

RATINGS REVISION | COMMENT

APRIL 26, 2007

ValueClick, Inc. (NASDAQ: VCLK)

VCLK's Lead Gen Units: Aggressive Tactics Increase Risk To Earnings

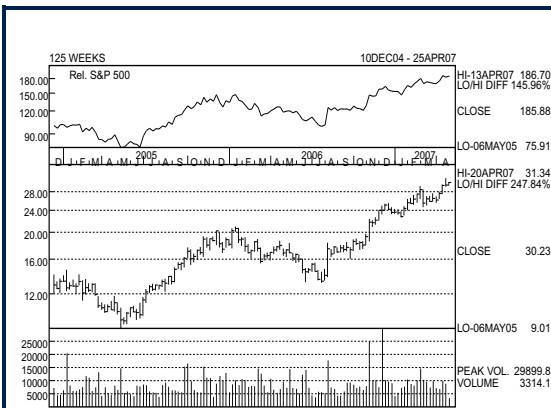
Sector Perform
Speculative Risk (prev: Above Average Risk)

Price:	30.23	Price Target:	27.00
Shares O/S (MM):	105.4	Implied All-In Return:	(10.7%)
Dividend:	0.00	Market Cap (MM):	3,186.2
Float (MM):	98.4	Yield:	0.0%
Institutional Ownership:	86%	Avg. Daily Volume (MM):	1.80
		3-Yr. Est. EPS Growth:	25.00%

Company Update

Net: We believe growth in VCLK's lead generation revenue is unsustainable for three reasons: 1) Increased regulatory inquiry into highly-incentivized lead-gen techniques across the industry at the state/federal levels; 2) Advertisers are becoming smarter about lead quality; 3) VCLK's incentivized practices may run afoul of the DMA/IAB best practices and could be deemed improper, despite complying with current regulations. The company asserts that it is not currently facing investigation by any legislative groups, but we believe that the entire industry could be under scrutiny in 2H07. Our 2008 EPS estimates have been cut by 8%, while our \$27 target has been maintained. Near term, we believe VCLK could report a strong 1Q07; we would use any strength in VCLK shares to reduce exposure to the stock.

- **Growth from Unsustainable, Aggressive Marketing Tactics:** We believe that lead-gen activities represent one-third of VCLK revenue and that the following tactics may not be sustainable: 1) Using the word "free" when multiple purchases are required, possibly in violation of FTC guideline 251.1, 2) Using lengthy surveys to generate email addresses (personally identifiable information) for resale to marketers without sufficient disclosure (discussed in HR 964), 3) Pervasive trademark infringement, as alleged in a lawsuit by Wal-Mart against VCLK's WebClients unit (settled March 2006), 4) Lack of fulfillment of incentives for consumers who have completed eligibility requirements, which may violate Direct Marketing Association rules.
- **Writing on the Wall – Inquiries May Drive Reform:** There are ongoing investigations into companies in the incentivized lead generation space by legislative/regulatory groups, including the FTC, state Attorneys General, and the House Subcommittee on Consumer Protection. VCLK management maintains that it is not under investigation, and that its general counsel ensures that lead-gen editorial and creative assets comply with current laws. However, the legislative/ regulatory efforts may narrow the definition of what is acceptable, making the highly-incentivized tactics unsustainable longer-term.
- **Media and Affiliate Marketing Most Impacted:** The media business should be the most impacted, but VCLK also could see weakness in affiliate marketing, as the highly-incentivized lead generation business cools off. We have cut our estimates and maintained our \$27 price target. Our risk rating has been increased to Speculative from Above Average.



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FY Dec	2006A	2007E	2008E	
Revenue (MM)	545.6	667.0	695.7	
Prev.			787.4	
EBITDA (MM)	143.2	180.9	193.7	
Prev.			213.4	
EPS (Op) - FD	0.62	0.83	0.88	
Prev.			0.99	
P/E	48.76x	36.42x	34.35x	
Revenue (MM)	Q1	Q2	Q3	Q4
2006	117.3A	130.0A	137.9A	160.4A
2007	149.0E	159.3E	163.6E	195.2E
Prev.			163.3E	
2008	171.1E	169.3E	170.0E	185.4E
Prev.	183.2E	188.3E	187.1E	228.8E
EBITDA (MM)				
2006	27.4A	34.1A	35.6A	46.1A
2007	39.6E	42.3E	43.8E	55.1E
2008	47.5E	45.0E	46.3E	54.9E
Prev.	50.3E	48.9E	49.9E	64.3E
EPS (Op) - FD				
2006	0.09A	0.14A	0.17A	0.22A
2007	0.18E	0.19E	0.20E	0.26E
2008	0.22E	0.20E	0.21E	0.25E
Prev.	0.23E	0.22E	0.23E	0.30E

All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 17.

Summary and Investment Conclusion - The ValueClick Misperception

In our view, ValueClick is one of the least understood companies in the marketing services and online advertising space. Many investors believe that the company's success has been attributed to the secular growth in online advertising. While true at the margin, we believe the majority of the upside over the past year has been from growth that may not be sustainable.

Our report highlights where we believe the growth in revenues and margins has originated (highly incentivized lead generation), and why these business practices could come under regulatory scrutiny at some point soon. This could cause VCLK to change its current operations and pressure margins or growth at its media and affiliate marketing divisions.

When we expressed our concerns with the company, ValueClick management claimed it is not currently the subject of any formal inquiry or investigation. That said, we believe that the Federal Trade Commission, the House Subcommittee on Consumer Protection, and some state attorneys general are seeking to impose fines and legislative reforms for those companies who improperly use the word "free" in marketing promotions, and those who aggressively re-sell personally identifiable information such as email addresses without adequate disclosure. We believe ValueClick's WebClients division uses these tactics, and have highlighted many examples of such practices in this report. A final concern is the frequent unauthorized use of trademarks belonging to major consumer goods and retail companies. Wal-Mart sued ValueClick in 2005 for unauthorized use of its trademark in promoting "free" \$500 Wal-Mart gift cards to generate leads for advertisers. The Wal-Mart suit was settled in 2006 but our study has found that those practices have continued.

In our view, the writing is on the wall for reform of the highly-incentivized lead generation companies like ValueClick's WebClients. The timing of that reform is hard to predict with accuracy, but the ultimate magnitude could be significant.

Lead Generation Has Good Players and Bad Ones

This report is not intended to indict the entire practice of online lead generation. Rather, we believe ValueClick has a particularly aggressive and entrepreneurial business unit based in Harrisburg, Pennsylvania that utilizes techniques that run afoul of the best practices promoted by the Direct Marketing Association, the Interactive Advertising Bureau, and other organizations. We recognize that there are many other companies in the industry who play by the rules. For those players, the opportunity to gain market share should be meaningful.

