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Dialog Group, Inc. (DLGG-OTC:BB)

Accelerating quarterly growth in data segment and well-received new product introductions bode well for future sales and profitability.

Recent Price: \$0.003

Market Data (based on fully-diluted)

Market Capitalization (mln)	\$1.59
Enterprise Value (mln)	\$6.81
Fully Diluted Shares (mln)	528.4
Float (mln)	64.5
Avg. Volume (50 day, approx.)	14,000
Institutional Ownership (%)	21.0
Exchange	OTC-BB

Company Overview

Dialog Group, Inc. provides a suite of technology and database solutions and services that enable marketers to advertise, generate leads, and manage customers. The company is an original compiler and distributor of proprietary and licensed data products and online and off-line marketing services.

Company Contact Information

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Summary and Investment Opportunity

- The Dialog Group, a Company in Transition**

DLGG is in the midst of a very significant transition as it begins to focus almost exclusively on its high-margin, accelerating-growth data businesses while either shedding its other businesses or harvesting the value they represent without allowing them to become an undue distraction. As a result, DLGG's most recent few quarters of financial performance appear to be lackluster, whereas the performance of the data segment has been quite exceptional. Unfortunately, this strength and growth-acceleration in the data segment has been masked by declines in the lower-margin segments on which the company has chosen not to focus.

- Company's Data Business Based on Very Extensive Consumer Database**

The core of the company's multiple data products and platforms is an extensive database containing information on nearly 200 million U.S. consumers. This database carries high-quality information on a large percentage of consumers' financial, mortgage, lifestyle, and other demographic information, and with the use of their propriety technology can be linked by telephone number or address. This technology allows DLGG's data products to make a caller's (or a Web user's) record available within milliseconds of an inbound data request.

- Dialog Group's Data Businesses Serve a Variety of Telephony, Direct Mail, and Web/Online Uses**

Dialog Group's data businesses currently consist of three units, two of which focus on traditional direct marketing applications (one group sells to customers, the other to resellers), and the third of which serves customer response centers. In terms of its direct marketing businesses, DLGG sells directly to end-users with heavy direct marketing needs (e.g. car dealerships, insurance agents) and to resellers such as list brokers.

The company's other offering includes a specialty application for customer response center operators and a newly released Web-based product that facilitates auto-population of Web forms. Both of these applications can fulfill data requests in milliseconds; the application requires only a phone number and/or a mailing address to fulfill the data request.

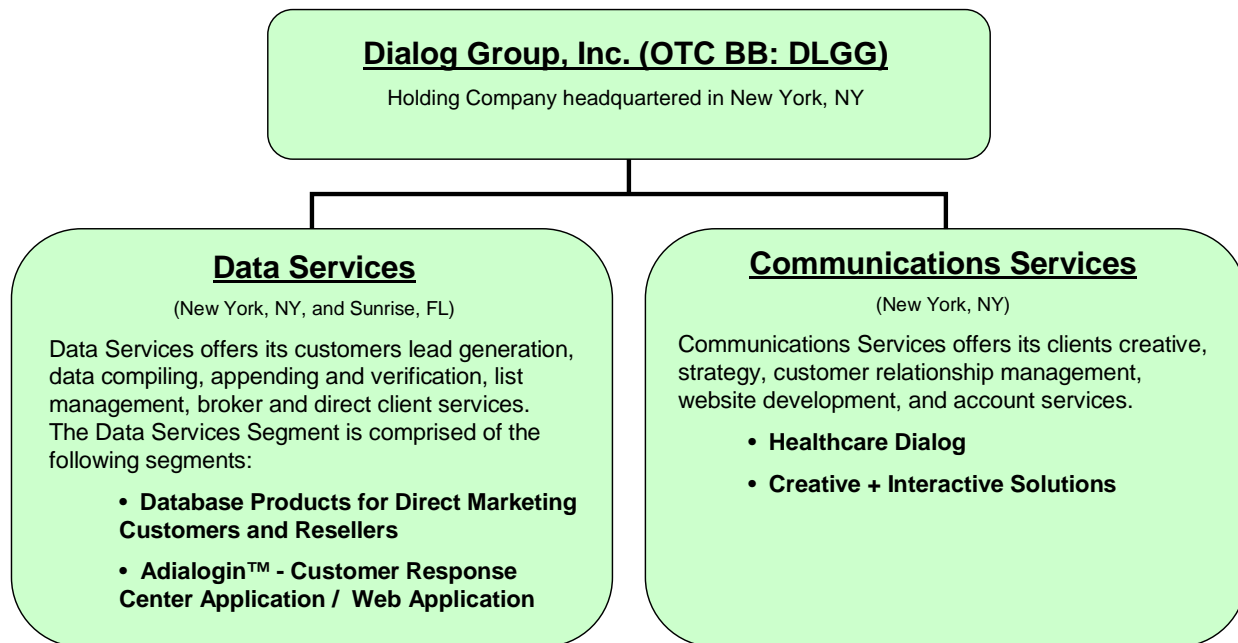
Data Segment Breakout, Total Revenues and Margins

