitions in 2012 and with the company's historical pattern

In the sections that follow, we analyze the company's financial accounts, revealing one irregularity after another and even more signs of financial stress. Based on our research, we believe the company is functionally insolvent.

Active Has No Excess Cash. None.

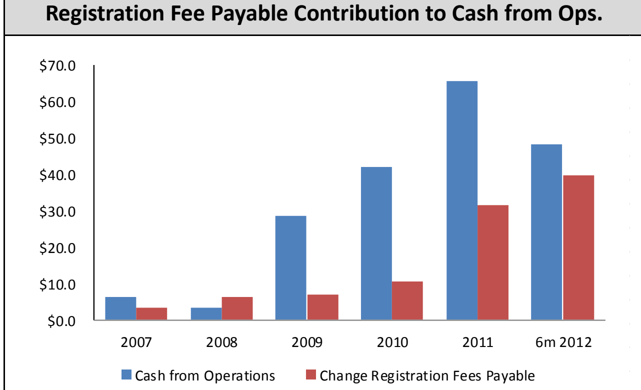
As of June 2012, Active no longer has enough cash on hand to cover the Registration Fees Payable ("RFP") current liability account. As a result, the RFP balance is in effect a direct claim on Active's entire cash balance, which should be thought of as 'restricted cash.'

The RFP account represents a snapshot of the portion of gross sales collected by Active, and payable later to event organizers. The account works as follows: Active collects a gross registration fee when an end consumer registers for an event (e.g. $25.00 to run a race); after deducting its service fee, recorded as Net Registration Revenue, Active records the remaining amount as a liability in the Registration Fees Payable account. This is offset by including the cash collected on behalf of organizers in cash and cash equivalents prior to remitting the amounts owed (approximately 2 weeks later). This is discussed in the S-1 filing as follows:

> *"Changes in working capital from our Net Registration Revenues represent a significant source of cash. We receive funds for our services immediately upon registration and record a payable for amounts due to our customers, net of our technology fee, which is typically held for a period of two weeks to assure accuracy of payment and verify registration."*

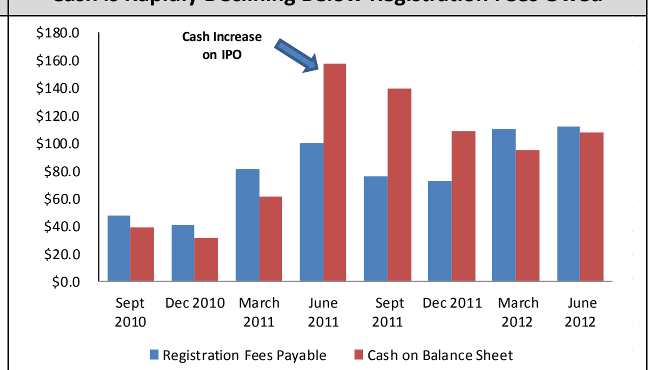
Changes in RFP are Active's primary sources/uses of cash, and excluding the excess cash received from Active's IPO, the two balance sheet accounts have historically approximated one another.

Registration Fee Payable Contribution to Cash from Ops.



Source: Active filings

Cash is Rapidly Declining Below Registration Fees Owed



Source: Active filings

Active is Burning Free Cash at a Significant Rate

The correlation between the RFP and cash balances suggests that Active is in fact financed by this payable; as a result, increases/decreases in RFP are more appropriately characterized as financing cash flows instead of operating cash flows.

Presented below is our estimate of Active's actual free cash flow, after adjusting for the Registration Fees Payable and non-cash changes in deferred revenue from the StarCite/RTP deals.

Active's Adjusted Free Cash Flow
$ in millions

	2007	2008	2009	2010	2011	6m 2011	6m 2012	LTM 6/12
Reported Cash from Operations	$6.23	$3.32	$28.50	$42.10	$65.70	$66.39	$48.20	$47.51
Change in Registration Fees Payable	($3.45)	($6.28)	($7.00)	($10.50)	($31.73)	($58.89)	($39.90)	($12.74)
Change in Deferred Revenue (1)	--	--	--	--	--	--	($13.10)	($13.10)
Adjusted Cash from Operations	**$2.78**	**($2.96)**	**$21.50**	**$31.60**	**$33.97**	**$7.50**	**($4.80)**	**$21.67**
Capitalized Software Development	($4.11)	($10.69)	($14.50)	($15.60)	($18.60)	($9.48)	($10.90)	($20.02)
Purchase of PP&E	($5.94)	($7.14)	($10.40)	($14.70)	($12.50)	($5.33)	($9.40)	($16.57)
Adjusted Free Cash Flow	**($7.28)**	**($20.80)**	**($3.40)**	**$1.30**	**$2.87**	**($7.31)**	**($25.10)**	**($14.92)**

(1) Estimated impact of StarCite and RTP impact on deferred revenue impact that won't convert to cash

The company has no excess cash and is burning free cash flow at an alarming rate; had we included acquisition-related outflows, the picture is far gloomier. It is no wonder Active appears to be clinging for dear life by doubling its borrowing capacity, reducing salaries, deferring cash bonuses, and ousting its CEO.

In the sections that follow, we reveal irregularities found in Active's financial accounts. We believe they are manifestations of measures taken to bolster liquidity, give the illusion of health, and fool the investment community – measures of desperation.

Active Has Stretched its Payables ("DDCO") to the Limit

Active's Registrations, Net Registration Revenue, and Registration Fees Payable ("RFP") accounts should be growing at approximately the same rates over the long term, but they are not. These accounts are interrelated, as part of the same accounting entry; every registration accounting entry involves booking revenue and increasing both the cash and the RFP accounts. Therefore, as Active's business grows over time, registration counts, Net Registration Revenue, and the RFP should all grow at approximately the same rate.

However, in FY 2011 Net Registration Revenue increased by 16% while RFP increased by 78%, indicating that customers were reimbursed more slowly and that this temporary increase in RFP is not an enduring source of cash. In light of the data points discussed previously, this further corroborates weaknesses in Active's financial position.

In order to gather better intelligence from these mismatched growth rates, we backed into estimates for various accounts the company does not report. The table below contains our estimates and other relevant metrics, calculated as follows:

- We began by deriving an estimate of the gross dollar amount of each sale:
  - Active reported the increase in credit card fees for 2011 as $6.2m and, assuming it pays a processing rate of 3.0%, implying that Gross Registration Sales increased by $206.7m on an increased registration count of 10.09m, for an average transaction size of $20.48
- We then multiplied this average transaction size by the total number of registrations for each period to estimate the Gross Registration Revenue
- Next, we subtracted Net Registration Revenue (i.e. the fees that Active retains as revenue) from Gross Registration Revenue to estimate the amount Active owed its customers over the course of each period, which we labeled Total Due to Customers
- We next estimated Days Due to Customers Outstanding (DDCO), or the number of days owed for the Total Due to Customers

$ in millions except registration figures

	2008	2009	Quarter Ending Sept 2010	Quarter Ending Dec 2010	2010	Quarter Ending Mar 2011	Quarter Ending June 2011	Quarter Ending Sept 2011	Quarter Ending Dec 2011	2011	Quarter Ending Mar 2012	Quarter Ending June 2012
Registrations (thousands)	25,074	65,461	20,474	15,323	70,182	14,859	24,597	23,513	17,305	80,274	18,223	28,036
Net Revenue per Registration	$4.08	$2.66	$2.54	$2.56	$2.82	$3.46	$2.84	$2.59	$2.68	$2.85	$3.49	$2.99
Net Registration Sales	$102.4	$174.0	$52.1	$39.3	$197.6	$51.4	$69.7	$60.9	$46.4	$228.5	$63.5	$83.9
Gross Registration Sales (est)	$800.9	$1,309.2	$419.3	$313.8	$1,437.3	$304.3	$503.7	$481.5	$354.4	$1,644.0	$373.2	$574.2
Total Due To Customers (est)	$698.5	$1,135.2	$367.2	$274.6	$1,239.8	$252.9	$434.0	$420.7	$308.0	$1,415.6	$309.7	$490.3
Credit Card Fee Increase	N/A	$13.1	N/A	N/A	$5.7	$1.9	$2.0	$2.0	$0.3	$6.2	N/A	N/A
Inc. Gross Registration Sales	N/A	$436.7	N/A	N/A	$190.0	$63.3	$66.7	$66.7	$10.0	$206.7	N/A	N/A
Registration Fees Payable (RFP)	$22.6	$30.2	$47.3	$40.7	$40.7	$81.2	$99.6	$76.2	$72.4	$72.4	$110.2	$112.3
DDCO (est)*	11.6	9.6	11.6	13.3	11.8	28.9	20.6	16.3	21.2	18.4	32.0	20.6

* DDCO = Days due to Customers Outstanding = (Total Due To Customers / Day Count for Period) / Registration Fees Payable (RFP)

From the period 2008 to 2010, the average DDCO was 11.0 days, less than the 14 day period indicated in the above S-1 excerpt. In 2011 however, DDCO increased dramatically, by 56% from 11.8 days to 18.4 days. This indicates the company held on to cash for as long as possible prior to paying its customers, yet another sign that Active's cash flow is increasingly challenged. Thus far in 2012, it appears that DDCO may be increasing further since DDCO was 32.0 in Q1 2012 vs. 28.9 in Q1 2011.

Our estimates of DDCO should be temporally stable given that Active's endurance and hunt/fish clients enter into 3-5 year contracts; so, it is unlikely that the rise in DDCO can be attributed to a change in customer payment terms. Our interviews with customers indicate that Active still makes payments by physical check, which are delivered by regular mail every 14 days. Although Active could potentially achieve an additional 3-5 days of effective float on cash balances by mailing checks, it is clear that they may already be doing so, as 14 days plus 4 days of mail/deposit delay is very close to the 18.4 days we estimated for 2011.

Thus, it appears that DDCO is now maximized (i.e. Active can no longer raise cash by extending this payable without interrupting its business and damaging customer relationships), the implication being that any deceleration in registration growth would cause the RFP account to be an immediate drain on cash; this may be fatal given our belief that Active is functionally insolvent.

Financial Statements Misleading at Best, Fabricated at Worst

Active May have a Fudged RFP Account, Masking Functional Insolvency

Not only did we find irregularities in Active's 2011 RFP account (per the DDCO section above), we also discovered others in its 2012 account. Namely, in 2012 the RFP account appears significantly understated.

Just as changes in Registrations, Net Registration Revenue, and Registration Fees Payable accounts ought to be highly correlated, so too should be Registration Fees Payable with our estimate of Total Due to Customers. These two data points should be temporally separated by more or less the average of DDCO (making allowances for seasonal impacts since the highest registration volumes are observed in Q2).

From Q1 to Q2 in 2012, Registration Fees Payable increased by 2%, from $110.2m to $112.3m. However, registration counts increased by 56%, or 9.8m, and the concomitant estimated Total Due to Customers increased by 58%, or $180.6m. By way of comparison, from Q1 to Q2 of 2011 registration counts increased by 9.7m and Registration Fees Payable in that period increased by $18.4m on a quarter over quarter basis. Something seems terribly amiss in the company's 2012 accounts. It stands to reason that an increase of $180.6m in Total Due to Customers should have inflated Registration Fees Payable by $36.9m ($180.6 / 90 days in period * 18.4 DDCO) instead of $2.1m. Therefore, we estimate that Registration Fees Payable may be $34.8m greater than the reported figure.

Since both Net Registration Revenue and Registration Fees Payable are recorded when received, we believe it is highly likely that Net Registration Revenue and/or Registration Counts are being inflated or that Registration Fees Payable is being artificially deflated.

We note that if the RFP account grows too large relative to Active's cash balance, it becomes readily apparent that Active has lost its ability to pay its current liabilities and has become structurally insolvent. We believe Active may be suppressing its RFP account, which would enable it to avoid presenting the picture of a company riddled of financial distress to customers, bankers and investors.

Mislead Investors, Juice Revenue & Cover the Tracks – Check, Check & Check

Active appears to have concocted a novel approach to artificially juicing its Registrations and Net Registrations Revenue accounts, while not having any effect at all on the RFP account. It's either magic, or an extremely deceptive practice Active it has refrained from fully disclosing to investors.

In the 2011 10-K (page 43), but not in prior years, Active made a brief disclosure hinting at a potential change in its business practice. It had begun a program of pre-purchasing registrations from event organizers:

> *Registration revenue is recognized when received, net of registration fees paid to event organizers, where we are acting as an agent of event organizers. Net registration revenue comprised 67%, 71% and 72% of total net revenue for the years ended December 31, 2011, 2010 and 2009, respectively. In certain circumstances, we pre-purchase registrations from event organizers and bear the risk and rewards of ownership. Registration revenue associated with these transactions is recognized on a gross basis, as we are the primary obligor and bear inventory and credit risk. Cash collected in advance of the event is recorded as deferred revenue until the event occurs. Revenue recognized on a gross basis comprised 0.7%, 0% and 0% for each of the three years ended December 31, 2011, 2010 and 2009, respectively.*

Based on our research, Active is advancing funds to race directors in order to finance events and then books the entire value of these pre-purchases as Net Registration Revenue (when in fact it is clearly 'Gross Revenue'), instead of the ~9% of transaction value it would typically book as Net Registration Revenue. The effect disproportionately juices revenues, and allows management to report a seemingly stellar organic growth rate to the Street.