We have spoken to VCLK management, and the company stated that its general counsel ensures that lead gen editorial and creative assets used by the WebClients and High Speed Media divisions comply with current laws. However, we believe that the regulatory bodies investigating this space are intending to make the laws more restrictive, and make it more difficult for highly-incentivized lead generation tactics that have the potential to deceive consumers.

How Much Exposure Is There for VCLK?

ValueClick has posted upside in each of the previous three quarters, largely due to performance in the media division, primarily as a result of the growth at the WebClients and High Speed Media units. In 3Q06, the media business had 2% upside to our \$112m estimate. In 2Q06, VCLK's media business beat our estimate by 13% (\$107m reported vs. \$95m estimate), and in 1Q06 the beat was 7% (\$92m reported vs. our \$86m estimate). The company re-aligned its segment reporting in 4Q06, so our estimates vs. reported results may not be a perfect apples-to-apples comparison.

Our checks with industry contacts and former ValueClick employees suggest that WebClients and sister company High Speed Media could represent up to a third of ValueClick's total revenue combined, and a greater percentage of company EBITDA today.

Summary of Estimate Changes

If legislation were to serve as a catalyst to reform ValueClick's business practices, it would not lose 100% of its lead gen revenue, but it may struggle to find growth. As a result, we are reducing our 2008 estimates, as we believe that it may take some time for regulators and legislators to act. The media business should be the segment most impacted, but VCLK also could see some weakness in its affiliate marketing segment as well, as affiliate marketers are heavy users of highly-incentivized lead generation tactics. Therefore, any industry-wide slowdown would impact VCLK's Commission Junction business unit.

We have reduced our 2008 revenue and EBITDA estimates by 12% and 9%, respectively.

ValueClick Inc. -- Summary of RBCCM Estimates Changes

(\$ in millions, except per share amounts)

	1Q07E			2007E			2008E		
	Current	Prior	Delta	Current	Prior	Delta	Current	Prior	Delta
Media	103.9	103.9	0.0%	475.2	475.2	0.0%	482.1	566.5	-14.9%
Comparison Shopping	7.6	7.6	0.0%	35.6	35.6	0.0%	44.8	44.8	0.0%
Affiliate Marketing	32.0	32.0	0.0%	132.4	132.4	0.0%	146.4	153.7	-4.7%
Technology	6.0	6.0	0.0%	26.7	26.7	0.0%	26.9	26.9	0.0%
Net Revenue	149.0	149.0	0.0%	667.0	667.0	0.0%	695.7	787.4	-11.6%
Cost of Goods Sold	44.4	44.4	0.0%	204.8	204.8	0.0%	215.8	249.0	-13.3%
Gross Profit	104.5	104.5	0.0%	462.2	462.2	0.0%	479.9	538.4	-10.9%
<i>Gross Margin</i>	70.2%	70.2%		69.3%	69.3%		69.0%	68.4%	
Sales and Marketing	44.9	44.9	0.0%	202.9	202.9	0.0%	215.6	244.1	-11.7%
General and Administrative	14.5	14.5	0.0%	56.1	56.1	0.0%	52.4	58.9	-11.0%
Product Development	8.0	8.0	0.0%	33.3	33.3	0.0%	31.6	35.6	-11.2%
Total Operating Expenses	75.2	75.2	0.0%	324.5	324.5	0.0%	334.9	373.9	-10.4%
Operating Income	29.3	29.3	0.0%	137.7	137.7	0.0%	145.0	164.5	-11.9%
Adjusted EBITDA	39.6	39.6	0.0%	180.9	180.9	0.0%	193.7	213.4	-9.2%
<i>EBITDA Margin</i>	26.6%	26.6%		27.1%	27.1%		27.8%	27.1%	
Adjusted Net Income	26.0	26.0	0.0%	117.5	117.5	0.0%	127.3	138.5	-8.1%
Pro Forma EPS	\$0.25	\$0.25	0.0%	\$1.14	\$1.14	0.0%	\$1.22	\$1.33	-8.1%
GAAP EPS	\$0.18	\$0.18	0.0%	\$0.83	\$0.83	0.0%	\$0.88	\$0.99	-10.9%
Share Count	103.2	103.2	0.0%	103.2	103.2	0.0%	104.5	104.5	0.0%
Tax rate assumption	42.5%	42.5%		42.5%	42.5%		42.5%	42.5%	

Source: RBCCM estimates

Which Websites Utilize These Practices?

We have listed a few of the sites that we believe are owned by VCLK and utilize the overly-aggressive marketing practices. We have found many dozens of other similar sites owned by the company and its subsidiaries but have chosen not to list all of them in this report. Here are three sites that clearly highlight the marketing tactics of which we are critical:

www.freelawntractor.com

www.eatfreeandbemerry.com

www.pinkphone4free.com

Lead Generation Explained

The lead generation business has been around on the Internet since its inception. At its most basic level, lead generation is the activity of an online advertiser paying an intermediary a CPA, or Cost Per Action (a lead or a sale, for example), for each lead that it drives. The intermediary acquires these leads by purchasing ad inventory, creating clicks and registering customer data, ultimately creating leads. Typically, the intermediary buys enormous volumes of low CPM inventory (remnant) to generate leads; some also buy search and/or other inventory, or use an affiliate to create in-bound traffic.

Or from the OLGA (Online Lead Generation Association) website:

“How Lead Generation Works –

After a user registers on a particular Web site, they may be served opt-in advertisements at any point thereafter. The ads are based on a combination of demographic criteria pre-defined by the advertiser and the individual profile of the person registering on the Web site. The users may opt-in to explicitly request that their information be shared with one or more specific marketers, which send offers directly to the registrants.

Online lead generation/referral is the fastest-growing segment of Internet advertising. According to the Internet Advertising Bureau, revenues for this advertising format rose to 6% of all Internet advertising spending during the first half of 2005, or some \$347 million. This compares to 2% of Internet advertising spending in the first half of 2004, or \$114 million, a year-to-year increase of 204%.”

Industry Overview - Acceptable vs. Unacceptable Generation

Many intermediary businesses exist on the Internet, and some are more transparent than others. Lead generation has players that are very straight forward and open with advertisers about their tactics (those that we consider “white hat”), and some that are less transparent and often employ very profitable, but questionable, tactics to drive leads (those that we consider “black hat”). Most players in the space are moving towards a white hat model, but this shift comes at the expense of growth and margins. However, some lead gen companies have remained hooked on the less-than-desirable tactics, driving as much cash flow as possible. In general, the quality of leads generated is inversely related to the quantity of leads created.

From a recent Revenue Magazine article, the author (Eric Reyes) defines questionable lead generation tactics as:

“Suspect practices that used to be commonplace but are now considered intolerable are "opt out," where you are automatically signed up for other offers and you must uncheck the boxes to refuse; pages where offers outweigh content; offers of free products for forwarding the offer to others; free offers that still involve a fee; offers that require the downloading of adware or spyware; and, of course, offers that do not explicitly say they will not sell or give your private information to other advertisers.”