	Q1'05	Q2'05	Q3'05	Q4'05*	Q1'06
Data Segment Revenues	392	372	420	495	613
Data Seg Quarterly Sequential Growth		(5.0%)	12.9%	17.7%	23.8%
Data Segment Revenues as % of Total	32.8%	26.2%	21.8%	29.8%	63.7%
Gross Profit from Data Segment	277	305	303	377	470
Gross Margin in Data Segment	70.7%	82.0%	72.0%	76.3%	76.6%
Non-Data Segment Revenues	803	1,047	1,508	661	350
Non-Data Gross Profit	226	503	558	45	184
Non-Data Gross Margin	28.1%	48.0%	37.0%	43.2%	52.6%
Total Revenues	1,195	1,419	1,928	1,659*	963

*Company divested an unprofitable unit as of 12/31/05.

Company Overview

Dialog Group, Inc. is a publicly traded corporation (OTCBB:DLGG), headquartered in New York, NY. DLGG provides a suite of technology and database solutions and services that enable marketers to advertise, generate leads, and manage customers. DLGG is an original compiler and distributor of proprietary and licensed data products and online and off-line marketing services. DLGG offers this suite of products and services through its two operating divisions: Data Services and Communications Services.



Source: Dialog Group, Inc.

The Dialog Group develops original systems and tools to facilitate the collection and distribution of data in order to generate business prospect leads, service customers, and streamline processes. Its focus is on companies of all sizes that need and utilize data delivered through multiple channels. Through different products, DLGG performs data collection services and third-party data sales to support direct marketing campaigns targeted to specific product categories and market segments. In addition to having a database of information on almost 200 million U.S. consumers, DLGG compiles and packages its data along with third-party data, creating truly integrated solutions. It has the advantage of being both a compiler and a distributor of data, as well as an organization that has experience helping its clients succeed. In the short-run, DLGG is seeking to raise additional capital, which it intends to use to expand its sales and marketing efforts, broaden its technology platform, and finance working capital needs. In the long-term, management has indicated that the company intends to continue with new product development efforts as well as to pursue attractively priced strategic acquisitions. Although no acquisition activity is planned for 2006, management has indicated that they believe there are many good acquisition candidates that would allow the company to increase revenues with little additional cost.

Refocusing on High Margin High Growth Business Segments

Dialog Group has recently been reorganizing its business segments, shedding or “harvesting” lower-margin, low-growth businesses, and focusing its efforts and resources on those business segments that offer margins of 50% to 80% and have high growth prospects. In late 2005, DLGG sold its AdValiant business segment, which was a provider of affiliate marketing and lead generation services based on the cost-per-action and cost-per-lead model. In February 2006, DDLG sold its Mail Mogul business, which sells proprietary and external lists to mail shops and offers consumable mail supplies to its customers. DLGG chose to exit these lines of business because they generated relatively lower margins and demonstrated a lack of growth opportunities. Today, DLGG is refocusing its resources on its Data and Communications Services segments, which generate gross margins of 50% to 80% and offer greater long-term growth opportunities.

