

DigitalOnlineExchange[™]

Passalong Dynamic Pricing Pilot

January 2008

Executive Summary

Digonex Technologies, Inc. recently conducted the first Variable-Pricing Model pilot for MP3 music downloads with online music retailer PassAlong Networks. Digonex's proprietary technology, The Digital Online Exchange™ (DOE™), was utilized to recommend varying prices for select digital downloads of albums and singles offered through PassAlong's digital media services engine, StoreBlocks™.

The goal of the pilot was to optimize revenue for tracks and albums that were dynamically priced.

The pilot lasted 16 weeks, running from August, 29, 2007 to December 18, 2007. The allowed prices were fully flexible for albums, with three price tiers allowed for individual song tracks (.33, .66, and .99 cents). Prices were changed randomly for ten weeks between the minimum and maximum allowed price.

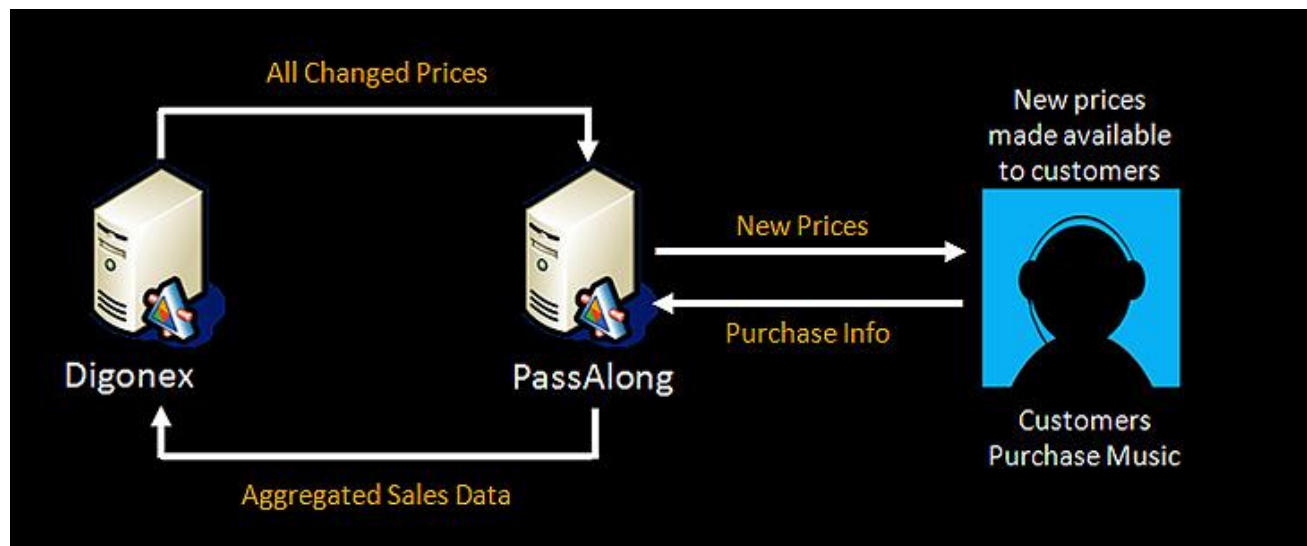
The pilot demonstrated that DOE can increase revenues and demand can be discovered through simple price experimentation in the PassAlong environment. However, the tiering scheme of only three track prices diminished the full optimization of revenue.

"We had albums that weren't selling at all before the pilot that started generating revenue every week," according to David Jaworski, PassAlong co-founder and CEO.

What's more, as the price of a hot single rose, the price of an album dropped, encouraging more album sales.

"There would be a point where people who would only buy two or three tracks bought the entire album," Jaworski says. "They really came shopping for those two or three tracks."

