

Venture Research LLC

Initiating Coverage

Next 1 Interactive, Inc (OTC Bulletin Board NXOI.OB)

Recommendation: **Strong Buy**

Target Price: **\$4.00**

Recent Price: **\$1.45**

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Clay Mahaffey, CFA
Analyst

clay@claymahaffey.com
646-645-3048

Investment Summary

| Snapshot | | Estimates and Summary | | | | |
|-------------------------------|--------|-----------------------|--------|--------|-------|-------|
| Shares Out, Basic and Diluted | 27.3 | FY end Feb 28 | '09Act | '10 FC | '11FC | '12FC |
| Market Cap, \$mil | \$40 | Revenue,\$mil | 2.8 | 2.0 | 11.5 | 41.2 |
| Avg. Daily Volume (3 mo) | 8,000 | EBITDA | -1.6 | -2.9 | 1.7 | 18.2 |
| Net Debt, \$ mil, mrq | \$1.1 | Net Income | -1.8 | -3.3 | 1.4 | 14.4 |
| Book Value/sh | \$0.21 | EPS fd | -0.14 | -0.12 | 0.05 | 0.50 |
| P/B mrq | 7.1 | EBITDA/share | -0.12 | -0.11 | 0.06 | 0.63 |
| P/S, ttm | 18.9 | P/EBITDA | -12.1 | -13.2 | 24.2 | 2.3 |
| | | P/E | -10.4 | -12.1 | 29 | 2.9 |

Summary and Conclusion

Next 1 Interactive is a digital media company offering products and services to consumers through established media (cable and satellite TV, internet). They have developed a TV Network called Resort and Residence TV that will play 24/7 as well as two additional Video on Demand channels focused on real estate and travel. They have contracts and letters of intent with leading distributors including Comcast, Time Warner and Direct TV and will launch the network with 25 million subscribers.

Investment Rationale

- Very large consumer market: 100 million households of which 45 million are wired for interactive TV (cable boxes) at least capable of video on demand (VOD)
- Capture emerging trend: interactive TV rather than old school network broadcasting is the future
- Significant industry partnerships validate concept: exclusive deal with Comcast requires revenue sharing, also Time Warner, Direct TV, others. Plan to have 25 million viewers from day one
- Commercial launch expected in 30 days: very timely, product and team in place
- Targeted segments are heavy advertisers: real estate and travel, especially cruises
- Novel, emerging revenue model: not only ads but sponsorships and referral fees on leads and percentage of sales/vacation transactions, shows run 24/7, no need for massive phone banks
- High margin/low capital business: 50+% gross margins due to highly scalable revenue model
- Experienced, savvy management team: Have run growth companies. Cable/travel industry veterans
- Significant upside potential: Discounted cash flow analysis indicates \$4.00/share potential
- Milestones:
 - Financing: Need to raise \$3-5 million for deposits with cable companies
 - Operations: Additional distribution partnerships to increase reach (# households)
 - Marketing: Validation of referral fee income and \$/household assumptions

See Important Disclosures on page 9

Revenue Model:

The Company has acquired programming content and will offer as a new network “Resort and Residence TV” (R&R). They have secured distributions including Comcast to reach 25 million households and the shows will be available 24/7 through the MSO’s (multiple system operators i.e. cable, internet, telephone providers). The MSO’s have varying levels of ‘interactivity’ but will at least have VOD capability (cable box). Users will be able to request information with the touch of a button rather than making a phone call or filling in a form. In some cases the Company will push the user to their web sites for additional information. A very robust mix of revenue streams will be created:

Advertising:

- Sponsorship of programs: Expect \$50k/show (8 minutes) and offer 24/7.
- Ad fee on a per viewer basis: will offer a pre-roll and post-roll ad around the content of interest.
- Follow on sale of leads to real estate/travel vendors: mortgage brokers, attorneys, home security, accountants, insurance, airlines, hotels etc.
- \$3 million of advance commitments have been secured from cruise lines such as Carnival Cruise, Royal Caribbean, also American Outdoorsman, Atlantis Resorts, Herold Custom Publishers, European Tourism Commission (21 member countries)

Referral fees

- NXOI will receive commissions on transactions initiated by cable/internet viewers
 - Real estate sales: 25% of 6% sales commission
 - Vacation packages: 3% of booked packages
 - Last Minute Vacation Product including Air, Hotels, Yacht rentals, Timeshares: Re-sell products as ‘white label’/company brand vacations. >100% mark up due to bulk purchases
 - Sell high end, custom vacations using cable TV show plus on demand feature to close sale

Cable Industry Snapshot

The cable industry reaches most households in the US with a variety of services.

| | |
|--|----------|
| Cable Industry Revenue (year ended December 2008) ¹ | \$86.3 B |
| Cable Advertising Revenue (year ended December 2008) | \$26.6 B |
| Number of Cable Operating Companies ² | 1,212 |
| National Cable Programming Networks (2006) | 565 |
| Number of Cable Systems (March 2009) | 7,791 |
| Operating Metrics (as of June 2009) | |
| Basic Video Customers ¹ | 63.1 M |
| Digital Video Customers ¹ | 41.5 M |
| High Speed Internet Customers (includes commercial) ¹ | 40.5 M |
| Cable Phone Customers ¹ | 21.1 M |

¹ SNL Kagan

² Nielsen Focus

Enhanced Services.

