



## AARC SUMMARY & METHODOLOGY

### I. AARC Summary

The Alliance of Artists and Recording Companies, Inc. (AARC) is the leading organization representing featured artists and recording companies both domestically and abroad in the areas of hometaping/private copy royalties and rental royalties. AARC, a non-profit organization, was formed to collect and distribute **Audio Home Recording Act of 1992 (AHRA)** royalties to featured recording artists and sound recording copyright owners (usually record companies.)

Prior to 1992, there were no provisions in US law for recovery of royalties lost due to hometaping, although other countries included such protections in their copyright laws as early as 1965. Passage of AHRA corrected this unfairness.

Following the successful administration of AHRA royalties in the United States, AARC moved toward the administration of foreign hometaping royalties. AARC has negotiated hometaping agreements with numerous foreign collectives. A complete listing is available upon request.

AARC also administers foreign rental royalties for its artist members. It negotiated a landmark agreement with CPRA for the distribution of Japanese record rental royalties to entitled artists on US recordings. This agreement guaranteed US performers entitlement to royalties for rental of their works in Japan. The agreement stems from provisions in the TRIPS Agreement, an international trade-related agreement to protect intellectual property.

Formation of AARC follows the pattern established in other countries where hometaping royalties are collectively administered, such as Spain, Ireland, Japan, Finland, France, Germany, Iceland, the Netherlands, and the United Kingdom. In these countries, the artist community and the record companies have chosen to work together in establishing a simple, efficient and cost-effective means of distributing the collected royalties.

Overseen by a board of thirteen (13) artist representatives and thirteen (13) record company representatives, AARC provides equal representation to the artist community and recording industry, looking after their mutual interests. AARC currently represents over 67,000 artists and 400 record companies (which translates to over 6,300 labels including all the major record company labels in the US). AARC is headquartered in Alexandria, Virginia, just minutes from downtown Washington, DC.

In summary, AARC provides the following services to its members:



represents members in all proceedings before the Copyright Royalty Board, Copyright Office, any other US agencies or courts in connection with AHRA royalties and foreign collectives and government entities, including filing of claims, negotiating settlements, filing of legal papers, and fully prosecuting claims in administrative trials or other procedures;

minimizes legal and administrative costs, and expedites payment of royalties by settling US proceedings;

reduces claimants' costs through centralized, common royalties' administration and data collection;

produces fair and accurate data upon which to base distribution;

provides detailed reports summarizing the titles, featured artists, labels and royalty amounts for each sound recording earning royalties;

ensures that claimants are part of an organization that looks after the long-term legal and financial interests of artists and copyright owners.

To facilitate distribution, AARC maintains separate featured artist and record company membership databases. These databases house membership information required to accurately process the distributions. AARC will keep such membership information confidential. AARC will refrain from using the data for purposes other than satisfying any requirements in US and foreign homotaping and/or rental proceedings. AARC is authorized to make this data available in litigation proceedings at the US Copyright Office and any other government entity or court that is required as part of a US or foreign homotaping and/or rental proceedings. AARC will also be able to provide the data to the US Internal Revenue Service ("IRS") in compliance with US tax laws and IRS regulations.

AARC files a claim each year for US and foreign royalties collected during the prior year. To ensure that your claims are included in AARC's next claims, please complete a representation agreement(s) ("Featured Recording Artist Authorization Letter" and/or "Copyright Owner Authorization Letter") authorizing AARC to represent you. You should also complete the requisite information forms and return them to us at your earliest convenience.

To eliminate the administrative burden that would be associated with renewal of fixed-term authorizations, the term of the agreement is perpetual. However, the agreement may be terminated by you at any time – so long as the proper notice is given (see "Authorization Letter"). Upon termination, AARC will continue to represent you only with respect to those claims filed, proceedings or actions commenced, and royalty fees collected prior to the effective date of the termination.



Please complete and return an executed representation agreement(s) and information forms to us at your earliest convenience. Note that it is the representation agreement that enables AARC to represent you. Therefore, if you need additional time to complete the information forms, please send us your executed representation agreement first and send us your information forms once you have completed them.

If you have any questions, feel free to contact our office at (703) 535-8101. We also encourage you to visit our website [www.aarcroyalties.com](http://www.aarcroyalties.com).

## II. AARC Methodology

**TO BE USED IN THE CALCULATION OF DOMESTIC AUDIO HOME RECORDING ACT SOUND RECORDING FUNDS EXCLUSIVELY. METHODOLOGIES FOR FOREIGN ROYALTIES ARE ESTABLISHED BY THE TERRITORY WHERE THE ROYALTIES ORIGINATE.**

This document summarizes the methodology employed by the Alliance of Artists and Recording Companies in allocating Audio Home Recording Act of 1992 ("AHRA")/ Sound Recording Fund royalty payments to featured artists and record companies. Under AHRA, the monies in the Sound Recording Fund are to be distributed on the basis of record sales during the relevant year.

