



# CEOCFO

## Interviews & News!

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### The Orchard Enterprises Emerges As A Major Player In Digital Media And A Leading Marketer Of Digital Music Globally – Transcending Notions Of “Distribution” And Pioneering A Brand New Value Proposition



**The Orchard**  
Services  
General Entertainment  
(NASDAQ: ORCD)

**The Orchard Enterprises Inc.**  
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**Greg Scholl**  
President and CEO

#### BIO:

Greg Scholl has served as president and chief executive of The Orchard since 2003, and until 2007 also served as a managing director of Dimensional Associates, the controlling shareholder of Or-

chard. Previously, Mr. Scholl was an Associate Partner at the consulting firm McKinsey & Company in the media and entertainment practice. Before that, Mr. Scholl ran Carlin Ventures LLC, the private equity fund of Edwin Cohen, who founded General Atlantic Partners, a leading global growth equity firm. Mr. Scholl began his media career in the media and entertainment practice of the consulting firm Booz Allen & Hamilton, and was a Principal at the firm when he left to join Carlin. Mr. Scholl graduated *magna cum laude* from Harvard College with a degree in History and Science.

#### Company Profile:

The Orchard (NASDAQ: ORCD) controls and globally distributes more than 1.1 million songs and over 3,000 hours of video programming through hundreds of digital stores (e.g. iTunes, eMusic, Google, Netflix) and mobile carriers (e.g. Verizon, Vodafone, Bell Canada, Moderati, 3). With operations in 28 countries, The Orchard drives sales for its label, retailer, brand, and agency clients through innovative marketing and promotional campaigns; brand entertainment programs; and film, advertising, gaming and television licensing. A pioneer in digital music and media services, The Orchard fosters creativity and independence.

**Interview conducted by:**  
**Lynn Fosse, Senior Editor**  
**CEOCFOinterviews.com**

**CEOCFO:** Mr. Scholl, how has The Orchard Enterprises evolved under your leadership?

**Mr. Scholl:** “In 2003, the company was primarily a physical distributor, but the

founders – Richard Gottehrer and Scott Cohen - had anticipated the digital future and secured digital rights for a lot of the music that the company were distributing physically. When I got involved, we set out to do three things. First, be global, but act local: source music locally, from every music territory in the world, and likewise service digital retail locally, and build a team of professionals across the world woven into the fabric of their local markets to do that. At the same time, we wanted to be disciplined about managing functionally, and avoiding the bureaucracy and excess overhead that comes with having to do everything through a regional management structure. Second, serve our clients as a marketer and business partner, and not simply a distributor pushing around bits and bytes. We strongly believe that our future is helping artists and labels to monetize music in new and exciting ways, not simply supplying it to a set of ‘traditional’ digital retailers and then accounting for sales, because delivery and accounting are commodities that can be bought cheaply by a label. Instead, we set out to build a premium services offering rooted in marketing and promotion, and extending beyond traditional notions of “digital retail”, and that is one of the reasons clients value us and enter into business with us. Third, work with larger artists and labels. Over the last five years, we have been disciplined in executing against these three objectives, and I believe we’ve done an excellent job and are now well positioned as digital continues to accelerate ... depending on the analyst estimate you believe, digital music will represent over half of the total recorded music market by 2010 or 2011. And, that’s just as relates to our music clients, not to mention our

video clients – the video business is only really now just starting, and is in certain respects like music was in 2003.”

**CEOFCO:** Please tell us a bit about what you provide on a day-to-day basis.

**Mr. Scholl:** “We are a digital media services business, and in certain respects we are unique in the market. We are very hands-on with our clients. Our larger labels all have dedicated Product Managers, but every client, no matter the size, can pick up the phone and talk to a human being who is their advocate at digital retail. We consider ourselves an extension of labels’ own marketing and promotion teams, and work closely with our artist and label clients. That said, in support of our team, we have built a robust, proprietary and wholly in-house solution for the mechanics of digital distribution and marketing of our 1.1 million track catalogue (that is growing by the week). We ingest music and then store, manage, and deliver it out through a multi-terabyte online data environment. We are directly integrated with over 450 retail storefronts globally, both mobile and web-based: the music (and video) flows seamlessly from our ingestion point to their end consumers – it’s all automated. We have a sophisticated accounting system where our clients can see where their music is – what we’ve received, what we’ve delivered, and where it’s gone live – along with, obviously, all of the transactional and financial information around the sale of their music or video. Beyond that, we have developed a suite of innovative automated marketing tools to help artists and labels prepare marketing pitches, track placement across services and help our own marketing and promotion teams work with their marketing professionals around priority releases or catalog programs. Importantly, the platform is scalable – with minimal incremental investment, we could support probably twice today’s volume. And that’s just with respect to digital retail. We provide additional, non-retail programs whereby our clients can make additional money, be it from a branded mobile download redemption program to a traditional synchronization

(which means, placement of the master recordings for use in film and television and in commercial advertising).”

