

# FINAL TRANSCRIPT

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## **UBHI.OB - Q2 2007 uBid Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Miguel Martinez**

*uBid - Vice President, Finance*

**Bob Tomlinson**

*uBid - President and CEO*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Thank you very much for your patience, and welcome to the Second Quarter 2007 uBid Earnings Conference Call. My name is Bill and I'll be your conference coordinator for today. At this time, all participants are in a listen-only mode, however we will be conducting a question and answer session towards the end of today's conference.

(OPERATOR INSTRUCTIONS)

As a reminder, today's call is being recorded for replay purposes. I would now like to turn the conference over to your host for today's presentation, Mr. Miguel Martinez, Vice-President of Finance. Please proceed, sir.

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**Miguel Martinez - uBid - Vice President, Finance**

Good afternoon, and thank you for joining us today to discuss uBid's second quarter 2007 results. With me on the call is Bob Tomlinson, President and CEO. Please note that earlier today, the Company issued a press release describing its results for the second quarter of 2007. A copy of that release can be viewed on the investor relations section of the Company's website at [www.ubid.com](http://www.ubid.com).

Before we begin, I'd like to note that during the course of this call, various remarks we make about future expectations, plans, forecasts and prospects for the Company constitute forward-looking statements for the purposes of the Safe Harbor Provisions under the Private Securities Litigation Reform Act of 1995.

Actual results may differ materially from expectations, plans, forecasts and prospects contemplated in these forward-looking statements, and are subject to risks and uncertainties, including those described in the Company's Form 10-K for the fiscal year 2006 and other filings with the Securities and Exchange Commission, copies of which can also be viewed on the Company's website.

With that, I'd like to turn the call over to Bob.

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**Bob Tomlinson - uBid - President and CEO**

Thank you, Mike, and good afternoon, everyone. I'd like to welcome each of you to our second quarter 2007 conference call. My opening comments in last quarter's call was about reaching a positive point in eBid's business life cycle and about how far we've come. With that in mind, uBid announced earlier today that those trends are continuing and in fact the improvement is even better than presented in the first quarter of 2007.

uBid's business results improved by more than 40% year-over-year, which is certainly a reflection of solid sequential progress. Our primary strategy is still very focused on business-to-consumer and the business-to-business market. We are well positioned to garner our fair share of the 60 billion plus close-out market and overstock merchandise market, particularly as we improve the stability of our business. We will continue these significant strides towards profitability and we look forward to the excitement remaining in 2007.

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I would like to take a moment for those potential investors who are new to uBid this quarter and tell you more about present day uBid.com. We operate an online business-to-consumer and business-to-business marketplace that offers new, close-out, overstocked and refurbished merchandise to both consumers and businesses, using auction-style and fixed price formats.

Our product offerings can be divided into more than 200 categories, including computer products, consumer electronics, apparel, housewares, jewelry, travel and sporting goods. One of the main tenants of our business is our commitment to offering our users a trustworthy, fraud-free buying and selling environment, which we feel is a key competitive differentiation.

To facilitate this, we certify all our merchants and process all of the transactions on behalf of the buyers and sellers. Our business model benefits all parties. From the consumer's perspective, shoppers are able to find brand name products, they seek in a secured online marketplace where they can bid at their own pace, realizing significant savings off retail in the process.

Merchants, on the other hand, enjoy a very efficient, economical, distribution channel. Using this channel, merchants can monetize overstock and close-out inventory while expanding their customer base and increasing sales. And within this model, we have two distinct channels. The first, uBid Direct, which is where we purchase merchandise outright. In other words, we bear the inventory, return and credit risk and for doing so we have the opportunity to realize a substantial profit.

The second channel is our UCM, or uBid Certified Merchant, program. We launched this channel in 2004 and now currently have over 3,000 approved merchants and through it we allow pre-screened and certified third-party merchants to sell their products, utilizing our online marketplace. This is an integral part of our strategy to build this business by identifying and enrolling new and disenfranchised merchants from other marketplaces.

Undeniably, there are many opportunities for us to implement our growth strategies. We have made significant progress in combating fraud, and the fact that we are essentially fraud free has in turn resulted in more satisfied users. To that point, our users' trust is an invaluable asset and it will continue to play a key role in our brand building efforts going forward.

To that end, our trend towards profitability continues with a solid performance in the second quarter of 2007. Some key takeaways for our listeners, gross profit for the quarter increased 36% or \$752,000 over last year. This is a reflection of the business model improvements we talked about on past conference calls.

uBid now has over 3,000 approved merchants through July of '07, which has doubled in the last year. New customer opportunities are still very evident in our model. 60,000 plus registrations generated in Q2, up from 52,000 in Q2 of 2006. Our DRTV marketing efforts are supporting this exciting improvement.

Lastly, and most importantly, our net loss was reduced by 1.2 million from a year ago. This is even more exciting when this included a \$350,000 bad debt write off, which we believe is a one-time issue from our B2B segment from last year.