The industry has developed a number of enhanced services for consumers. The most basic is Video on Demand (VOD) where the consumer selects from an array of movie offerings and immediately views the movie from their TV. This requires an optional cable box. Another interactive feature is polling which allows users to 'vote' on choices presented to them in the programming. Addressability is a function that enables the cable operator to send different advertisements to different users within the same program. The ads would typically be based on the known consumer demographics or other relevant factors. Other basic functions include a "click here to receive information" which is a much simpler and convenient method to receive information than possible with conventional broadcast TV. These and other enhanced services are growing rapidly and NXOI is positioned as a media company to leverage these new services and their novel revenue model to create what can be a 24/7 money machine.

Web vs. Cable Web applications have extensive interactivity, of course, and enable a consumer to immediately close a transaction. Cable viewers at this time have a much reduced level of capability. The Company has a series of web sites supporting the real estate and travel cable shows and can send viewers to these sites using discounts, coupons and other traditional means. They can also send web browsers to the cable channel knowing the IP address of the user. Many cable operators allow web users to watch cable on the web at no charge assuming they are current subscribers. The convergence of the web and cable services will continue.

Valuation: Discounted Cash Flow Method

Of the two elements of the revenue model (advertising and referral fees) the advertising piece is more predictable at the moment. Management says they have received \$3 million in commitments before launch which is for the first 90 days of production. This revenue will very likely increase substantially in the next few years given that Management has received strong support from major advertisers such as cruise lines. Cable advertising is a \$26 billion/year market and NXOI should get their share of clients. The model is to sell the sponsored video presentation in 8 minute segments and in addition they will sell brief pre-roll and post-roll ads.

The referral fees will come from a variety of sources most importantly a share of real estate commissions received from viewers who request information during the real estate show or from the web site. The Company has received realtors' licenses across the country and can properly receive the payments. Similarly travel vacations booked will generate fees as a percentage of the total costs booked. The basic leads generated can also be monetized. In addition, Management will make bulk purchases of time share and hotel time and repackage these into luxury vacations and sell for an attractive rate and lock in a margin on the sale (rather than % of the transaction). In order to forecast these revenue streams certain simplifying assumptions can be made to arrive at a proxy method to estimate the referral fee income. The referral fees can then be calculated as the product of two factors:

1. # transactions completed = a x b x c
 - a. # Households that can receive the show
 - b. % of the households that view the show

- c. % of the viewers that complete a transaction
2. Average revenue per transaction. A proxy method to estimate all revenue streams using four revenue streams is utilized for estimation purposes. Referral streams (A) is \$2,000/transaction and (C) is \$100 per.

| Example Referral Fees Per Transaction Assumptions | |
|--|---------|
| (A) Real Estate Transaction Value, \$ | 200,000 |
| Real Estate Commission @ 6% | 12,000 |
| NXOI Fee @ 25% | 3,000 |
| Discount for revenue sharing, other | 33% |
| Net to NXOI, rounded | 2,000 |

| | |
|----------------------------------|-------|
| (C) Vacations, Transaction Value | 3,000 |
| Commission, % | 3% |
| NXOI Referral Fee, \$, rounded | 100 |

Streams (B) and (D) are estimates. The net referral fee then is the sum of these four methods: $A + B + C + D = \text{Total} = \$1.68/\text{million households}$.