For example, excluding gross registrations from Active's Q4'2011 results would have yielded a 14.4% growth rate of Net Registration Revenue which is substantially lower than the 18% reported in the corresponding press release. Moreover, excluding gross revenue in the context of the reported registrations counts shows that Net Revenue per Registration for the period was actually \$2.60, only a 2% increase and not the 5% increase noted in the press release and conference calls. This much lower price increase for Net Registrations demonstrates that Active has much lower pricing power than suggested.

Moreover, in Q1'2012 Active altered its revenue recognition policy, referring to itself as a "merchant of record" (Q1'2012 10-Q, page 24) as opposed to an "agent of event organizers" (Q3'2011 10-Q, page 7). This change may have given Active cover to stop disclosing gross registration sales recorded as Net Registration Revenue; indeed, it has omitted any mention of these transactions from its 2012 filings. However, three clues indicate that Active Exchange is growing to become a material source of the company's revenue: 1) The inventory account, where pre-purchases are held on the balance sheet, is growing quickly; 2) The definition of Cost of Revenue was altered to include inventory costs (3Q 2011, page 7), and gross margins since inception of this program are increasingly under pressure; and 3) Anecdotal conversations with race directors confirm the practice is more prevalent than disclosed.

Growing Inventories, Gross Registration Sales Ommissions = Problems
$ in millions

	2011				2012		
	Q1	Q2	Q3	Q4	Q1	Q2	
Total Net Revenue	$72.7	$99.0	$89.6	$76.0	$64.4	$121.6	
Net Registration Revenue	$51.4	$69.7	$60.9	$46.4	$63.5	$83.9	
Gross Registration Sales	$0.0	$0.0	$0.9	$1.5	N/A	N/A	< Material
% Net Actually Gross	0.0%	0.0%	1.5%	3.2%	N/A	N/A	< Ommissions
Registration Inventory on B/S	$0.0	$1.8	$1.1	$1.7	$3.1	$4.0	
QoQ Growth	--	--	*-39.2%*	*50.9%*	*85.5%*	*28.9%*	

Source: SEC filings

We emailed management to request more information on September 21, 2012, and did not receive a reply until 6 days later, at which time they informed us the company was in quiet period. Does Active really have a quiet period that begins prior to the end of the quarter? This is the only public company we have encountered that manufactures its own quiet periods!

Based upon our review – and that of an independent accounting expert – of FASB EITF Issue 99-19, we do not believe there is a basis for Active to mix gross and net revenues, as it is acting in differing capacities with clients, and facing different business risks. If new gross registrations have been recorded as Net Registration Revenue in 2012, we believe this could be a cause for a restatement of Active's financial results for each reporting period subsequent to Q2' 2011, when this practice was first disclosed.

In summary, each 'gross registration' is typically 7-10x the dollar value of a 'net registration,' and since Active management frequently cites Net Registration Revenue and Revenue Per Net Registration as key metrics of organic growth, we believe the implied purpose of mixing Gross Registration Revenue with Net Registration Revenue is to inflate revenue growth.

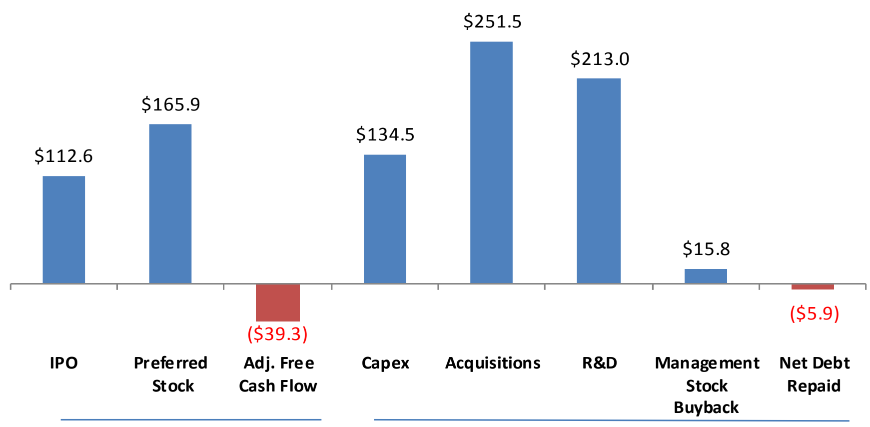
A Horrible Track Record of Capital Allocation

Regardless of its motives – whether to attempt to build a high quality enterprise, or realize it was futile and easier to dupe investors to cash out at a high valuation – management's track record in allocating capital is dismal. Almost $600 million has been invested in acquisitions, R&D and capital expenditures since 2007, with little to speak for in return but a large hole in shareholders' pockets. It is no wonder we see a company swimming in dark waters only one and a half years after raising >$100m in an IPO.

The CFO Shuffle – Departures at Key Periods

In the chart below, we've summarized Active's sources and uses of cash in the past 5.5 years. It doesn't take a rocket scientist to see that Active is good at raising and spending money.

Cumulative Sources and Uses of Cash: FY 2007 – June 2012



Source: Company Financials

However, for Active's CFOs, who are responsible for managing and accounting for it, the frustration of having to explain why no free cash flow has been generated appears to be a burden that few seem willing to bear for long. According to our research, the company has had at least 5 CFOs since 2004, all of which have turned over on average every 2.5 years, and around key times in the company's history.

Chief Financial Officer	Tenure / Years		Note	Reference
Natalya Smith	Prior 2004	N.A.	Resign Pre-IPO	S-1 Filing
John Creelman	2004	< 1 year	Resign Post IPO Withdrawl	S-1 Filing
Norman Dowling	Sept 2004- Jan 2008	3.5 years		Press Release - 2008
Steven Kemper	Mar 2008 - 2010	2 years	Resign during debt restructuring	Press Release - 2008
Scott Mendel	Mar 2010 - Current	2 years	Current	Press Release - 2010

If at First You Don't Succeed: Acquire and Acquire Again

Between 2004, when Active first filed to go public, and 2011 when it completed its IPO, the Company went from bad to worse. In the table below, we have summarized the key facts and financials, which we believe shows incontrovertible proof that its acquisition spree has resulted in lower margins, less transparency for investors, a deteriorated balance sheet, and lower operational efficiency.

$ in millions

	ACTIVE 2004 Busted IPO	ACTIVE 2011 Re-IPO
Marketing Pitch	Leader in high growth market Reduce costs, inc efficiencies	Network Effects, Cloud Platform Recurring Revenue, Economies of Scale
Growth Pitch	Pursue Acquisitions Expand Application/Mktg Services Increase Registrations/Customers	Pursue Acquisitions Expand Application/Mktg Services Increase Registrations/Customers *International Expansion*
Key Facts		
CFO Change Pre-IPO	Yes	Yes
Auditor Change Pre-IPO	Yes	No
Revenue Transparency	Higher	Lower
M&A Deals Completed	9	28+
Addressable Market	$33 billion	$110 billion
Customer Organizations	10,100	47,000
Employee Headcount	119	2,604
Income Statement (1)		
LTM Revenue	$16.5	$289.1
LTM Gross Profit Margin	**80%**	**56%**
R&D Expense	**$0.0**	**$62.5**
LTM GAAP Net Loss	($0.5)	($25.5)
margin	*-2.8%*	*-8.8%*
Balance Sheet		
Registration Fee Payable/ Curr Liabilities	30%	45%
Goodwill + Intangibles/Assets	50%	58%
Accumulated Deficit	($76.2)	($266.4)
Total Book Equity	$14.4	($192.3)
Operational Efficiency		
Revenues/Employee Headcount	$138,824	$111,018
Customer Orgs/Employee Headcount	85	18

(1) LTM period through March 31st
Source: 2004 and 2011 S-1 filings

Expense Accounts – Growing the Wrong Way

Active is a 13 year old firm that now boasts over 80 million registration transactions annually, but has yet to exhibit a single visible benefit from operational leverage. In this section, we will analyze each of Active's primary expense accounts, demonstrating that it has failed in integrating its 40+ acquisitions. Management has not demonstrated an ability to capitalize on synergies amongst Active's various verticals, painting instead the picture of an organization that has grown beyond manageability, has fallen on diseconomies of scale, and is reverse-benefitting from growth.

Active's gross margin per registration has declined over the past 2 years, in the face of rising registration counts. The table below contains a breakdown of Technology Revenue (which makes up ~90% of Active's Net Revenue), the associated costs of that revenue, and Active's registration count. The "YoY Change" column below shows that registration counts increased by 14.7% in the first half of 2011 vs. 2010 and by 17.2% in the first half of 2012 vs. 2011. At the same time, the cost of technology (COGS%) rose by 17.9% and 29.3%, respectively, resulting in a decline in Technology Gross Margin from 51.8% in 2011 to 49.8% in 2012.

This might be explained away by the RTP and StarCite acquisitions having introduced lower-margin registration businesses, or by stating that some state hunt/fish installs in the first half of 2012 had lower margins. But even a comparison of 2010 vs. 2011 results leads to the same assessment, with gross margins having declined from 52.9% to 51.8%.

In summary, Active increased total registration counts by 35%, or 11.9m transactions, between 2010 and 2012 yet still lost 309 bp of gross margin.

$ in millions

	Q1 2010	Q2 2010	Q1 2011	Q2 2011	Change (1)	Q1 2012	Q2 2012	Change (1)
Registration Count ('000)	12,921	21,464	14,859	24,597	14.7%	18,223	28,036	17.2%
Technology Revenue	$54.9	$71.2	$63.1	$85.6	17.9%	$84.1	$108.2	29.3%
Technology COGS	$27.0	$32.3	$33.0	$38.7	20.8%	$45.7	$50.8	34.6%
COGS % (Q1+Q2)		47.1%		48.2%			50.2%	
Technology Gross Margin (Q1+Q2)		52.9%		51.8%			49.8%	

(1) Year-over-year first half percentage change
Source: Company filings

Active's labor costs, some of which are carried in COGS, are also on the rise with the effect of decreasing gross margin.

Cost of Net Revenue is a proxy for COGS technology since cost of Marketing Services Revenue (which makes up ~10% of Active's Net Revenue) is typically less than 5% of cost of net revenue. COGS for Active are comprised of credit card fees, web hosting expense, call center head count, IT support for that headcount, D&A expense, and other undisclosed COGS. Of these items, the credit card fees are about 23% of technology COGS and, unless Active has had an unfavorable change in its credit card processing rates, represent variable costs related to gross registration revenue that are not subject to management influence. After deducting the estimated costs of credit card fees, we were able to model the cost per employee and the production of that employee per 1,000 registrations as below:

The key observation is that there have been significant increases in cost per employee, rising by almost 40% in 2 years. Management has acknowledged as much as follows in Q1 2011:

> *"Headcount declined 2% even though employee-related costs increased. This was due to reduced headcount of lower compensated call center employees resulting from efficiencies in our call center operations, offset by additional headcount of higher compensated IT and implementation support employees to support the revenue growth."*

It must be a matter of convenience that the magnitude of the rise in employee-related costs slipped his mind!

The employee cost per 1,000 registrations increased by 5.8% in 2011 and declined by -3.8% in 2012. Although 2012 is a slight improvement in employee cost per 1,000 registrations, when we compare 2010 to 2012 the average employee cost per 1,000 registrations still increased by $0.02. Thus, although management acknowledges hiring more people with IT skills, there has been no demonstrable return on this investment. Keep in mind that IT effort is the more operational IT effort, which **is in addition to** Active's high R&D spend.

$ in millions

	Q1 2010	Q2 2010	Q1 2011	Q2 2011	Change (2)	Q1 2012	Q2 2012	Change (2)
Cost of Net Revenue	$28.1	$34.1	$34.2	$40.2		$47.0	$52.9	
Credit Card Fees (est)	$7.3	$13.3	$9.2	$15.2		$11.3	$17.3	
Headcount Expense (est) (1)	$20.8	$20.8	$25.0	$25.0	20.2%	$35.7	$35.6	42.7%
Stock-Based Compensation	$0.03	$0.03	$0.02	$0.04	1.9%	$0.06	$0.19	358.2%
Headcount: Cost of Net Revenue	1,299	1,416	1,267	1,435		1,595	1,740	
Cost Per Unit Headcount (est)	$15,997	$14,699	$19,713	$17,422	21.0%	$22,395	$20,454	15.4%
Headcount Cost Per 1,000 Registrations (est)	$1.24	$0.68	$1.33	$0.71	5.8%	$1.23	$0.73	-3.8%

(1) Cost of net revenue minus estimated credit card fees
(2) Year-over-year first half percentage change
Source: Company filings; our estimates.