Every business day, the team takes methodical, meaningful and patient steps to improve our business and drive towards our number one goal, profitability. The key drivers to that goal are very much in place. Gross profit improvements and cost containment initiatives.

Additionally, we have certain fourth quarter initiatives that are currently in various stages of development, all to be launched in time for the fourth quarter. These, along with some other business enhancements, will yield an exciting second half of the year. I will give you more insight and details following the financial recap.

I'd now like to turn the call over to Mike to review uBid's financial results in more detail.

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**Miguel Martinez** - uBid - Vice President, Finance

Thanks, Bob. I will now review our financials for the second quarter 2007, which ended on June 30, 2007. It should be noted that on the June 30, 2007 10-Q and the press release describing the results, we have included segment reporting for our four service channels. As we continue to shift our business from the direct channel to the UCM platform, we believe this information is critical to understanding our operation and adds clarity to our business.

The UCM platform in which we allow certified vendors to post product and whereby we record only commission revenues increased 282,000 or 26.6% as we continue to sign up new merchants and volume increases from existing merchants. The number of UCM merchants increased 120% to 2,873 merchants compared to the same period in the prior year.

In the traditional direct channel, in which we purchase the inventory and assume the inventory risk, revenues decreased \$5.9 million or 39.6% as we continue our planned shift of the business to the UCM platform. Despite the direct channel sales decrease, gross profit only decreased \$19,000 or 2.2% as we focused on maximizing gross profit across all product categories, which resulted in higher margins and decreased sales volume.

The decrease in gross profit dollars was more than offset by savings in variable costs, such as distribution and credit card fees. Our business-to-business channel, in which we wholesale product to other business, increased \$43,000 or 1.4%. The gross profit increased \$301,000 or 436%.

This was the first full quarter of operations for the restructured sales group and we saw improved results in the second quarter. Our other channel revenues, primarily advertising revenue, in which we monetize the traffic on our site by providing advertising for various companies, increased \$188,000 or 194%.

Total company gross profit dollars for the second quarter was \$2.9 million versus \$2.1 million in the same period last year, an increase of \$800,000 or 38.1%. Overall gross profit as a percentage of sales increased from 11.1% from June 30, 2006 to 21% for the current quarter. This is the first quarter in which we see the benefits of the shift from the traditional direct channel business to the UCM platform and the focus on improving gross profit in the direct channel.

SG&A expenses for the quarter were \$4.5 million, a \$430,000 decrease or 8.8% reduction from \$4.9 million over the same period in the prior year. Sales and marketing expenses decreased \$292,000 or 22.7% from a year ago, due to lower spending on advertising. Visitors decreased 311,000 or 5.9% and the cost per visitor decreased from \$0.18 per visitor at June 30, 2006 to \$0.14 per visitor at June 30, 2007. We continue to eliminate the non-performing and poor ROI advertising programs.

General and administrative expenses were down \$138,000 or 3.8% in the second quarter compared to the same period in the prior year. The decrease in general and administrative expenses was due to a \$301,000 decrease in salaries as a result of restructuring in the third quarter of 2006. Stock-based compensation expense decreased \$103,000 due to the lower headcount.

Warehouse expense for our traditional direct business decreased \$119,000 and as I mentioned earlier, the \$19,000 decline in gross profit dollars for the direct business was more than offset by a reduction in distribution costs. Credit card fees decreased \$65,000 as a net result of the lower volumes in the direct channel and increases in the UCM channel.

The decrease in expenses were offset by increases in net debt expense of \$352,000 related to a transaction from the prior business-to-business sales group, which we terminated in the third quarter of 2006. There was no bad debt expense in prior quarters.

Depreciation and amortization, non-cash items, increased \$154,000 or 211% as a result of the purchase of Bidville intangible assets. During the quarter ended June 30, 2007, we recorded \$127,000 in stock-based compensation expense versus \$230,000 in the same period the prior year. Other income and expense, primarily interest income, was \$51,000 in the second quarter of the current year, compared to \$49,000 in the same period last year.

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Net loss for the second quarter of 2007 was \$1.5 million or \$0.08 per share, compared to a net loss of \$2.7 million or \$0.13 per share in the same period last year, a 44% improvement period year-over-year. At the end of the second quarter of 2007, we had 18.8 million basic and diluted shares outstanding, which compares to 20.3 million in the same period at a year ago. During the quarter we purchased 2.1 million or 11% of the outstanding shares of stock in a private transaction.

I will now review our financials for the six months ended June 30, 2007. The UCM platform commission revenue increased \$729,000 or 35.2%. There -- the traditional direct channel revenues decreased \$14.5 million or 46.3% as we continue our planned shift of the business to the UCM platform.

The direct channel sales decrease resulted in gross profit decrease of \$681,000 or 29.4%. This decrease was offset by savings in variable costs such as distribution and credit card fees of \$229,000 and \$362,000 respectively. The business-to-business channel decreased \$2.6 million or 45.5%. The gross profit decreased \$75,000 or 16.3%.

