

## — PARTICIPANTS

### Corporate Participants

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**Michael T. Burns** – VP-Investor Relations & External Reporting

**Albert A. Angrisani** – President, CEO, Vice Chairman

**Eric W. Narowski** – CFO, Principal Accounting Officer, Global Controller

## — MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for standing by, and welcome to the Harris Interactive Fourth Quarter and Full Year Fiscal 2012 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference may be recorded.

It's now my pleasure to turn the floor over to Michael Burns. Sir, the floor is yours.

### Michael T. Burns, VP-Investor Relations & External Reporting

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Good afternoon and thank you for joining us to discuss Harris Interactive's full year and fourth quarter fiscal 2012 financial results. With me today are Al Angrisani, our President and Chief Executive Officer, and Eric Narowski, our Chief Financial Officer. The format for today's call will include Al's commentary and Eric's recap of both the fiscal year and Q4 with some wrap up from Al. After the formal remarks, both Al and Eric will be available for questions.

A webcast replay of this entire call will be accessible via the Investor Relations section of our corporate website later today and will be archived there for at least 30 days. However, no telephone replay of this call will be provided. We'll post a transcript of this call as soon as we are able to after the call.

We would like to take this opportunity to remind you that certain statements made during this conference call are forward-looking statements for purposes of the Safe Harbor Provisions under the Private Securities Litigation Reform Act of 1995.

These statements include beliefs, predictions and expectations related to the company's future financial performance, other business and operating metrics, as well as statements regarding the company's future plans and operations.

They involve a number of risks, known and unknown that could cause actual results, performance and/or achievements of the company to be materially different from the beliefs, predictions and expectations discussed on this call. Factors that could cause the company's results to materially differ from the forward-looking statements made today and which are incorporated by reference herein are more fully described in today's press release as well as the company's SEC filings, particularly under the risk factors section of the company's most recent Annual Report on Form 10-K.

You are urged to consider these factors carefully in evaluating such forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements are only made as of the date of this call and the company undertakes no obligation to publicly update them to reflect subsequent events or circumstances.

We will also be discussing non-GAAP financial measures including adjusted EBITDA with the add-back of restructuring and other charges. These items are reconciled to GAAP financial measures in today's press release and that reconciliation is posted on the Investor Relations section of our website.

I'd now like to turn today's call over to Al. Al?

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**Albert A. Angrisani, President, CEO, Vice Chairman**

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Thanks, Mike. I'm pleased to report to our shareholders that Harris Interactive exceeded our most recent stated guidance of \$10.5 million to \$11.5 million of adjusted EBITDA with add-backs by achieving adjusted EBITDA with add-backs of \$12.1 million for fiscal 2012, the first year of the turnaround.

Eric will take you into a deeper dive on the year ending Q4 financials in a few minutes, but first I'd like to highlight the key milestones we achieved this year and also give you a better sense of where we are in the turnaround process and the challenges that remain for fiscal 2013.

So let's first start with the good news. Our profitability improved for the year. As previously mentioned, we achieved adjusted EBITDA of \$12.1 million with add-backs for fiscal 2012 versus \$7.1 million last fiscal year, which represents a more than 70% improvement. This improvement in profitability was largely driven by rightsizing the business model at Harris and enforcing higher gross profit targets on all work sold.

On this last point, we worked our way through a significant portion of the bad or low margin work that was in the shop, but we have more to go and this will continue to be a factor in fiscal 2013. The net effect of this tradeoff of sorts of saying no to bad revenue and replacing that hole with profitable revenue [indiscernible] (04:54) top line sales and revenue growth while enabling more profitability on the bottom line. This is a difficult issue for investors to understand, but from the perspective of the turnaround, it is putting in a solid floor of profitability at near current revenue levels. The hope is that once this floor is in, new sales and revenue will be accretive.

Two, although the numbers say cash did not build in fiscal 2012, you must factor into the numbers that we funded almost \$6 million of restructuring payments and another \$6 million of debt payments from internally generated cash. The fact that we were able to accomplish this without having to use our line of credit is a major achievement. Today, our liquidity is much improved and we have only five more quarterly payments until we are debt free.

Number three, we averted a potential delisting of our stock and are now compliant with all NASDAQ requirements.

