

# FINAL TRANSCRIPT

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## **ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call**

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Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

## CORPORATE PARTICIPANTS

**Landon Barretto**

*Atrinsic, Inc. - IR*

**Stuart Goldfarb**

*Atrinsic, Inc. - CEO*

**Tom Plotts**

*Atrinsic, Inc. - CFO*

**Ray Musci**

*Atrinsic, Inc. - COO and EVP, Corporate Development*

## CONFERENCE CALL PARTICIPANTS

**John Gilliam**

*Point Clear Strategic Capital - Analyst*

## PRESENTATION

**Operator**

Welcome to the Atrinsic second-quarter earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation the conference will be open for questions. (Operator Instructions)

I would now like to turn the conference over Landon Barretto. Please goes ahead, Landon.

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**Landon Barretto** - *Atrinsic, Inc. - IR*

Good morning. Thank you all for joining us today. Welcome to Atrinsic Inc.'s June 30, 2011 second-quarter earnings conference call.

With me today are Stuart Goldfarb, Atrinsic's CEO; Tom Plotz, Chief Financial Officer; Ray Musci, Chief Operating Officer; and Sharon Siegel, Chief Marketing Officer.

In compliance with SEC requirements, I must read the following statement. Except for historical information, the matters discussed in the conference call are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements.

Factors that could cause results to differ materially are included in the Company's filings with the Securities and Exchange Commission. Forward-looking statements made during today's call are only made as of the date of this conference call and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. Mr. Goldfarb, please proceed.

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**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Thanks, Landon, good morning. I would like to thank everyone on the call for your continued interest and support for Atrinsic.

As many of you are aware, after a year and a half as a Board member of Atrinsic, I joined the Company as its CEO at the end of the second quarter on June 1. Before this time, I had been CEO of Bertelsmann Direct North America which is now known as Direct Brands for about 10 years.

Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

I built that company into the world's largest direct marketer of music, DVDs and books, household brands such as BMG Music, Columbia House and Book of the Month Club. All of our businesses operated with subscription or membership type models. We served over 14 million members with revenues of over \$1.2 billion.

Joining me today at Atrinsic is my Chief Marketing Officer Sharon Siegel who has worked with me for over 10 years formally as the Chief Marketing Officer at Bertelsmann Direct. We were also joined at Atrinsic by a team of highly talented customer acquisition and customer retention specialists who have worked with us for many, many years. Since joining the Company in June, we have begun developing a strategic and tactful plan for our various businesses.

Atrinsic has a number of strong assets. Atrinsic Interactive is one of the leading search marketing agencies.

It provides search engine optimization and marketing, brand protection, and affiliate sales and distribution for its many clients. Operating in a highly competitive environment, our team has experienced great success in July, adding a new major client, DirectBuy, while continuing to maintain and provide industry-leading service to its existing clients. This new client addition combined with improved volume from existing clients should allow Atrinsic Interactive to experience dramatic sales growth within the foreseeable future.

I believe that the opportunity for Kazaa has never been larger. The music industry is being turned upside down.

The era of streaming has begun led by advancing technology and changes in consumer behavior. Kazaa is one of only a handful of companies -- literally just a handful -- that have license agreements with the music labels that allow it to take advantage of this opportunity.

Our team brings years of successful experience in building mass market subscription businesses particularly in the music and entertainment areas and we intend to do so here. Sharon and the marketing group have a long-standing and consistent track record of profitably acquiring and retaining millions of new subscribers each year.

Kazaa was a pioneer in digital music with a new strategic and tactical focus. Kazaa will move forward as a leader.

Kazaa will become Atrinsic's principal focus going forward. We are in the midst of improving the Kazaa product and customer experience. We will always be vigilant in making improvements there.

Our subscription pricing for new customers is now at parity with our competitors at \$9.99 per month. We've made a number of improvements to our website to improve the customer experience, increase customer retention and make Kazaa more usable and intuitive.

