



May 22, 2008

Progress Report

Rating Information

Opinion	OUTPERFORM
Suitability/Risk	Speculative
Price Target (12 mo)	\$14
Upside to Price Target	44%
LT EPS Growth Rate	16%

Market Data

Price	\$9.70
52-Wk High	\$19.35
52-Wk Low	\$6.12
Market Cap (mil)	\$335.5
Enterprise Value (mil)	\$186.7
Shares Outstanding (mil)	34.7
Insider Ownership	19%
Institutional Ownership	63%
Average Daily Volume	676,052

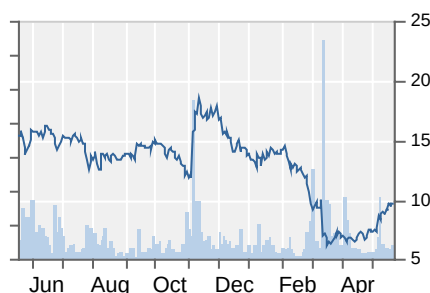
Financial / Valuation

Return on Equity (LTM)	12.2%
LT Debt/Capital	Nil
EV/EBITDA (LTM)	15.8x
Price/Sales (LTM)	3.8x
Price/Book	1.9x
Dividend	\$0.00
Dividend Yield	Nil

Analyst(s)

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Price Performance Chart



Source: FactSet Research Systems

NOTE: Please refer to the end of this report for important disclosures.

DivX Inc. (DIVX-NASDAQ)

DivX Reestablishing Momentum Post Stage6; Rating Raised

Investment Highlights

- We recently hosted some investor meetings with DivX management. While some near-term concerns arose over the Stage6 dissolution, management stressed the opportunities in new devices and the ultimate benefits of DivX Connected. Management described DivX as a bridge between consumers and their content and devices.
- DivX currently has a 42% penetration of the global DVD market, a blend of 30% U.S. penetration and significantly higher positions in markets like France, in which 95% of DVD players are DivX-certified. The market for traditional DVD players is topping out, but DivX' share of players sold continues to grow, jumping by 28% last year.
- Blu-ray Disc players offer a new opportunity. While compression technology is not always necessary for a high-capacity disc, the issue involves the capability of playback over the widest variety of digital media, and DivX is the most widely used compression algorithm for digital video on the Internet. In addition, the higher price points for Blu-ray Disc players should provide added cushion to make inclusion of DivX certification an easier sell to the manufacturer.
- Other targeted markets include game consoles, mobile devices (cell phones and related), and digital cameras. The H.264 technology gained in the MainConcept acquisition expanded the DivX family of codecs and enhanced the potential in many new areas. The improved compression should work well with cell phones while also enabling entry into the market for videos on point and shoot cameras.
- We are restoring our **OUTPERFORM** rating on DIVX. While the stock has jumped more than 50% from the low touched briefly in March, following the year-end report, it remains at a level only half that of the 52-week high. Several issues raised the risk levels at that time. The cautious guidance trumped an earnings report that was actually better than expected. Since that time, Stage6 has faded somewhat as a contentious issue, the value of the MainConcept acquisition has become more evident, and we feel management has become a stabilizing force. Our \$14 target provides substantial near-term upside, and cash is \$4 per share.

	Revenue (\$ mil)(est. in bold)				EPS (\$)(est. in bold)		
	2007	2008	2009		2007	2008	2009
FY: Dec							
Q1	20.2	25.0	-		0.14	0.18	-
Q2	18.3	21.5	-		0.10	0.09	-
Q3	21.9	24.8	-		0.17	0.14	-
Q4	24.5	26.2	-		0.16	0.15	-
Full Year	84.9	115.2	136.6		0.56	0.56	0.63
Growth Rate	43.0%	14.9%	18.2%		-8.2%	0.0%	12.5%
Price/Sales	4.0x	2.9x	2.5x	P/E	17.3x	17.3x	15.4x

Current Fundamental Issues

DivX, Inc. has undergone some material changes over the past year. A couple of things have not worked out as planned, but some other developments are, in our view, creating an increasingly positive environment for corporate growth as well as investor confidence. A dramatically changing technology environment rarely provides a framework of certainty. However, incumbent's advantage can help create or sustain a lead, and we feel DivX' efforts over the past half dozen years have been targeted at creating an identifiable and meaningful brand franchise that can be extended as technology evolves.