In addition to higher costs per employee as disclosed by management, we believe that the undisclosed cost of inventory (see Gross Registration Sales, p10) are a new driver for increasing cost of net revenue in 1H 2012. The company's inability to deliver any meaningful operating leverage is also readily apparent in analyzing its operating expense line items. The table below shows that any improvements in operating expenses spanning the past few years have been negligible at best, evidencing poor cost control in sales & marketing, R&D, and G&A.

For 2012, note that G&A expense is up by 2.2% and 1.1% for the first 2 quarters, respectively. In Q2, G&A headcount increased to 357 from 258 from the prior year. Cash cost per G&A employee fell from $42,860 in 2011 to $41,269 in 2012, but a doubling in G&A stock compensation increased total compensation from $47,705 in 2011 to $48,711 in 2012. As previously discussed, we believe Active may be conserving cash while using the equity in its place for employee retention.

Active Margin Analysis

		Quarter Ending					Quarter Ending	
	2010	March 2011	June 2011	Sept 2011	Dec 2011	2011	March 2012	June 2012
Sales/Marketing Exp.	21.1%	23.2%	19.1%	19.1%	22.7%	20.8%	25.3%	19.4%
YoY Change	0.3%	3.1%	0.5%	-1.5%	-0.5%	-0.3%	2.1%	0.3%
R&D Expense	21.9%	22.1%	16.5%	19.7%	21.8%	19.8%	21.4%	16.9%
YoY Change	-2.3%	1.5%	-3.5%	-0.9%	-2.1%	-2.1%	-0.7%	0.4%
G&A Expense	15.2%	14.5%	12.4%	13.1%	21.7%	15.2%	16.7%	13.5%
YoY Change	-1.1%	-1.1%	-1.7%	-0.7%	6.4%	0.0%	2.2%	1.1%
Total Change	-3.1%	3.4%	-4.6%	-3.1%	3.8%	-2.4%	3.5%	1.8%

Note: Unadjusted for stock compensation expense

We would have thought that an analysis for trends in Active's Adjusted EBITDA would on the surface have challenged our developing thesis that Active has grown beyond manageability; but, even in light of massive inflation in depreciation and amortization add-backs from acquisition-related accounting, Active's Adjusted EBITDA margin rose very modestly in 2010 and 2011 by 2.5% and 2.2%, respectively. It has since reversed course in 2012, declining by 7.0% in Q1 and 4.5% in Q2. Management's own guidance for FY 2012 is for a decline in Adjusted EBITDA margin by 0.2%.

$ in millions

		Quarter Ending					Quarter Ending	
	2010	March 2011	June 2011	Sept 2011	Dec 2011	2011	March 2012	June 2012
Adjusted Revenue	$279.6	$73.0	$99.3	$89.6	$76.0	$337.4	$99.1	$125.2
Adjusted EBITDA	$25.1	$2.9	$20.4	$12.7	$0.4	$37.8	($3.0)	$20.2
% margin	*9.0%*	*4.0%*	*20.6%*	*14.2%*	*0.5%*	*11.2%*	*-3.0%*	*16.1%*
% YoY change	*2.5%*	*2.5%*	*6.1%*	*1.4%*	*-4.2%*	*2.2%*	*-7.0%*	*-4.5%*
GAAP Gross Margin	56.6%	53.0%	59.4%	55.5%	51.8%	55.3%	50.3%	56.5%
% YoY change	0.7%	-2.6%	1.1%	-1.9%	-2.6%	-1.3%	-2.8%	-2.9%

Note: Revenue adjusted for impact of acquisition accounting rules

The above margin analysis dances to the same song, played over and over again during our 2 months of analyzing this business: Active has not been able to successfully integrate its 40+ acquisitions. It is no wonder the company is not realizing benefits from synergies amongst its business verticals: Its business lines seem to have nothing in common but the same senior management. We are skeptical that management will be able continue to convince investors that as soon as Active reaches some higher number of registrations (e.g. 160 million), there will be some economic value to what we believe is a flawed business model. This is no traditional cloud company.

Overpay For Growth, Obscure Deal Terms, Repeat

Taking a closer look at Active's acquisition strategy and modus operandi, we observe the root causes of Active's dysfunction. In Appendix 1, we've listed every publicly announced merger and acquisition conducted by the company since inception. The deal count is currently at 43, and this may be an understatement given that Active does not always announce the deal itself; we identified certain of them through internet searches and announcements from target companies. Most of Active's deals tend to be for cash, potentially signaling a general unwillingness for sellers to accept Active's stock. An important observation is that, as we have seen again and again with this company, Active chooses a path of opacity with investors, typically failing to disclose basic deal terms or its targets' financials.

We did uncover and analyze data related to two of its recent deals, both of which suggest Active has bought mediocre businesses at rich valuations.

InfoSpherix Financials

$ in millions

	Fiscal Yr Ended Dec 31st			LTM
	2004	2005	2006	Jun-07
Revenues	$22.2	$23.0	$24.8	$23.2
% growth	--	*3.6%*	*7.9%*	*-3.6%*
Pre-Tax EBIT	($2.1)	($1.9)	$0.7	($0.3)
Depreciation/Amort.	$2.1	$2.4	$2.4	$2.4
Other Charges	$0.0	$0.0	$0.0	$0.0
EBITDA	$0.0	$0.5	$3.2	$2.0
% margin	*0.2%*	*2.4%*	*12.7%*	*8.8%*
Capex	$2.9	$1.5	$1.8	$1.8
EBITDA less Capex	**($2.9)**	**($0.9)**	**$1.4**	**$0.3**

Source: http://www.sec.gov/Archives/edgar/data/12239/000110465907054110/0001104659-07-054110-index.htm
http://www.sec.gov/Archives/edgar/data/12239/000110465907051691/a07-17816_1ex99d1.htm

StarCite Financials

$ in millions

	Fiscal Year Ended Dec 31st				
	2008	2009	2010	2011	2012E
Revenues	$50.5	$47.9	$44.5	$45.0	$36.0
% growth	*12.5%*	*-5.3%*	*-7.0%*	*1.1%*	*-19.9%*
Pre-Tax EBIT	($18.4)	($6.2)	--	--	
Depreciation/Amort.	$5.3	$4.9	--	--	
Other Charges	$2.9	$1.9	--	--	
EBITDA	($7.7)	$3.7	--	--	($5.5)
% margin	*-15.3%*	*7.6%*	--	--	*-15.3%*
Capex	($2.5)	($0.2)	--	--	--
Free Cash Flow	**($12.0)**	**$0.4**	--	--	--
Book Equity	$20.9	$19.6	$15.9	$18.4	--

Source: http://www.sec.gov/Archives/edgar/data/1085621/000119312512117265/d283132d10k.htm
Note: 2012E as per Q1'12 management conf call guidance

- Active acquired InfoSpherix (2007) – a company in the business of designing, hosting and operating park reservations – for $17 million in cash from Spherix (NASDAQ: SPEX). Oddly enough, Spherix's business model was twofold: operating park reservations and developing a drug for Type II diabetes. When confronted with the cash requirements of operating a mediocre business and an outright speculative drug development program, Spherix decided to pursue its biotechnology business and divested InfoSpherix. Spherix's financial filings show that the park registration business had zero growth and in fact was beginning to decline by 2007. Active paid a revenue and EBITDA less capex multiple of 0.8x and 16.7x, respectively, for this declining business which may still account for 5-8% of consolidated revenues.
- More recently, Active acquired StarCite (2011), a business that augments Active's numerous business event deals, from the ICG Group (NASDAQ: ICGE) in 2012. StarCite's historical financials indicate no top-line revenue growth in the past 5 years, and a 20% revenue decline expected for 2012 from a deferred revenue haircut, rendering the $57.6 million valuation at 1.6x 2012E revenues and 9.7x 2012E Adjusted EBITDA quite expensive.

On an operational basis, early indications point to another failed integration, with the StarCite deal not achieving expectations. On the August 2012 conference call, management alluded to sales lead times and cross-selling efforts taking longer than expected, and as a result, revised its 2012 estimates. This should hardly have come as a surprise to any outside investor given management's abysmal track record in effecting deal synergies.

Execution of Miracle Cost Saving Platform ActiveWorks Appears to be Languishing

A salient part of management's sales pitch is that Active is in the process of building and migrating all verticals onto a new software platform called ActiveWorks. Management describes ActiveWorks as, "*a robust-back office system that pulls together many of our customers' participant management, operational reporting, volunteer management, service and payment processing functions into one easy-to-use hosted system*." Management claims that the long-term benefits from using ActiveWorks include: increasing flexibility for internally adding verticals, launching features/functions more rapidly, gaining development partners by providing access to an API, reducing software development expense, and reducing operating expenses.

Margin benefits from ActiveWorks are a core input for the consensus sell-side analyst thesis and part of the basis for its rich price target. (For further information, refer to the section titled "Analysts Have Been Just Plain Wrong.")

The ActiveWorks pitch dates back over 5 years to 2007, when the company first endeavored to tackle the monumental challenge of migrating the technology platforms from over 40 different acquired businesses onto a unified architecture. Since 2007, Active has spent approximately $345 million on research, development and capitalized software expense. The company currently employs between 1,100 and 1,300 engineers globally. Despite the massive amounts of money and human capital already invested, the company has warned that associated costs will further increase in the future. Moreover, after all this time, it does not appear that Active has successfully migrated any customers completely onto ActiveWorks, stating only that some are currently being served by ActiveWorks architecture at varying levels of integration.

Given our assessment of management's capital allocation acumen, coupled with the failure of ActiveWorks to deliver any measurable financial benefit in the past five years, we believe the future will look much like the past. We believe ActiveWorks is a high risk project that will continue to struggle for the following reasons:

1) Limited company history of integrating acquisitions dating back to 1999

2) Limited examples of executing large in-house software projects other than one-off applications, as highlighted in press releases

3) Lack of IT Leadership - The fact that Active brought on a new technology leader (Darko Dejanovic from Monster.com) in 2011 with a total stock compensation package of $7.7 million (highest total comp at Active) suggests that the company is greatly in need of new direction. Darko's importance to the firm is highlighted in his recent promotion to President within 13 months of his arrival. However, we wonder whether the IT effort will be impaired by his increased responsibilities as President, and whether Active will recruit a new CTO soon.

4) Lack of Credibility for the Active.com API –We first heard management discuss an API for external developers in the 2Q 2012 quarterly call. We identified some basic documentation associated with this program, but it appears that the developer community blog is inactive, with the last posting made over 2 years ago. The developer's forum has only 559 posts spanning the past 3 years, and the most recent comment was posted 1 week ago. We noted that the API was named "Active.com API" instead of "ActiveWorks API" which is unusual. We found limited commentary via Google in searching for "Active Network API" and "ActiveWorks API". We note that the FellowshipOne API (a church app acquired by Active last year) seems to have a more robust API community than the entire Active Network API. APIs are often widely publicized in order to gain adoption from the developer community. Management is very adept at using the right technical buzz-words when meeting analyst demands for increased detail on quarter end calls, but these basic checks indicate little substance to what management has been claiming.

5) Lack of Overall Clarity on ActiveWorks – Excerpts from quarterly calls show that management is increasingly uncomfortable discussing ActiveWorks and its completion timeline (see Appendix 2).

6) Management is unclear as to the date ActiveWorks was initiated. In the S-1, it is said to have been started in 2007 (here, pg 45), but later on the Q2 2011 conference call, management said 2009.

To conclude, we are of the belief that ActiveWorks is nothing more than an upgrade of existing applications, meant to stabilize operations and to build out feature sets needed to remain competitive. We are doubtful that an enterprise-wide app like ActiveWorks really exists. As a case in point, we find it hard to believe that Active would re-launch Mississippi as the new ActiveWorks roll-out, but refrain from materially upgrading the consumer web interface to make it more user friendly; such a basic implementation could serve to drive the online purchase of licenses, something management has guided the Street to believe is a key catalyst toward reducing COGS. Similarly, we note that the web interface for triathlon, Active's oldest vertical, is still written in the prehistoric Cold Fusion and based on code that appears dated; this old platform was used as recently as Q2'2012 for the registration for the largest half-ironman event, which has 3,500 participants.

And if, in fact, management were making progress on the ActiveWorks project, we would expect for costs associated with the project to begin to fall. Management has guided that about 60% of R&D expense is related to ActiveWorks and that the project will be completed mid-2013. Thus, even if just 25% of the project had been completed to this point, it makes little sense that R&D expense is up 30% and headcount 17% in 1H 2012, which have resulted in R&D expense as a percentage of revenue increasing from 16.4% to 16.9% in Q2 2012. (This analysis excludes the additional $11.0m in capitalized software expensed in 1H 2012, for an annual run rate of $22m in capitalized software.)