Experimental Design and Methodology



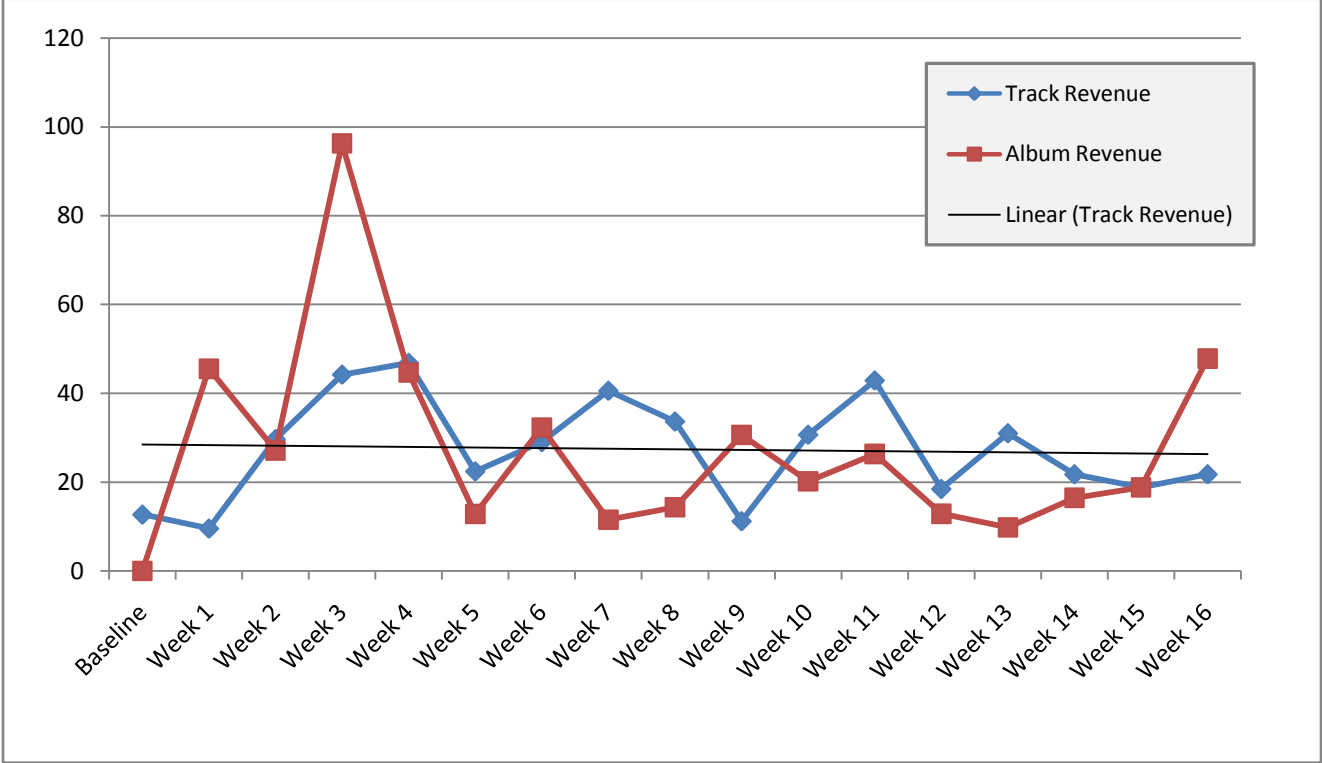
1. Consumers purchased albums and/or individual tracks based on the current price.
2. PassAlong provided Digonex with aggregated sales data per cycle.
3. Digonex provided PassAlong with updated pricing data per cycle.
4. PassAlong provided consumers with updated prices.

Parameters

- Weekly price updates over 16 weeks
- 170 Albums
 - Fully dynamically priced
 - Maximum price of an album was limited to \$.99 X the # of tracks on that album
- 1899 Tracks
 - Price tiers of \$.33, \$.66, \$.99

Results

- Track sales increased an average of 132% over baseline sales.
- Weekly revenue from tracks increased an average of 122% across all weeks compared to the baseline.
- Album sales increased an average of 60% compared to the baseline.
- Weekly album revenue increased an average of 21.3% compared to the baseline.



Pilot Observations

- The pilot demonstrates that the DOE pricing service can maximize revenue within Passalong's online environment.
 - Weekly revenue from albums and tracks increased across all weeks compared to the baseline.
- Tiering hindered the ability to assign proper prices to individual tracks and limited the overall benefits of this test.
 - The more tiers that are used, the better the results.
 - It is advisable to drop tiering for individual tracks completely, if possible.
- The most dramatic track sales increase occurred when \$.99 tracks were dropped to \$.66
 - 131% more tracks sold at \$.66 vs. \$.99 price point.
- By week 16 of the pilot, albums were priced an average of \$1.18 below major competitor sites.
 - Average album price at Amazon was \$.30 below the Digonex price.
 - Average album price at iTunes was \$1.98 above the Digonex price.
 - Average album price at Rhapsody was \$1.98 above the Digonex price.
 - Average album price at Aimee Street was \$2.30 below the Digonex price.
- Albums which sold migrated to a \$4-\$6 price range.
- To a large degree, the performance of the pilot depends upon the overall performance of PassAlong and the traffic to their website.
 - Sales took a dive at week 5 of the pilot after a few very successful weeks. It appears the PassAlong web site was down and inaccessible for several hours during that week. It is not completely clear how long customers experienced technical problems and to what degree these problems affected the sales.