KEEPING THE MUSIC ALIVE

362% Increase in annual digital royalties we’ve paid to recording artists and record labels since 2008
Who We Are
SoundExchange collects and distributes digital radio performance royalties on behalf of its more than 90,000 recording artist accounts and 28,000 rights holder accounts. The organization administers the statutory license that 2,000+ non-interactive digital radio services, (such as satellite radio, Internet radio and cable TV music channels) leverage to stream any commercially available sound recording.

SoundExchange helps the music and creative community thrive in the digital age. We’re the premier digital performance rights organization in the world, with a mission to support, protect and propel the music industry forward. We introduced this mission in 2012 to guide our daily approach toward serving the creative community. We do this by:

- **Advancing creative growth:** In 2012, we announced more than $1 billion in digital royalties delivered to the creators of music.

- **Being a trusted resource:** We’re an independent nonprofit at the intersection of music and technology. Our board reflects our diverse interests—artists, major labels, independent labels, unions and artist representatives. We unite all behind the singular cause of supporting the value of music.

- **Delivering exceptional service:** We have the privilege of serving the music industry. Every customer, every question, and every payment that comes through our organization is met with care, efficiency and integrity.
“It’s an exciting time in the music industry, and new services and innovation mean consumers have more access to music than ever before. Our 2012 results reflect the growing strength of digital music listenership and are proof of our growing contribution to the industry,”

Michael Huppe, President & CEO

STRATEGIC PROCESS: IT’S OUR PRIVILEGE TO SERVE THE MUSIC INDUSTRY

It was a year of progress, both operationally and financially. Throughout the year, we focused on a number of initiatives to enhance our processes and to ensure more money in the hands of the creators of music.

And as digital music listenership expands rapidly worldwide, we now work with more than 2,000 digital music services to administer the statutory license for their use of sound recordings. We see no end to the digital radio industry’s growth. As such, in late 2011, we began augmenting our in-house technology capabilities to improve data quality and enhance our core business foundation—our royalty distribution platform. These efforts continued into 2012, and will remain a focus for our organization throughout the next several years as the growth of digital radio continues.

In addition to our ongoing outreach to artists and labels, we teamed up with third-party organizations like BandPage, CD Baby, American Federation of Musicians (AFM) and the Screen Actors Guild and American Federation of Television and Radio Artists (SAG-AFTRA) to identify and notify artists and rights owners not yet registered with us about potential unclaimed royalties.

As a result of our ongoing technology and enhancements, along with outreach efforts, in 2012 we registered more than 20,000 new individuals, representing both industry newcomers and established artists and labels.

To continue to meet the needs of our ever-growing base of artists and labels, this year we rolled out an enhanced customer relations program with a clear objective: to meet every question and every inquiry with exceptional care, efficiency and integrity.

Also this year, we added resources to assist in maximizing royalties for recording artists and record labels. In 2012, we began development of a repertoire database by ingesting rights owner-provided metadata into our system. By sourcing repertoire metadata (the information that makes it possible to identify the owner of a particular track of music) directly from the rights owner, we can ensure for proper payment of sound recordings.

In addition, we made significant enhancements to allow for the collection and distribution of international royalties among our members. We established a new policy to maximize royalties paid out to our members, and at year-end 2012, have 27 agreements in place for exchanging digital performance royalties with our foreign counterparts.
These investments and accomplishments aided in a milestone achievement: We reached $1 billion in digital performance royalties paid to the creators of music and those who support them. Our total for digital royalty payments in 2012 was $462 million, a 58 percent increase over 2011.

GOING FORWARD:
WE CONTINUE TO DRIVE INDUSTRY AWARENESS AND EDUCATION

We were also relentless in our efforts to increase industry awareness. In 2012, we demonstrated our commitment to advancing creative growth and protecting the long-term value of music. SoundExchange led the charge in opposing the Internet Radio Fairness Act (IRFA), a bill that put royalty payments at risk. We helped mobilize the music community by sponsoring an open letter featuring more than 130 artists in opposition to the Congressional bill that would have greatly reduced digital performance royalty rates. We also received tremendous support for delivering the message that the bill would be anything but fair to recording artists and labels when we delivered the message directly to Congress in November 2012. We anticipate we will be calling on you again for support again in 2013.

Our growth is a remarkable achievement. But as far as we have come, there is so much more that we can do to move the music industry forward.

We look forward to reporting back to you on our 2013 achievements.

Michael Huppe
President and CEO
AT THE CENTER OF THE DIGITAL MUSIC INDUSTRY

SoundExchange plays a key role in the increasing success of the digital music industry. Independent and nonprofit, we are entrusted by the Copyright Royalty Board, within The U.S. Library of Congress, as the sole entity in the United States to administer these types of services operating under the U.S. statutory license. As a result, we collect and distribute digital performance royalties to artists and record labels for the use of their sound recordings by satellite radio, Internet radio, cable TV music channels and similar platforms that stream sound recordings.