ActiveWorks is a miracle cost-saving platform that analysts have integrated into their models to the tune of a 300-400bps EBITDA margin improvement over the next few years. The program was initiated in 2007 with little to show by way of visible financial improvement. Given management's history of capital allocation and over-promising only to under-deliver, we are doubtful of its prospects and will await proof of concept; until then, we maintain that ActiveWorks is likely nothing more than a part of management's sales pitch to the investor community, and an excuse for having squandered hundreds of millions of dollars.

Flawed Corporate Governance Rewards Bad Practice

We believe that management's incentive structure is at the foundation of its failed capital allocation record. Active's roll-up strategy rewards management lavishly with annual cash bonuses that leave little long-lasting accountability for shareholders, and incentivizes empire-building at any cost. To illustrate, Active's Bonus Plan filed with its recent proxy includes clear financial targets that are equally weighted 50/50% to revenue and Adjusted EBITDA. There are no stipulations that either revenue or Adjusted EBITDA must be organic, and therefore the management team is perfectly incentivized to acquire and overpay for revenue, and take high depreciation and amortization charges to maximize Adjusted EBITDA. We also note that Active has one of the weakest incentive performance target structures amongst its peers – many peers have more than two targets tied to stronger measures of corporate health including margins, earnings, cash flow, and customer satisfaction.

Comparison of Annual Incentive Performance Targets
$ in millions

Company	Ent. Value	Annual Incentive Performance Targets	% Mix
Ariba	$4,500	Non GAAP Revenue and Net Income	50/50%
NetSuite	$4,476	Revenue, EBIT Margin, Operating Cash Flow	60/15/25%
Tibco	$4,022	Revenue, Adj EBIT Margin, Discretionary Individual, EPS (1)	40/40/20%
Concur Tech	$3,400	Non GAAP Pre-Tax Earnings per Share	100%
Ultimate Software	$2,534	Adj EBITA	100%
Taleo	$1,900	Bookings, Revenue, Adj EBITDA Margin, TE Renewal Rates	40/20/20/20%
Realpage	$1,535	Revenue, Adj EBITDA, Individual Performance Rating	20/45/25%
Vistaprint	$1,174	Revenue and EPS	50/50%
Kenexa	$1,300	Adj EBIT, Specific Corporate Objectives, IMM (2)	40/40/20%
Shutterfly	$943	Revenue and Adj EBITDA	50/50%
Medidata Solutions	$811	Revenue/EBITDAO, Customer Satisfaction, Product Goals	65/10/25%
Monster	$731	Revenue, Bookings, Operating Inome, EPS (3)	33/33/33%
Synchronoss	$683	Revenue, Adj EBITDA Margin	65/35%
Active Network	**$641**	**Revenue and Adj EBITDA**	**50/50%**
WebMD Health	$500	No financial targets chosen due to changing business conditions	--
Constant Contact	$500	Revenue, EBITDA Margin, Customer Satisfaction	Variable
Digital River	$173	Revenue, EBIT, Business Unit Specific Performance	45/30/25%

(1) If EPS growth < 15%, bonuses reduced by 20%
(2) Internal Measure Metirc (IMM) = (Bookings + Enterprise Contract Revenue Targets)*EBIT %
(3) If EPS < $0.46/share or EBIT growth < 50% of revenue growth, then bonuses reduced

Management's track record in meeting the financial goals and targets set by the Board is poor and getting worse. The company has missed its targets in 2 of the past 3 years. Where shareholders should be outraged is that the Compensation Committee still decided to reward management with cash bonuses, albeit at the reduced 25% threshold. The board had set goals, management missed its targets, but yet still got paid! Notably suspicious is that in 2010, when management "hit" its targets, it did so by the slightest margin. The 2010 revenue and Adjusted EBITDA targets were $275 and $25m, respectively. Actual revenue was reported at $279.6m and Adjusted EBITDA at $25.1m. Naturally, we wonder whether that $0.1m of EBITDA outperformance was just a stroke of great fortune.

Active Bonus Plan History

$ in millions

	FY 2009	FY 2010	FY 2011
Revenue Target Achieved	No	Yes	No
EBITDA Target Achieved	No	Yes	No
Deferred Payment	Yes	Yes	Yes
Cash Payment	Yes	Yes	Yes (1)
% of Target Payout	25%	42%	25%
Date Paid	July-10	Apr-11	Aug-12
Total Payment	$0.61	$3.50	$0.38

Source: Proxy and S-1

(1) converted to Supplemental Performance RSUs on 8/28/12 due to liqudity crunch

Who Exactly is the Board Representing?

As if a misaligned incentive structure were not enough, the Board recently changed management compensation policies to justify and reward management in the form of fatter base salaries. Consider that Active's peer company reference group, used as a basis for determining executive salaries, was changed for FY 2012 to eliminate smaller/lower revenue companies and include larger/higher revenue companies. To illustrate, <u>the average peer company deleted had an enterprise value and revenues 78% and 50% less than companies that were added to the peer group</u>. Furthermore, Active is much closer in revenue and revenue multiple to the average company deleted than it is to the average company added. Its sales are <u>40% below the average company added</u> and only <u>18% above that of the average company deleted</u>. Its EV/sales multiple is <u>50% below the average company added</u> and <u>30% above the average company added</u>.

Active Peer Group Used By Compensation Committee

$ in millions

	Ent Value	LTM Sales	EV/Sales	FY2011	FY2012	
Ariba	$4,500	$517	8.7x		x	Additions
Tibco	$3,929	$992	4.0x		x	
Kenexa	$1,300	$318	4.1x		x	
Vistaprint	$1,174	$1,020	1.2x		x	
Medidata Solutions	$925	$197	4.7x		x	
Monster	$810	$992	0.8x		x	
Digital River	$270	$401	0.7x		x	
NetSuite	$4,476	$269	16.6x	x	x	
Concur Tech	$3,400	$417	8.2x	x	x	
Ultimate Software	$2,534	$298	8.5x	x	x	
Taleo	$1,900	$309	6.2x	x	x	
Realpage	$1,535	$292	5.3x	x	x	
Synchronoss	$797	$253	3.2x	x	x	
Shutterfly	$755	$531	1.4x	x	x	
Active Network	**$641**	**$382**	**1.7x**	**x**	**x**	
WebMD Health	$500	$505	1.0x	x	x	
Constant Contact	$283	$234	1.2x	x	x	
Demand Media	$635	$345	1.8x	x		Deletions
comScore	$485	$244	2.0x	x		
Blue Nile	$415	$361	1.1x	x		
QuinStreet	$296	$370	0.8x	x		
Reachlocal	$266	$415	0.6x	x		
Intralinks	$242	$212	1.1x	x		
Average Additions	$1,844	$634	3.4x			
Average Deletions	$390	$325	1.3x			

Source: Active Proxy Filing

The table below shows that management's average salary increased ~21.5% as the result of this change in comps; and, sadly, these wage hikes were made against the backdrop of Active's shareholders having suffered a 40% decline in their stock price since the IPO!

Active Management's Salary Increases

		Annualized Base Salary		
Executive	**Role**	**2011**	**2012**	**% Inc.**
Alberga	CEO	$390,000	$500,000	28.2%
Landa	President	$350,000	$450,000	28.6%
Mendel	CFO	$290,000	$350,000	20.7%
Dejanovic	CTO	$400,000	$450,000	12.5%
Roland	HR	$205,000	$236,000	15.1%
Total Exec Team		**$1,635,000**	**$1,986,000**	**21.5%**

Source: Proxy and 8-k filing 5/4/12

The Textbook for How to Get Rich Quick

Management and the Board have also ingratiated themselves with options grants that appear to be either incredibly fortuitous or outright manipulative (Appendix 3). To illustrate, the three largest option grants came around the same time as major valuation changes.

- In April 2009, the company lowered its valuation to $1.96 per share and granted 1.5 million options. The valuation just a few months prior was $4.78 per share, or 144% higher (S-1, page 55).
- Then in March 2010, the company granted another 1.7 million options at $1.96 per share. Within a few months, the valuation was adjusted to $3.78, or 93% higher.
- However, the most egregious option practice occurred in March 2011, just months before the IPO. According to the subsequent event disclosure buried near the very end of the S-1 filing, "*the Compensation Committee approved a grant of 1.485 million stock options to directors and executive officers at an exercise price of $7.88 per share*." The stock options received special vesting privileges at monthly and equal installments over a four year period. While "stockholder approval" was received in April 2011 for this action, it certainly appears to be a dirty move ahead of new shareholders joining the party at the IPO price of $15.00 per share in May 2011. This amounts to $10.5 million of value given to insiders ahead of the IPO.

We believe these actions, when assessed in whole, can be revealing of insider intent. It seems to be about getting rich at the expense of shareholders.

It's Just a Game for a Tennis Instructor to Rubber Stamp Pay

We lack confidence in the Board's ability to oversee the complex issues associated with compensation. Take for example board member Scott Schultz, who was appointed to the Board in May 2009. He is a current member of the compensation committee, but his biography reads more like that for an expert tennis instructor with experience in the non-profit world, not someone steeped in matters of for-profit business, corporate finance, strategy, or governance. Since 2003, he has been the managing director for youth tennis at the United States Tennis Association (USTA). In August 2006, Active entered into a Master Services Agreement with the USTA whereby the USTA purchases certain software services from them. USTA was granted a warrant, which was net exercised for 91,148 shares upon the closing of the IPO (a cool $1.4 million dollar gift). Notably, Mr. Schultz has an agreement with the USTA (yes, his employer) by which all of the $381k in option awards for his board service were turned over to the USTA in 2011. Was this all just an act of charity, or a simple way to rebate the USTA for allowing Active to remain a USTA vendor? In fiscal year 2011, the USTA and its affiliates provided revenue of just $5.0 million to Active (1.5% of total revenues), so we are equally puzzled why Mr. Schultz deserves a Board seat to oversee this de minimums client.

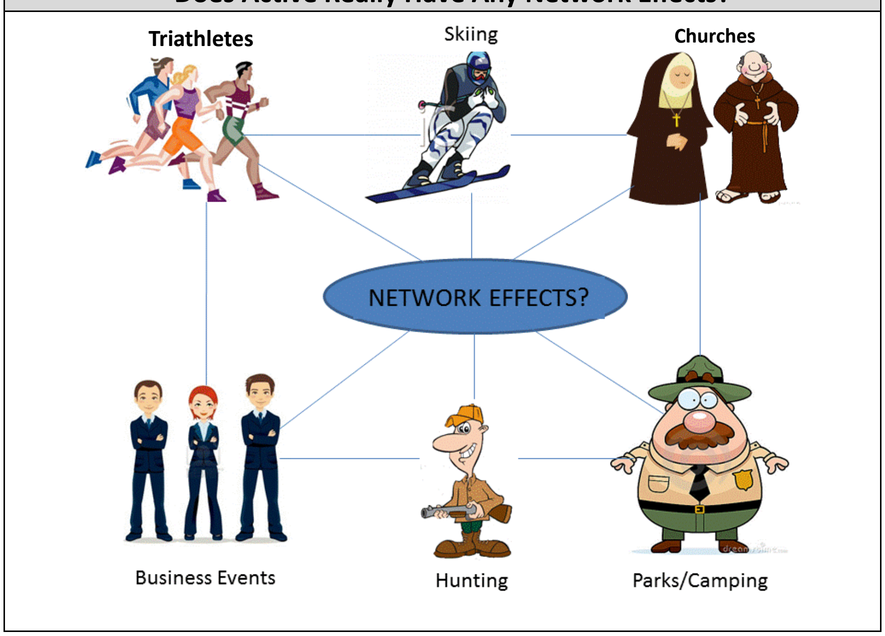
Beyond the Pitch: A Story of Low Organic Growth

Presented with numerous data points of a company being managed toward the benefit of its insiders, we were baffled as to how a story like Active's could be sold to, or bought by, potential investors. Active's marketing pitch is nothing short of Wall Street spin, littered with buzz words du jour!

Does Active Really Have Any Network Effects?

Active has spun its future margin-enhancing platform, ActiveWorks, as a "*cloud computing platform, that transforms the way organizers record, track, manage and share information regarding activities and events*," and that it functions "*like a traditional SaaS platform*" with "*network effects*." Network effects? It would seem ludicrous that the effect of one user of a good/service on Active's network would have any relevance or value to other users. To illustrate, is there any likely connection between Active users who engage in triathlons, and those that engage in camping, fishing, or religious activities? Do business event registrations have any connection to lacrosse registrations?

Does Active Really Have Any Network Effects?



