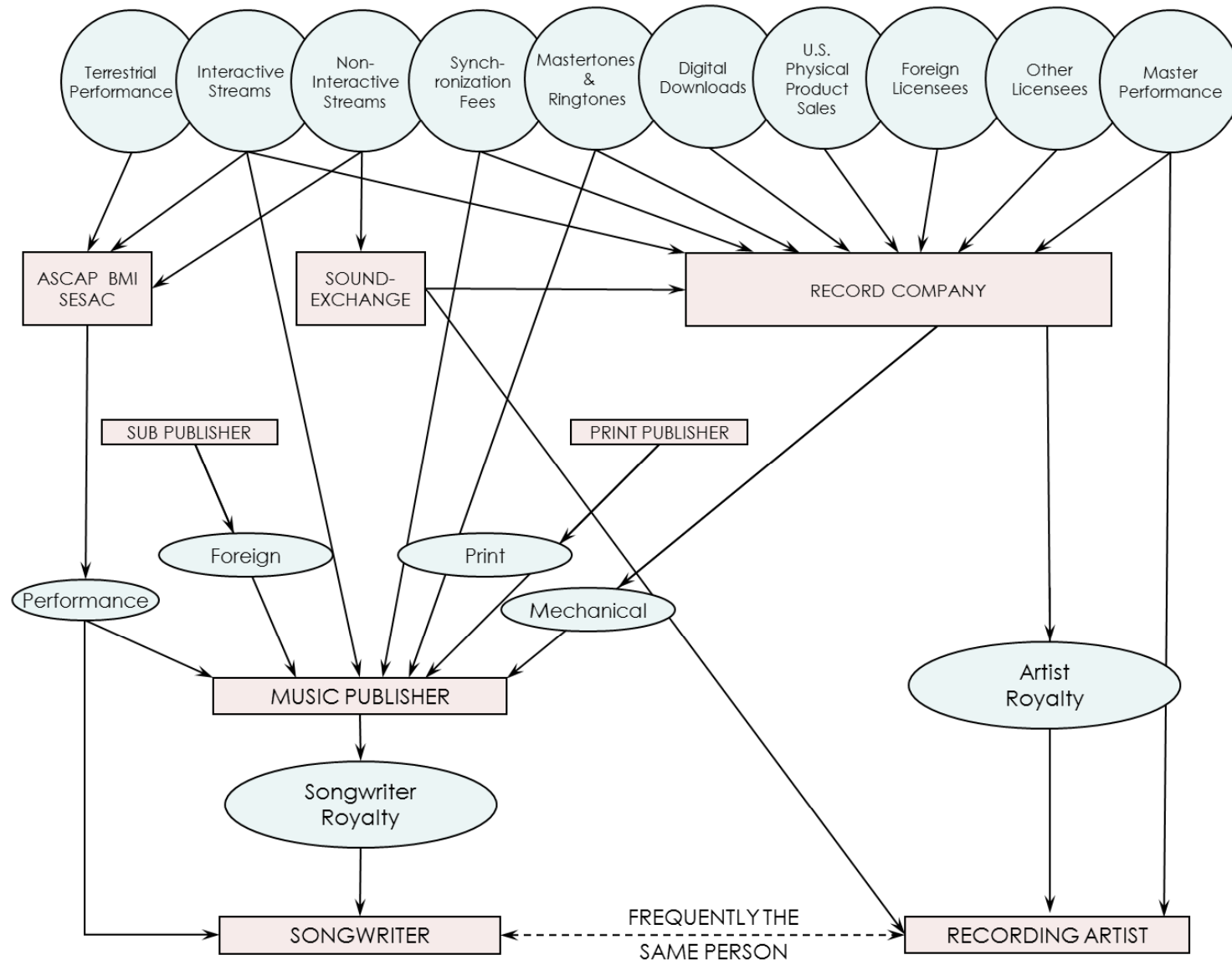




What You Should Know and Do When You Review Your Royalty Statements

Presented by: Chris Hull | February 26, 2014

Overview - Music Industry Royalties Flowchart





Part I: Desk Audits

Desk Audit Procedures

Publishing and Songwriter Royalties

- Analysis of Agreements and all amendments.