-Revenue Magazine, Dec 2006

Highly Incentivized Lead Generation

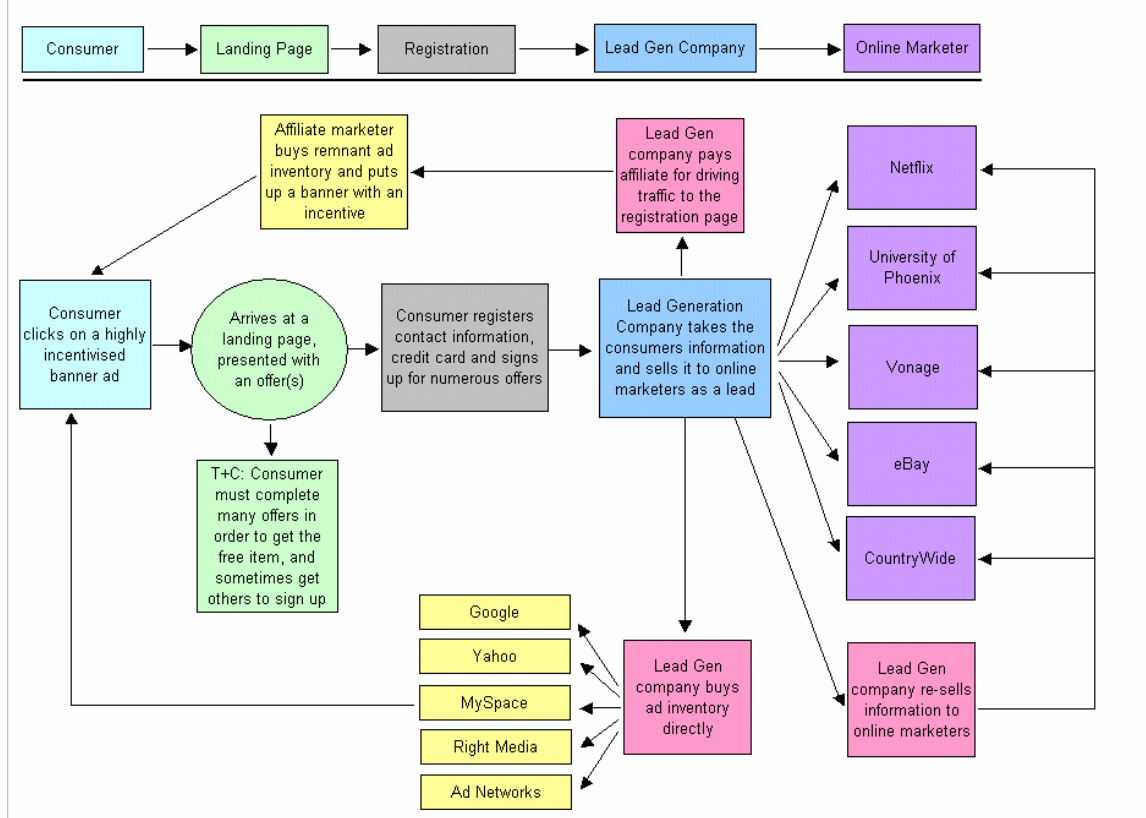
Below is a visual illustration of the highly-incentivized lead generation business model. On one side there is the unsuspecting consumer who responds to an ad for a free product (a flat screen TV or a lawn tractor, for instance). On the complete other side of the spectrum is the ROI-focused marketer who is ultimately trying to reach the consumer. The intermediaries that sit in between are earning massive margins (in the +50% range in some cases) by driving traffic through incentives (that generally are never achieved by the consumer) to landing pages full of offers for different goods and services.

The chain of events typically flows this way:

- 1) A consumer sees an online advertisement that offers a free give-away of some variety (iPods, plasma TVs, even washers and dryers), and clicks on the ad;
- 2) The consumer is then taken to a landing page owned and operated by a lead generation intermediary, where he/she is asked to fill out personal information (name, address, email, credit card information) in order to collect the free gift;
- 3) The consumer is then generally directed down a registration path or a survey path. On a registration path, he/she must agree to sign up for several different offers in order to get the free item (could be products or services such as a new credit card or a trial subscription), in some cases over a dozen different offers. On the survey path, the same is true, but the lead generation company collects more personally identifiable information including an email address and credit card.
- 4) The lead generation intermediary then takes all the consumer's information and sells it as a lead to many online marketers.

In some extreme cases, the user must also refer others who then complete all of the eligibility requirements in order for the first consumer to receive the incentive gift. The “breakage” rate, or rate at which the consumer does not complete the full sign-up process, in these extreme cases is close to 100%. In other words, the intermediary collects the personal information, sells the leads to many different online marketers, and never has to deliver any gifts back to the consumer. Obviously, the consumer may feel cheated, abused, and deceived.

Exhibit 1: Overview of the Highly Incentivized Lead Gen Industry

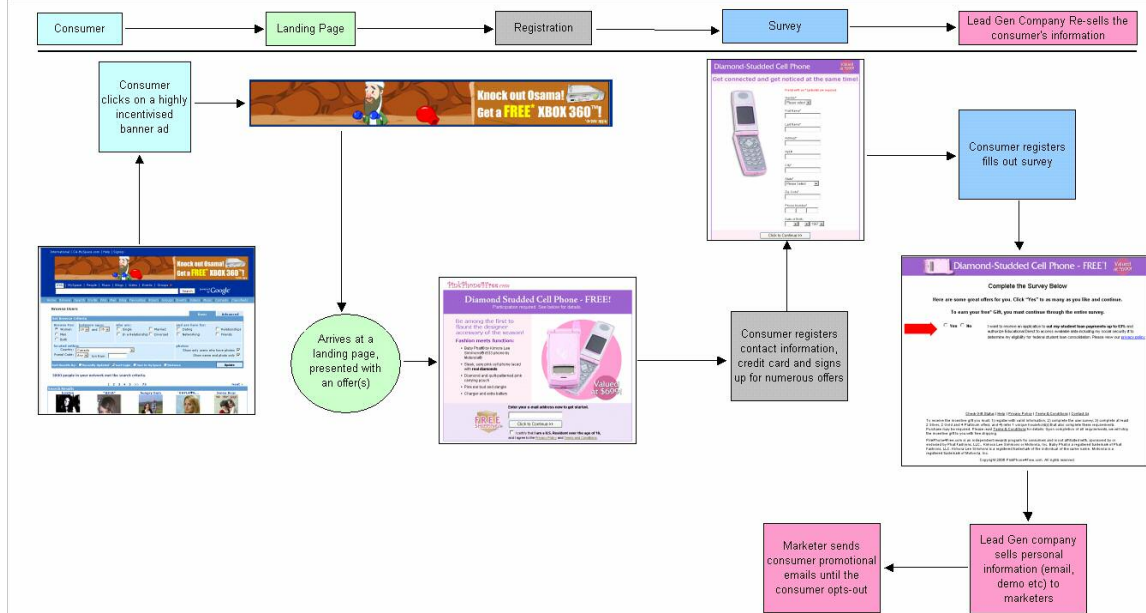


Source: RBC Capital Markets

Although the registration path is cumbersome, there is generally no violation of consumer protection laws as long as the consumer chooses to opt-in for the additional offers, as opposed to opting out. In the case where the lead gen company takes the consumer down a survey path and re-sells the consumer’s personally identifiable information, some regulations may have been violated (HR 964).