Stage6 was part of this same effort. However, the costs involved in creating this service were extremely burdensome, and no meaningful revenue was generated. Management's attempts to break out the impact of Stage6 on profitability of the core operations helped to some extent, but the complete separation was necessary to shift the focus back to the growth opportunities.

We feel the MainConcept acquisition was possibly the most important action taken by management over the past year. There are two important reasons behind our view. First, the acquired company's H.264 encoding technology significantly furthers DivX' ambitions in moving onto mobile platforms like phones and cameras. Second, and perhaps more importantly, this move signals management's embrace of its DivX branding as a family of codecs and perhaps ancillary elements. Obsolescence is much less an issue if the business is structured in a way that it can adapt to technological changes that fuel its growth.

We regard the improving management stability as important as well. In our opinion, management concerns created a drag on corporate perceptions a year ago. The talents and Street savvy of the new top team create a sense of confidence and openness, which did not exist previously. We also have a sense that the increased certainty that comes with increased tenure in their positions strengthens management's resolve to pursue its agenda.

The current year has been labeled as an "investment" year. The MainConcept acquisition is joined by efforts to develop and enhance emerging efforts in mobile platforms, content services and DivX Connected. While certain expenses will track a little higher, revenue expectations have remained largely unchanged, and gross margins are expected to remain in the mid-90% area.

Revenue recognition currently comes primarily from two sources. Technology licensing provides more than three-quarters of total revenues. Royalties are earned by licensing DivX software to consumer electronics equipment manufacturers, generally including the DivX logo on the box to identify certified devices. DivX currently has a 42% global market share of DVD players despite a 30% share of units sold in the United States. Other markets, such as France, enjoy a much higher share. The company is optimistic that penetration on the newer Blu-ray Disk format will be higher. The other source of revenues is an agreement with Yahoo (that replaced a similar agreement with Google) to offer a Yahoo toolbar to those downloading the DivX codec. DivX is paid once to exhibit the offer of the toolbar and a second time if a user actually performs the toolbar download. The DivX logo appears prominently in the upper left side of the Yahoo toolbar downloaded in this fashion.

Potential future growth should come from a number of sources. One is the pursuit of mobile applications as we have discussed. Another is the possibility of an increasing set of working relationships with Hollywood studios. Management understands that its prospects for success will be enhanced via the availability of branded content, so it is negotiating with the studios to make this happen. However, the most important development should ultimately be DivX Connected. This technology will enable the wireless transmission of video content from a user's computer to his/her television. The content can range from DivX-encoded films to a user's photography collection to Internet content.

A number of other companies are attempting to provide similar types of applications. Apple TV is the most prominent competitor. Another company named Roku is now teaming with Netflix to deliver Internet videos to television sets. DivX is attempting to make its offering open in terms of sources of content and inclusive in terms of ranges of material. The company hopes to engage a number of television manufacturers to embed the technology into the television monitor so that the user needs to simply download the software via a disc. Simplification of this process will be the best way to ensure the most widespread adoption of this technology. Earlier in our research on DivX, we tended to feel the rollout of DivX Connected would be fairly far into the future. We have been thinking more and more that the future could be sooner than we think.

Recent Quarterly Highlights

DivX, Inc. reported financial results for the first quarter of 2008 that were in line with our estimate for revenue, but significantly better than our estimate for diluted EPS. Revenue for the quarter totaled \$25.0 million, representing an increase of 24% versus Q1/07. This was essentially in line with our estimate of \$25.1 million, as well as the consensus estimate of \$25.0 million.

Non-GAAP diluted EPS in the quarter were \$0.18. This was significantly above both our estimate for diluted EPS of \$0.12 and the consensus estimate for diluted EPS of \$0.14. The non-GAAP EPS figure excludes the impact of five items: First, the negative impact of stock-based compensation (\$0.03 per share), Stage6 expenses (\$0.06 per share), an impairment charge related to intangibles purchased in the Veatros acquisition (\$0.02 per share) and amortization of acquired intangibles related to the MainConcept acquisition (\$0.01 per share). Finally, the positive impact of currency effects related to an intercompany loan (\$0.01 per share) is also excluded. GAAP diluted EPS for the quarter was \$0.07.