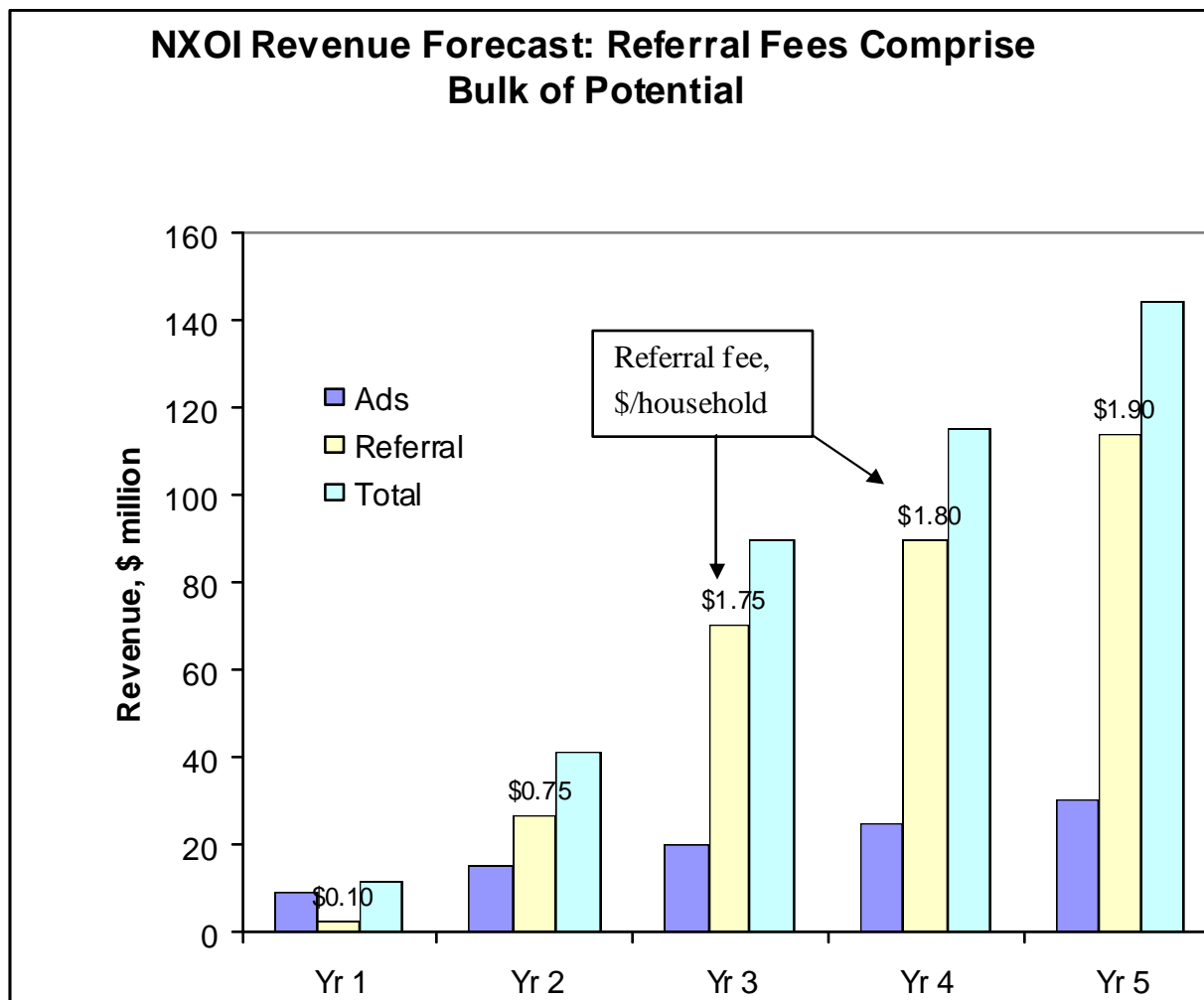
| Referral Model Assumptions per Million Available Households | | | | | |
|--|--------------------|--------------------|------------------|------------------|--------------|
| | A | B | C | D | Total |
| Segment | Real Estate | Real Estate | Vacations | Vacations | - |
| Referral Model | Commission | Commission | Commission | Resell | - |
| Transaction | Sale | Leads | Sale | Sale | - |
| (1) Viewers/mo, % available | 10% | 10% | 10% | 10% | - |
| (2) Transactions/000 Views | 0.5 | 2 | 1 | 0.25 | - |
| (3) Transactions/mo/million households | 50 | 200 | 100 | 25 | - |
| (4) \$/transaction | 2,000 | 25 | 100 | 1000 | - |
| (5) \$/mo | 100,000 | 5,000 | 10,000 | 25,000 | 140,000 |
| \$/yr | 1,200,000 | 60,000 | 120,000 | 300,000 | 1,680,000 |
| \$/yr/million households | \$1.20 | \$0.06 | \$0.12 | \$0.30 | \$1.68 |

Source: VR LLC assumptions

The estimated referral fee income (\$1.68/million available households) then is the product of the estimated \$/household times the number of available households. I further assume that this estimated \$/household rate is not reached until the third year of operations due to various factors including level of technology available to the consumer, mix of cable markets (some will be more receptive than others), level of cable operator support, varying revenue sharing agreements, success of convergence of cable and web, etc. The \$/household rate increases each year as shown below, as is the total NXOI revenue forecast:

| Year From Launch | Assumptions | | | Revenue Forecast, \$ million | |
|------------------|--------------------------------|------------------------------|----------------------------------|------------------------------|---------------|
| | Available Households, Millions | Ads/Sponsorships, \$ million | Referral Fees, \$/mil Households | Referrals | Total Revenue |
| 1 | 25 | 9 | \$ 0.10 | 2.5 | 11.5 |
| 2 | 35 | 15 | \$ 0.75 | 26.3 | 41.3 |
| 3 | 40 | 20 | \$ 1.75 | 70.0 | 90.0 |
| 4 | 50 | 25 | \$ 1.80 | 90.0 | 115.0 |
| 5 | 60 | 30 | \$ 1.90 | 114.0 | 144.0 |

Source: VR LLC assumptions



Note: Base Case referral fees/HH displayed above.