The exhibit below illustrates a more condensed version of the registration path above, with screenshots of the different ads and landing pages.

Exhibit 2: The Highly-Incentivized Lead Generation Path



Source: RBC Capital Markets, www.pinkphone4free.com, www.myspace.com

The Offers, and Exposure to Affiliate Marketing

At times, the companies highlighted in the promotion do not authorize the free gift. This is the allegation that Wal-Mart has made in its lawsuit against ValueClick. Other times, the offers come with the full knowledge of the advertiser, even with a specific mention that the offer can be placed within an incentivized advertisement. (see below) .

Exhibit 3: Typical Incentivized Lead Generation Offers

ValueClick Inc. -- Examples of Lead Generation Offers	
Offer	Commission
INCENTIVIZED Dental Plans.com	\$55.00
NEW Bargain Incentivized - Higher CPA	\$45.00
Incentivized Blockbuster.com	\$32.00
Incentivized Bargain.com - Cash Incentive (Real-time)	\$26.25
Incentivized Poster Pass	\$23.50
Get Rich With Google	\$22.50
Incentivized Bargain - Hud Homes	\$22.50
Incentivized Bargain Auto - Free \$25 Pep-Boys Card	\$22.50
Incentivized Bargain Auto	\$22.50
Incentivized Google Money Toolkit	\$20.00
Web.com - Incentivized	\$20.00
Incentivized Seattle Coffee	\$19.75
MyInks.com - *Incentivized* - 15% Off Plus Free Shipping	\$18.75
Incentivized Carleton sheets	\$18.00
Incentivized Free Online Credit Report	\$16.00
Incentivized FromYouFlowers.com	\$16.00
Incentivized BagsBuy.com- Save \$10 off \$50 Purchase	\$15.75
Incentivized Shoebuy.com - 10%off \$50	\$15.75
Incentivized Cafe Belmondo	\$15.60
Incentivized VistaPrint -250 Free Business Cards	\$13.50
Incentivized VistaPrint - 250 Free Business Cards + 25% off	\$12.00
Incentivized Music ETC Unlimited Downloads	\$9.50
Incentivized VistaPrint Australia - 100 Free Business Cards	\$6.00
Incentivized VistaPrint - 250 Free Business Cards - Germany Only	\$5.60

Source: Azoogle Ads

Revenue is generated for three often-distinct parties, publishers, the lead generation company and the affiliate marketing network facilitating the match of offers with publishers. Publishers are numbered in the tens or hundreds of thousands, we believe, and embrace both large and small online media companies. Advertisers are a bit more concentrated, with the vast majority of revenue generated from less than 500 active marketers, including many household names like Dell, eBay, and Blockbuster. There are only three major affiliate marketing networks, with the largest being Commission Junction (owned by ValueClick), the second largest, we believe, is LinkShare (owned by the Japanese company Rakuten), and the third largest being Performics (owned by DoubleClick).

Terms and Conditions

The terms and conditions for highly-incentivized lead generation sites are typically found in the fine print at the bottom of the page. Some of the T+Cs are extremely difficult to complete, involve numerous sign ups, and sometimes require the consumer to get others to sign up for numerous offers. Here is an example of a typical promotion from one of VCLK's WebClients division (found on www.pinkphone4free.com)

“To receive the incentive gift you must: 1) register with valid information; 2) complete the user survey; 3) complete at least 2 Silver, 2 Gold and 4 Platinum offers; and 4) refer 1 unique household(s) that also complete these requirements. Purchase may be required. Please read Terms & Conditions for details. Upon completion of all requirements, we will ship the incentive gift to you with free shipping.”

The breakage rate (or percentage of consumers who do not complete the full terms and conditions to receive the free offer) on these offers is likely to be very, very high.

Exhibit 4: Terms and Conditions

Terms and Conditions – PinkPhone4Free.com



[Check Gift Status](#) | [Help](#) | [Privacy Policy](#) | [Terms & Conditions](#) | [Contact Us](#)

To receive the incentive gift you must: 1) register with valid information; 2) complete the user survey; 3) complete at least 2 Silver, 2 Gold and 4 Platinum offers; and 4) refer 1 unique household(s) that also complete these requirements. Purchase may be required. Please read [Terms & Conditions](#) for details. Upon completion of all requirements, we will ship the incentive gift to you with free shipping.

PinkPhone4Free.com is an independent rewards program for consumers and is not affiliated with, sponsored by or endorsed by Phat Fashions, LLC., Kimora Lee Simmons or Motorola, Inc. Baby Phat is a registered trademark of Phat Fashions, LLC. Kimora Lee Simmons is a registered trademark of the individual of the same name. Motorola is a registered trademark of Motorola, Inc.

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Source: www.pinkphone4free.com

Existing and Pending Legislation

The FTC and various lawmakers have inquired into the online lead generation practices. We have had numerous discussions with industry participants, some of which have testified before a panel of FTC lawyers initially in December, and as recently as mid-March. The Florida Attorney General has opened a case against Azoogole, a private company in the highly incentivized lead gen space promoting free ringtones. There has been testimony on related areas of online marketing before a House Subcommittee on Consumer Protection, where industry participants argued against the stiff fines for wrongdoing called for in HR 964. The IAB has recently issued a set of guidelines on lead quality and marketing practices, an acknowledgement of the problem without any real penalties for misconduct.

There are some companies that are selling personally identifiable information to marketers, which we believe violates industry best practices as established by the Direct Marketing Association's Guidelines for Ethical Business Practice (<http://www.the-dma.org/guidelines/EthicsGuidelines.pdf>). We believe the FTC is looking to re-write some of the legislation around the use of incentives and personally identifiable information. We believe that legislation could happen at some point in 2007. If and when this occurs, there could be a series of very negative headlines similar to the spyware/adware investigation in 2005.