The second quarter was the first full quarter of operation for the restructured sales group. Our other channel revenues, primarily advertising revenue, increased \$422,000 or 228%. Total company gross profit dollars for the six months ended June 30, 2007 have increased \$395,000 or 7.8% from \$5 million at June 30, 2006 to \$5.4 million.

SG&A expenses for the six months ended June 30, 2007 were \$8.5 million, down \$1.4 million from the \$9.9 million over the same period in the prior year. The savings are primarily in the following categories. Sales and marketing expenses decreased \$655,000 or 25%. Despite the lower spend, visitors increased 266,000 or 2%.

The cost per visitor decreased \$0.06 or 27% from \$0.20 per visitor to \$0.14 per visitor. General and administrative expenses were down \$743,000 or 10.1% compared to the same period in the prior year. The decrease in the general and administrative expenses was primarily due to a \$592,000 decrease in salaries and benefits as a result of lower headcount.

Warehouse expenses for our traditional direct business decreased \$229,000, with the decrease in direct sales channel volume. As previously noted, this helped offset the decline in gross profit.

Credit card fees decreased \$240,000 as a result of the lower sales volume in the direct channel and higher UCM platform sales volumes. The decreases were offset by the bad debt expense of \$352,000 related to the transaction from the prior business-to-business sales group and increased depreciation and amortization of \$266,000 related to the purchase of the Bidville intangible assets.

For the six months ended June 30th, we have recorded \$365,000 in stock-based compensation expense versus \$461,000 in the same period the prior year. Year-to-date, we used \$2.9 million in cash in our operating activities for the six months ended June 30, 2007, primarily as a result of our net operating loss, compared to cash used of \$13.5 million in the same period in the prior year. We ended the quarter with 18 million in current assets, including \$10.5 million in cash and cash equivalents and 4.3 million in direct inventory.

The decrease in the cash balance over the first quarter ended March 31, 2007 is primarily a result of the repurchase of 2.1 million, or 11% of the outstanding stock during the second quarter. We believe that the current working capital, together with cash flows from operations, will be adequate to support our current operating plans for 2007 and 2008.

With that, I'll turn the call back over to Bob.

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**Bob Tomlinson** - uBid - President and CEO

Thanks, Mike. Today we announced our best second quarter results in uBid's 10-year history with a net loss \$1.2 million. Also, we established a milestone of over 3,000 certified merchants, generating transaction fees of \$1.3 million, or almost 50% of our

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gross profits. These results have given us the platform and strength to be able to launch a number of initiatives into the balance of 2007 and early 2008.

To that end, this fall we will be launching an improved model, surrounding uBid's extended warranty program. This includes a technologically enhanced up selling mechanism for both pre and post sales. The end result will be significant improvement in warranty sales volume and margins.

We have also looked carefully at uBid's current rate card for both new and existing merchants. We will be refining certain rate levels, generating additional transaction fees on an ongoing basis. In line with our strategy to focus business-to-business and business development and ad sales, we've expanded our growth plans in these two key areas, thus improving our expectations of revenue and gross profit into the near future.

Lastly, we know that visitor traffic is a key driver of business, but as we've discussed numerous times, this must be driven with a positive ROI. With advertising spend now at a quarterly level of \$1.3 million, we plan to aggressively evaluate and test all aspects of this spend to produce efficient cost reductions into the third and fourth quarters of 2007.

We're very excited about these initiatives taking shape and we look forward into the balance of 2007. Along with the day-by-day wins by each member of the team, this will create uBid's final push towards a breakeven business and beyond. In summary, uBid's transition phase is now over and the financial and technology platform improvements are surely showing. We are very encouraged by the current level of interest by merchants in our UCM program and we expect this to continue.

Certainly the management is still very focused on incremental margin improvements in cost containments, business development add-ons and new revenue streams from our large customer base, strategic growth in new categories, addressing the cyclical issues surrounding our computer and consumer electronics categories, and lastly finding additional opportunities to leverage the brand, the technology and the platform.

We will respond to any promising opportunities with aggressive investment, similar to uBid's recent stock buyback in April. Any decisions will be guided by our Board of Directors along with a thoroughly vetted business plan and outlook, all of which will continue to enhance uBid's evaluation proposition for our shareholders. Thank you.

With that, I'd like to ask the Operator to open the line for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you very much, sir.

(OPERATOR INSTRUCTIONS)

At this time, sir, you have no questions in queue.

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### Bob Tomlinson - uBid - President and CEO

Well thank you very much. We appreciate you on the call and everyone from the management team, as well as the team in total, of uBid thank you for your time and support and look forward to the balance of 2007. Thank you.

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**Operator**

Thank you very much, sir. Thank you ladies and gentlemen for your participation in today's conference call. This concludes your presentation and you may now disconnect. Have a good day.

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