While the top line was in line with our expectations on a consolidated basis, the revenue mix was slightly different than what we had anticipated. Technology licensing accounted for approximately \$19.1 million (or 76.2%) of total revenue, while Media and other distribution and services accounted for \$5.9 million (or 23.8%). Our estimates called for a greater percentage of revenue coming from Technology licensing and a lesser percentage coming from Media and other distribution services.

Growth in the latter category is tied almost exclusively to the Yahoo! Toolbar agreement. We had anticipated that the absence of Stage6 in the back half of the quarter would slow demand for the DivX Web Player and subsequently impact the revenue line in Media and other distribution and services, due to fewer complementary installations of the toolbar. However, as CEO Kevin Hell noted on the conference call, the DivX Web Player continued to show strength in the quarter, despite the absence of Stage6. This was attributed to the fact that many third party sites have adopted use of the DivX codec to display their content, perhaps spurred on by the former popularity of Stage6. We view this as a very positive development for the company's overall business model, as it provides further growth potential to the company's oft-discussed ecosystem, but absent the costs associated with Stage6.

Technology licensing revenues are pacing in line with our expectation and the company continues to make strides into emerging categories. DivX recently renewed a major contract with Samsung and has made several recent announcements of partnerships with leading OEMs of various consumer electronics devices. We view the Samsung deal as particularly important, as they are one of the company's largest partners and contribute greater than 10% of the company's total revenue.

Looking at individual device categories, Blu-ray remains a focus and the company is seemingly gaining traction in its efforts to replicate the success it has had on traditional DVD players. For example, recent partnerships with Phillips, DENON and Panasonic all demonstrate the company's success at making inroads into that market. Likewise, the addition of the LG Secret mobile handset helps to improve its product offering in that space. Finally, end-market penetration for DVD players, the company's foundational

product category, continues in the U.S. and overseas. All in all, we believe the company is doing well at marketing the potential benefit of DivX codec inclusion to its OEM partners, as well as generating consumer interest.

Guidance

The company maintained its full-year revenue guidance of \$95-100 million. However, it increased its full-year guidance for both GAAP and non-GAAP diluted EPS. The company is now guiding to GAAP diluted EPS for 2008 of between \$0.24-0.30, compared to its previous range of \$0.14-0.22. Guidance for non-GAAP diluted EPS for 2008 was also raised. The company is now guiding to non-GAAP diluted EPS for 2008 of between \$0.52-0.58, compared to its previous range of \$0.44-0.52. Accordingly, for the second quarter, the company is guiding to revenue of \$20.5-21.5 million. Non-GAAP diluted EPS in the quarter is expected to fall within the range of \$0.09-0.11, while GAAP diluted EPS is expected to be between \$0.03-0.05.

Our Revised Estimates

Our own estimates were adjusted as follows (with details outlined in the tables following the text of this report). Our quarterly EPS estimates for the balance of the year are \$0.09, \$0.14, and \$0.15, leading to a full year figure of \$0.56. These numbers are below non-cash comp of \$0.04 to \$0.05 per quarter. Diluted EPS including non-cash comp would work out to \$0.40. Our full year revenue estimate is \$97.5 million. Our 2009 EPS estimate is \$0.63 and 2010 EPS estimate is \$0.75.

Opinion and Valuation

We are restoring our **OUTPERFORM** rating on DIVX. While the stock has jumped more than 50% from the low touched briefly in March, following the year-end report, it remains at a level only half that of the 52-week high. Our \$14 target provides substantial near-term upside, and cash is \$4 per share.

Several issues raised the risk levels at that time. The cautious guidance trumped an earnings report that was actually better than expected. Since that time, Stage6 has faded somewhat as a contentious issue, the value of the MainConcept acquisition has become more evident, and we feel management has become a stabilizing force.