In addition to FTC inquiries, we know that the Florida Attorney General is actively investigating a case against Azoogole Ads, a private company that facilitates the promotion of ring tone subscriptions. The case can be found at: http://myfloridalegal.com/lit_ec.nsf/investigations/B0AF32E763C6E522852572A500454C92

We spoke to the Florida Attorney General investigators who handling the investigation. The investigators are well aware of several of the companies in the highly incentivized lead generation space, including: Azoogole Ads, TheUseful.net, ValueClick, Adteractive and others, as well as the tactics used by these companies.

Finally, Wal-Mart sued ValueClick in late 2005 for offering free \$500 Wal-Mart gift card promotions through its WebClients lead gen division. We have analyzed several hundred lead gen sites owned by ValueClick, and many use other large brands' intellectual property (trademarks and logos) during the offer promotion. This could create future legal risk for VCLK, if other brands act as Wal-Mart has. For example, the WebClients-owned site www.webrewardscentral.com uses images from brands like Coca Cola, Pampers, and Heinz to make the point that it is offering \$500 worth of groceries for "free."

Industry Is Attempting (Slowly) To Self Regulate - Increased Focus on Lead Quality

The IAB recognizes that lead quality and the use of highly incentivized tactics are significant issues facing the entire online marketing ecosystem, and has taken measures recently to self-regulate the industry. The organization published a report last month (http://www.iab.net/leadqualitywhitepaper/documents/LeadQualityWhitePaper_031607.pdf) that looks at the different kinds of lead generation techniques, and how to assess the value of a lead

that is generated from various channels (highly incentivized and other). We view this as a first attempt for the industry to self-regulate, ahead of potential government enforced regulation. However, the guidelines do nothing to prevent highly incentivized lead gen companies from continuing with abusive practices. At best, they inform some marketers why some leads may have lower value than others.

Exhibit 5 – Example of Highly Incentivized Lead Generation Path

www.pinkphone4free.com - Example of A WebClients (VCLK) Owned Lead Gen Site (source: www.pinkphone4free.com)

PinkPhone4Free.com

Diamond Studded Cell Phone - FREE!

Participation required. See below for details.

Be among the first to flaunt the designer accessory of the season!

Fashion meets function:

- Baby Phat® by Kimora Lee Simmons® 1833 phone by Motorola®
- Sleek, sexy pink cell phone laced with **real diamonds**
- Diamond and quilt-patterned pink carrying pouch
- Pink ear bud and dangle
- Charger and extra battery

Valued at \$699!

FREE SHIPPING!

Enter your e-mail address now to get started.

 I certify that I am a U.S. Resident over the age of 18, and I agree to the [Privacy Policy](#) and [Terms and Conditions](#).

Whois Look-up for www.pinkphone4free.com

WHOIS
Search Results for: **PINKPHONE4FREE.COM**

NOTICE AND TERMS OF USE: You are not authorized to access or query our WHOIS database through the use of high-volume, automated, electronic processes. The Data in Network Solutions' WHOIS database is provided by Network Solutions for information purposes only, and to assist persons in obtaining information about or related to a domain name registration record. Network Solutions does not guarantee its accuracy. By submitting a WHOIS query, you agree to abide by the following terms of use: You agree that you may use this Data only for lawful purposes and that under no circumstances will you use this Data to: (1) allow, enable, or otherwise support the transmission of mass unsolicited, commercial advertising or solicitations via e-mail, telephone, or facsimile; or (2) enable high volume, automated, electronic processes that apply to Network Solutions (or its computer systems). The compilation, repackaging, dissemination or other use of this Data is expressly prohibited without the prior written consent of Network Solutions. You agree not to use high-volume, automated, electronic processes to access or query the WHOIS database. Network Solutions reserves the right to terminate your access to the WHOIS database in its sole discretion, including without limitation, for excessive querying of the WHOIS database or for failure to otherwise abide by this policy. Network Solutions reserves the right to modify these terms at any time.

Get a FREE domain name registration, transfer, or renewal with any annual hosting package - or just \$8.95 with monthly packages.

<http://www.networksolutions.com>

Visit AboutUs.org for more information about PINKPHONE4FREE.COM
[AboutUs: PINKPHONE4FREE.COM](http://AboutUs.org)

Registrant:
123 Click, Inc
P.O Box 5225
Harrisburg, PA 17110
US

123 Click, Inc. - A
Webclients company

Source: www.GoDaddy.com

Data entry page

Diamond-Studded Cell Phone Valued at \$699!

Get connected and get noticed at the same time!

Fields with an * (asterisk) are required.

Gender*

First Name*

Last Name*

Address*

Apt.#

City*

State*

Zip Code*

Phone Number*

Date of Birth:

Source: www.pinkphone4free.com

Diamond-Studded Cell Phone - FREE! Valued at *699!

Complete the Survey Below

Here are some great offers for you. Click "Yes" to as many as you like and continue.

To earn your free* Gift, you must continue through the entire survey.

Yes No

I want to receive an application to **cut my student loan payments up to 53%** and authorize Educational Direct to access available data including my social security # to determine my eligibility for federal student loan consolidation. Please view our [privacy policy](#).

Survey Path page

[Check Gift Status](#) | [Help](#) | [Privacy Policy](#) | [Terms & Conditions](#) | [Contact Us](#)

To receive the incentive gift you must: 1) register with valid information; 2) complete the user survey; 3) complete at least 2 Silver, 2 Gold and 4 Platinum offers; and 4) refer 1 unique household(s) that also complete these requirements. Purchase may be required. Please read [Terms & Conditions](#) for details. Upon completion of all requirements, we will ship the incentive gift to you with free shipping.

PinkPhone4Free.com is an independent rewards program for consumers and is not affiliated with, sponsored by or endorsed by Phat Fashions, LLC., Kimora Lee Simmons or Motorola, Inc. Baby Phat is a registered trademark of Phat Fashions, LLC. Kimora Lee Simmons is a registered trademark of the individual of the same name. Motorola is a registered trademark of Motorola, Inc.

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Source: www.pinkphone4free.com

Appendix

DMA Guidelines For Ethical Business Practices

The DMA guidelines can be found at: <http://www.the-dma.org/guidelines/EthicsGuidelines.pdf>

Highly incentivized lead generation tactics, like those employed by VCLK, may infringe on certain sections of the DMA guidelines. More specifically: article 17 regarding the use of the word “free”, article 31 regarding collection use and transfer of personally identifiable information, and article 38 regarding commercial solicitations online.

