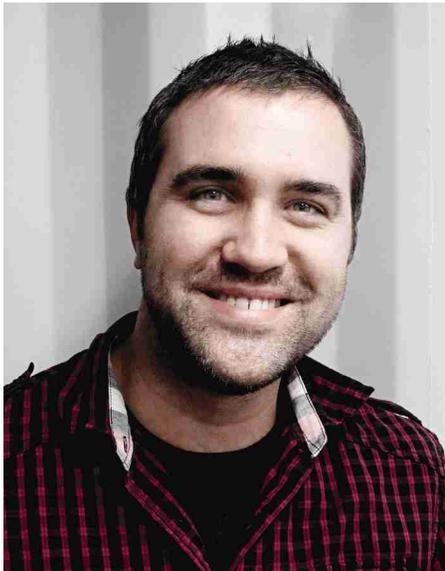


With their Dual Driver AF78 Headphone Technology that combines a Professional Grade Balance Armature Driver with a 9mm Dynamic Driver, Audiofly is Building Products Geared for Discerning Music Lovers

**Business Services
Music Headphones**

**Audiofly
Suite 308, 21660 E Copley Drive
Diamond Bar, CA 91765 USA
909-348-5700
www.audiofly.com**



**Dave Thompson
CEO**

About Audiofly:

From a young age, we have been thrashing vinyl and working part-time jobs to pay for our first guitars. From the look of our bleeding fingers it was clear that we had fallen hard.

Our thirst for sound was insatiable. We hand-made guitars from scratch, experimenting with materials and tonal properties. Minutes turned into hours as we refined our craft. Sound was no longer a hobby, it was an obsession.

Fast-forward to today and we are bringing our intense approach and passion to creating headphones. We have grown up a little, but we are still love-struck music geeks striving for outstanding, detailed sound - just as we have always done.

Audiofly are passionate about music and fascinated by the ways it is created. We are a team of designers, craftsmen and musicians with an old-school attention to detail; we build premium products allowing you to experience your music in its truest form.

The initial Audiofly range has four products geared for discerning music lovers. The *AF33*, *AF45* and *AF56* all feature expertly tuned dynamic drivers and high quality components.

A duet of technologies, our dual driver *AF78* combines a professional grade balanced armature driver with a 9mm dynamic driver. This hybrid configuration draws on the strengths of both driver types to produce truly sophisticated sound across the entire frequency spectrum.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Thompson, what is the grand vision at Audiofly, www.audiofly.com, and how has it developed so far?

Mr. Thompson: Our biggest passion really is music. Our vision is to create products that, from a musician's perspective, will allow people to better connect with their music and experi-

ence their music. I feel our position and approach is possibly headed in a different direction to the masses and we really feel that the market is ready for a brand with a different perspective.

CEOCFO: What do you understand that others do not about the need for high quality sound? How do you have the ability to offer that where others?

Mr. Thompson: We believe that many people do understand great sound. From a musician's perspective, the world is full of musicians that really understand great sound. Part of our vision is that we create headphones that introduce (music lovers) to the relationship that a musician has with tone. That deep understanding of tone that a musician has is what we try to replicate in our headphones; to ultimately create headphones that are musical headphones and that capture the subtle nuances of phrases and notes or a musical motif. It is that understanding with tone and music that we try to bring into things like our sound signature, but also from a design point of view. We look at many of the instruments we have grown up using and the gear we have always used to interface with music. That is really deep rooted in our design story as well.

CEOCFO: What was the biggest challenge in marrying the concept to the technical part?

Mr. Thompson: Both from an audio engineer's perspective and from a design perspective, it is always challenging to push the envelope. We are dealing with technology that has been around for many years and has be-

come commonplace. Dynamic drivers in headphones are a regular moving coil driver, the run-of-the-mill speaker of the audio world. Balanced armature drivers were invented back in the 1940's for hearing aids. From that perspective, our challenge was to take common technology and make it exciting; wrap it up into products that really were meaningful to the user. Our experience as musicians shapes our understanding of what headphones need to be. This includes both the intricacies of onstage interaction with in-ear monitors, but also the consumption of personal music for pleasure.

CEOCFO: You have a range of headphones. What are the basic differences among the models?

Mr. Thompson: Our current offering ranges from thirty dollars to up to two hundred and ten dollars. We have four products in that range. At the low end, we have our AF33 product, which has a thirty-dollar retail price. That is our entry-level product. It has a nine millimeter driver, and despite its' relatively small size features a well-crafted sound. For a thirty-dollar price point, the AF33 has a fantastic sound, and of all our products, this one is available in our widest variety of colours. At sixty dollars, the AF45 is the next Audiofly product in the range. Stepping up from the AF33, the AF45 features a 11mm driver. This allows us to dial in a little bit more detail in the sound, and accordingly there is a more detail in the product itself. From the AF45 onwards, we introduce a CORDURA® fabric cable, made with a high tenacity nylon often used in outdoor adventure and military applications. The cable itself is where we start to build our durability story with the products. As we move up to the AF56, which is at the one hundred dollar price point we have a slightly larger driver again; a thirteen-millimeter driver allows us to dial in a much more detailed sound and the styling on this product is slightly different. Building an in-ear headphone to house such a large driver ergonomically was a real design challenge. The AF56 has been

designed with an angled sound port, enabling the large driver to sit comfortably in the outer ear for extended periods of time. Then, at the top of the range is the AF78. At \$200 this is our flagship product. That is the one that has really opened doors for Audiofly. It has a dual driver arrangement in each ear, but what is unique is we have a hybrid configuration of drivers; we've paired a dynamic driver with a balanced armature driver. Those two drivers together are an interesting combination. We use the dynamic driver at the low end, which has a slightly slower response speed and a bit more of a laid back sound. Then the balanced armature, with its fast response and precise sound does the high end. Therefore, you end up with a remarkably clear, crisp high end and a well-balanced low end to the headphone. That product, for the price point, is really special. We have had some incredible comparative reviews done, so we're

“When you are building a brand like Audiofly in a really competitive market there is always a bit of risk and you need to believe in yourself and believe in your vision and what you are trying to do.”- Dave Thompson

very excited about the future of this product.