Based on these key assumptions the present value of the cash flows per share is \$4.18. The DCF sensitivities to the discount rate and Base Case referral fee rate are shown below. At the current price of \$1.40 the market is applying a greater than 30% discount to the future

cash flows. We believe the 20% rate is appropriate since the cable distribution agreements in place are key.

| DCF Sensitivity | |
|------------------------|-----------|
| Discount Rate, % | NPV,\$/sh |
| 10% | \$14 |
| 20% | \$4.18 |
| 30% | \$1.95 |

The referral fee revenue is the key assumption and we believe our assumptions are conservative in that future realizations may be higher than currently assumed. The NPV sensitivity shows NPV increases/decreases in proportion to changes in the Base Case assumptions. Even if the referral fees fell to nil, the NPV from advertising alone indicates a value of about \$1.00/share.

| Referral Fee Rate, \$/million HH | NPV,\$/sh |
|----------------------------------|-----------|
| Base Case | \$4.18 |
| -10% | \$3.87 |
| +10% | \$4.49 |
| +50% | \$5.73 |
| Nil | \$1.05 |

The 3 fold upside potential is compelling when you consider the near term launch and subsequent facts will emerge to validate these assumptions or provide transparency as to what they in fact will be.

Management

The management team includes professionals from the travel industry, the radio broadcast and cable television industries.

Jim Whyte, *Chairman*

Mr. Whyte has 38 years experience in both the travel and real estate industry as an employee, owner and entrepreneur and has experience in the airline, hotel, rental car, tour operator, retail travel, and travel magazine market segments. He has owned and operated various hotels, marinas, travel agencies, apartment buildings, marketing and printing companies.

Bill Kerby, *Vice Chairman and CEO*

Mr. Kerby is Founder of Next 1 Interactive. He served as Chairman, CEO and Founder of Extraordinary Vacations. He is an Entrepreneur and CEO with 18 years in Media and Travel Industry and 10 years in the financial industry. Mr. Kerby Founded TravelByUs, a NASDAQ small cap company, with 21 travel subsidiaries. He also Founded Leisure Canada, which includes 210 agencies, international tour operations and magazines. Mr. Kerby also owned the Master Franchise for Thrifty Car Rental in British Columbia.

Anthony Byron, *Chief Operating Officer*

Mr. Byron has been an Entrepreneur for 34 years in the travel, hospitality and motivational industries. He has owned and operated incentive travel and event marketing companies, retail and corporate travel agencies and wholesale tour operators. He is currently CEO and

majority shareholder of Meridian Incentive Consultants in Toronto, Canada and also Meridian USA, LLC located in Weston, Florida.

Richard Sokolowski - Chief Financial Officer

Mr. Sokolowski brings over 25 years of experience in various industries and positions including finance, information technology and project management, operations and SEC reporting, including Sarbanes-Oxley compliance. He spent the past 11 years with Memry Corporation, most recently as Vice President - Corporate Controller.

Wendy Borow Johnson – President, R&R and Vice President Media, Next 1

Ms. Borow-Johnson has spent over 25 years in the Media industry, holding such positions as Senior Vice President of NBC Cable, on air reporter and program host for ABC and Lifetime, SVP of DMBB advertising, Managing Director of McCann Erickson, President of Healthy Living Channel, SVP of Marketing Source Media Interactive Channel, President - Brand Management, Beyond Commerce/Boommj Inc.

Tom Armstrong - VP Sales and Marketing

Mr. Armstrong brings over 20 years travel industry experience, as VP of SeaMiles Visa/Parkwest Galleries. He also served as Director of International Voyager Media – Onboard Media partner of Princess Cruises, Holland America Lines, Norwegian Cruise Line and others.

Shawn Tubman – VP Travel

Mr. Tubman has over 22 years in the cruise industry including the position of VP Sales for Norwegian Cruise Lines, and 6 years as President of Cruise Shoppes. He also serves on the Advisory Board of CLIA; the marketing arm of the cruise line industry

Don David - VP Real Estate VOD

Mr. David has been a senior executive in various industries over the past 30 years, and is the co-founder of Loop Networks and former President of the Home Preview Channel.

Kevin Cuddihy – VOD Development Consultant

Mr. Cuddihy is the former Vice President of Sales for Comcast's Searchlight Division heading up the Video on Demand project – including Monster.com and Vehix.com. He was responsible for advertising sales with over 4,500 employees reporting to him.

Risks

Upside Risks: The assumed referral revenue rates are too low. The available households are too low. Technological developments are rapid which facilitate the services offered.

Downside Risks:

Financial The Company has little cash and needs to raise funds in order to implement the business plan. They have a history of operating losses and the auditing firm indicates there is doubt about the Company's ability to continue as a going concern.