Data Segment – the Company’s Future Growth Engine and Primary Investment Consideration

The Data segment offers its customers Lead Generation, Data Compiling, Appending, Verification, List Management, Broker, and Direct Client services. These services are marketed primarily to small- and medium-sized businesses through an eight person sales force. In 2005 the Data Segment generated about \$2.8 million in sales, accounting for roughly 42% of total company revenue. However, the last few quarters have seen not only strong growth but strong and accelerating growth, and the company believes it can continue growing its high-margin data businesses at a quarterly sequential growth rate in excess of 20%, at least for the next few quarters. If the company is adequately resourced and is able to accomplish this feat, it should experience rapidly expanding sales and operating profits, and probably market valuation as well.

Note the quarterly acceleration in the Data Segment Quarterly Sequential Revenue Growth line, which exceeded 23% last quarter.

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In terms of evaluating the investment merits of the company, it would be quite useful to have as a point of reference comparable companies in similar lines of business. Unfortunately, no other small public companies in DLGG’s line of business have similar growth rates and margins, so direct comparables are almost impossible to come by. In other lines of business where companies are characterized by high margins and very high growth rates, the market tends to assign quite aggressive revenue and earnings multiples, boding very well for DLGG’s valuation if management is correct in its assessment of the company’s growth prospects.

Adialogin™ is a data integration application that automatically appends names and addresses to telephone numbers on calls made by consumer and business customers to customer response centers (i.e. call centers). The “reverse append technology” this application is based on improves customer support by allowing the client to verify customer data in real-time, thus speeding up promotional efforts and improving customer service. Adialogin is marketed primarily to telephone contact centers operating for in-bound customer interaction, and blended centers with 5 to 500 seats, consisting of more than 100,000 locations worldwide. Adialogin currently has contracts with 30 end-user companies and 20 reseller organizations in this market segment, as well as an additional five agreements with manufactures which service this market. Beginning Q2-06, the company introduced a Web version of Adialogin. Although based on the same platform, the primary target market for this Web-based application is website operators looking to capture identification knowledge of individuals registering on their website. More specifically, this new Web application auto-populates user registration forms from simple user information such as telephone number and/or mailing address.

In 2005, the Adialogin segment generated approximately \$500,000 in sales, accounting for approximately 18% of the Data segment’s total revenue. This business segment generates gross margins of 75% to 80%. Some of this segment’s more notable customers include Victoria’s Secret, Pet Meds, and Scott Fertilizer. Furthermore, this business segment is expected to make a large contribution towards fueling the company’s revenue and earnings growth, with management expecting that it will be generating revenue at an annual run rate of several million dollars by the end of 2007.

Data Dialog Marketing serves the direct marketing needs of small and medium-sized businesses with systems and tools that generate business and consumer prospect leads, provide data services, and streamline business processes by integrating the collection and distribution of data. Data Dialog Marketing offers a host of data-related services such as targeted marketing lists, turnkey direct mail programs, and data cleansing. This segment offers these products and services to multiple market segments including insurance, financial planning, real estate, auto dealerships, and other segments that are users of direct mail and prospect marketing. The Data Dialog Marketing segment generates solid gross margins of between 50% and 80%.

Data Dialog Data Management acts as a wholesaler, servicing the needs of the data brokerage and list management community. Through the use of telephone surveys, proprietary databases, and licensed compiled databases, DLGG's Data Management is able to provide a multitude of services to List Managers, List Brokers, and National Account clients that offer a high quality, licensed and compiled file consisting of hundreds of selects. This database is Web-enabled and is available for counts and immediate turnaround on list orders. The DLGG Data Management business segment generates gross margin of 50% to 80% and has a customer base that consists of a few hundred clients

Communications Segment

The Communications Segment offers its clients Creative, Strategy, Customer Relationship Management (CRM), Website Development, and Account Services. These advertising, relationship marketing, and communications services are marketed primarily to the healthcare industry. Clients use its strategic and creative services to build comprehensive programs directed to healthcare and other professionals, consumers, and sales representatives. These services include training materials development, consumer and professional education materials, and targeted direct mail and advertising campaigns. Clients rely on Communications Services to produce sophisticated promotional websites, educational websites, interactive training and educational CD-ROMs, Internet advertising, e-mail campaigns, and proprietary marketing programs. Although this business segment generates solid gross margins of 50% to 75%, its revenues have recently been declining. In 2005, the Communications segment generated approximately \$1.6 million in sales, accounting for approximately 24% of the company's total revenue.