### Data Source

Data for calculating distributions is being provided exclusively by SoundScan, Inc. The SoundScan system registers point-of-sale information on albums, singles, and downloaded tracks from e-tailers, record retailers and others. The SoundScan information identifies for each title scanned: title name, sales volume, featured artist or artist group and record label. Generally, only sales of sound recordings first released on or after February 15, 1972, the commencement date of Federal copyright law protection of sound recordings, are eligible for royalty distribution. However, if pre-1972 sound recordings were re-mixed or included in a new compilation on or after February 15, 1972, they may qualify for royalties under the AHRA.

### The Featured Artist Database

In the case of a performing artist group, the database will recognize the group name, authorized representative, contact person (if other than authorized group representative) and designated payee (if other than authorized group representative). A single royalty payment will be made to the group's authorized representative or designated payee (as applicable), if the group is collecting as a whole. If, however, each group member is collecting for his/her individual share, the data will recognize the member's name, contact person (as applicable), and designated payee (as applicable).



A royalty payment for that particular group member's share of the royalties will be made to the group member or designated payee (as applicable). Questions or disputes pertaining to the distribution of featured artist funds will be resolved by a panel comprised of featured artist representatives.

### **The Record Company Database**

As in the case of Featured Artist Database, the SoundScan data is filtered through the Record Company Database, which houses specific information required to accurately process the record company distributions. The system will contain, on a confidential basis, the record company address, contact person, designated payee (as applicable), and royalty earnings history. As with the Featured Artist Database, audit procedures will monitor the integrity of the file maintenance in the Record Company Database. Questions or disputes pertaining to the distribution of record company funds will be resolved by a panel comprised of record company representatives.

### **Weighting of Data**

Once the SoundScan data is matched with the appropriate entitled parties, the following weighting system is used to reflect the economic value of the sales:

- .08 for each SoundScan-identified sale of a downloaded track
- .25 for each SoundScan-identified sale of single product; and
- 1.0** for each SoundScan-identified sale of album product.

### **Determining Featured Artist/Record Company Royalty Totals**

For each featured artist and record company, the relevant SoundScan sales data is matched with the appropriate weighting factor to create a fund credit system as follows:

$$\begin{aligned} &(\text{downloaded track sales} \times .08) + (\text{single sales} \times .25) + (\text{album sales} \times 1.0) \\ &= \text{individual's fund credit system.} \end{aligned}$$

The fund credits for each featured artist and each record company are aggregated. The total royalty fund, which consists of the portion of the royalty dollars received by AARC (less AARC's administrative expenses), is determined via either an arbitrated proceeding or a negotiated settlement. The applicable formula for determining the royalty dollars for each featured artist and each record company is:



(downloaded track sales x .08) + (single sales x .25) + (album sales x 1.0)  
= individual claimant's fund credit system.

individual's fund credit system = individual claimant's % total credits of all claimants

Total royalty fund dollars x Total individual claimant's %  
= Individual claimant's royalty dollar allocation

**Example**

Assuming:

1. Total "Featured Artists" Royalty Fund Dollars	=	\$
200,000		
2. Total Album Units Sold	=	
400,000,000		
3. Total Single Units Sold	=	
100,000,000		
4. Total Weighted Singles (at 25 percent)	=	
25,000,000		
5. Total Track Downloads	=	2,000,000
6. Total Weighted Track Downloads	=	
160,000		
7. Total Fund Credits (2 + 4 + 6 above)	=	
425,160,000		
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8. Individual Artist Album Units Sold	=	
1,000,000		
9. Individual Artist Single Units Sold	=	100,000
10. Individual Artist Weighted Singles	=	25,000
11. Individual Artist Track Downloads	=	3,000
12. Individual Artist Weighted Track Downloads	=	
240		
13. Total Individual Artists Fund Credits (8+10+12 above)	=	
1,025,240		
14. <u>Total Individual Artists Fund Credits (13 ÷ 7 )</u>	=	
.241142158%		

Individual claimant's royalty dollar allocation is:

$$1,025,240 \div 425,160,000 = .241142158\%$$

$$\$200,000 \times .241142158\% = \$482.28$$



### **Miscellaneous Distribution Policies**

In order to achieve an efficient scale of operation, no check or royalty statement will be generated in any case where an individual claimant's royalty dollar allocation amounts to less than \$10. Rather, in such cases, the royalties will be held in reserve until the \$10 threshold is satisfied. At such time when the threshold is satisfied, a royalty check and statement will be sent to the individual claimant.

If AARC is unable to distribute your royalties (e.g., because AARC is unable to locate you at the time a distribution is to be made), AARC shall retain your royalties, and try to locate you, for a period of three years from the date the royalties shall have become payable. At the end of such period, all right, title and interest to such hometaping and/or rental royalties shall fully and absolutely vest in AARC, which may use the unclaimed funds to distribute to all Featured Artists and to pay expenses as described above, and the Featured Artist will have no further right, title, interest or claim to such royalties.