- Operational The relationships the Company has developed may not continue and they may not be able to implement the business plan or if the growth develops they may not properly manage that growth.
- Securities NXOI is subject to “Penny Stock” Rules and restrictions exist on broker/dealers from recommending the stock. There is low liquidity in the stock. Existing shareholders may suffer dilution from issuance of new shares.



| Date | Recommendation | Price Target |
|-----------------|----------------|--------------|
| October 6, 2009 | Buy | \$4.00 |

DISCLOSURES

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Mr. Mahaffey began his career with Exxon in engineering and later moved into board room level international business development for a major petrochemical company. He conducted merger and acquisition services for The Sterling Group in Houston, TX and led an LBO program for a Boston based investment firm. He worked with an SEC Registered Investment Advisor and has held Series 7 and 65 licenses. He has covered oil and gas, energy and other stocks as an independent equity analyst with Redchip and other research providers. He is a private investor in oil and gas prospects. He received a "Five Star" rating from Yahoo Finance for stock performance results. He has co-founded ventures in the international distribution and oil service industries. He has been quoted in numerous local and international publications including Bloomberg News. Mr. Mahaffey holds a BS in Chemical Engineering from Louisiana State University and an MBA from The Wharton School, University of Pennsylvania. He holds the Chartered Financial Analyst (CFA) charter and is a member of the New York Society of Securities Analysts.

Next 1 Interactive, Inc. Income Statement

| Income Statement | Fiscal Yr End 2/28/2009 | Q1 Actual 5/31/2009 | Q2 FC 8/31/2009 | Q3 FC 11/31/2009 | Q4 FC 2/28/2010 | FY 2010 FC 2/28/2010 | FY 2011FC 2/28/2011 | FY 2012FC 2/28/2012 |
|--|----------------------------|------------------------|--------------------|---------------------|--------------------|-------------------------|------------------------|------------------------|
| Revenues | | | | | | | | |
| Referral fees | N/A | N/A | N/A | N/A | 150,000 | 150,000 | 2,500,000 | 26,250,000 |
| Advertising revenues | 2,755,608 | 191,415 | 150,000 | 500,000 | 1,000,000 | 1,841,415 | 9,000,000 | 15,000,000 |
| Total revenues | 2,755,608 | 191,415 | 150,000 | 500,000 | 1,150,000 | 1,991,415 | 11,500,000 | 41,250,000 |
| Cost of revenues | | | | | | | | |
| Cost of revenues | 1,410,113 | 112,388 | 88,071 | 275,000 | 632,500 | 1,107,959 | 5,750,000 | 18,562,500 |
| Gross profit | 1,345,495 | 79,027 | 61,929 | 225,000 | 517,500 | 883,456 | 5,750,000 | 22,687,500 |
| Gross Margin,% | 48.8% | 41.3% | 41.3% | 45.0% | 45.0% | 44.4% | 50.0% | 55.0% |
| Operating ex penses | | | | | | | | |
| Salaries & benefits | 1,553,546 | 366,870 | 400,000 | 375,000 | 375,000 | 1,516,870 | 1,592,714 | 1,751,985 |
| Selling and promotions ex pense | 42,335 | 24,025 | 150,000 | 150,000 | 150,000 | 474,025 | 497,726 | 547,499 |
| General & administrative | 1,488,539 | 600,310 | 500,000 | 400,000 | 400,000 | 1,900,310 | 1,995,326 | 2,194,858 |
| Total operating ex penses | 3,084,420 | 991,205 | 1,050,000 | 925,000 | 925,000 | 3,891,205 | 4,085,765 | 4,494,342 |
| Operating income (loss) | (1,738,925) | (912,178) | (988,071) | (700,000) | (407,500) | (3,007,749) | 1,664,235 | 18,193,158 |
| Operating Margin,% | -63.1% | -476.5% | -658.7% | -140.0% | -35.4% | -151.0% | 14.5% | 44.1% |
| EBITDA | (1,638,309) | (893,542) | (968,071) | (680,000) | (387,500) | (2,929,113) | 1,744,235 | 18,225,286 |
| Interest ex pense | | | | | | | | |
| Interest ex pense | (119,195) | (62,728) | (70,000) | (70,000) | (70,000) | (272,728) | (280,000) | (280,000) |
| Loss on forgiveness of debt | | | | | | | | |
| Loss on forgiveness of debt | 29,040 | (10,213) | (10,213) | (10,000) | (10,000) | (40,426) | 0 | 0 |
| Other ex penses | | | | | | | | |
| Other ex penses | (14,487) | 88 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other income (ex pense) | (104,642) | (72,853) | (80,213) | (80,000) | (80,000) | (313,066) | (280,000) | (280,000) |
| Net Income Before Tax | (1,843,567) | (985,031) | (1,068,284) | (780,000) | (487,500) | (3,320,815) | 1,384,235 | 17,913,158 |
| Tax Loss Carry Forward | | | | | | | | |
| Tax Loss Carry Forward | (4,237,647) | (6,081,214) | (7,066,245) | (8,134,529) | (8,914,529) | (8,914,529) | (9,402,029) | (8,017,795) |
| Tax @ 35% | | | | | | | | |
| Tax @ 35% | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (3,463,377) |
| Net Income (loss) | (\$1,843,567) | (\$985,031) | (\$1,068,284) | (780,000) | (487,500) | (3,320,815) | 1,384,235 | 14,449,781 |
| Weighted average number of common shares outstanding | | | | | | | | |
| Weighted average number of common shares outstanding | 13,448,861 | 25,109,083 | 25,109,083 | 29,109,083 | 29,109,083 | 27,109,083 | 29,109,083 | 29,109,083 |
| EPS, fully diluted | | | | | | | | |
| EPS, fully diluted | -\$0.14 | -\$0.04 | -\$0.04 | -\$0.03 | -\$0.02 | -\$0.12 | \$0.05 | \$0.50 |
| EBITDA/sh | | | | | | | | |
| EBITDA/sh | (\$0.12) | (\$0.04) | (\$0.04) | (\$0.02) | (\$0.01) | (\$0.11) | \$0.06 | \$0.63 |