Healthcare Dialog is a full-service provider of relationship marketing and communication programs for the pharmaceutical industry. It provides a variety of promotional opportunities to identify, attract, and maintain customer relationships and build brand equity. Healthcare Dialog has the unique ability to provide integrated, start-to-finish solutions, while still maintaining the flexibility to offer each of these services individually.

Creative + Interactive Solutions

Healthcare Dialog provides relationship marketing and communications services to the healthcare industry, including strategic and creative, interactive communications, and management services. As a provider of relationship marketing communications services, Healthcare Dialog helps clients establish and build valuable, longer-term relationships with physicians, patients, and consumers over a broad array of permission-based contact points, including direct mail, digital on-demand print, and Internet Web sites. This segment provides the following services:

- **Strategic and Creative Services:** Development and creation of comprehensive programs for healthcare professionals, consumers, and sales representatives including training materials, dissemination of patient and professional education materials, targeted direct mail campaigns, and advertising campaigns.
- **Interactive Services:** Sophisticated promotional websites, educational websites, interactive training and educational CD-ROMs, Internet advertising, e-mail campaigns, and private-label programs.

Competition

The business and consumer marketing information industry is highly competitive. A number of competitors are active in specific segments of DLGG's business.

Data Segment – Dialog Group's Data Dialog products compete with large direct marketing list providers such as InfoUSA, Acxiom, Experian, and Accudata. There is also competition from direct mail products including Amazing Mail and Modern Postcard. Adialogin's main call center competitors include TARGUSinfo and Acxiom, both of which offer consumer data for Business-to-Consumer uses with a focus on the Fortune 500 companies. Adialogin's primary online competitor is Targus. Also, we believe that several new competitors are in the process of entering this market.

Communications Segment – Healthcare Dialog faces four types of competitors: specialty healthcare advertising agencies such as Nelson Communication Inc. and Rapp Collins, traditional healthcare advertising firms such as Grey Healthcare, Internet agencies such as SimStar, and pharmaceutical companies' in-house advertising and marketing departments.

Furthermore, DLGG may face competition from new entrants to the business and consumer marketing information industry as a result of the rapid expansion of the Internet, which creates a substantial new channel for distributing business information to the market.

Management Team

Our investment philosophy places heavy emphasis on the quality of management as well as independent members of the Board of Directors. The management team and Board Members at Dialog Group not only have solid credentials, but also bring with them a great deal of business experience from a variety of backgrounds that should assist them in executing their business plan.

Peter V. DeCrescenzo – President, Chief Executive Officer, and Chairman of the Board

Mr. DeCrescenzo was founding partner of PVD and Partners, Inc., a healthcare marketing and communications agency. Previously, he was Senior Vice President and partner at MD Direct, specializing in DTC and DTP marketing. Mr. DeCrescenzo held senior positions at Sterling Drug, American Home Products Corporation as Director of Marketing for Ayerst Laboratories, and Sandoz (currently Novartis) Pharmaceuticals. He has over 25 years of experience in the healthcare industry. He received a BBA degree in marketing from Pace University.

Vincent DeCrescenzo, Sr. – Chief Operating Officer, Chief Financial Officer, and Chairman of Options Committee

Mr. DeCrescenzo has more than 25 years of marketing and operations experience and served as Chief Operating Officer of PVD and Partners, Inc. Mr. DeCrescenzo worked for Bradlees Discount Stores for over a decade beginning in 1980, starting as a single unit store manager and progressing to Regional Vice President and membership in the Bradlees Operating Committee. As Regional Vice President, he had full profit and loss responsibility for 50 stores, over \$500,000,000 in sales, and a store population that peaked at over 10,000 employees. He received a BA degree in economics from Brooklyn College.

Cindy Lanzendoen – Administrative Head, Healthcare Dialog

Ms. Lanzendoen was Executive Vice President and founding partner of PVD and Partners, Inc., and held positions with Carlson Healthcare Communications and Dugan/Farley Communications. Ms. Lanzendoen has taught Laboratory Medicine at Bergen Community College and has more than 20 years of experience in the healthcare industry. She received a BS degree in medical technology from the University of Maryland.