Number four, we have rebuilt the Harris Interactive panel back to a healthy and robust number of active users and it is growing to the point that we are beginning to monetize excess panel through our Harris Interactive Service Bureau, or HISB as we call it, by selling samples, which is a new product offering for us called Get Sample!. We're able to do this because of new technology that is available to us and it represents our first offering that comes from the kind of innovation we will focus on during year two of the turnaround.

Number five, also as a result of the panel rebuild and better relationships with external providers, we have reduced our outside sample expense significantly. This has contributed to our steady improvement in project profit margins.

Number six, our international business generally performed well, particularly given the challenging economic environment in Europe. The turnaround of our UK business is a major highlight of the international effort as the UK business is now stabilized and well positioned for improved profitability.

Seventh and last, in the U.S., we have completely reorganized the business around four business units; our Harris Poll business, our Harris Interactive Service Bureau business, or HISB, which – and our Custom Solutions Group business, which we refer to as CSG, and our Healthcare business; four business units Harris Poll, Harris Interactive Service Bureau, Custom Solutions Group and Healthcare. Going forward, I will be giving you some insights into how each of these business units are performing since our plan for fiscal 2013 does not treat all business units the same from an investment and growth perspective. More on that in a few minutes.

Now, the major challenges for fiscal 2013 and maybe bad news depending on how you view this, there's only one item here, so it's item one. The sales and revenue line continues to be challenging and I would like to be further along than we are now on rebuilding our top line. Part of the problem is what I alluded to before, the need to bleed off a lot of low margin work that was in the shop clogging up our factory and bloating our labor line.

Taking that work out creates a hole that we have not yet been able to fill. The impact of this tradeoff was seen in our fiscal 2012 revenue, which was down approximately \$13 million or 8% from our fiscal 2011. However, I need to give you some visibility into the decline. Roughly \$8 million of the \$13 million was attributable to the planned reduction in the UK business to enable management to right-size the business and establish a foundation to rebuild going forward.

Another \$2.5 million of the \$13 million was in our U.S. pharma business, which is one of the major sources of low margin work in the company. That leaves only about \$2.5 million, which was basically a mixed bag of low margin work. It is my firm belief that by eliminating much of this low margin revenue we have actually strengthened the company and better prepared ourselves to try and grow profitably in 2013.

Now finally, before I turn things over to Eric, let me tell you where I believe we are in the turnaround. First, this is a difficult turnaround and I've told you that before. But I consider the first year a success for all of the reasons I've just covered and other accomplishments not mentioned. Also, if you know my turnaround model, you know that we are working our way up the pyramid and are moving to the halfway point in the process, where sales enhancement and product innovation like I referred to in HISB and Get Sample! are the order of the day for fiscal 2013.

Be aware, or for those of you that speak Latin, caveat emptor, that absolute top-line growth is not the only driver of success in this turnaround. Our focus is going to be on profitable growth for as I like to say feeding our winners and starving our losers as that relates to our five business units. I have different expectations in fiscal 2013 for each of the business units from a sales and profitability standpoint.

Let me outline my current thoughts which are subject to change. The Harris Poll business I expect to grow aggressively. The Harris Interactive Service Bureau, or HISB business, I expect to grow aggressively. The Custom Solutions Group business I expect to grow modestly and the healthcare business is in a maintenance mode.

With regard to the collective international business, I expect a growth outcome, but I caution everyone that the economic events underway in Europe could put international into a maintain mode or something less. So, why the different levels of expectation? My experience is that in turnarounds not all inherited, let me emphasize that word, inherited businesses have an equal ability to grow profitably, therefore the process of feeding the winners and starving the losers allows us to invest in and leverage Harris Interactive strengths.

It is my hope that setting these varying expectations will result in absolute top-line growth, but winning on the operating income line does not necessarily depend on absolute top-line growth in this particular turnaround.

That's enough from me at the moment. So I will now turn the call over to Eric.

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**Eric W. Narowski, CFO, Principal Accounting Officer, Global Controller**

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Thanks Al, and good afternoon. Before I review our financial results for the full fiscal year and the fourth quarter, please note that all the results I will cover are for our continuing operations only and exclude our Asian operation which ceased in September 2011 and are now classified as discontinued operations in the financial statements that accompany today's earnings release.

Recapping fiscal 2012, revenue was \$160.7 million, down 8% from \$147.5 million for fiscal 2011. Foreign currency exchange rate differences did not have a meaningful impact on revenue. This decrease was mainly driven by declines in the U.S. and the UK as Al previously discussed.

