

MasterBeat stake attracts prospective buyers

by Anthony Noto

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Two prospective bidders are showing serious interest in the 50% stake **MasterBeat LLC** is selling in the music downloading service's attempt to raise money to take on industry kingpin **Apple Inc.**'s iTunes.

The Santa Monica, Calif., company scored a major win in the rivalry when singer Mariah Carey recently released her dance remixes exclusively through MasterBeat.com.

But MasterBeat wants to raise up to \$10 million by selling half the company so it can mount an advertising campaign to widen its exposure, and Mel Lisiten of **Lisiten Associates**, the New York business broker handling the sale, said two bidders out of the 12 parties that have shown interest appear to be stoked.

He would not name any of the bidders or interested parties.

The goal is to find a buyer who can inject \$4 million to \$5 million now, then invest that same amount over two years for MasterBeat's advertising campaign, Lisiten said. The downloading hub features an online catalog of music but specializes in the digital delivery of dance and electronica.

The size of MasterBeat's planned advertising onslaught is modest compared with Apple's.

According to a Form 10-Q filed July 22, Apple increased its selling, general and administrative expenditures by \$94 million, or 10%, and \$324 million, or 12%, respectively, for the three- and nine-month periods ended June 27, compared to the same periods in 2008.

The increases are due primarily to the company's continued expansion of its advertising segments, the 10-Q stated. Specifically, that spending will help Apple develop "new digital lifestyle consumer and professional software applications" for the iPod and iPhone.

Disc jockey Brett Henrichsen launched MasterBeat in January 2008 after raising about \$5 million throughout 2007.

The company took in about \$3 million in revenue in 2009, said Henrichsen, now the company's president.

During that time, the company entered agreements with the major music labels of **Sony Corp.**, **Warner Music Group** and **Universal Music Group** to provide music for download.

While MasterBeat has set its sights on iTunes, it has plenty of company. Other music downloading startups have started raising money, too

Free All Media LLC is one of them. Founders Richard Nailling and Brian McCourt invested \$1.5 million of their money into the Atlanta-based venture and earlier this month raised around \$1 million for its new ad-supported music downloading service with hopes of making a run at iTunes.

Free All members select a song on its Web site that they want to download and an advertising sponsor from which they'd like to "buy" that music file. Then they watch a video advertisement, between 15 and 18 seconds in length, from that sponsor and once the ad is completed, the file downloads to their computer with no copy restrictions.

"We have no credit card on our site," Nailling said. "Our users just trade their attention to advertising for

the downloads."

Like MasterBeat.com, Free All offers an alternative to users who don't feel comfortable downloading music from file-sharing networks illegally.

"It's easier than stealing," Nailling quipped.

Napster Inc. was a pioneer in the industry, but its users essentially pirated digital entertainment until a string of lawsuits from recording artists who wanted royalties made the Los Angeles company provide music to subscribers on demand for a monthly fee.

In July 2008, Napster went on the auction block for the second time when its market capitalization fell below its cash assets, effectively giving the business a negative valuation.

Retailer **Best Buy Inc.** purchased Napster that October for \$121 million, getting more than 700,000 subscribers and mobile and Web-based customer-service capabilities.

MasterBeat isn't looking for a buyout, but it is seeking a deep pocket so that the next beat iTunes hears is from war drums.