Andreja Fah – Chief Technology Officer

Mr. Fah held positions as Senior Art Director for advertising agencies such as JW Thompson, Young & Rubicam, and Saatchi & Saatchi, and was the founder and managing partner of Corporate Design Group, a developer of interactive media. Mr. Fah has over 25 years experience in healthcare-related graphic design and technical development. He received a BFA degree in information design, MFA degree in industrial design, and MS degree in economics from the University of Zurich, Switzerland. Mr. Fah is also a Java evangelist.

Independent Members of the Board of Directors

Richard P. Kundrat – Chairman and Chief Executive Officer of NuVim, Inc., Independent Board Member, Chairman of Compensation Committee

NuVim is a marketing, production, and distribution company with its roots in 40 years of biological clinical research and development. Mr. Kundrat spent 27 years with the Unilever Corporation from which he retired in 1996 as General Manager and Vice President. In 1996 he founded the business management firm of Rick Kundrat Associates, which assists large and small companies with their branding, strategic planning, and partnership issues. He serves as special consultant to the Chairman of KeySpan Energy, is a former Board member of KeySpan Services, the International Food Service Manufacturers Institute, Chairman of the International Tea Association, and a Member of the Corporation at the Culinary Institute of America. Among the marketing awards he holds are the Advertising Age Top 100 Marketers and Unilever's World Innovation Award. Mr. Kundrat is recognized as one of the premier experts in brand building, strategic planning, and developing company alliances.

Adrian Stecyk – Independent Board Member

From December 2001 to March 2003, Mr. Stecyk served as the company's president. He is currently CEO and Director of Griffin Securities, Inc., a US-based investment banking and NASD-registered brokerage firm, and has served in that position since 1997. He has been a director of Cater Barnard and Cater Barnard (USA) since July 2000. Mr. Stecyk has a BS in engineering and an MBA from Boston University. From 1980 to 1986, he was a member of the Technical Staff at Charles Stark Draper Laboratory, a technology research and development company. Mr. Stecyk co-founded Griffin Capital Management Corp, a registered Investment Advisor, where he was responsible for asset management and investment advisory services to major institutions.

Conclusion

Dialog Group, Inc. is in the process of refocusing the company's resources on high margin business segments that offer substantial growth opportunities. Management appears to have a clearly articulated growth strategy that addresses these opportunities as well as the management skills necessary to execute it. However, the obstacle facing the company is its near-term is access to additional capital that will allow it to expand its sales and marketing efforts, broaden its technology platform, and finance its working capital needs. If management is successful in executing its growth strategy and capitalizing on new growth opportunities, strong share price appreciation will likely follow.

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Analyst Highlight

Michael A. Bain, CFA, Senior Research Analyst Special Situations and Healthcare

Mr. Bain has experience conducting both sellside and buy-side equity research, primarily in the healthcare, industrial equipment and transportation sectors. Most recently, Mr. Bain worked as an equity analyst for Institutional Research Consultants, where he provided customized research services to institutional investors. Prior to that, Mr. Bain worked on the sellside for Raymond James, where his research focused on companies that provide transportation and logistics services. Mr. Bain entered the securities industry in 1996, when he joined NatWest Securities. At that time, he conducted research primarily on manufacturers of cardiovascular medical devices and industrial equipment. That office was subsequently acquired by HSBC Securities in 1998, and his coverage universe was broadened to include manufacturers of disposable medical supplies. Prior to entering the securities business Mr. Bain served as a Commercial Property Analyst for USAA and as an independent consultant.

Mr. Bain holds a Bachelor of Arts degree with a major in economics and a Master of Business Administration degree with a concentration in finance, both from the University of Florida. Additionally, he is a CFA Charterholder and a member of the CFA Institute.

Leadership Team

Brian R. Connell, CFA

Chief Executive Officer

Michael A. Bain, CFA

Director of Research

Client Team

David W. Boral

Director, Business Development

Elizabeth A. Frederick

Operations Manager

Equity Research Team

Michael A. Bain, CFA

Director of Research, Healthcare, Special Situations

Dennis Fischer, CFA

Biotech and Pharmaceuticals

Stephanie Loiacono, CFA

Banks and Specialty Retail

Lisa Springer, CFA

Natural Resources

Michael R. Anderegg, CFA

Information Security and Data Storage

Andrew S. Hua, CFA

Technology and Asia Focus

David M. Parr, CFA

REITs, Banks, and Financial Institutions