IAB Marketer and Agency Guide to Lead Quality

The IAB recently introduced a framework for marketers to use to assess lead quality: http://www.iab.net/resources/admin/downloads/LeadQualityWhitePaper_031607.pdf

Not surprisingly, leads generated by highly incentivized techniques, including free products, gifts or trial services, all scored on the low end of the lead quality scale. *“As is demonstrated, as the incentive moves away from prizes and giveaways to more informational in nature and genuinely interested in the product, service, or the company itself, the overall quality rating may increase... .. With respect to Publisher-based incentives, the Committee generally felt that lead quality may be much lower on publisher sites that offered free gifts as incentives to consumers.”*

Florida Attorney General

In addition to FTC inquiries, we know that the Florida Attorney General is actively investigating a case against Azoogoo, a private company that is using highly incentivized lead generation tactics to sell ringtone subscriptions. The case can be found at: http://myfloridalegal.com/lit_ec.nsf/investigations/B0AF32E763C6E522852572A500454C92

HR 964

HR 964 is a pending bill in the House of Representatives that is designed “To protect users of the Internet from unknowing transmission of their personally identifiable information through spyware programs, and for other purposes.”

Most of the bill focuses on the spyware/adware space, but there are several areas that cross over into the highly incentivized lead generation side, including:

1) Inducing the owner or authorized user of the computer to disclose personally identifiable information by means of a Web page that a) is substantially similar to a Web page established or provided by another person; and, b) misleads the owner or authorized user that such Web page is provided by such other person.

2) Inducing the owner or authorized user to provide personally identifiable, password, or account information to another person a) by misrepresenting the identity of the person seeking the information; or, b) without the authority of the intended recipient of the information.

The bill can be found here: http://thomas.loc.gov/home/gpoxmlc110/h964_ih.xml

We have also come across studies that link the spyware/adware business to the highly incentivized lead gen business, where the latter could represent 15% of the revenue generated by spyware companies:

http://www.affiliatefairplay.com/contextual_advertising_impact_study.html

Gratis Internet

In March of 2006, Elliott Spitzer investigated and fined Gratis Internet, the owners of www.freeipods.com and other sites, for deceptive marketing practices, primarily in the area of selling personally identifiable information to third parties. The company stated on its site that it did not sell/rent email addresses, when in fact it was. The case information can be found here: http://www.oag.state.ny.us/press/2006/mar/mar23a_06.html

Wal-Mart Lawsuit Against VCLK

Wal-Mart sued VCLK in late 2005 for improper use of the Wal-Mart logo and trademark in promoting free \$500 Wal-Mart gift cards. We spoke to VCLK management about the Wal-Mart case, and they stated that it was settled in March of 2006 and that the settlement was immaterial to financials, and hence not mentioned in any SEC filings. A news article on the case can be found here:

<http://www.arkansasbusiness.com/article.aspx?aID=42512>

Valuation

Similar to other companies in our coverage universe, we have used a blended approach on our 2008 estimates to arrive at our \$27 price target.

EV/EBITDA: We have used a 12x forward EBITDA multiple on our 2008 estimates to arrive at a target price of \$26.

P/E: We have applied a 30x multiple on a blended average of our fully taxed pro forma 2008 EPS to arrive at a \$26 price target.

FCF Yield: We have applied a target free cash flow yield of 4.5% to a blended average of our 2008 FCF per share estimates to arrive at a \$27 price target.

These multiples are consistent with our small cap Internet peer universe.

Our methodology in reaching our \$27 price target is shown in the table below:

ValueClick, Inc. -- Valuation Worksheet			
(\$ in millions, except per share amounts)			
Current Price		\$29.71	
Diluted Shares Outstanding		100.2	
Current Market Cap		2976.2	
Less Cash and Other Assets		282.0	
Adjusted Enterprise Value		2694.2	
Price to Earnings			
		2007E	2008E
GAAP EPS		\$0.83	\$0.88
GAAP P/E Multiple (current)		35.9x	33.8x
Adjusted EPS		\$1.14	\$1.22
Adjusted P/E Multiple (current)		26.1x	24.4x
		Target Multiple	30.0x
	Implied Stock Price on Forward EPS		\$26
EV to EBITDA			
		2007E	2008E
Adjusted EBITDA		181	194
Current EV/EBITDA Multiple		14.9x	13.9x
		Target Multiple	12.0x
	Enterprise Value		2324.8
	Plus FY End Cash		391.3
	Equity Market Capitalization		2716
	FY End Projected Sharecount		103.2
	Implied Stock Price on Forward EBITDA		\$26
FCF Yield			
		2007E	2008E
FCF per Share		\$1.08	\$1.24
Current FCF Yield		3.7%	4.2%
		Target Yield	4.5%
	Implied Stock Price on Forward FCF		\$27
	Average		\$27

Source: Company reports and RBC Capital Markets

Price Target Impediment

The following factors could impede achievement of our price target.

- ValueClick's businesses are in highly competitive markets, with relatively low barriers to entry
- ValueClick does not provide a lot of financial transparency as it relates to some of its acquisitions
- ValueClick does not offer specific information on the nature of some of its affiliate partners

Company Description

ValueClick, Inc. offers a suite of products and services that enable marketers to advertise and sell their products through various online marketing channels. The company operates in three segments: Media, Affiliate Marketing, and Technology. The Media segment provides advertisers and agencies a range of online media solutions in the categories of display/Web advertising, search marketing, email marketing, and lead generation marketing. The segment also sells a limited number of consumer products directly to end-user customers through company-owned e-commerce Web sites. The Affiliate Marketing segment offers technology and services that enable advertisers to manage, track, and analyze a variety of online marketing programs. The Technology segment offers technology infrastructure tools and services that enable advertisers, advertising agencies, and online publishers to implement and manage their own online display advertising and email campaigns. It also provides agency management, media management, and content management services. The company serves advertisers, direct marketers, and agencies that service these groups.

ValueClick, Inc. -- Quarterly Income Statement
(\$ in millions, except per share amounts)