**CEOFCO:** Do many of your artists take advantage of your additional services in the media and advertising area?

**Mr. Scholl:** “Absolutely. We have a large network of artists and labels to tap with opportunities, so it is very easy for our clients to respond opt into them – for example, in the synch area. In terms of other types of services, take publishing administration, where we administrate the publishing royalty on behalf of our clients: for around a quarter of all recordings that we distribute, we also service as a publishing administrator for the US market. One of the nice things about working with independents is, they are willing to experiment and learn. We

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don’t have all the answers about what the digital future holds, but we do know we need to do a lot of different kinds of deals, keep the terms short, gather data, and understand how much value is created and how it should be equitably shared between retailers or other ‘users’ of our clients’ content, and our clients. Old notions of ‘selling shiny disks’ are what is holding back the industry from embracing change and pioneering new models of how to make money from owning copyrights.”

**CEOFCO:** You recently announced a contract with Gut Recording; is that typical for you?

**Mr. Scholl:** “Yes, it is typical, in terms of the nature of the client: we work with some of the largest and leading independents globally. It is also typical in that the Gut deal is an exclusive worldwide licensing agreement – we don’t tend to do deals with territory restrictions or service

carve-outs. Labels are either in, or out, with us. Gut is one of the premiere UK independent labels, with artists ranging from Polyphonic Spree, Right Said Fred and Tears For Fears - marquee artists, and diverse. Gut is also known for successful branded compilation series that they have done. Our deal with Gut encompasses all of their catalog assets, all of their forthcoming releases in their developing artist roster, and will be marketing and distributing them globally, working their music for synch, getting their music into our brand and agency programs, and so forth.”

**CEOFCO:** You have operations in twenty-eight countries now; are there other areas you would like to be in geographically?

**Mr. Scholl:** “In terms of our footprint, we are very comfortable as it exists today but will likely evolve it somewhat in the coming quarters as our regional businesses grow, particularly with respect to Southeast Asia. The footprint is essentially the right size, and we just need to do more of the same: continue to license more great music and expand our retail footprint within each locality. Different markets are at different stages of digital evolution, and digital is emerging in different ways. The digital market in India, for example, is a mobile market - there is almost no so-called “traditional” web-based download activity. The key is to engage with the leading retailers, be they mobile operators or a la carte download services, as their partner, to help them cultivate and build their business and by doing so, that of our artists and labels.”

**CEOFCO:** Please tell us about the competitive landscape and why artists and others are choosing The Orchard?

**Mr. Scholl:** “Based on their feedback, we believe artists and labels choose The Orchard because of our marketing and promotion capabilities, our strong business development skills (we are often the first independent to break into domains that have been to date held only for the four major labels, pioneering the way for other independents, distributors, and aggrega-

tors), and the level of client service that our clients get. We have a strong client service organization; as I said before, larger labels have dedicated project managers who are their liaison between their team and all the resources that The Orchard brings to bear, and we also have a group for our other artists and labels that is structured around the kinds of services that they need. I think it comes down to service: to being innovative and creative marketers and deal-makers for our clients, and not simply distributors. Also, clients appreciate that we are not a technology company, but in our hearts, a music company. The Orchard was co-founded by the person who wrote My Boyfriend's Back, produced Blondie and The Go-Gos and also co-founded Sire Records with Seymour Stein – Richard has deep and long-standing music industry roots ... and, the company is filled with people with a deep passion for and understanding of music. That matters to our clients, and also makes The Orchard a special place to work.”

**CEOCFO:** Are acquisitions part of our strategy going forward?

**Mr. Scholl:** “We are open to acquisitions, if they make sense for our business and the terms are right.”

**CEOCFO:** What is the financial picture of the company?

**Mr. Scholl:** “We formally merged with Digital Music Group in November of 2007. On a pro forma consolidated basis, meaning if you look at the full year as if both of our companies had been combined for the year, we generated forty million dollars in revenue in 2007. We exited the year with ten and a half million

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dollars on the balance sheet. In the first quarter of 2008, we reported positive cash flow and revenue of \$13.2 million, and narrowed our net loss on a pro forma sequential basis by 58%. We view the financial picture of the company as strong.”

**CEOCFO:** In closing, why should potential investors be interested and what should people understand about the company that should be prominent?

**Mr. Scholl:** “We are in an industry segment that is growing quickly and experiencing a lot of disruption. We are well positioned to take advantage of both of these macro factors. And, we expect to generate strong earnings leverage as our business continues to grow: we can support a lot of incremental revenue with minimal incremental increases in operating expenses or CAPEX because we’re effectively operating ‘at scale’ as an organization. However, as a micro cap without analyst coverage, we’re under the radar of a lot of investors. We have a proven team that has worked together to build a globally respected brand within the sector and achieved strong growth over a sustained period of time. The fundamentals of our business are sound, and our core metrics are trending in the right direc-

tion. We have cash on our balance sheet, and no debt. We believe we are a diamond in the rough and this is a very exciting time for investors to get involved.”



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