The statutory license we administer enables music services to focus on what they do best—building audiences by creating new ways to listen to music. More than 2,000 digital music services now rely on us to administer their statutory licenses for the use of sound recordings.

SoundExchange represents signed and unsigned recording artists artist accounts—multi-platinum and rising stars—and independent and major record companies. Under the statutory license, 45 percent of the performance royalties are paid directly to feature artists, and 5 percent of performance royalties are paid to a fund for distribution to non-featured artists. The remaining 50 percent is paid directly to the owner of the sound recording, usually a record label. Thus, artists who own their own masters are paid 95 percent.

Enabling Digital Music Services & Musicians to Do What They Do Best

SoundExchange enables digital music services by simplifying the royalty collections and payment process. Tens of millions of lines of data are processed by SoundExchange each month.
SoundExchange helps enable digital music services by simplifying the royalty collection and payment process. Tens of millions of lines of data processed each month.

CRUNCH DATA

PLAYLIST DATA
SoundExchange receives playlists.

DATA FILTER

MATCHED DATA

UNMATCHED DATA

INTERNATIONAL ROYALTIES
Members can receive performance royalties from organizations in other countries for the use of their sound recordings.

28,000 rights owner & label accounts
90,000 payable performer accounts

BROADCASTERS REPORT TRACKS PLAYED

21 Million
To Americans listen to Satellite Radio in U.S. and Canada

100+ Million
To Americans listen to Internet Radio in U.S.

$1 BILLION
Royalties paid to date to registered artists & labels from SoundExchange.

2005
$20 M

2012
$462 M

Copyright Royalty Board sets rates & terms

2012
4.9% Admin Rate

The numbers tell the story. In 2012, 40 percent of Americans listened to audio on digital devices—a number that is projected to double by 2015—and more than 20 million Americans subscribed to satellite radio. In 2011, 34 percent of Americans (or 89 million people) said they listened to either streaming or AM/FM stations, Internet-only services, such as Pandora, or both in the previous month.

"Thank you, thank you, thank you for all of your hard work! … All of YOU have made an impact in my life, we need the money and without you advocating and collecting it—for all artists—what would we do without you? Be blessed, for you are making a REAL difference."

Rob Levit, Founding Director, Creating Communities
The numbers tell the story. In 2012, 40 percent of Americans listened to audio on digital devices—a number that is projected to double by 2015 \(^1\) and more than 20 million Americans subscribed to satellite radio. In 2011, 34 percent of Americans (or 89 million people) said they listened to either streaming of AM/FM stations, Internet-only services, such as Pandora, or both in the previous month. \(^2\)

\(^1\) Source PEW Center 2012  \(^2\) Source: Arbitron 2012

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Rob Levit, Founding Director, Creating Communities

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34%  
Share of Americans who listen to streaming radio

40%  
Share of Americans who listen to audio on digital devices\(^*\)  
\(^*\) Pew Center 2012
SOUND PRINCIPLES: MUSIC IS OUR PASSION AND OUR PURPOSE

SOUNDEXCHANGE FIGHTS FOR FAIRNESS, AND FOR THE VALUE AND FUTURE OF MUSIC.

In 2012, we spoke out against the so-called “Internet Radio Fairness Act,” introduced by Utah Representative Jason Chaffetz. If passed, the bill would have been anything but fair to the creators of music; it would have substantially reduced the royalty fees Internet radio pays to artists and labels for use of their sound recordings. SoundExchange believes that digital radio is good for listeners and creators, but we believe with equal passion that webcasters and broadcasters should pay fair market value for the music their services depend on.

As part of our effort to defeat this bill, we worked with the musicFIRST Coalition and its member organizations to create an open letter featuring signatures of 130 artists (including Billy Joel, Britney Spears, Maroon 5 and Rihanna) that directly opposed the bill. The ad was featured in *Billboard* and *Politico* with media coverage in *Entertainment Weekly*, *Adweek*, *Vanity Fair* and more.

In November 2012, SoundExchange President and CEO Michael Huppe testified before Congress about the need for fair compensation for performers and labels. He put a spotlight on the bill’s fundamental flaws, including:

- The law requires the webcasting rates be set under a “willing buyer, willing seller” standard—or the fair market value of a sound recording. If passed, the Internet Radio Fairness Act would change the rate to a less than fair market value, potentially much less.

- Despite claiming the need for rate “parity,” the bill ignored the most glaring inequity of all—AM/FM broadcasters still pay nothing in performance royalties to recording artists and record labels. This is an inequity we have been advocating against for years.