FY Dec	2005A				2006A				2007E				2008E				2008E			
	Mar A 1QA	Jun A 2QA	Sep A 3QA	Dec A 4QA	2005A	Mar A 1QA	Jun A 2QA	Sep A 3QA	Dec A 4QA	2006A	Mar E 1QE	Jun E 2QE	Sep E 3QE	Dec E 4QE	2007E	Mar E 1QE		Jun E 2QE	Sep E 3QE	Dec E 4QE
Media	17.0	21.8	48.1	77.9	164.8	79.4	93.5	98.4	111.6	383.0	103.9	115.9	117.8	137.6	475.2	120.3	120.4	119.9	121.5	482.1
Comparison Shopping	3.6	3.6	4.1	5.9	17.3	5.5	5.9	5.9	8.8	26.2	7.6	8.3	7.8	11.9	35.6	9.7	10.8	9.6	14.7	44.8
Affiliate Marketing	23.5	22.3	23.3	26.7	95.8	26.9	25.2	27.4	32.7	112.2	32.0	29.7	32.2	38.5	132.4	35.8	32.8	35.4	42.4	146.4
Technology	7.3	7.1	6.2	6.4	27.0	5.8	5.7	6.5	7.7	25.7	6.0	6.0	6.5	8.1	26.7	6.3	6.4	6.2	8.1	26.9
Intercompany Eliminations	(0.1)	(0.2)	(0.3)	(0.4)	(0.9)	(0.3)	(0.4)	(0.3)	(0.5)	(1.4)	(0.6)	(0.7)	(0.8)	(0.9)	(2.9)	(1.0)	(1.1)	(1.2)	(1.3)	(4.5)
Net Revenue	51.4	54.6	81.4	116.6	304.0	117.3	130.0	137.9	160.4	545.6	149.0	159.3	163.6	195.2	667.0	171.1	169.3	170.0	185.4	695.7
Cost of Revenue	13.3	14.2	22.4	39.3	89.2	39.2	42.1	38.7	47.8	167.9	44.4	48.9	50.8	60.7	204.8	53.3	53.0	53.2	56.3	215.8
Gross Profit	38.1	40.4	59.0	77.3	214.8	78.1	87.9	99.2	112.6	377.8	104.5	110.3	112.8	134.5	462.2	117.8	116.3	116.7	129.1	479.9
Operating Expenses:																				
Sales and Marketing	11.3	15.0	22.0	26.5	74.8	30.1	36.5	45.1	46.8	158.5	44.9	48.4	50.0	59.6	202.9	52.6	52.2	52.8	58.0	215.6
General and Administrative	8.5	8.7	10.3	13.0	40.5	15.5	11.9	13.1	14.4	54.8	14.5	14.0	13.5	14.1	56.1	12.5	14.0	13.3	12.6	52.4
Product Development	4.4	4.7	5.7	6.6	21.3	7.4	7.6	7.7	7.8	30.5	8.0	8.4	8.3	8.5	33.3	8.4	8.3	7.8	7.2	31.6
Stock-Based Compensation	0.1	0.0	0.1	1.9	2.0	3.3	3.2	3.0	2.4	11.9	2.5	2.7	2.9	3.1	11.2	3.3	3.5	3.7	3.9	14.4
Amortization of Intangible Assets	1.2	1.4	3.1	6.4	12.2	5.7	5.5	5.5	5.2	21.8	5.2	5.2	5.2	5.2	20.9	5.2	5.2	5.2	5.2	20.9
Restructuring Charge	(0.2)	0.2	0.0	(0.1)	(0.1)	0.0	(1.9)	0.0	0.0	(1.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	25.4	30.1	41.1	54.2	150.8	61.9	62.7	74.4	76.6	275.6	75.2	78.6	80.0	90.6	324.5	82.0	83.3	82.8	86.9	334.9
Reported Income from Operations	12.8	10.3	17.9	23.1	64.1	16.1	25.2	24.8	36.0	102.1	29.3	31.7	32.8	43.8	137.7	35.9	33.0	33.9	42.2	145.0
Depreciation and Amortization	2.8	3.0	4.8	8.7	19.2	7.9	7.7	7.8	7.6	31.1	7.8	7.9	8.1	8.2	32.0	8.4	8.5	8.7	8.8	34.3
EBITDA	15.5	13.3	22.7	31.8	83.3	24.0	32.8	32.6	43.7	133.2	37.1	39.6	40.9	52.0	169.7	44.2	41.5	42.6	51.0	179.3
Pro Forma Income from Operations	12.9	10.4	18.0	26.8	68.1	22.8	31.6	30.8	40.9	126.0	34.3	37.1	38.6	50.0	160.1	42.5	40.0	41.3	50.0	173.8
Adjusted EBITDA	15.6	13.3	22.7	33.7	85.3	27.4	34.1	35.6	46.1	143.2	39.6	42.3	43.8	55.1	180.9	47.5	45.0	46.3	54.9	193.7
Net Interest and Other	1.4	1.4	0.7	1.6	5.1	1.9	2.0	1.6	2.4	8.0	2.4	2.7	2.7	2.9	10.7	3.4	3.7	3.8	4.0	14.9
Pretax Income	14.1	11.7	18.6	24.7	69.1	18.1	27.2	26.4	38.5	110.1	31.8	34.3	35.5	46.8	148.4	39.3	36.7	37.7	46.2	159.9
Provision for Income Taxes	5.4	5.4	7.5	10.5	28.8	8.3	12.7	9.6	16.4	47.0	13.5	14.6	15.1	19.9	63.1	16.7	15.6	16.0	19.6	68.0
Minority Share of Loss (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	8.7	6.4	11.1	14.2	40.3	9.8	14.4	16.8	22.1	63.1	18.3	19.7	20.4	26.9	85.3	22.6	21.1	21.7	26.6	91.9
Nonrecurring and Extraordinary Items	(0.2)	0.2	0.0	(0.1)	(0.1)	0.0	(1.9)	0.0	0.0	(1.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro Forma Pretax Income	15.2	13.4	21.7	32.9	83.3	27.0	33.9	34.9	46.1	142.0	39.5	42.3	43.7	55.1	180.5	47.8	45.4	46.6	55.4	195.2
GAAP Income Tax Provision	5.4	5.4	7.5	10.5	28.8	12.3	15.4	15.9	21.0	64.6	13.5	14.6	15.1	19.9	63.1	16.7	15.6	16.0	19.6	68.0
Tax Adjustment of Pro Forma Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro Forma Net Income	9.8	8.1	14.2	22.4	54.5	14.7	18.5	19.0	25.1	77.4	26.0	27.7	28.6	35.2	117.5	31.1	29.8	30.6	35.7	127.3
<u>Diluted Earnings per Share:</u>																				
GAAP Earnings per Share	\$0.10	\$0.08	\$0.13	\$0.13	\$0.44	\$0.09	\$0.14	\$0.17	\$0.22	\$0.62	\$0.18	\$0.19	\$0.20	\$0.26	\$0.83	\$0.22	\$0.20	\$0.21	\$0.25	\$0.88
Pro Forma Earnings per Share	\$0.11	\$0.10	\$0.16	\$0.21	\$0.60	\$0.14	\$0.18	\$0.19	\$0.25	\$0.76	\$0.25	\$0.27	\$0.28	\$0.34	\$1.14	\$0.30	\$0.29	\$0.29	\$0.34	\$1.22
Diluted Shares Outstanding	85.3	84.9	87.7	105.4	90.9	104.8	103.5	98.5	100.2	101.7	103.2	103.2	103.2	103.2	103.2	103.7	104.2	104.7	105.3	104.5
<u>Margin Analysis</u>																				
Gross Margin	74.1%	74.1%	72.5%	66.3%	70.7%	66.5%	67.6%	71.9%	70.2%	69.2%	70.2%	69.3%	69.0%	68.9%	69.3%	68.9%	68.7%	68.7%	69.6%	69.0%
Sales and Marketing as % of Net Revenue	22.0%	27.6%	27.0%	22.7%	24.6%	25.7%	28.0%	32.7%	29.2%	29.0%	30.2%	30.4%	30.6%	30.6%	30.4%	30.8%	30.9%	31.1%	31.3%	31.0%
Product Development as % of Net Revenue	8.6%	8.6%	7.0%	5.6%	7.0%	6.3%	5.9%	5.6%	4.9%	5.6%	5.4%	5.3%	5.1%	4.4%	5.0%	4.9%	4.9%	4.6%	3.9%	4.5%
General and Administrative as % of Net Revenue	16.6%	15.9%	12.6%	11.2%	13.3%	13.2%	9.1%	9.5%	9.0%	10.0%	9.8%	8.8%	8.3%	7.2%	8.4%	7.3%	8.3%	7.8%	6.8%	7.5%
Pro Forma Operating Margin	25.0%	19.1%	22.1%	23.0%	22.4%	19.4%	24.3%	22.3%	25.5%	23.1%	23.0%	23.3%	23.6%	25.6%	24.0%	24.8%	23.6%	24.3%	27.0%	25.0%
Adjusted EBITDA Margin	30.3%	24.4%	27.9%	28.9%	28.1%	23.3%	26.3%	25.8%	28.7%	26.3%	26.6%	26.6%	26.8%	28.2%	27.1%	27.8%	26.6%	27.2%	29.6%	27.8%
Effective Tax Rate	38.5%	45.6%	40.3%	42.6%	41.7%	45.8%	46.8%	36.5%	42.5%	42.7%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%
Pro Forma Net Income	19.0%	14.8%	17.5%	19.2%	17.9%	12.6%	14.2%	13.8%	15.7%	14.2%	17.5%	17.4%	17.5%	18.0%	17.6%	18.2%	17.6%	18.0%	19.3%	18.3%
<u>Year Over Year Growth</u>																				
Net Revenue	40.1%	57.7%	87.2%	114.5%	79.7%	128.1%	138.3%	69.3%	37.6%	79.5%	27.0%	22.5%	18.7%	21.7%	22.2%	14.9%	6.3%	3.9%	-5.0%	4.3%
Gross Profit	49.0%	74.3%	94.8%	96.5%	81.4%	104.8%	117.5%	68.1%	45.7%	75.8%	34.0%	25.5%	13.8%	19.4%	22.3%	12.7%	5.4%	3.4%	-4.0%	3.8%
Pro Forma Operating Income	89.7%	67.6%	101.9%	77.9%	84.1%	77.1%	203.4%	71.0%	52.4%	85.0%	50.7%	17.5%	25.5%	22.4%	27.0%	23.7%	8.0%	6.9%	-0.1%	8.6%
Adjusted EBITDA	71.3%	58.2%	97.9%	90.7%	82.8%	75.6%	156.0%	56.8%	36.8%	67.9%	44.8%	23.9%	23.0%	19.6%	26.3%	19.9%	6.5%	5.6%	-0.4%	7.1%
Pro Forma Net Income	49.4%	93.5%	97.7%	69.6%	75.1%	50.8%	128.8%	33.5%	12.4%	42.1%	76.5%	49.7%	50.2%	40.1%	51.8%	19.7%	7.8%	7.1%	1.4%	8.4%
Pro Forma Diluted Earnings per Share	47.0%	90.9%	89.3%	36.0%	60.5%	22.7%	87.9%	18.7%	18.3%	26.9%	79.2%	50.1%	43.5%	36.0%	49.7%	19.1%	6.8%	5.5%	-0.6%	7.0%
<u>Other Metrics</u>																				
Free Cash Flow	12.7	14.5	14.0	10.5	51.6	15.3	13.5	35.0	49.3	113.1	24.1	5.5	26.9	55.4	111.9	29.3	10.7	30.2	59.0	129.2
Free Cash Flow per Share	\$0.15	\$0.17	\$0.16	\$0.10	\$0.57	\$0.15	\$0.13	\$0.36	\$0.49	\$1.11	\$0.23	\$0.05	\$0.26	\$0.54	\$1.08	\$0.28	\$0.10	\$0.29	\$0.56	\$1.24
Free Cash Flow ex Stock Options Benefit	10.3	14.4	11.9	2.2	38.8	15.3	13.5	25.1	49.3	103.2	24.1	5.5	26.9	55.4	111.9	29.3	10.7	30.2	59.0	129.2