Next 1 Interactive, Inc. Cash Flow Statement

| | FY Actual 2/28/2009 | Q1 Actual 5/31/2009 | Q2 FC 8/31/2009 | Q3 FC 11/31/2009 | Q4 FC 2/28/2010 | FY 2010 FC 2/28/2010 | FY 2011 FC 2/28/2011 | FY 2012 FC 2/28/2012 |
|--|------------------------|------------------------|--------------------|---------------------|--------------------|-------------------------|-------------------------|-------------------------|
| Cash flow from operating activities: | | | | | | | | |
| Net loss | \$ (1,843,567) | \$ (985,031) | (1,068,284) | (780,000) | (487,500) | (3,320,815) | 1,384,235 | 14,449,781 |
| Loss on forgiveness of debt | | 10,213 | 0 | 0 | 0 | | 0 | 0 |
| Depreciation and amortization | 100,616 | 18,636 | 20,000 | 20,000 | 20,000 | 78,636 | 80,000 | 32,128 |
| Amortization of discount on notes payable | (181,300) | 36,226 | 36,000 | 36,000 | 36,000 | 144,226 | 36,000 | 904 |
| Stock based compensation | 72,000 | 281,195 | 250,000 | 250,000 | 250,000 | 1,031,195 | 1,000,000 | 1,000,000 |
| Changes in operating assets and liabilities: | | | | | | | | |
| (Increase) decrease in accounts receivable | (77,534) | 20,315 | (19,532) | 41,667 | (108,333) | (65,884) | (1,725,000) | (4,958,333) |
| (Increase) decrease in prepaid expenses and other current assets | (15,612) | 7,142 | (16,530) | 0 | 0 | (9,388) | 0 | 0 |
| Increase (decrease) in accounts payable and accrued expenses | 128,702 | 39,510 | 231,824 | 0 | 0 | 271,334 | 187,500 | 3,718,750 |
| Increase in other current liabilities | 112,500 | 80,358 | 0 | 0 | 0 | 80,358 | 0 | 0 |
| Net cash (used in) operating activities | \$ (1,704,195) | (491,436) | (566,522) | (432,333) | (289,833) | (1,780,125) | 962,735 | 14,243,230 |
| Cash flows from investing activities: | | | | | | | | |
| Purchase of furniture, and equipment | 0 | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Technology development costs | (514,999) | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase in security deposits | - | 25,922 | 0 | (3,000,000) | (300,000) | (3,274,078) | (1,020,695) | (1,326,904) |
| Proceeds from note receivable | | - | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisitions | | | (8,000,000) | 0 | 0 | (8,000,000) | 0 | 0 |
| Net cash provided by (used in) investing activities | (514,999) | 25,922 | (8,000,000) | (3,000,000) | (300,000) | (11,274,078) | (1,020,695) | (1,326,904) |
| Cash flows from financing activities: | | | | | | | | |
| Bank overdraft | | 56,391 | 0 | 0 | (56,391) | 0 | 0 | 0 |
| Net payments of related party loans | (117,318) | (30,407) | 0 | 0 | 0 | (30,407) | 0 | 0 |
| Proceeds from note payable | (83,204) | 30,000 | 1,000,000 | 0 | 0 | 1,030,000 | 1,000,000 | 0 |
| Payments of capital lease payable | (41,853) | (10,046) | (10,000) | (10,000) | (10,000) | (40,046) | (10,000) | (10,000) |
| Proceeds from the sale of common stock and preferred stock | 2,686,000 | 414,150 | 0 | 4,000,000 | 0 | 4,414,150 | 0 | 0 |
| Proceeds from issuance of preferred stock to seller | | | 3,500,000 | 0 | 0 | 3,500,000 | 0 | 0 |
| Long term notes due seller | | | 1,250,000 | 0 | 0 | 1,250,000 | (500,000) | (750,000) |
| Zero Coupon bonds | | | 3,000,000 | 0 | 0 | 3,000,000 | 0 | 0 |
| Acquisitions | (270,000) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net cash provided by financing activities | 2,173,625 | 460,088 | 8,740,000 | 3,990,000 | (66,391) | 13,123,697 | 490,000 | (760,000) |
| Net increase (decrease) in cash | (45,568) | (5,425) | 173,478 | 557,667 | (656,224) | 69,495 | 432,040 | 12,156,326 |
| Cash at beginning of period | 64,369 | 18,801 | 13,376 | 186,854 | 744,520 | 18,801 | 88,296 | 520,336 |
| Cash at end of period | \$ 18,801 | \$ 13,376 | 186,854 | 744,520 | 88,296 | 88,296 | 520,336 | 12,676,662 |