We believe in digital radio and its future, but there is no reason that webcasters and broadcasters should pay less than fair market value when the music that we all enjoy are the main content of a digital radio service. We expect to continue in our efforts to protect the long-term value of music in the years to come.
SOUND PRINCIPLES: MUSIC IS OUR PASSION AND OUR PURPOSE. SOUNDEXCHANGE FIGHTS FOR FAIRNESS, AND FOR THE VALUE AND FUTURE OF MUSIC.

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SoundExchange fights for royalty structures that recognize the vital role of the creators of music in digital services.

Click here to view full ad
The music industry is a major contributor to the digital economy. Digital music revenues, at one-third of industry income globally and more than 50 percent in the U.S, are significantly higher than the digital revenues of other creative industries, such as films, books and newspapers. ³

Thousands of American recording artists and record labels rely on royalties collected for them by SoundExchange. We are proud to help support music creators and we are passionate about protecting and enhancing this essential revenue stream.

³ Source: IFPI Digital Music Report 2012
“If you only understood how much of a life saver this check is and what you do with SoundExchange is such a blessing for artists like me. I’m over here stressing how to pay bills and you always come thru. I truly appreciate it.”

Talib Kweli Greene

agreements allow us to collect money from them when our members’ music is played in their territory. They send your royalties to us. We send it to you, without any administrative charge.

We are focused on expanding our visibility around the globe and increased the number of international agreements in 2012 with foreign counterparts to 27 worldwide. We executed numerous foreign collection agreements with societies in countries around the world, including: Brazil, France, Germany, Spain, the United Kingdom, and many others.

ZERO INTERNATIONAL ROYALTY COLLECTION ADMIN FEE

Starting with royalties collected in 2012, we do not apply an administrative rate for foreign royalties collected. That means any foreign royalties collected by SoundExchange on after Jan. 2012 collected on behalf of our members “pass-through” our company with no additional deductions taken by out by us.
**SOUNDEXCHANGE**

**GROWTH AT A GLANCE**

**DIGITAL RADIO CONTINUES GROWTH**

NUMBER OF DIGITAL RADIO SERVICES

More than 2,000 services currently rely on statutory license for the use of their content

**SOUNDEXCHANGE PAYMENTS**

ANNUAL PAYMENTS (IN MILLIONS)

**SOUNDEXCHANGE HISTORICAL DATA**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blended Administrative Rate</td>
<td>4.9%</td>
<td>5.3%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Total Royalties Collected</td>
<td>$507.3M</td>
<td>$377.6M</td>
<td>$270.4M</td>
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<tr>
<td>Royalties Distributed</td>
<td>$462M</td>
<td>$291.8M</td>
<td>$249.2M</td>
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<tr>
<td>Total Administrative Expenses</td>
<td>$25.0M</td>
<td>$20.1M</td>
<td>$18.4M</td>
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<tr>
<td>Royalties to be Distributed (GAAP basis)*</td>
<td>$386.1M</td>
<td>$363.0M</td>
<td>$301.3M</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>97</td>
<td>72</td>
<td>55</td>
</tr>
</tbody>
</table>

*Royalties to be distributed (GAAP basis) includes estimates for collection not yet received (accrued royalties), uncashed checks, money undistributed due to junk data supplied, as well as unregistered artists and rights owners.
2012 EXECUTIVE TEAM
Michael Huppe – President and CEO • Jon Bender – Chief Operating Officer • Scott Day – Chief Technology Officer • Colin Rushing – General Counsel • Anjula Singh – Senior Vice President, Finance and Administration • Marie Knowles – Vice President, Communications

2012 BOARD MEMBERS
ARTIST GROUP
Jay Cooper, Artist Attorney • Kim Roberts-Hedgepath – AFTRA / Duncan Crabtree-Ireland, SAG – AFTRA • Patricia Polach / Ray Hair, American Federation of Musicians • Michael Hausman, Manager • Walter McDonough, Future of Music Coalition • Kendall Minter, Artist Attorney • Pat Rains, Manager • Martha Reeves, Artist • Perry Resnick, Music Manager’s Forum

LABEL GROUP
Andrea Finkelstein, Sony • Jeff Harleston, Universal Music Group • Jim Mahoney / Richard Bengloff, A2IM • Dick Huey, Toolshed • Steve Marks, RIAA • Alasdair McMullan, Universal Music Group (EMI) • Paul Robinson / Tucker McCrady, Warner Music Group • Cary Sherman, RIAA • Tom Silverman, Tommy Boy Records • Darius Van Arman, Dead Oceans, Jagjaguwar, Secretly Canadian