Importantly, we feel the company is moving past some of the elements of uncertainty and focusing more on the growth opportunities. There is no way to completely avoid the continuing challenges posed by changing technologies, which can destabilize the competitive balance in a fast-moving industry. However, the current management team is pursuing a strategy that is reasoned and logical, and we feel the level of communications with the street has been upgraded substantially to the point that monitoring any changes in this situation is a much more viable possibility.

Business Description: DivX, Inc. creates products and services designed to improve the experience of media. DivX works to allow digital content creators to have the ability to capture their content in the DivX format using various devices or software and to allow consumers of such content to playback and interact with it on various devices or platforms. The Company's DivX codec is a video compression-decompression software library, or codec, that enables distribution of media across the Internet and through recordable media. DivX also licenses similar technology to consumer hardware device manufacturers and certifies their products to ensure the interoperable support of DivX-encoded content. In November 2007, DivX, Inc. acquired MainConcept AG, a provider of H.264 and other video technologies for the broadcast, film, consumer electronics and computer software markets.

DivX, Inc. Annual Income Statement (Thousands Except Per Share Items)					
	Q1/08A	Q2/08E	Q3/08E	Q4/08E	2008E
Net Revenues					
Technology Licensing	19,078	18,219	21,231	21,878	80,406
Media and other distribution and services	5,944	3,240	3,619	4,288	17,091
Consolidated Net Revenues	25,022	21,459	24,849	26,167	97,497
				95-100	
Cost of Revenues					
Technology Licensing	1,036	944	1,029	1,410	4,418
Media and other distribution and services	172	195	168	186	721
Consolidated Net Revenues	1,208	1,139	1,196	1,596	5,139
Gross Margins					
Technology Licensing	94.6%	94.8%	95.2%	93.6%	94.5%
Media and other distribution and services	97.1%	94.0%	95.4%	95.7%	95.8%
Consolidated Gross Margins	95.2%	94.7%	95.2%	93.9%	94.7%
Gross Earnings					
Technology Licensing	18,042	17,275	20,202	20,469	75,988
Media and other distribution and services	5,772	3,045	3,451	4,102	16,370
Consolidated Gross Earnings	23,814	20,320	23,653	24,571	92,358
Operating Expenses					
Selling, General and Administrative	11,356	11,470	11,584	11,932	46,342
Product development	4,706	4,753	4,801	4,705	18,964
Total Operating Expenses	16,062	16,223	16,385	16,636	65,306
Consolidated Operating Margins	32.6%	20.2%	30.7%	32.3%	29.3%
Consolidated Operating Earnings	7,752	4,098	7,268	7,934	27,052
Interest Income	1,657	990	990	990	4,627
Other Income	517	0	0	0	517
Pretax Income	9,926	5,088	8,258	8,924	32,196
Tax Rate (%)	(34.3)	(40.0)	(40.0)	(40.0)	(38.2)
Income Taxes	(3,405)	(2,035)	(3,303)	(3,570)	(12,313)
Net Income	6,521	3,053	4,955	5,355	19,883
Extraordinary Item	0	0	0	0	0
Adjusted Net Income	6,521	3,053	4,955	5,355	19,883
Preferred Dividends	0	0	0	0	0
Earnings for Common	6,521	3,053	4,955	5,355	19,883
Basic Shares Outstanding	34,696	34,696	34,696	34,696	34,696
Diluted Shares Outstanding	35,536	35,536	35,536	35,536	35,536
Basic Earnings Per Share	0.07	0.09	0.14	0.15	0.57
Diluted EPS Excluding Unusual Items	0.18	0.09	0.14	0.15	0.56
Diluted EPS incl Non-cash Comp	0.15	0.05	0.10	0.10	0.40
Non-cash Compensation	0.03	0.04	0.04	0.05	0.16
Free Cash Flow					
EBITDA	9,409	5,088	8,258	8,924	31,679
Interest Expense	517	0	0	0	517
Cash Taxes	(341)	(204)	(330)	(357)	(1,231)
Capital Expenditures	(346)	(346)	(346)	(346)	(1,384)
Preferred Dividends	0	0	0	0	0
Free Cash Flow	9,240	4,538	7,582	8,221	29,581
FCF/Share	0.26	0.13	0.21	0.23	0.83