Since the beginning of the second quarter, we have had eight new releases, each with improvements and upgrades for our website. In the near future, our best-of-breed iPhone application will be available in the iTunes store.

Planning and development of an app for Android devices is well underway. Also, in the near future, we will be adding millions of tracks from thousands of independent music labels, increasing our music library and offering to that of our competitors.

We will continue to innovate and develop our recommendation engine and our radio service as well as provide more personalization based on our customers' preferences. We will become much more focused on improving our social elements with a particular emphasis on providing easy tools and utilization for our Facebook members.

We are extremely focused on customer acquisition activities and in acquiring quality customers who will provide the Company with an acceptable return on investment. Our team is putting in place systems and models that will provide intelligence for us to make customer acquisition decisions and to test various new enrollment channels and methods. We have extraordinary experience in this area.



Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

It is likely that Kazaa's present subscriber base will shrink from natural attrition before it starts to grow again. This is an intentional part of this resetting process.

Our team will also be extremely focused on customer retention activities. We believe we can significantly decrease the present rate of customer churn and significantly increase our customer lifetime going forward. We intend to invigorate the Kazaa brand and build Kazaa into a mass market subscription product.

We are in the process of planning a number of operational improvements to the business that will make us more agile, more flexible, more responsive and more efficient. Going forward, we may use slightly different metrics and key performance indicators that will assist us and assist you in tracking our success and the achievement of our goals. We will be very clear about those with you next quarter.

In order to grow and invest in the Company in the way I have described, we will need additional capital. We are presently evaluating a number of options in this regard and we will keep our shareholders abreast of our progress.

We remain fully committed to closing the Kazaa acquisition, fully integrating and transitioning its operational into Atrinsic and continuing its development and strong growth. Tom Plotts our CFO who's been with the Company for 4.5 years will be leaving Atrinsic in the coming weeks.

Tom has commuted to work at Atrinsic in New York from his Los Angeles home and would like to spend more time with his young family. Tom has been a tremendous asset to us. We wish him very well and we will miss him. I'd now like to turn the call over to Tom who will review our second-quarter financials.

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**Tom Plotts - Atrinsic, Inc. - CFO**

Thank you, Stuart. Good morning, everyone.

You should have access to our earnings release and our Form 10-Q both of which were made available this morning. I intend to spend a couple minutes discussing some highlights from our second-quarter 2011 results and after my remarks; Stuart, Sharon, Ray and myself will be happy to respond to some of your questions.

We made significant progress in three key areas in the second quarter. Firstly, we added experienced industry personnel and continued along our Kazaa product roadmap, making continued improvements to the Kazaa music service while maintaining a relatively constant level of Kazaa revenue on a year-over-year basis.

Second, we continued to remove costs from our business and streamline our operational focus by curtailing and eliminating nonessential activities and reducing overhead. And third, efforts at restructuring and transforming our transactional services segment began to pay off in the second quarter. This quarter, the improvement is manifested in transactional services margin expansion. Next quarter, we expect this improvement in gross margin will be accompanied by topline revenue growth.

Our total revenues for the second quarter decreased to \$6.3 million compared to \$10.8 million in the year ago period. Second-quarter subscription revenue which includes revenue generated from our Kazaa digital music service which we jointly operate with Brilliant Digital Entertainment decreased to \$3.5 million. As I indicated, quarterly Kazaa revenue was steady on a year-over-year basis and the subscription revenue drop-off was due to the de-emphasis and elimination of some of our legacy subscription services.

Quarter over quarter transactional services revenue decreased to \$2.8 million. This decrease was due to lower sales volumes from our existing search engine marketing clients offset by higher search engine optimization and Atrinsic affiliate network revenue.



Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

Also keep in mind that during 2010 we began to eliminate unprofitable transactional services revenue lines and ceased most poorly performing lead generation activities which has had the effect of reducing transactional services revenue but has also resulted in an improvement in gross margins for this segment.