Next 1 Interactive, Inc. Balance Sheet

| | Fiscal Yr End 2/28/2009 | Q1 Actual 5/31/2009 | Q2 FC 8/31/2009 | Q3 FC 11/31/2009 | FY 2010 FC 2/28/2010 | FY 2011 FC 2/28/2011 | FY 2012 FC 2/28/2012 |
|---|----------------------------|------------------------|--------------------|---------------------|-------------------------|-------------------------|-------------------------|
| Assets | | | | | | | |
| Current Assets | | | | | | | |
| Cash | \$ 18,801 | \$ 13,376 | 186,854 | 744,520 | 88,296 | 520,336 | 12,676,662 |
| Accounts receivable, net | 125,783 | 105,468 | 125,000 | 83,333 | 191,667 | 1,916,667 | 6,875,000 |
| Prepaid expenses | 15,612 | 8,470 | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Security deposits | 128,239 | 102,317 | 102,317 | 3,102,317 | 3,402,317 | 4,423,012 | 5,749,916 |
| Total current assets | 288,435 | 229,631 | 439,171 | 3,955,171 | 3,707,280 | 6,885,014 | 25,326,577 |
| Property and equipment, net | 190,765 | 172,128 | 152,128 | 132,128 | 112,128 | 32,128 | 0 |
| Other assets | 181,130 | 144,904 | 108,904 | 72,904 | 36,904 | 904 | 0 |
| Development costs | 514,998 | 514,998 | 514,998 | 514,998 | 514,998 | 514,998 | 514,998 |
| Intellectual property | 7,052,964 | 7,052,964 | 15,052,964 | 15,052,964 | 15,052,964 | 15,052,964 | 15,052,964 |
| Total assets | \$ 8,228,292 | \$ 8,114,625 | 16,268,165 | 19,728,165 | 19,424,274 | 22,486,008 | 40,894,539 |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | | |
| Current Liabilities | | | | | | | |
| Bank overdrafts | 0 | \$ 56,391 | 56,391 | 56,391 | 0 | 0 | 0 |
| Accounts payable | \$ 968,452 | 1,018,176 | 1,250,000 | 1,250,000 | 1,250,000 | 1,437,500 | 5,156,250 |
| Other current liabilities | 550,291 | 630,649 | 630,649 | 630,649 | 630,649 | 630,649 | 630,649 |
| Related party notes payable | 221,513 | 191,107 | 191,107 | 191,107 | 191,107 | 191,107 | 191,107 |
| Capital lease - current | 43,163 | 43,163 | 43,163 | 43,163 | 43,163 | 43,163 | 43,163 |
| Notes payable - current portion | 87,966 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Total current liabilities | 1,871,385 | 2,069,486 | 2,301,310 | 2,301,310 | 2,244,919 | 2,432,419 | 6,151,169 |
| Capital lease - long-term portion | 71,470 | 61,424 | 51,424 | 41,424 | 31,424 | 21,424 | 11,424 |
| Notes payable - long-term | 628,807 | 616,773 | 1,616,773 | 1,616,773 | 1,616,773 | 2,616,773 | 2,616,773 |
| Zero Coupon Bond 5% due 6/9/2012 | | | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Long term note due seller | | | 1,250,000 | 1,250,000 | 1,250,000 | 750,000 | 0 |
| Total liabilities | 2,571,662 | 2,747,683 | 8,219,507 | 8,209,507 | 8,143,116 | 8,820,616 | 11,779,366 |
| Stockholders' Equity (Deficit) | | | | | | | |
| Series A Preferred stock, \$.01 par value; 3,000,000 authorized | 5,048 | 5,048 | 5,048 | 5,048 | 5,048 | 5,048 | 5,048 |
| Series B Preferred stock, \$1 par value; 100,000,000 authorized | 0 | - | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 | 3,500,000 |
| Series C Preferred stock, \$.01 par value; 10,000,000 authorized | 0 | - | 0 | 0 | 0 | 0 | 0 |
| Common stock, \$.00001 par value; 200,000,000 shares authorized | 247 | 257 | 257 | 297 | 297 | 297 | 297 |
| Additional paid-in-capital | 11,732,549 | 12,427,883 | 12,677,883 | 16,927,843 | 17,177,843 | 18,177,843 | 19,177,843 |
| Accumulated deficit | (6,081,214) | (7,066,246) | (8,134,530) | (8,914,530) | (9,402,030) | (8,017,796) | 6,431,985 |
| Total stockholders' equity | 5,656,630 | 5,366,942 | 8,048,658 | 11,518,658 | 11,281,158 | 13,665,392 | 29,115,173 |
| Total liabilities and stockholders' equity (deficit) | \$ 8,228,292 | \$ 8,114,625 | 16,268,165 | 19,728,165 | 19,424,274 | 22,486,008 | 40,894,539 |