Happy Halloween! I'm a SaaS/Cloud Company

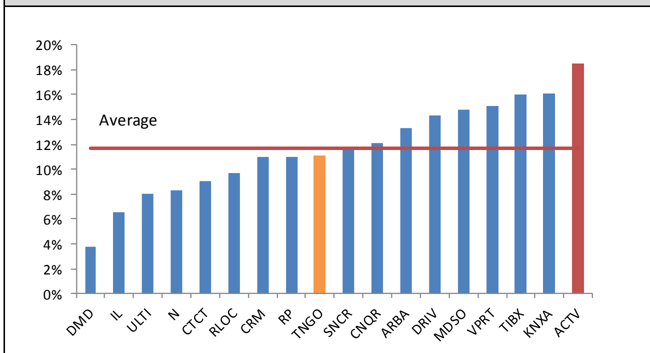
We also put the cloud/SaaS claims to the test with an exhaustive financial benchmarking analysis against a wide sample of other purported cloud/SaaS businesses. We found no evidence to support management's claims. Instead, our results support the thesis that Active lacks features common to other tech companies in the group and, further, that it has over time morphed into a seeming financial and operational disaster that derives no benefit from economies of scale.

The evidence indicates Active has an even weaker profile than another well-known laggard, Tangoe. To illustrate, Active's year-to-date gross margin is 54%, 11% lower than peer averages. The CFO explains this away by saying that the following 2 fees flow through its COGS: 1) credit card fees and, 2) call center costs for the campground reservations business. But as we previously discussed in the

Expense Accounts section above, this explanation is incomplete, and will not change in the future, absent a complete business model makeover.

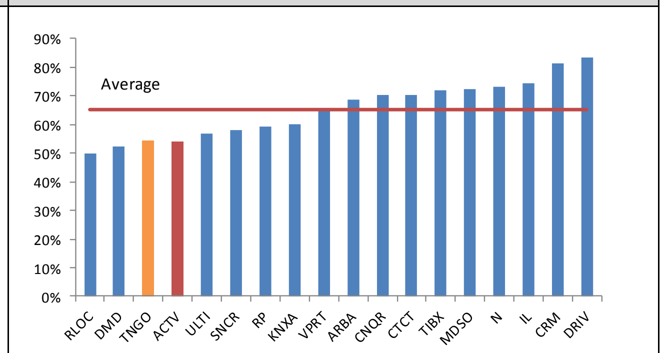
Active's organizational complexity is also evidenced by the revenue per employee metric, which is structurally lower than many traditional cloud companies' and again, on par with that of Tangoe.

2011 Research and Development Expense Margin



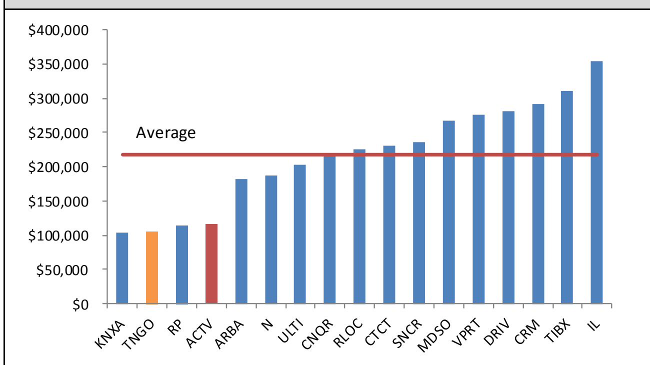
Note: Adjusted for stock comp expense

YTD Adjusted Gross Margin



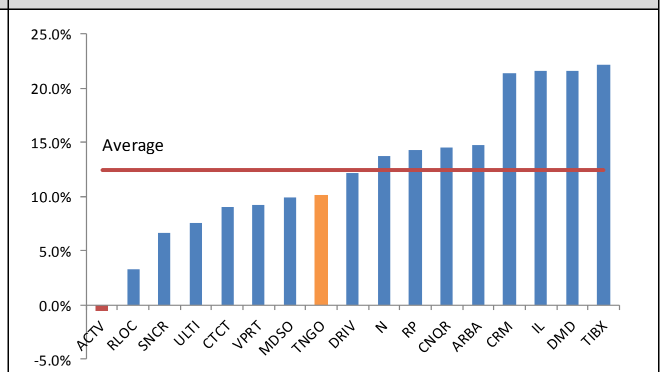
Note: Adjusted for stock comp expense

2011 Revenue per Employee



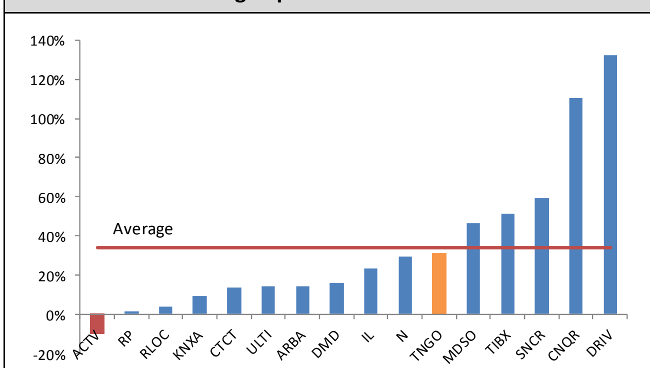
Note: Includes full and part-time employees

LTM 6/30/12 Free Cash Flow Margin



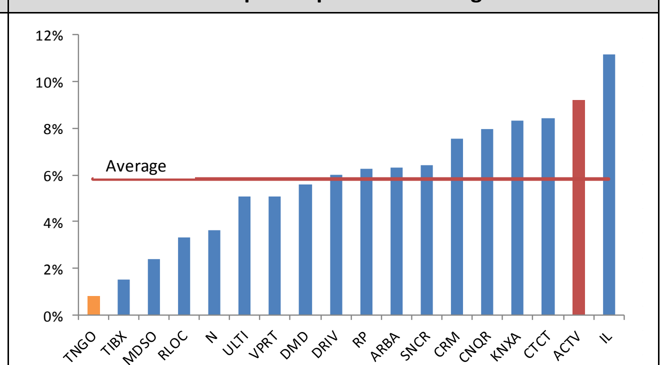
Note: Adjusted Cash from operations less software development and capex costs

Working Capital to LTM Revenues



Source: Company filings

2011 Capital Expenditures Margin



Source: Company filings; includes capitalized software development costs

A Growth Story Based on Fallacy

Active's growth story is spun on the fallacy that its success in the Triathlon space with 74% market penetration is replicable in the other verticals it has bought into. The following company slide is from a recent investor presentation.

It was 1999 when ActiveUSA and Racegate (both of which merged to form Active) started gathering audience in endurance sports. It took 13 years for Active to get to 74% penetration in triathlon and they did so due to:

1) A first-mover advantage
2) Focused effort on triathlon led to the achievement of network effects
3) High barriers to entry with the costs of developing software and hosting websites being much higher than they are today. Now routine cloud services can be rented from Amazon or Google for pennies

These advantages no longer exist in the matured verticals in which Active competes.

Active's Organic Growth Rate Appears Anemic

The hunt/fish licensing and campgrounds business segments are Active's least competitive. They appear to be low-margin, low to no-growth businesses, with no prospect for cross-selling to other verticals and no network effects; furthermore, an analysis of these segments and transaction count numbers divulged by management has enabled us to deduce that Active's organic growth rate, excluding these two businesses, is also anemic.

As background, in 2008 and 2009 Active spent $115m on 2 acquisitions (Automated License Systems (ALS) and Reserve America). ALS had exclusive contracts with 23 states to manage fishing and hunting licenses. ReserveAmerica contracted campground reservation services for 18 states and all federal parks. In 2009, these acquisitions increased Active's registration count by 148%, from 25m to 62m. For ALS, Active manages thousands of point of sale terminals for retailers (like Walmart and mom/pop outdoor stores) that sell licenses. Active also staffs call centers that issue licenses and take campground reservations.

Future growth in the hunt/fish licensing segment is likely to be lackluster as the additions of CA, OH, and Ontario as new customers in 2011 contributed an estimated 6.3m registrations (estimates taken from public records for fishing/hunting license sales), or 62% of the total increase of 10.1m registrations in 2011. We noted that none of these new contracts were announced in press releases, as such estimates would have highlighted the low organic growth for the balance of Active's over 51,000 customer organizations only contributing to an increase of 3.8m registrations, which also includes the new registrations from the Fellowship One, ServiceU, and RTP acquisitions, and implies an organic registration growth rate (excluding hunt/fish) that was below 5.4% in 2011. Management referred to at least 1 small competitor with 2-3 states and other states having solutions developed in house. Only after being questioned, management confirmed that NIC Inc. (Nasdaq: EGOV) is now bidding for hunt/fish contracts and that in some situations Active is working with EGOV on implementations. On the Q1 2012 call the former President said "I wouldn't say outdoors is not a grower," but then went on to clarify that it only grows as a function of adding more states and failed to mention that hunting and fishing license purchases nationally were down 1.8% in 2011. Although Active recently announced a contract with Saskatchewan for 355k annual hunt/fish licenses to commence in April 2013, we believe it unlikely that additional states or Canadian provinces will move the needle given the long implementation times and the few remaining large customers who can join the platform.

We hold the view that the ALS and ReserveAmerica acquisitions were an easy way for management to boost revenue and registration counts outside of its core registration business, with the end goal of facilitating the IPO. But these businesses have very low organic growth rates, if any. Since the states control the nature of the contract, there are few cross-selling or up-selling opportunities with Active's other registration verticals.

These segments can also result in issues with registration counts, as running a call center and managing thousands of point-of-sale terminals is complex, as highlighted in this report from California Fish & Game. Per the company's Q2'2012 10-Q risk disclosures:

> *We manage our business based in part on key business metrics regarding the total number of customer organizations we serve and the total number of registrations we process during a specific financial period. We are currently in the process of transitioning our customers who are currently using the legacy systems … Until we complete this transition… Certain of these legacy systems do not track customers and registrations in a manner consistent with the rest of our business. As a result, we need to use manual processes to accumulate these metrics, which could lead to errors.*

Active recently admitted registration count reporting errors. As a side note, it is obviously clear that the registration count number, a core metric tracked by the investment community, can be easily gamed. Moreover, management can't seem to keep its numbers straight as exemplified at the Citi Technology Conference this year, where the CEO cited 60 million hunting and fishing transactions for 2012.

Regardless, assuming the CEO has better information than we do and that he is correct, we can use these figures to derive an estimate of the company's organic growth rate, excluding the no-growth fish/hunt segments. Assuming 60m hunt/fish transactions, and subtracting it from the 92m estimated total registrations for 2012 results in ~32m registrants for the business (ex the fish/hunt segments) in 2012, a 9% CAGR from the 25m reported registrations in 2009 prior to the ALS acquisition. As Active has incurred cash cost of nearly $84m on 7 acquisitions after the ALS deal, a 9% CAGR would not indicate much organic growth, if any.

In the Q2 2012 call, management announced launching Mississippi ("MS") on the new ActiveWorks hunting and fishing license platform. We called the state's customer support center and a few retailers in MS and confirmed that they did have a new software interface and that they were satisfied. However, when we compared the consumer user interface for online license purchases in MS against archived web pages, we noted that the interface was not substantially upgraded in conjunction with the ActiveWorks implementation. Although management talks frequently about margin expansion in this division from the offline to online conversion of license transactions, they choose not to execute on providing consumers a better web interface.

Since Active has operated its own call center in Tennessee (a low cost labor market) for many years and since Active has the right to charge substantially higher fees for licenses taken by phone, it would appear that the telephonic transactions are more profitable than online transactions. In terms of launching additional states on ActiveWorks, it appears that any cost savings from ActiveWorks are not forthcoming. Although MS only ranked 33rd in fishing license volume nationally, management indicated it was a "significant undertaking that required importing 10m sales records to the new system." For a firm with approximately 1,200 R&D staff, we are surprised that 10m records constituted a challenge. (Facebook has 1,000 software engineers and manages "activities" for one-seventh of the Earth's population.)

We see no catalysts for improving margins in hunt/fish segment. In Q1 2012 call, management cited that it grossed $0.90 per registration at Walmart. Using our own estimates that the average cost per registration across all verticals is about $0.99 in COGS excluding credit card fees (see Expense Accounts section above), we find that Active actually loses 9 cents per registration at Walmart.

Competition is Stiff Across All of Active's Verticals

It is obvious that a large number of affinity groups in the world assemble to do activities together. The Active Network's raison d'être is to roll-up disparate activity registration firms and then consolidate applications on a single SaaS platform (referred to internally as ActiveWorks). Active's goal is to provide sticky, enterprise class tools to organizers and improve event participation through Active.com network effects. In reality, Active's core businesses are maturing and growth by acquisition is the only solution.

Active's management principally defines its market leadership by total revenues, headcount, name brand clients, and public company status. Management rarely cites superior technology or cost advantage against competing products. Management never mentions that it has a superior sales process. Management never talks about its ability to recruit world-class IT talent. Instead, it often dismiss competitive threats and cites that its principal competition is manual pen & paper or spreadsheet processes. **We find it ironic that Active dismisses the competitive landscape since nearly all of its technology and/or customers were gained by acquisition**.