DivX, Inc.
DIVX - NASDAQ
FY: December

FINANCIAL DATA
(in millions, except per share data)

Barrington Research

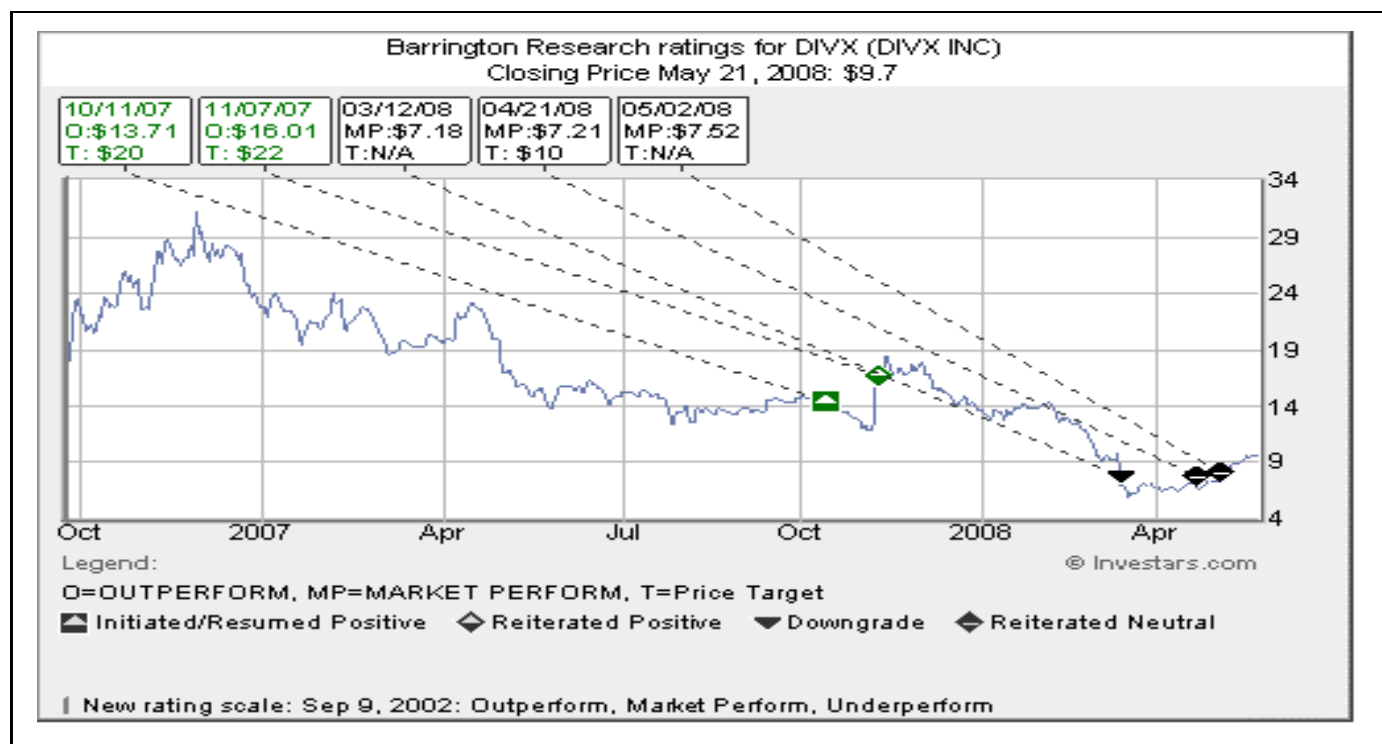
	NET REVS	YR/YR REV CHG	EBITDA	EBITDA MGN	GROSS EARNINGS	GROSS MGN	PRE TAX INC	PRE TAX MGN	TAX RATE	NET INC	NET MGN	EPS	DIL SHRS
F03A	7,746	-	(3,636)	-46.9	5,846	75.5	(3,732)	(48.2)	-5.4	(3,933)	(50.8)	(0.45)	8,755
F04A	16,351	111.1	(3,857)	-23.6	12,849	78.6	(3,970)	(24.3)	-9.4	(4,343)	(26.6)	(0.41)	10,631
2005-1QA	7,036	-	9	0.1	6,192	88.0	(19)	(0.3)	-942.1	(198)	(2.8)	0.00	6,700
2QA	7,036	-	(271)	-3.9	6,092	86.6	(298)	(4.2)	-60.1	(477)	(6.8)	(0.04)	6,860
3QA	8,392	-	998	11.9	7,463	88.9	964	11.5	21.0	762	9.1	0.02	10,587
4QA	10,584	-	2,735	25.8	9,645	91.1	2,710	25.6	18.5	2,208	20.9	0.03	10,698
F05A	33,048	102.1	3,471	10.5	29,392	88.9	3,357	10.2	31.6	2,295	6.9	0.03	8,711
2006-1QA	14,087	100.2	3,991	28.3	13,164	93.4	3,971	28.2	17.3	3,284	23.3	0.13	10,630
2QA	13,187	87.4	3,369	25.5	12,163	92.2	3,348	25.4	20.5	2,661	20.2	0.06	11,000
3QA	15,395	83.4	4,137	26.9	14,427	93.7	4,121	26.8	24.8	3,100	20.1	0.10	13,563