CEOCFO: What is your most popular product?

Mr. Thompson: The AF45. I think it is a good price point. The sixty-dollar price point is where people seem to be entering our range. However, the AF78 is, from a sales perspective right up there. It actually surprised us how well this product was received, considering the \$200 price tag. We did not think the market was going to grab it that quickly. However, we were happily proven wrong. That seems to be where people are seeing our brand. It is actually not a bad thing, because as a new brand we want to establish a level of quality in what we are doing.

CEOCFO: Will some people pay for that difference?

Mr. Thompson: Yes, one thing we have seen is that some of our competitors, in a way, have paved the

way for this. However, the market has grown so much in the last three to five years that there is just all sorts of new categories growing. Consumers are more discerning. They are willing to spend more money because they see a headphone as not just an accessory; it is becoming more of a commodity item. That is an exciting thing for companies like us where we get to play with products like that. We get to play around with different technologies and it has worked well for us.

CEOCFO: What is the commercialization plan and where are you in the process?

Mr. Thompson: The overall plan is to not spend too much money. It is hard to build a company like ours and not spend too much money. We have been shipping products for about six months now. We launched our brand in January in Las Vegas. We are speaking with some amazing companies in the market at the moment for opportunities in 2013. From a marketing perspective, we have wanted to be smart about how we choose our avenues to market. Rather than trying to go for the mass appeal, we want to

position ourselves as a “niche” product. Ultimately, we are appealing to people who “get” us. From a strategic point of view, this includes early adopters with evangelist tendencies to help us build the brand. We are really trying to build a brand that resonates with our core users, so we are looking for partners who have a similar value set.

CEOCFO: Audiofly was recently named as a CES Innovations 2013 Design and Engineering Award Honoree. Do you see this as validation of your concept? Does it help you in sales? Is it a “feel good” thing or does it have business value?

How do you see it?

Mr. Thompson: Absolutely on both fronts! When you are building a brand like Audiofly in a really competitive market there is always a bit of risk and you need to believe in yourself and believe in your vision and what you are trying to do. At the end of the day we are very passionate about

music and product design. Yes, it was a great validation of what we are trying to do. It told us that what we are doing does have a place in the market; and a crowded market at that. From a business perspective, yes it opens doors, and opportunities. More and more we are hearing things like, "Yeah, Audiofly, I think I've heard of them, I think I need to understand them a bit more..." which is great.

CEOCFO: What has been the geographic roll out? What countries will you be targeting?

Mr. Thompson: So far, we have had opportunities in the states and our opportunities in America have been bigger than those here in Australia. We actually rolled out when we started shipping products into the US area, and then we opened up Australia too. We have also just recently opened up in Canada with some amazing reception to the brand up there. I have a feeling that it is a common wealth related thing, because being Australian we are quite closely tied to Canada. In addition, things are going well for us in Australia. At the moment that is probably all that we could handle, but certainly in the New Year we will be following up on many of the opportunities that we have in Europe and Asia; we certainly have some growth opportunities.

CEOCFO: You mentioned different colors before. Do people that are looking for the sound quality really pay attention to what colors the headphones are as opposed to people that are not as concerned about sound?

Mr. Thompson: Many of our higher end products that have a real sound story to them, we do not put a lot of emphasis on color. Firstly, because the value of the product is a much

greater from a visibility point of view it is quite hard to have a massive array of colors, but at the low end we are dealing with a cheaper product and I think that kind of user is not quite as discerning. Therefore, giving them a choice in color is probably a bit more appealing for them, because they are low involvement buys. If you can appeal to their emotion through color then that is sometimes how you can gain customers at that price bracket.

CEOCFO: Where are you manufacturing your products?

Mr. Thompson: We manufacture in South China and we do all of our product development down here in Perth, in Western Australia. It works really well for us, manufacturing in South China. I have actually been working out of China for over a decade now, professionally. The fact that we are on the same timeline is quite an amazing thing, because we get their full day; we get the best of them in a certain way. It is also very easy to be up in China to manage quality and things like that, so it works well.

CEOCFO: Is Audiofly looking to take on partners or additional funding for continued growth?

Mr. Thompson: We are currently a private company. We do not really have plans to change on that for now. My partners and I are very committed to building a business and building a brand that really resonates in the market place. We do not have any plans in the foreseeable future to take on investors.

CEOCFO: Why should investors and people in the business community be paying attention to Audiofly?

Mr. Thompson: From an acceptance point of view of a brand who is trying to do something different in the marketplace, I feel very strongly that a lot of the impetus of our product design is that we looked at products, which have stood the test of time, and we are trying to create a timeless product from a business strategy point of view. There is some kind of value in having a brand that relates back to the days of craftsmanship, but also of long-term consumer value. As a headphone brand in our industry, we are definitely trying to appeal to that sort of user; that person that is looking for a longer term investment in their product. That story runs deep through our brand. Through the times that we are in, the economic hardship that the world has been in, I feel that there is a general shift from people moving away from a "throw away" sort of society to people who really do appreciate longevity in their products and really, really well thought out craftsmanship. That is very much what we feel is potentially a consumer trend, but also something that is required of business people these days.

We have an exciting product road map. The award that we have just won has probably given us a lot of steam and some of the stuff that is going to be coming through next year is, hopefully, going to bring a new quality to in-ear headphones. Watch this space!



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