



Headliners Entertainment INC.
(OTCBB: HLNR)

Institutional Research Update

Gary Vassalotti
February 22, 2005

Symbol (NASDAQ):	HLNR	Nine Months Ending September				
Recent Price:	0.008	Year	E/S	PER	REVS	PSR
Avg. Daily Vol. (3-Mo.):	593,356	2004 ² 9/30	(0.08)	NM	0.015	0.66X
Industry	Entertainment	2004E (12/31)	(0.06)	NM	0.059	0.17X
12 Month Target Valuation:	0.04	2005E	(0.05)	NA	0.083	0.12X
Market Capitalization (\$mil):	0.590	Estimated 2004- 2005 Annualized				
Capitalization: 03/30/02		Growth Rate:	NA			
Shares O/S:	59,050,878	Dividend:	Nil			
Cash & Equiv ¹ :	200,000	Yield:	Nil			
Net Working Capital:	(6,889,671)	Insider Ownership ³	39,445,986	66.8%		
Long-term Debt:	20,838	Rating:	BUY / 4			
Shareholders Equity (09/31/04)	(1,779,207)					

¹ From conversation / correspondence with CEO, 2/2005

² Based upon ending Wght. Shares O/S of 59,050,878

³ Based upon percentage of insider ownership from Pre-14c dated 2/11/05 multiplied by shares O/S as of 9/30/04

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Recent Developments

HLNR has signed an agreement with Microsoft to allow Microsoft to distribute material from HLNR's recorded performances.

The Microsoft deal will allow Headliners to capitalize on its large library of comic performances from many of today's big names. Many of today's popular comedians had performances at one of the Headliners clubs before they became famous.

Headliners owns the rights to these early performances and will be providing them as content for Microsoft's steaming video service to Windows Mobile devices, such as Smartphones, Portable Media Centers, and Pocket PCs.

This deal has much potential. Microsoft has been trying to become more of a content provider as opposed to just being a software vendor. They have used MSN as one means to this end, and are always looking at ways to expand this effort. Headliner's material fits nicely into this model.

Earnings Model Update

Below is an updated earnings model. I have updated the numbers from the previous analyst, and it should be kept in mind that these numbers will be adjusted going forward as we begin to see the results of the Microsoft deal that was recently signed.

	Yr Ended 12/31		
	2004 (E)	2005 (E)	2003
Net Sales	\$ 3,500,000.00	\$ 4,900,000.00	\$ 2,352,800.00
Costs and Expenses			
Costs of Sales	\$ 1,167,574.29	\$ 1,430,278.51	\$ 981,096.00
Restaurant Operating Expenses	\$ 1,140,765.56	\$ 1,397,437.81	\$ 958,569.00
Rent expense	\$ 136,235.80	\$ 166,888.86	\$ 114,477.00
Depreciation and Amortization	\$ 18,130.74	\$ 22,844.73	<u>\$ 12,188.00</u>
Total Costs and Expense	\$ 2,462,706.39	\$ 3,017,449.91	<u>\$ 2,066,330.00</u>
Gross Profit	\$ 1,037,293.61	\$ 1,882,550.09	\$ 286,470.00
Gross Margin	29.64%	38.42%	13.86%
General and Administrative Expenses			
General and Administrative Expenses	\$ 1,483,473.10	\$ 1,483,473.10	\$ 997,233.00
Stock Based Compensation	\$ 2,700,188.41	\$ 3,024,211.02	<u>\$ 3,519,043.00</u>
Total Gen. Admin Exp	\$ 4,183,661.50	\$ 4,507,684.11	\$ 4,516,276.00
Loss from Operations	\$(3,146,367.90)	\$(2,625,134.02)	\$(4,229,806.00)
Other Income (Expense)			
Interest Expense	\$ (200,000.00)	\$ (200,000.00)	\$ (167,057.00)
Other Income	\$ 9,000.00	15000	\$ 8,043.00
Loss on Disposal of Fixed Assets			<u>\$ (82,361.00)</u>
Total Other Expenses	\$ (191,000.00)	\$ (185,000.00)	\$ (241,375.00)
(Loss) Before Income Tax Provision	\$(3,337,367.90)	\$(2,810,134.02)	\$(4,471,181.00)
Provision for Income Tax			<u>\$ 436.00</u>
Net Loss	<u>\$(3,337,367.90)</u>	<u>\$(2,810,134.02)</u>	<u>\$(4,471,617.00)</u>
Earnings (Loss) per Share	\$ (0.06)	\$ (0.05)	\$ (1.51)
Wght Avg Shares Outstanding	59,050,878.00	59,050,878.00	2,953,237.00

Conclusion

I am maintaining the previous analyst's rating of Speculative Buy / 4. Given the new clubs that are coming on line, and the Microsoft deal, HLNR presents an intriguing opportunity, along with the significant risks that are inherent in small cap investing.

Analyst's Statement: "I have prepared this report, and the content within it, including all opinions, are solely my own."

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The company's **InvestorPower™** page is at <http://www.investrend.com/company/list.asp?sPathParam=yes>

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