4QA	16,657	57.4	5,577	33.5	15,584	93.6	5,563	33.4	-32.9	7,395	44.4	0.21	35,419
F06A	59,326	79.5	17,074	28.8	55,338	93.3	17,003	28.7	3.3	16,440	27.7	0.61	17,653
2007-1QA	20,218	43.5	8,048	39.8	19,110	94.5	8,042	39.8	39.8	4,839	23.9	0.14	35,417
2QA	18,279	38.6	6,125	33.5	17,303	94.7	6,130	33.5	42.1	3,550	19.4	0.10	35,401
3QA	21,895	42.2	9,811	44.8	20,887	95.4	9,811	44.8	39.9	5,897	26.9	0.17	35,401
4QA	24,470	46.9	10,168	41.6	23,085	94.3	10,163	41.5	44.5	5,642	23.1	0.16	35,476
F07A	84,862	43.0	34,152	40.2	80,385	94.7	34,146	40.2	41.6	19,928	23.5	0.56	35,424
2008-1QA	25,022	23.8	9,409	37.6	23,814	95.2	9,926	39.7	34.3	6,521	26.1	0.18	35,536
2QE	21,459	17.4	5,088	23.7	20,320	94.7	5,088	23.7	40.0	3,053	14.2	0.09	35,536
3QE	24,849	13.5	8,258	33.2	23,653	95.2	8,258	33.2	40.0	4,955	19.9	0.14	35,536
4QE	26,167	6.9	8,924	34.1	24,571	93.9	8,924	34.1	40.0	5,355	20.5	0.15	35,536
F08E	97,497	14.9	31,679	32.5	92,358	94.7	32,196	33.0	38.2	19,883	20.4	0.56	35,536
F09E	115,237	18.2	37,441	32.5	109,369	94.9	37,441	32.5	40.0	22,464	19.5	0.63	35,523
F10E	136,565	18.5	44,332	32.5	129,782	95.0	44,332	32.5	40.0	26,599	19.5	0.75	35,350