We identified 303 firms that directly compete with Active across the 22 verticals it serves. A few firms (i.e. Acteva, PlanetReg, WildApricot, SignMeUp, Formstack, etc.) offer general registration tools across a handful of verticals, somewhat similar to Active. Established enterprise vendors such as Blackbaud (Nasdaq: BLKB) and email vendors such as Constant Contact (Nasdaq: CTCT) and Vertical Response also have added registration services recently. Yet, no competitors have attempted to reach as broadly and deeply as Active in its attempt to integrate so many verticals.

Vertical	Competitor Count	Vertical	Competitor Count
Non-Profits	33	Churches	19
Campus Recreation	1	Endurance Events	14
Sports & Fitness Facilities	19	Team Sports	20
Gymnastics	6	Golf	16
Community Associations	12	Camps & Clinics	17
Military	6	Marinas	1
Libraries	21	Resorts	16
K-12 Schools	1	Venues	16
Camps & Retreat Centers	10	Business Events	31
City Governments	16	Campgrounds	16
Parks & Recreation	12	Fishing & Hunting Licenses	1+

Source: Internet Searches

Low Barriers, Price Competition & Low Switching Costs Are the Rule of the Game

Although Active signs 3 year exclusive agreements with customers associated with most of its endurance events, many competitors have come to market in just the last 1-3 years, with newer platforms. RunSignUp explains its competitive advantage over Active, and the embedded video has a side-by-side tour of both products. RedPodium is another example which is operated by Webconnex.

The Competitor Group, Inc. which organizes about 600,000 participants each year, very recently acquired Raceit.com and dropped Active Network as its technology provider, with plans to compete against Active with its own solution. In the endurance vertical, Active charges $1.25 per registration plus 6.75% of the total registration fee. Generally, most of the 14 competitors we identified charge at least 25% less than Active.

In the business event vertical, there are a minimum of 31 competitors, one of the largest being Cvent which raised $136m in 2011 (more than Active's $115m IPO) and increased its headcount to 1,000. Active acquired meeting marketplace StarCite to better compete with Cvent, but as previously discussed, it has admitted it needs a "little bit longer lead time on sales efforts" and that it has not yet executed to make the StarCite functionality available to its other business lines (like endurance) via an internal API.

It is worthwhile to note that Active is already 10 months behind rival Competitor Group, who has partnered with Orbitz to launch RunnersTraveling, in implementing travel into its Endurance product presumptively due to delays with the StarCite integration. According to management, *"And so the ability for us to push StarCite's essentially travel module and then force all the participants to run through that and make their reservations through that will bring tremendous benefit to the organizer. So essentially, we're trying to take -- I mean the plan is to take StarCite's capabilities, move them into the services layer and allow the vertical -- allows now Endurance to reach down into that, draw what they want from it and build it into the Endurance products."*

The markets for Active's other business lines – in team sports, camps, golf, community events and churches – all have competitive dynamics similar to that for the endurance market. But, almost no competitor requires 3 year exclusive contracts; and, in general, it is reasonable to assume that switching costs for event-focused verticals are low to non-existent, as the software is not required on a daily basis during the year and organizers can switch applications between events.

Customer Complaints on the Rise Just as Active May Be Facing Funding Issues

Our belief that Active suffers from diseconomies of scale and a general organizational disarray is supported by a large body of independent assessments. The people have spoken.

For example, consider the numerous and increasingly frequent complaints to the Better Business Bureau. Customers are complaining that Active engages in "fraudulent" and "deceptive" business practices. Specifically, many complaints indicate that a customer's credit card has been assessed a $59.95 charge for joining the Active Advantage Membership Program, without their knowledge or consent. There is also a pervasive sense of disappointment with the company's customer service team's responsiveness in addressing the problem following its occurrence. Assuming there is validity to these complaints, the billing of customers without their full knowledge would be consistent with our observations that Active is facing funding issues and may be resorting to underhanded tactics to raise cash.

The complaints mentioned on the BBB are echoed clearly by customers on Yelp.com. Moreover, Glassdoor.com, a leading website for employees to review employers, lists numerous references to problems within the IT department and indicates mixed satisfaction with the management team.

Recurring Complaints at the Better Business Bureau

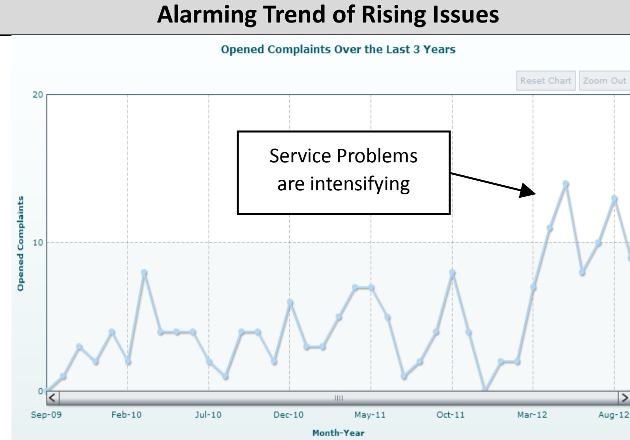
Complaint resolved with BBB assistance (167 complaints)

10/18/2012	Billing/Collection Issues | Read Complaint Details
10/18/2012	Billing/Collection Issues | Read Complaint Details
10/18/2012	Billing/Collection Issues | Read Complaint Details
10/16/2012	Billing/Collection Issues | Read Complaint Details
10/15/2012	Billing/Collection Issues | Read Complaint Details
10/8/2012	Billing/Collection Issues | Read Complaint Details
10/8/2012	Billing/Collection Issues | Read Complaint Details
10/4/2012	Problems with Product/Service | Read Complaint Details
10/3/2012	Billing/Collection Issues | Read Complaint Details
9/28/2012	Billing/Collection Issues | Read Complaint Details

1 2 3 4 5 6 7 8 9 10 ... 17

Source: Better Business Bureau

Alarming Trend of Rising Issues



Source: Better Business Bureau

Low Ratings on Yelp	Same Recurring Complaints on Yelp

Low Ratings on Yelp

yelp

Search for (e.g. taco, cheap dinner, Max's) Near (Address, Neighb san diego, ca

Welcome | About Me | Write a Review | **Find Reviews** | Find Friends | Messaging | Talk | Events

Active Network

32 reviews Rating Details

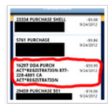
Category: IT Services & Computer Repair [Edit]

10182 Telesis Ct
Ste 100
(between Waterridge Vista Dr & Lusk Blvd)
San Diego, CA 92121
Neighborhood: Mira Mesa

(858) 964-3800
http://www.activenework.com

Hours: Mon-Fri 9 am - 5 pm

Accepts Credit Cards: Yes



Add Photos

Edit Business Info

First to Review Dave S.

Same Recurring Complaints on Yelp

10/4/2012

Two times I have registered for races via http://active.com, and both times I was charged $59.95 for their membership, when I had no desire, nor intention, of signing up for any membership.

The first time, I thought I had declined the trial membership, which turns into a charge if you stay with it for 30 days. I saw the charge on my statement, called them, and they credited the money back to me. I thought OK, it COULD have been my mistake somehow. Recently I signed up for another race via http://active.com and I know that I specifically declined the trial. But apparently I got the trial anyway, along with the subsequent $59.95 charge. I just called them and they said they are going to credit it back.

This is a HASSLE to have to watch your statement for unauthorized charges when using them, and then to have to make the time-consuming call for them to fix it. Based on my experiences with them, the experiences of my local running friends, and the number of complaints that I have viewed online, I have to conclude they are unethical and are making money by charging cards in an unauthorized manner, hoping that many people won't see the charge.

I recommend avoiding using http://active.com but if you have to because that's the only way to register for a race you want to be in, watch your credit card statement like a hawk. I would also urge you to bring these problems to the attention of the race organizers that use http://active.com and to ask them to use a different company for race registration services.

Glassdoor.com: Recurring Themes of Outdated Technology, Bad Management and No Integration

"Good company, fun place to work, but management, especially in IT is in over their heads."

Former Employee in San Diego, CA – Reviewed 2 weeks ago

Pros – -weekly workout programs with onsite group training
- flexible work schedule with the option to work form home
- everyone is friendly and easy to get along with
- Lots of interesting/cutting-edge technologies to work on

Cons – - MANAGEMENT! Especially in the IT department. The VP there is either in over his head or is clearly incompetent . Since he took over employee churn is out of control.
- I had 7 managers that I reported to in less than a year - not even exaggerating one bit.
- employee moral is low
- no clear goals, too many projects started and then completely change direction half way down the road due to changing management priorities
- no stock options!!!!

Advice to Senior Management – Work on employee retention. Really! Make it a top priority. Keep those that you have and make them happy. Even if they are not your top performers, you should work with them and find other ways to motivate them. Promote from within! Reward your top performers. Otherwise, as you have seen, they will leave and follow the managers that do reward them.

"Acquisitions are isolated from corporate's visions and struggle as a result"

Former Employee in Frostburg, MD – Reviewed Sep 7, 2011

Pros – Fun working environment; Values commitment and "time in" vs. education when it comes to promotions; At the highest level of management, great vision of where the company is headed

Cons – Company has grown too rapidly over the last few years and can't keep all of their acquisitions on their radar; Poor compensation compared to similar job duties across organization in different offices; No checks and balances for mid-level managers

Advice to Senior Management – Work harder to assimilate acquisitions, and get a "fly on the wall" at some of these offices. The Frostburg office needs major help getting the call center in order but on-site management is too proud to ask for what they need. There is no mentoring or coaching for call center representatives, though call center supervisors are given great flexibility and detailed, well-prepared performance reviews. Why this discrepancy? The call center supervisors need to be kept in the laps of management so they will be more likely to yield when asking to do something that goes against their business sense or seems inherently wrong. Management passes lies to call center supervisors who in turn, unknowingly pass this erroneous information to their teams. Call center supervisor is not perfect, either- a big problem in Frostburg is employee retention. Supervisors have been permitted by management to go on "firing sprees", citing minor policy violations which in no way impact revenue or prevent business from being conducted. HR's attempts to intervene were rebutted by management time and time again. I loved the vision of Active Network and if Frostburg reflected the same values as San Diego, I might still be there. Ultimately, my integrity led me to look for other employment options.

"Not a bad company to work for, I just don't trust them 100% and feel that they have alterior motives they are hiding."

Current Employee in Nashville, TN – Reviewed Mar 1, 2012

Pros – Not a bad place to work, pay is decent and the benefits are good.

Cons – If The Active Network would just leave companies alone that they keep buying up and letting them run their offices pretty much the same before an acquisiton things would be so much better. They are really destroying the hunt and fish side of the company that they acquired. The pay isn't really as competitive in the market for what we do; especially when all the companies that they now own and we are making them the most money. It just appears to me that our side of the company would be rewarded more for a job well done. Better communication could be in order such as actually posting job promotions instead of just handing them over to someone without even so much as a posting anywhere.

Advice to Senior Management – Not that this is going to matter and no one in CA is going to listen, but I have been with this company for almost 10 years and after seeing this new AWO System last week that all the states are migrating into, it appears that it is going to be a disaster. If something isn't broke with the computer current system, don't fix it. Everything was great until Fall of 2008. When building a new system they need to ask the employees that actually does the job and not have someone to build a new system that will not even use it; but that would be too easy. Also, when eleminating a position it would be nice to ask them if they want to step down to a position that is open no matter what it is, even if it is something small. Active's whole non demoting policy seems a little out dated. So many great strong people have been let go from the Lebanon Rd Office that I work in that was truly running this company. Actually; after writing all of this, I think it's time for an anomyous but very detailed survey or some sort to every employee to freely express themselves without any consequences.

"Poor Management and Technology = recipe for disaster."

Former Employee in San Diego, CA – Reviewed Nov 28, 2008

Pros – The company has pretty good potential, and could be a great company if the right management is put in place.

Cons – It is pretty clear that the company has grown too large for the current Senior Management to handle. There is an extreme lack of communication between departments, and the management does not seem to want to approach the issues. One of the greatest indicators of this is the huge turnover rate. Active has a bad reputation in San Diego as a "turn-and-burn" shop. Another area of concern is that current growth has not been organic, but rather through acquisition of smaller companies that are often of questionable health.
The software itself is poorly designed (hence the many dissatisfied reviews from the online community), and the IT infrastructure is outdated and unable to handle the current capacity, much less growth. Security is also a major concern, and one that needs to be evaluated ASAP.

Advice to Senior Management – If you want to create a sustainable company, FOCUS ON THE PRODUCT, CUSTOMERS, AND EMPLOYEES!!! This includes everything from the customer interface, to the back-end infrastructure. You need to determine why your technology departments are in such turmoil and disarray, and act immediately.