Receipts x Royalty % x Share % - Deductions x Currency Conversion = Royalty

- Review Statements in conjunction with the underlying license or agreement
- Analytical review of Royalty Statements using Pivot Tables to gain understanding; but also to identify trends, continuity and omissions

Desk Audit Procedures

Analytical Review of Publishing Statements Using Pivot Tables

Sample Pivot Table: Top-earning Song Titles

Sum of Royalty Amount Song Title	Statement Date				Total
	6/30/2010	12/31/2010	6/30/2011	12/31/2011	
Song #1	180,971.81	203,151.98	75,880.48	113,852.96	573,857.23
Song #2	54,243.66	55,855.01	53,560.77	188,189.23	351,848.67
Song #3	56,757.09	23,909.71	41,640.91	44,103.18	166,410.89
Song #4	13,406.55	30,950.49	58,442.49	38,060.46	140,859.99
Song #5	30,068.43	20,555.89	21,873.27	8,019.31	80,516.90
Song #6	16,262.49	20,067.05	18,596.65	20,884.35	75,810.54
Song #7	29,809.07	11,345.06	14,764.29	14,621.99	70,540.41
Song #8	9,321.56	17,831.97	23,770.33	16,693.72	67,617.58
Song #9	8,523.16	17,162.76	15,387.51	10,078.62	51,152.05
Song #10	11,989.86	14,538.64	7,175.57	12,663.40	46,367.47
ALL OTHER TITLES	176,453.07	193,443.70	136,246.56	174,584.99	680,728.32
	587,806.75	608,812.26	467,338.83	641,752.21	2,305,710.05

Desk Audit Procedures

Analytical Review of Publishing Statements Using Pivot Tables

Sample Pivot Table: Income by Domestic Licensee

Sum of Royalty Amount Source	Statement Date				Total
	6/30/2010	12/31/2010	6/30/2011	12/31/2011	
1 Broadway Show Producer #1	52,276.25	119,004.87	107,270.01	97,417.64	375,968.77
2 The Harry Fox Agency	102,796.71	56,256.10	60,794.61	59,452.47	279,299.89
3 Record Company #1	61,325.01	55,175.11	47,517.33	47,300.97	211,318.42
4 Misc. Synchronization	17,284.05	6,392.86	13,053.21	147,317.04	184,047.16
5 NMPA Late Fee Settlement		41,491.74	2,082.45	12,645.43	56,219.62
6 Record Company #2		21,378.34	3,686.15	8,622.96	33,687.45
7 Sheet Music Company	7,067.26	7,353.74	6,200.64	9,089.65	29,711.29
8 Movie Studio			26,250.00		26,250.00
9 Record Company #3	12,793.60	6,190.46	2,796.35	1,049.34	22,829.75
10 Broadway Show Producer #2	6,261.59	5,207.34	3,877.64	2,877.52	18,224.09
ALL OTHER DOMESTIC SOURCES	90,620.34	67,262.74	82,169.69	72,205.08	312,257.85
	350,424.81	385,713.30	355,698.08	457,978.10	1,549,814.29

Desk Audit Procedures

Analytical Review of Publishing Statements Using Pivot Tables

Sample Pivot Table: Income by Foreign Licensee (Is Each Country Consistently Reported?)

Sum of Royalty Amount Source	Statement Date				Total
	6/30/2010	12/31/2010	6/30/2011	12/31/2011	
1 Japan Sub-publisher	64,100.88	107,327.21	13,687.99	49,082.21	234,198.29
2 France Sub-publisher	55,022.61	20,542.30	19,561.57	47,355.11	142,481.59
3 UK Sub-publisher	17,117.87	19,281.22	8,757.09	30,332.53	75,488.71
4 Germany Sub-publisher #1	6,643.36	6,510.06	11,754.95	19,217.84	44,126.21
5 Canada Sub-publisher	11,251.08	8,583.25	6,227.32	6,475.62	32,537.27
6 Australia Sub-publisher	3,346.78	18,003.83	5,802.00	4,315.25	31,467.86
7 Spain Sub-publisher	11,771.78	11,483.69	2,758.86	2,979.09	28,993.42
8 Argentina Sub-publisher	11,561.14	28.55	11,389.77	108.44	23,087.90
9 South Africa Sub-publisher	17,203.15	406.68	262.97	690.28	18,563.08
10 Germany Sub-publisher #2	4,993.04	10,832.10	1,364.25		17,189.39
ALL OTHER FOREIGN SOURCES	34,370.25	20,100.07	30,073.98	23,217.74	107,762.04
	237,381.94	223,098.96	111,640.75	183,774.11	755,895.76