BALANCE SHEET DATA

	2007	2006	2005	2004
Total Assets (mil\$)	200,888	154,395	33,164	13,680
Cash & Rest Cash (mil\$)	14,532	86,580	25,305	7,204
Receivables (mil\$)	10,397	6,939	4,194	2,242
Current Assets (mil\$)	159,449	158,821	30,269	10,604
Current Liabilities (mil\$)	21,039	11,802	7,921	8,457
Working Capital (mil\$)	138,410	147,019	22,348	2,147
Long-Term Debt (mil\$)	47	15	394	513
Shrholders Equity (mil\$)	175,440	150,911	23,027	2,886
Debt/Capital (%)	0.0	0.0	1.7	15.1

SELECTED DATA

Book Value (\$/Share)	4.95	8.55	2.64	0.27
Cash (\$/Share)	0.41	4.90	2.90	0.68
Earnings (\$/Share)	(0.39)	0.61	0.03	(0.41)
Cash Flow (Ops) (\$/Share)	0.48	0.95	0.25	(0.10)
Free Cash Flow (\$/Share)	0.23	0.92	0.28	(0.56)
EBITDA (\$/Share)	0.96	0.97	0.40	(0.30)
Return on Avg Equity (%)	5.6	18.9	17.7	(301.0)



EQUITY RATING SYSTEM:

- | | |
|--------------------|--|
| (1) OUTPERFORM | Expected to outperform the market (S&P 500) over the next 12 months.
Sound or improving company fundamentals.
Potential exists for a near-term catalyst.
Undervalued at current levels. |
| (2) MARKET PERFORM | Expected to perform roughly in line with the market (S&P 500) over the next 12 months.
Long-term potential exists, but no near-term catalyst apparent.
Fairly valued at current levels. |
| (3) UNDERPERFORM | Expected to underperform the market (S&P 500) over next 12 months.
Company fundamentals may be deteriorating.
Fully valued or over-valued at current levels |

PRICE TARGET METHOD/RISKS:

In developing a price target for this company, we used EV/EBITDA. There are, however, risks that our target price will not be achieved. These include, but are not limited to, failure of the company to meet our revenue or earnings estimates.

DISTRIBUTION OF RATINGS:

The following is a list of ratings for companies covered by Barrington Research Associates, Inc., as of March 31, 2008: The number of companies rated OUTPERFORM was 69 and represented 68% of all companies on the coverage list. The number of companies rated MARKET PERFORM was 29 and represented 29% of all companies on the coverage list. The number of companies rated UNDERPERFORM was 3 and represented 3% of all companies on the coverage list. Also, as of March 31, 2008, Barrington Research Associates, Inc., has provided investment banking services, within the last 12 months, to 10% (7 of 69) of the companies that had OUTPERFORM ratings, 0% (0 of 29) of the companies that had MARKET PERFORM ratings, and 0% (0 of 3) of the companies that had UNDERPERFORM ratings.

Analyst Certification: The research analyst responsible for the preparation of this research report, James C. Goss, CFA hereby certifies that his views about the companies and their securities expressed in this report accurately reflect his personal opinions. The analyst also certifies that no part of his compensation is directly or indirectly related to the specific recommendations or views contained in this report.

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TRADING (800) 233-6205

Michael Hutchison	mh@brai.com	(312) 634-6374
Alice M. Somodji	ams@brai.com	(312) 634-6375

Institutional Equity Trading Instructions

Barrington Research Associates, Inc., an NASD-registered broker/dealer, clears through Bear Stearns, on a fully disclosed basis. We offer several ways to facilitate the payment for our economic and investment research services.

- 1) Both listed and NASDAQ orders may be placed with our traders, Mike Hutchison and Alice Somodji, at (800) 233-6205 or (312) 634-6374.
- 2) Listed orders can also be placed directly with the Bear Stearns block desk in New York at (212) 272-5491. When placing orders, please specify that the order is for the credit of Barrington Research.
- 3) If you prefer, you can trade through any regional Bear Stearns institutional desk and direct your orders for the "credit of Barrington Research - Office 504."
- 4) If you do not have an account, please fax account instructions to your Barrington Research institutional salesperson at (312) 634-6350 and we will open the account(s).
- 5) All confirmations will go out in the name of Barrington Research.
- 6) Our DTC number is 0352. Our Broker/Dealer number is 58453. Our NSCC Symbol and Oasys Terminal ID are BRRR. Our Alert OCCD Acronym is BARRE.

In addition, Barrington Research has signed a fully-disclosed correspondent agreement with Instinet Corp. and is a participant in Instinet's new commission-sharing program, BrokerShare, which allows institutional clients to trade with Instinet while directing their commission dollars to our firm (and other broker-dealers) to pay for investment research and other services. For more information about the Instinet BrokerShare program, contact Instinet directly at (800) 225 5008.

If you have any further questions on trading, setting up accounts or related information (including BrokerShare), please call Michael Hutchison or Alice Somodji in our trading department, or your institutional sales representative.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED IN THIS REPORT ARE AVAILABLE UPON REQUEST.

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