Source: Company reports and RBC Capital Markets

Required Disclosures

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.

Ratings

Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Risk Qualifiers (any of the following criteria may be present):

Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

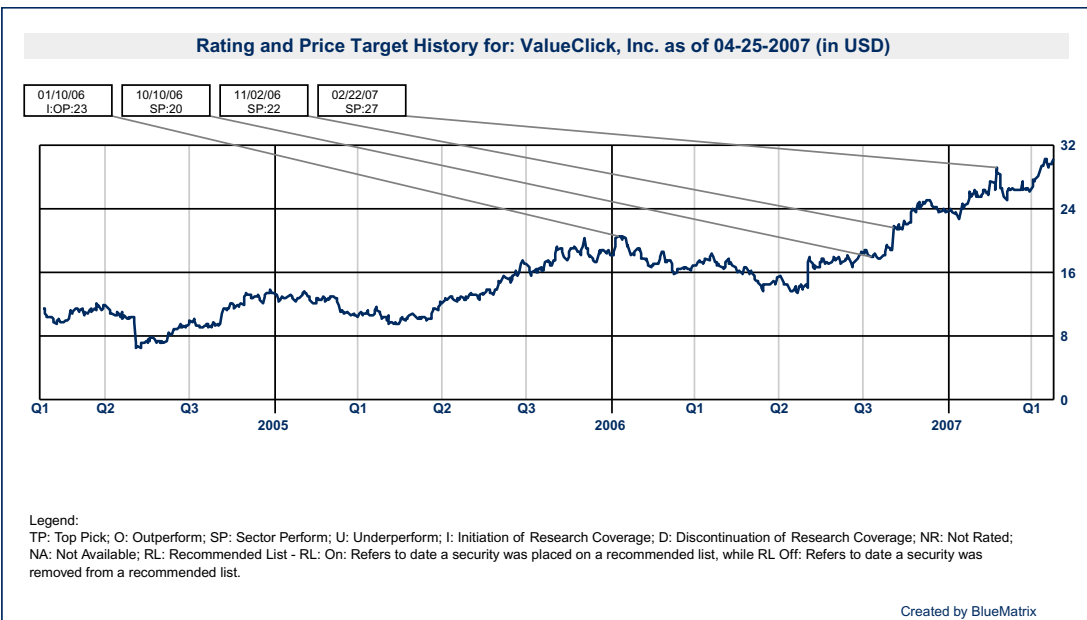
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	442	42.62	185	41.86
HOLD[SP]	492	47.44	144	29.27
SELL[U]	103	9.93	19	18.45



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