Transactional services gross margin which we define as revenue after cost of media showed significant improvement on a year-over-year basis for both the three-month and six-month periods. Gross margin improved to 35% of transactional services revenue for the second quarter from 19% a year ago, reflecting our efforts to eliminate unprofitable or marginally profitable revenue lines.

Transactional services operating loss also improved on a year-over-year basis for the same reason, improving the segment operating loss to only \$0.5 million in the second quarter versus an operating loss of \$1.2 million a year ago. Atrinsic's operating expenses for the second quarter were \$11.3 million compared with \$15.3 million a year ago.

This \$4 million decrease in operating expense was due to a decrease in cost of media which declined proportionately with the decrease in transactional services revenue but we are also successful in reducing general and administrative and other operating expense by 21% compared to the year ago period. Adjusted EBITDA for the second quarter was a loss of \$4.8 million compared with a loss of \$3.9 million for the year ago period.

Our net loss for the second quarter was \$6.2 million compared with a loss of \$4.5 million for the year ago period. During the quarter we had non-cash interest expense totaling \$1.2 million.

During the quarter we raised \$5.3 million in a convertible note and warrant financing. As a result of the financing, the \$5.8 million in original issue discount twelve-month convertible notes are booked net of debt discount as a current liability. We have also recorded a derivative liability representing the fair market value of the warrants and convertibility feature of the notes which we will mark to market each period until the warrants are exercised or notes converted or retired.

As of June 30, we had \$2.3 million of cash and cash equivalents. Year to date we have spent \$700,000 on capitalized application and software development for both Kazaa and for Atrinsic Interactive. In addition, we have incurred another \$2.2 million of Kazaa product development expenditure year to date.

As Stuart indicated, we expect that the Kazaa acquisition will close once we have gained approval from our shareholders and upon the transfer of the Kazaa assets to us. We expect to issue an annual meeting proxy shortly which in addition to customary annual meeting matters, will include a stockholder proposal to approve the Kazaa transaction.

As Stuart indicated earlier, and as discussed in our press release this morning, I am departing Atrinsic to pursue other opportunities. I have every confidence in the new management team at Atrinsic and will be here to help and assist in an orderly transition. Now we can open it up to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Jack (inaudible) IPSA.

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Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

**Unidentified Participant**

Quick question for you guys. You mentioned that the Apple app and the Android app will be coming out soon. Would you be able to give us a timeframe on when we could expect those? And the second part of the question is I believe Apple is charging a 30% fee of all revenue generated from the app. Is that true as well?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Sure, Jack. Hi, it's Stuart. First part of your question -- I will split into three questions. The Apple app, we are waiting on just a few matters to launch it. The app is fully developed. It is -- we will be announcing very, very shortly hopefully within weeks or a month, that will be in the App Store.

The app will be available to all of our customers that have an iPhone who are paying customers. We do not intend to sell it through the App Store.

It will be available as a feature that our iPhone customers will be able to use. All of our smartphone customers -- so any customer that has an iPhone, Android device or any other smartphone that has a browser can access our service today even without that app through their browser.

The app really is a fabulous product. We think that iPhone users will really enjoy the functionality and ease-of-use of it.

We're very, very proud of it. With regard to the Android app where we are in stages of development on it, it's not as far advanced as the iPhone app, so that will take a bit longer. I would not expect to see that this next quarter. I hope I've answered your question.

**Unidentified Participant**

Yes, just the follow-up was the revenue question. I thought I had read somewhere that Apple was charging a 30% fee (multiple speakers)

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Yes, Apple is charging 30% of what's generated through the Apple Store. As I said, we're not charging for that app. So there's no charge for it. It is it available for free -- it will be available for free download through the app through the iTunes store.

If you want to use the app, you need to be a Kazaa subscriber though. You need to enter your user name and your password. (multiple speakers) customers can sign up -- yes?

**Unidentified Participant**

Sorry, one quick follow-up. The Atrinsic company name, are you going to be changing that to Kazaa going forward also? I thought I read some talk about that?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

It's possible. It will be one of the matters we put to shareholder vote in our coming proxy statement.

Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

**Operator**

(Operator Instructions) John Gilliam, Point Clear Capital Management.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

There's been a great deal of talk about a Facebook music offering that will deeply integrate several of the on-demand music services. I usually see the names Spotify, Mogg mentioned in that context. I'm curious to know if Kazaa will be part of that.

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Hi, John, thanks for calling. Of course we would welcome the opportunity to be part of whatever platform Facebook arrives at with music.

They haven't formally announced any such platform as far as I know. And we look forward to using all the tools Facebook has available for developers to use to incorporate social elements into our service.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Okay, fair enough. Following the completion of the deal for Kazaa, assuming that it is completed, Kazaa -- will Atrinsic own any new patents or IP as a part of that deal?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Atrinsic is getting all the IP necessary to run the service as part of that deal. So that's IP that technically Atrinsic does not own today.

**Ray Musci** - *Atrinsic, Inc. - COO and EVP, Corporate Development*

There is a host of intellectual properties or patents, John, that Atrinsic would have license to particularly with the GFR that Brilliant owns.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Okay. Some of your competitors have been aggressively pursuing deals with the carriers and actually more than the carriers, with the automotive manufacturers. I'm curious if part of our marketing program going forward, do you see Kazaa doing anything along those lines?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Going forward, we would like to be available to everyone at anytime on any device. So, the answer is yes in terms of what our priorities are. I guess we would put an Android priority before we would put a BMW car priority.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Okay, gotcha. Can you give us an idea of how many subs Kazaa has today?

Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Tom?

**Tom Plotts** - *Atrinsic, Inc. - CFO*

Yes, we're tracking around 70,000 subs. Ending subscriber count around June 30 was around 70,000 subscribers.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

As of August 15 we're kind of running static there.

**Tom Plotts** - *Atrinsic, Inc. - CFO*

I think as Stuart indicated, as we're resetting our marketing programs, you will probably expect to see a dip in the subscriber count.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Yes, yes, yes.

**Tom Plotts** - *Atrinsic, Inc. - CFO*

The third quarter.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

That's really what I was getting at, just trying to get an idea of what that trough might be and when you expect that -- I guess we are saying it would be in the third quarter. But where do you think that trough will probably fall?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

We really don't know, Tom -- or John. We will make sure on this next call that we give you the right KPIs you need to measure us and that we need to measure us.

Focusing on a simple number of subscribers is not a healthy way to look at the future viability and growth of this business. Members come in all kinds of flavors and varieties and qualities.

We're going to need to look at churn rate and other things and put systems in place that allow us to really help you and us measure those things very, very successfully and granularly and we promise to do that.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Fair enough. Can you give us an idea of -- and I know obviously a lot of it depends on the marketplace and the timing -- but an idea of what the capital raise will probably look like in terms of -- just if there's a range -- a target range that you're looking for in terms of amount of capital?

Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

The only thing I can tell you in that regard is we need enough capital to really start growing this business in a strong and dynamic way.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Ballpark where do you feel that would be?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

We will let you know at the appropriate time.

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Okay, given the new contract with DirectBuy, did you feel like the revenue for Atrinsic Interactive has troughed in this reported quarter?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Has what?

**John Gilliam** - *Point Clear Strategic Capital - Analyst*

Has troughed? Do you think this is a low? Would you expect revenue to be higher for Atrinsic Interactive going forward?

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Significantly.

**Operator**

(Operator Instructions) Management, there are no further questions. Please proceed.

**Stuart Goldfarb** - *Atrinsic, Inc. - CEO*

Thanks very much again and we look forward to talking to all of you again next quarter. Thank you for your support.

**Operator**

This concludes the Atrinsic second-quarter earnings conference call. Thank you for your participation. You may now disconnect.

Aug. 15. 2011 / 3:00PM, ATRN - Q2 2011 Atrinsic Inc Earnings Conference Call

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