Follow the Money: Insiders are Cashing Out

It's been all downhill for shareholders since coming public. Insiders began cashing out in the IPO and have been selling much more aggressively since the lock-up expired. The selling is broad-based among large institutional backers, and all members of the management team. Total management equity ownership stands at a pathetic 2.3%, a far cry from the 24.4% ownership stake going into the IPO and 18.5% stake immediately following it.

Per the table below, they have liquidated >$160 million worth of shares. Recently demoted CEO David Alberga sold his ownership stake down from 5.6% of shares outstanding pre-IPO to 0.5% of shares outstanding post-IPO, raking in ~$13m. Similarly, current CEO Matt Landa has taken his 4.6% pre-IPO ownership stake down to a 0.5% ownership stake, cashing out ~$10m. While both executives' sales were made pursuant to 10b5-1 plans, their plans are particularly aggressive. Both represented a material reduction in beneficial ownership, amounting to an almost complete break in the linkage between shareholder interests and executive wealth.

Insiders Have Sold >$160 million in and following the IPO

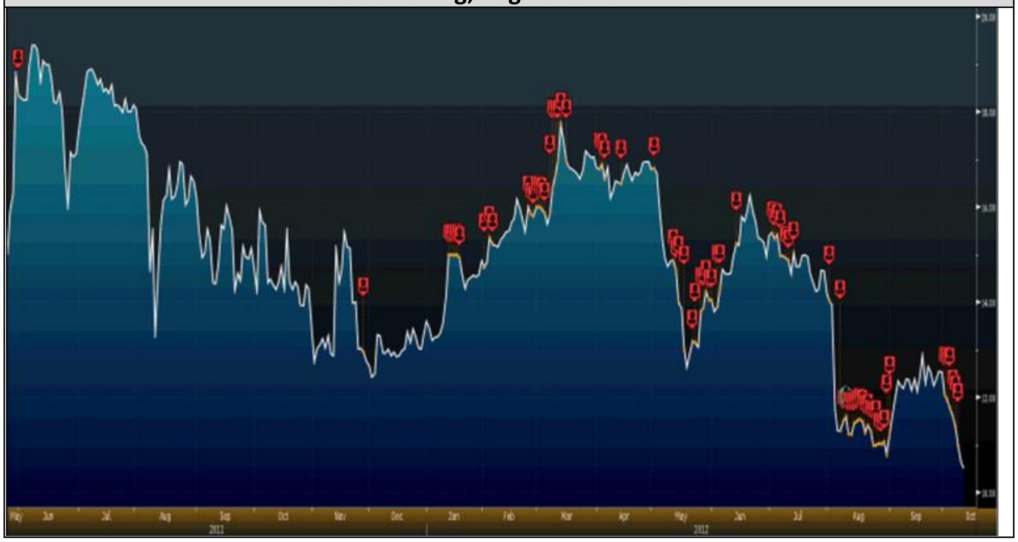
$ in millions

Executive	Role	2004 IPO Filing	2011 IPO Filing	$ Value Sold in IPO	Post IPO	Proxy Filing 3/26/2012	Current Ownership	$ Value Sold Post-IPO
Alberga	Former CEO	3.8%	5.6%	$4.03	4.5%	3.3%	0.5%	$8.60
Landa	Current CEO	3.1%	4.6%	$3.16	3.6%	2.9%	0.5%	$6.46
Mendel	CFO	--	1.0%	$0.78	0.0%	0.6%	0.1%	$0.87
Triplett	SVP, Operations	--	0.4%	$0.18	0.3%	0.1%	0.1%	--
Roland	VP HR	--	0.4%	$0.29	0.3%	0.3%	0.2%	$0.01
Vossoughi	Chief Legal	--	1.6%	$0.94	1.3%	0.2%	0.2%	$0.58
Dejanovic	CTO	--	--	--	--	0.7%	0.7%	$0.32
Belmonte	Former Media	2.9%	3.6%	$2.46	2.8%	0.7%	--	--
Woodman	Former SVP	2.8%	0.5%	$3.45	0.4%	--	--	--
Ehrlichman	Former Strategy	--	5.2%	$0.30	4.2%	--	--	--
Barnestson	Former VP, Sales	--	1.2%	$0.77	0.9%	--	--	--
Wall	SVP, Technology	--	0.3%	$0.21	0.2%	--	--	--
Total Management Ownership		**12.6%**	**24.4%**	**$16.57**	**18.5%**	**8.8%**	**2.3%**	**$16.84**
Canaan Partners	Director since '01	12.1%	15.5%	$10.23	11.8%	10.4%	4.7%	$62.58
Disney	Owner since '08	--	21.5%	$14.23	16.4%	8.0%	10.1%	$42.37
Large Shareholders		**12.1%**	**37.0%**	**$24.46**	**28.2%**	**18.4%**	**14.8%**	**$104.95**
Mgmt. + Large Shareholders		**24.7%**	**61.4%**	**$41.03**	**46.7%**	**27.2%**	**17.1%**	**$121.79**

Source: SEC filings

Active's 2 largest pre-IPO shareholders have also significantly reduced their stakes. While this would not ordinarily warrant our attention, Canaan Partners has been selling very aggressively, and at progressively lower prices. For example, on October 3, 2012 their transactions made up 15% of daily volume. As of mid-October, Canaan is on pace for its largest monthly sales of stock ever and even selling stock near all-time low prices.

Insiders Selling, Regardless of Price..?



Source: Bloomberg

Sell-Side Analysts Have Just Been Plain Wrong

Analysts – 7 out of 8 of whom have Buy ratings– must have their heads in the clouds when it comes to evaluating Active. They blindly assume that Active will deliver on its goals, failing to see the glacier at front and center of the Titanic. They appear to question none of the critical assumptions from Active's marketing pitch. Maybe they have just been daydreaming about getting Active's business for future deals and collecting fat banking fees for issuing more equity, meanwhile missing signs pointing to a company that appears to be functionally insolvent. As a result, they've shown dramatic and inexcusable forecasting error since releasing their initiation reports last year. By the time they change their tune to "Strong Sell" the party could be way over.

The table below contains an overview of what analysts had forecast for 2012 in their initiation reports and what they are forecasting 15 months post-IPO.

Difference in 2012 Analyst Estimates at Coverage Initiation vs. 15 Months Later

$ in millions

	Citibank			Bank of America			Stifel Nicolaus			Raymond James			RBC Capital Markets		
	Initiation	15 mos Later	Change	Initiation	15 mos Later	Change	Initiation	15 mos Later	Change	Initiation	15 mos Later	Change	Initiation	15 mos Later	Change
Revenue	$368.5	$428.0	$59.5	$375.0	$427.0	$52.0	$373.0	$426.0	$53.0	$389.0	$428.0	$39.0	$370.9	$428.8	$57.9
Gross Margin	*59.0%*	*53.7%*	*-5.3%*	*60.0%*	*55.0%*	*-5.0%*	*59.8%*	*54.1%*	*-5.7%*	*56.8%*	*55.3%*	*-1.5%*	*59.3%*	*54.1%*	*-5.2%*
Operating Inc.	$12.3	($32.6)	($44.9)	$10.5	($31.2)	($41.7)	$8.5	($35.3)	($43.8)	$6.3	($32.0)	($38.3)	$8.0	($30.4)	($38.4)
Stock Comp.	$3.4	$18.8	$15.4	$3.3	$17.5	$14.2	$3.5	$15.6	$12.1	$7.6	$17.1	$9.5	$3.4	$17.0	$13.6
Amortization	$7.0	$28.4	$21.4	$11.3	$30.2	$18.9	$11.1	$27.1	$16.0	$8.0	$22.5	$14.5	$14.1	$30.4	$16.3
Depreciation	$29.8	$32.8	$3.0	$29.1	$30.2	$1.1	$27.6	$38.5	$10.9	$40.5	$51.8	$11.3	$14.1	$30.4	$16.3
Adj. EBITDA	$52.5	$47.4	($5.1)	$54.0	$46.6	($7.4)	$50.7	$45.9	($4.8)	$54.5	$59.4	$4.9	$51.0	$47.4	($3.6)
% margin	*14.2%*	*11.1%*	*-3.2%*	*14.4%*	*10.9%*	*-3.5%*	*13.6%*	*10.8%*	*-2.8%*	*14.0%*	*13.9%*	*-0.1%*	*13.8%*	*11.1%*	*-2.7%*
Price Target	$22.00	$20.00	-$2.00	$22.00	$19.00	-$3.00	$21.00	$18.00	-$3.00	$20.00	$19.00	-$1.00	$22.00	$20.00	-$2.00

Source: Analyst Reports

Average Adjusted EBITDA estimates have been adjusted downward by $3.2m (6%), which would on the surface seem to justify their price target reduction of only ~10%, or $2 per share. But look closely at the radical change in the composition of their EBITDA estimates has changed, which is very troubling. Where they previously forecast that Active would earn $9.1m of Operating Income in 2012, they today forecast it will lose ~$32.3m, a change in forecast of ~$41.4m! Looking at the Adjusted EBITDA add backs, stock compensation estimates are now forecast to be more than 4 times higher in 2012 than initially forecast ($4.2m vs. $17.2m). The change in estimates for Depreciation and Amortization charges is ~$25.9m higher, given that Active spent ~$91.4m after the IPO on acquisitions in 2011. The backdrop for the miss in operating income is highlighted by a decrease in the gross margin estimate of ~4.5%, very atypical in magnitude and direction for a growing SaaS company!

The only rational explanation – well, other than our fees thesis in the intro to this section – for the Street's patently optimistic view of this company is that the analyst community suffers from Groupthink. However, when the first analysts finally see the light, the dominoes are likely to fall in reverse.

Valuation and Price Target

Sell-side analysts value Active at a 13-15x EV/EBITDA multiple on 2013 estimates of ~$75m Adj EBITDA, implying a $17-$20 share price target. Notably, they also incorrectly account for Active's cash as though it were excess cash, inflating their target prices and compounding the errors at the root of their valuation assumptions. We believe that analysts are being misguided by Active's IPO marketing pitch and awarding the company the high end of SaaS peer multiples, in part due to Active's >5yr EBITDA CAGR of 30%. However, we believe Active is nothing more than a collection of non-integrated and mature Web 1.0 business process outsourcing (BPO) firms, best characterized by the fish/hunt segment. Under normal circumstances, we believe that Active would command the lower end of the BPO range of 4.0x – 6.0x EV/EBITDA due to low organic growth, operating margin deleveraging, poor governance, and a lack of strategic vision. However, given our demonstrated concerns over the company's financial solvency and blatant violations of GAAP revenue accounting, we assign a deep discount to even this valuation.

We doubt Active would be of interest to a potential acquirer on a revenue multiple basis due to over-complexity, over-diversification of business lines and geography, and the inability to produce a sustainable economic profit. Furthermore, given our belief that gross registration revenue is likely being mixed with Net Registration Revenue, we are not certain there is basis to even contemplate a valuation based on a sales multiple.

On a FCF basis, we derive little from an attempt to value Active. Nearly half of reported cash from operations of $65.7m for 2011 was attributed to an increase in Registration Fees Payable and we estimate adjusted free cash flow for 2011 to be $2.9m. Capitalized software and PP&E costs are growing, currently at a run rate of $40.7m for 2012. Were Active a nascent business model with competitive moats, pricing power and history of measured growth, we might entertain that there in fact was a strategic path towards generating free cash flow, but we do not believe Active maintains any of these traits. Despite having completed 4 additional acquisitions in the last 12 months, trailing adjusted free cash flow (excluding acquisition expense) is negative $14.9m. Given the competitive markets for each of Active's primary business lines, slowing organic sales growth, and dramatically rising costs (e.g. 37% increase in operating expenses), EBITDA margins are likely to continue declining. Assuming management's guidance for a 13% organic growth rate in Net Registration Revenue and persistent gross margin declines, we believe the company will be challenged to reach analysts' 2013 estimate of $75m in Adjusted EBITDA.

We highlight the following issues at the base of our valuation thesis:

1) Organizational complexity and declining investor transparency
2) Business features more closely aligned with a business process outsourcing firm, as opposed to a traditional SaaS model
3) Limited to no appeal as a strategic takeover target
4) Corporate governance concerns
5) Persistent and unpredictable cash shortfalls, and functional insolvency elevating the potential for dilutive equity raises
6) Violations of GAAP revenue accounting standards, raising the prospect for a financial restatement

Our valuation incorporates a 4.0x – 6.0x multiple of 2013 EBITDA, which we believe more realistically captures the lower growth, BPO nature of Active's business. Our 2013 EBITDA estimate approximates $53 million versus the Street estimate of $75 million. Further, our valuation correctly adjusts the Company's enterprise value for its current working capital deficit. Our diluted share count figure incorporates 5.5m net shares from options currently outstanding with a $5.42 strike price and 1.7 million restricted stock units. The low end of our range is approximately $2.50 per share, but even that assumes the financials can be relied upon, and a going concern value. As a result of our concerns regarding Active's solvency and financial reporting, we apply an additional 20% discount to that valuation to arrive at a $2.00 per share target.