Next 1 Interactive, Inc DCF Analysis

| | 2009Actual | Forecast-----> | | | | | | | | | |
|-------------------------------------|---------------|----------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Total revenue | \$2,755,608 | \$1,991,415 | \$11,500,000 | \$41,250,000 | \$61,875,000 | \$86,625,000 | \$112,612,500 | \$135,135,000 | \$155,405,250 | \$170,945,775 | \$179,493,064 |
| Cost of Goods Sold | 1,410,113 | 1,107,959 | 5,750,000 | 18,562,500 | 27,843,750 | 38,981,250 | 50,675,625 | 60,810,750 | 69,932,363 | 76,925,599 | 80,771,879 |
| Gross profit | 1,345,495 | 883,456 | 5,750,000 | 22,687,500 | 34,031,250 | 47,643,750 | 61,936,875 | 74,324,250 | 85,472,887 | 94,020,176 | 98,721,185 |
| Selling, general and administrative | 3,084,420 | 3,891,205 | 1,252,968 | 4,494,342 | 4,950,000 | 5,197,500 | 6,756,750 | 8,108,100 | 9,324,315 | 10,256,747 | 10,769,584 |
| EBITDA | (1,738,925) | (3,007,749) | 4,497,032 | 18,193,158 | 29,081,250 | 42,446,250 | 55,180,125 | 66,216,150 | 76,148,572 | 83,763,429 | 87,951,601 |
| Depreciation and amortization | 0 | 80,000 | 230,000 | 206,250 | 154,688 | 173,250 | 225,225 | 270,270 | 310,811 | 341,892 | 358,986 |
| Earnings before Interest and taxes | (1,738,925) | (3,087,749) | 4,267,032 | 17,986,908 | 28,926,562 | 42,273,000 | 54,954,900 | 65,945,880 | 75,837,761 | 83,421,537 | 87,592,615 |
| Available tax loss carry forwards | (7,066,246) | (8,805,171) | (11,892,920) | (7,625,888) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net tax able earnings | 0 | 0 | 0 | 10,361,020 | 28,926,562 | 42,273,000 | 54,954,900 | 65,945,880 | 75,837,761 | 83,421,537 | 87,592,615 |
| Federal and State Income Taxes | 0 | 0 | 0 | 4,144,408 | 11,570,625 | 16,909,200 | 21,981,960 | 26,378,352 | 30,335,104 | 33,368,615 | 35,037,046 |
| Net Operating Profit After-Tax | (1,738,925) | (3,087,749) | 4,267,032 | 13,842,500 | 17,355,937 | 25,363,800 | 32,972,940 | 39,567,528 | 45,502,657 | 50,052,922 | 52,555,569 |
| Add back depreciation | 0 | 80,000 | 230,000 | 206,250 | 154,688 | 173,250 | 225,225 | 270,270 | 310,811 | 341,892 | 358,986 |
| Subtract Capital Expenditures | (700,000) | (3,675,000) | (1,837,500) | (2,021,250) | (2,223,375) | (2,445,713) | (2,690,284) | (3,228,341) | (3,874,009) | (4,648,810) | (5,578,572) |
| Subtract New Net Working Capital | | (145,197) | 1,711,545 | 5,057,500 | 3,300,000 | 3,712,500 | 3,638,250 | 2,927,925 | 2,432,430 | 1,709,458 | 854,729 |
| Free Cash Flow | (\$2,438,925) | (\$6,827,946) | \$4,371,077 | \$17,085,000 | \$18,587,250 | \$26,803,838 | \$34,146,131 | \$39,537,383 | \$44,371,889 | \$47,455,462 | \$48,190,711 |
| Terminal value, 2019 | | | | | | | | | | | \$291,979,014 |
| Discount Rate | 20% | | | | | | | | | | |
| Present Value of Free Cash Flows | | (5,689,955) | 3,035,470 | 9,887,153 | 8,963,759 | 10,771,861 | 11,435,470 | 11,034,158 | 10,319,483 | 9,197,186 | 7,783,069 |
| Present Value of Terminal Value | 47,156,241 | | | | | | | | | | |
| Total Present Value of Operations | \$74,298,729 | | | | | | | | | | |
| Plus Current Assets | 288,000 | | | | | | | | | | |
| Total Market Value of Assets | \$121,742,970 | | | | | | | | | | |
| Share Outstanding | 29,109,083 | | | | | | | | | | |
| DCF Value, \$/share | \$4.18 | | | | | | | | | | |