Our operating loss was \$2.8 million compared with an operating loss of \$6.0 million for fiscal 2011. Fiscal 2012's operating loss included restructuring and other charges of \$7.5 million, \$5.6 million related to facilities downsizing, \$1.9 million related to severance payments compared with \$5.1 million in restructuring and other charges for fiscal 2011. Our net loss was \$5.6 million or \$0.10 per fully diluted share compared with a net loss of \$8.5 million or \$0.15 per fully diluted share for fiscal 2011.

Cash provided by operations was \$3.9 million, essentially flat when compared with \$4 million for fiscal 2011. Non-GAAP adjusted EBITDA with restructuring and other charges added back was \$12.1 million compared with \$7.1 million for fiscal 2011. Bookings were \$145.3 million, down 10% with \$161.9 million for fiscal 2011. Excluding foreign currency exchange rate differences, bookings were down 8%. This decrease was mainly driven by declines in the U.S., UK and Canada. At June 30, 2012, we had \$11.5 million in cash and \$6 million in outstanding debt and we're in compliance with our financial covenants under our credit agreement.

Secured revenue at June 30, 2012 was \$42.5 million or down 5% compared with \$44.7 million at June 30, 2011. Foreign currency exchange rate differences did not have a meaningful impact on secured revenue. The decrease in secured revenue was mainly due to the declines in bookings we experienced throughout fiscal 2012. Regarding Q4 performance, revenue was \$36.5 million, down 17% from last year's Q4. Excluding foreign currency exchange rate differences, revenue was down 15%, driven by decreases in the U.S., UK and Canada.

Our operating loss was \$480,000 compared with an operating loss of \$4 million for last fiscal year's Q4. Q4's operating loss included \$2.2 million in restructuring and other charges, the majority of which related to the closure of our Princeton office. Our net loss was \$932,000 or \$0.02 per fully diluted share compared with \$5.1 million or \$0.09 per fully diluted share for last year's Q4.

Non-GAAP adjusted EBITDA with restructuring other charges added back was \$3.7 million for the quarter compared to \$1.9 million for last year's Q4. Bookings were \$28.5 million, down 16% compared with \$34 million for last fiscal year's Q4. Excluding foreign currency exchange rate differences bookings were down 11% driven by decreases in the U.S., UK and Canada.

I'd now like to turn the call back over to Al.

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**Albert A. Angrisani, President, CEO, Vice Chairman**

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Okay, thanks Eric. I'll just wrap this up quickly. In closing, while the first year of the turnaround has been challenging, we do have a lot more to work to do to complete the turnaround. I'm hopeful that year two we'll make as much progress as we did in year one and that we will be successful in completing this turnaround. However, it's pretty clear when you look through these numbers and all the things that Eric and I just talked to that this is a dynamic process. It's a dynamic turnaround. There's a lot of movement in the income statement and the business model. There's a lot of movement in our sales model. Our cost base has stabilized itself a little more. And so I feel more comfortable that we're in a better place on costs than we were in some of these other areas.

So basically we've taken a big step forward in year one which I'm happy with but we have a lot more work to do and again as I say for those of you know my turnaround model, we're working our way up to the second top – second box which is really affixing sales and marketing and moving into the product innovation process. So we're going to have a lot of work to do and we're going to have a lot to talk to you about in the quarters ahead. And particularly with some of the new criteria I've laid out where we're going to give you some increased visibility into the general direction and movement of the five business units and the progress they're making which will help to determine how we drive future sales growth and how we drive future profitability.

So with that being said, I'm going to turn it back to Mike.

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**Michael T. Burns, VP-Investor Relations & External Reporting**

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Thanks, Al. And operator, if you could please open the queue for questions.

**QUESTION AND ANSWER SECTION**

Operator: Yes sir. [Operator Instructions] Presenters, I am showing no additional questioners. I like to turn the call back over to Mr. Burns for any additional or closing remarks.

**Michael T. Burns, VP-Investor Relations & External Reporting**

Well, thanks again to everybody for joining us and we look forward to speaking with you later in the fall when we release our Q1 fiscal 2013 results.

Operator: Thank you sir. Again, ladies and gentlemen, this does conclude today's program. Thank you for your participation and have a wonderful day. Attendees, you may disconnect at this time.

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