$ in millions

	Street Estimates			Prescience Point Estimates		
EV/EBITDA multiple	13.0x	--	15.0x	4.0x	--	6.0x
2013 EBITDA (1)	$73.0	--	$78.0	$51.1	--	$54.6
Enterprise Value	$949	--	$1,170	$204	--	$328
Net Cash Adjustment (2)	$98.0	--	$98.0	($39.8)	--	($39.8)
Equity Value	$1,047	--	$1,268	$165	--	$288
Shares o/s (3)	59.6	--	59.6	66.8	--	66.8
Price Target	**$17.57**	**--**	**$21.28**	**$2.46**	**--**	**$4.31**

(1) 2013 revenue of $480m and 11% EBITDA margin

(2) Adjusted for negative working capital deficit

(3) Adjusted for additional share count increase from deep in-the-money options and RSUs as of 6/30/12

[END OF REPORT]

PRESCIENCE POINT
RESEARCH GROUP

Appendix 1: Active's Merger and Acquisition Targets

$ in millions

Announced	Acquisition	Vertical	Deal Size	Pmt Form	Sales	EBITDA	EBITDA Margin	Enterprise Value/ Sales	Enterprise Value/ EBITDA	Description
08/05	Tee Time King / Fairway Sys.	Golf – Online tee times	$1.5	--	--	--	--	--	--	Online tee reservations and desktop golf course mgmt. software
01/06	Click4TeeTimes	Golf – Online tee times	--	--	--	--	--	--	--	Online golf tee time service provider
01/06	Axia Golf Solutions	Golf – Software	--	--	--	--	--	--	--	Golf score tracking technology and online communities
05/07	Jencess Software & Tech.	Golf – Software	--	--	--	--	--	--	--	Desktop golf course management software
03/06	Promote It International	Marketing – Health Clubs	--	--	--	--	--	--	--	Health club promotions group
04/05	Public Enterprise Group	Marketing – Municpalities	--	--	--	--	--	--	--	Developer of municipal marketing partnerships
06/05	Vision Sports & Ent.	Marketing – Youth Sports	--	--	--	--	--	--	--	Youth sports marketing agency
08/07	LaxPower	Web Community – Lacrosse	$1.2	--	--	--	--	--	--	Web community for high school/college lacrosse players/fans
01/08	iPlayers	Web Community – Recruiting	$0.2	--	--	--	--	--	--	Online recruiting site for high school athletes and college recruiters
01/07	Cool Running	Web Community – Running	--	--	--	--	--	--	--	One of the leading online resources for runners of all abilities.
01/09	ReserveAmerica Holdings	Registrations – Camping	$47.7	--	--	--	--	--	--	Camping reservation and campground management solutions
08/07	InfoSpherix	Registrations – Camping	$17.0	Cash	$23.2	$2.1	9.1%	0.7x	8.0x	Operating park reservations contracts for 14 states and three counties
05/07	Thriva LLC / CRI Inc	Registrations – Camps	--	--	--	--	--	--	--	Web registration/pymt processing for camps/event organizations
01/99	Racegate	Registrations – Endurance	--	--	--	--	--	--	--	Endurance race software (triathlon)
01/99	ActiveUSA	Registrations – Endurance	--	--	--	--	--	--	--	Endurance race software
01/99	TicketMaster	Registrations – Endurance	--	--	--	--	--	--	--	Endurance race software
04/04	Do It Sports	Registrations – Endurance	$2.3	--	--	--	--	--	--	Online event management for endurance races.
09/11	Eventdirector	Registrations – Endurance	--	--	--	--	--	--	--	Race registration for events across Australia/New Zealand
01/08	WingateWeb	Registrations – Events	$2.6	--	--	--	--	--	--	Event online registration services for large companies
01/08	RegOnline	Registrations – Events	$7.8	--	--	--	--	--	--	Event online registration services
08/12	Plancast	Registrations – Events	--	--	--	--	--	--	--	Event planning and social activities
01/12	StarCite	Registrations – Events	$57.5	Cash/Stock	$36.0	($5.5)	-15.3%	1.6x	--	Corporate event planning
02/10	Channel1	Registrations – Events	--	--	--	--	--	--	--	Online event management software
10/08	Automated License Sys.	Registrations – Fish & Hunt		Cash/Stock						Fishing & hunting license management for 24 state agencies
10/08	Trust Bank of Missouri	Registrations – Fish & Hunt	$68.2	65.2	--	--	--	--	--	Fishing & hunting license management for 24 state agencies
10/08	Outdoor Central	Registrations – Fish & Hunt								Fishing & hunting license management for 24 state agencies
10/04	Class Software Solutions	Registrations – Generic	--	--	--	--	--	--	--	Products and services for the community activities sector
12/06	SPORG	Registrations – Generic	--	--	--	--	--	--	--	Web registration software for businesses, leagues and nonprofits
12/06	PreEnroll	Registrations – Generic	--	--	--	--	--	--	--	Leading provider of online registration services
07/06	LeagueOne	Registrations – Teams	--	--	--	--	--	--	--	Registration and data mgmt software to state soccer associations
01/00	League Link	Registrations – Teams	--	--	--	--	--	--	--	Web-based software for rec team sports leagues and participants
12/00	Eteamz.com	Registrations – Teams	--	--	--	--	--	--	--	Online team & league sports software
12/01	Myteam.com	Registrations – Teams	$1.4	--	--	--	--	--	--	Online for the team sports and a direct marketing company
05/03	Onjibe	Registrations – Teams	$0.1							Online services for teams and leagues
01/10	Clubspaces.com	Registrations – Teams	--	--	--	--	--	--	--	Web technology/services for sports associations, leagues and teams
07/08	HY-TEK Sports Software	Registrations – Teams	$0.4	--	--	--	--	--	--	Software for swimming and track & field clubs
02/11	Fellowship Technologies	Software – Church	$8.9	Stock	--	--	--	--	--	Online church management software for 1,700 churches
07/11	ConnectionPower	Software – Church	$2.2	--	--	--	--	--	--	Online church management software
10/11	ServiceU	Software – Church	$11.1	Cash	--	--	--	--	--	services
04/06	IronPoint	Software – Content Mgmt.	--	--	--	--	--	--	--	Content management software solutions provider
10/00	RecWare	Software – Park Mgmt.	--	--	--	--	--	--	--	Desktop rec mgmt software for park districts, univ sports and military
02/09	OpenCourse Solutions	Software – Resorts	--	--	--	--	--	--	--	Hospitality technology for resorts
11/11	RTP	Software – Resorts	$21.5	Cash	--	--	--	--	--	Ski resort software

Source: Company press releases, internet searches

Appendix 2: ActiveWorks Management Commentary

Example #1

When asked on the Q2 2012 conference call if ActiveWorks was still on track to be completed by mid-2013, COO Matt Landa appeared to express self-doubt about the target date

"*Yes. And then just on ActiveWorks. We continue to progress on schedule there. We feel really good about that. The migration, as you said, right, should be materially complete by the middle of 2013, right? And 2013 is where our target is on that. All of the big-name direct accounts are going to ActiveWorks at this point in time. So that all is happening while we've got a fairly good chunk right now of our major accounts are operating on ActiveWorks, and I think that David mentioned that. So I think the number is getting fairly significant here, so there's no question that the product can handle these large accounts. And I just want to manage the migration in the most economically optimal way for us as we go forward here over the next year or so, as we kind of -- our schedules that we discussed. In terms of functionality on ActiveWorks, a lot of new functionalities are coming out. Dave talked about some a bit, a lot of enhanced functionality for teams, tournaments. You've got payment processing functionality as well, permitting and licensing obviously we've talked about, and also things like staff management. And we're also doing a number of other things in terms of meet, entry and fee collections. So in the swim space, we've talked about Meet Mobile. We're also –which rolled out this past quarter. You take transaction fees. It's opened up the entire swimming market for us, which is pretty exciting. There's the card-present sales, so the swiping technologies that we rolled out for day of registration. It opens up another category for us as well. We rolled out private lesson sales and also wish list functionality, just like you have on Amazon, to be able to select an activity to purchase or register for later. So there's a lot of interesting functionality coming out on ActiveWorks. We're excited about where we are, and the migration process is moving along according to schedule.*"

Example #2

"*Some examples of major industry event that adopted ActiveWorks during Q1 [2012] were the Color Run, Spartan Race, that Pat Tillman Foundation, the Wildflower Triathlon, the Marine Corps Marathon*"

And then later,

"*Spartan Race and Color Run are among many high-profile customers who made the switch to our ActiveWorks platform in Q2[2012].*"

Thus, management fails to accurately describe when new customers actually launched on ActiveWorks.

Example #3 from the Q4'2011 conference call

Analyst Question: "*Two quick questions, one on ActiveWorks. Could you -- you mentioned before over 50% of revenue is on go forward platforms currently. Can you characterize how much of that is on ActiveWorks itself and what's the target there? And then, David you kind of touched on this a moment ago, but what kind of feedback are you getting from customers both during the sales process and then after implementation? In other words, are you seeing demand for ActiveWorks implementations or you're kind of having to sell it into the customers. And then I have a follow-up.*"

David Alberga, *Chairman and Chief Executive Officer*
"Okay, let me take them in the opposite order. The first is no, we're not having to sell it hard. In the Endurance space right now where we probably have the most number of new customers moving onto it, the response has been overwhelmingly positive. So we're really, really pleased about what's going there. But I'd say, let me wait 1 quarter or 2. Because the reality is that, that business really ramps up in the spring and runs hard through the summer and then falls off again. And so we are in a position now where A, B and C -- or sorry, B, C and D accounts are all in an automatic way, being moved over to ActiveWorks and coming up bringing up their new season on ActiveWorks. And so, I think I'll have a much better feel for you, come the -- kind of the end of the spring, middle of the summer. We are moving large numbers over there right now but it's still very early. The other thing that I'd like to lay out for everyone on the phone is that this is kind of an evolution. ActiveWorks is really a services-based platform. There are some cases like in Endurance where we've essentially just rebuilt the entire stack because we felt that the front end of our old product was just so old and had built on, been built on for so long that it didn't make sense to integrate the new services into that old front end. That just didn't make sense. In a lot of cases, we have really good technology running already. But it's not all integrated with other pieces of technology and with our backend. And in those cases, what you're really seeing is a migration of those or transition of those products over to ActiveWorks, meaning, we're still retaining the front end, a lot of it is built in the application layer, we're retaining that and we're simply plugging in the applicable backend modules that are all shared the ActiveWorks modules into the back end. So in a lot of cases, customers may or may not even know that they've been moved over to the ActiveWorks platform. In fact, ideally, they don't know that. It simply makes us much more efficient here. We've got a lot better, a lot faster at developing. Our development costs go down and our IT costs go down dramatically and our backend integration has made that much easier to run our operations as a result. So it has free -- you have to think of each of these kind of applications a little bit differently and our approach to them as to whether we really are rebuilding a whole new stack and wholesale moving people into something that feels very different like we are in Endurance or in, say, hunting and fishing, we are moving people into, probably not a good example -- like in any number of other applications, we are essentially plugging the platform of services into the backend of an existing product that actually provides great features and functionality for the customers. Do you get what I'm saying?"

Appendix 3: Active's Timely Option Grants

Active's Option Granting History

Date	# of Options	Option Strike	Stock Fair Value on Date of Grant	Note
Jan-09	**497,474**	**$1.96**	**$4.78**	**Options re-pricing**
Jan-09	37,832	$4.78	$4.78	
Feb-09	**256,000**	**$1.96**	**$4.78**	**Options re-pricing**
Feb-09	10,000	$4.78	$4.78	
Apr-09	**1,513,251**	**$1.96**	**$1.96**	**Large grant after lower valuation**
May-09	45,000	$1.96	$1.96	
Sep-09	96,922	$1.96	$1.96	
Nov-09	380,500	$1.96	$1.96	
Mar-10	**1,765,500**	**$1.96**	**$1.96**	**Large grant before higher valuation**
Jun-10	128,000	$3.78	$3.78	
Sep-10	348,500	$3.84	$3.84	
Nov-10	216,300	$4.87	$4.87	
Feb-11	258,000	$4.87	$7.88	
Feb-11	10,500	$7.88	$7.88	
Mar-11	747,000	$7.88	$7.88	
Apr-11	**1,564,000**	**$7.88**	**$13.78**	**Discounted Grant Pre-IPO**
May-11	44,000	$13.78	$13.78	
Aug-11	81,500	$17.28	$17.28	
Aug-11	5,000	$14.70	$14.70	
Aug-11	2,000	$16.14	$16.14	
Aug-11	20,000	$16.48	$16.48	
Nov-11	145,100	$13.04	$13.04	
Nov-11	100,000	$12.95	$12.95	
Nov-11	50,000	$12.75	$12.75	

Source: S-1; page 55