Desk Audit Procedures

Analytical Review of Publishing Statements Using Pivot Tables

Sample Pivot Table: Income by Income Type

Sum of Royalty Amount		Statement Date				Total
Territory	Income Type	6/30/2010	12/31/2010	6/30/2011	12/31/2011	
Domestic	Digital Mechanical	39,447.77	28,825.00	31,052.12	37,261.67	136,586.56
	Digital Performance	4.31	3,152.34	872.24	720.52	4,749.41
	Karaoke	1,639.46	140.43	1,166.66	1,966.61	4,913.16
	Mechanical	139,753.71	134,150.78	102,382.23	102,724.38	479,011.10
	Other	68,878.08	147,410.99	117,415.05	549.60	334,253.72
	Performance	16.09	42.76	17.40		76.25
	Print	8,167.43	8,187.76	6,914.33	10,242.55	33,512.07
	Synchronization	92,517.96	63,803.24	95,878.05	304,512.77	556,712.02
		350,424.81	385,713.30	355,698.08	457,978.10	1,549,814.29
Foreign	Digital Mechanical	7,295.64	6,938.94	7,646.25	9,657.76	31,538.59
	Digital Performance	6.69	3.79	320.07	0.42	330.97
	Karaoke	281.43	234.13	908.00	227.78	1,651.34
	Mechanical	69,916.18	71,995.14	58,535.70	63,314.27	263,761.29
	Other	1,462.70	879.48	995.40	214.39	3,551.97
	Performance	10,911.15	14,682.07	13,041.07	16,296.50	54,930.79
	Print	392.31	1,059.09	1,079.78	2,275.33	4,806.51
	Synchronization	147,115.84	127,306.32	29,114.48	91,787.66	395,324.30
		237,381.94	223,098.96	111,640.75	183,774.11	755,895.76
		587,806.75	608,812.26	467,338.83	641,752.21	2,305,710.05

Desk Audit Procedures

Publishing and Songwriter Royalties

- Check for continuity of income for each licensee examined
- Income tracking: Trace reports of licenses issued to royalty statements.
- Compare catalog listing with shares collected by publisher/sub-pub.
- Split copyright testing.
- Performance income reconciliation: Pub Receipts -w- Writer Receipts.
- Check whether each song on “the album” was reported.
- In case of controlled compositions, attempt to reconcile artist royalty reportings with publishing reportings.
- Does client have access to Soundscan data to measure units?
- Internet Resources: AllMusic; SearchMuze; IMDb; YouTube; AdTunes; Others?

Desk Audit Procedures

Mechanical Royalties – The Basics

Units x Rates x Share % = Mechanical Royalties

- **Units**
 - Units distributed
 - Less: Returns
 - Less: Reserves
- **Rates** - As provided by Compulsory license provisions of US Copyright Law: Minimum statutory rate in effect at time of manufacture (payable at time of distribution).
 - Physical Product: \$.091 / \$.0175 per minute on songs over 5:00 minutes
 - DPD's: \$.091 / \$.0175 per minute on songs over 5:00 minutes
 - Mastertones: \$.24
 - Interactive Streaming Services and Limited Downloads: As established by CRB

Desk Audit Procedures

Mechanical Royalties

- Units
 - SoundScan comparison
 - Are units consistent for all songs reported on “the album?”
 - Reconcile mechanical units with Artist royalty units
 - RIAA Certifications
 - Charts and other information available publicly
- Rates
 - Compare with licenses
 - Be attentive to negotiated terms: Rate / MFN / Guarantee / Advance
 - Statutory rate utilized – look at release date and distribution date
 - Playing time of usage
- Exploitations
 - Income Tracking: compare licenses with royalty statements
 - “Label copy” analysis of information publicly available
 - All Music Guide; Search Muze; Discogs.com; cd Universe; Trades.

Desk Audit Procedures

Mechanical Royalties

- Controlled Composition Clauses – Composition written owned or controlled by Artist / Producer
 - Reductions in both units and rates paid:
 - No free goods
 - No payment for any of the “non-royalty bearing” distributions.
 - Reduced Net Sales %
 - Rate fixed in time.
 - Rate Cap
- Not Applicable for digital distribution of compositions governed by recording agreements entered into after June 22, 1995.



--- Part II: Royalty Audits

Music Publishing and Mechanical Royalty Audits Overview

- The purpose of royalty audits is to determine areas of underpayment, if any, and their extent.
- A best practice and normal part of music business.
- A very worthwhile endeavor with considerable recoveries to be made.

Music Publishing and Mechanical Royalty Audits Fieldwork

- Conduct a variety of tracing tests, recalculations and reconciliations to ascertain completeness of reporting in compliance with:
 - Publisher / Songwriter - The Agreements
 - Mechanical - United States Copyright Law and licenses issued.
- Establish Completeness of exploitations / distribution

Mechanical Royalty Audits

Composite Royalty Statement

Cat No. 972: Shipped 5,000 Units

9 Songs / 5 Publishers

"THE RECORD COMPANY"

PUBLISHER (account number)

STATEMENT PERIOD: QUARTER ENDED JUNE 30, 2011

STATEMENT DATE: AUGUST 15, 2011

1

Mechanical statements must be prepared on song title and record number basis because licenses are issued for specific usages.

2

Distribution channels need to be shown as different rates may apply to different outlets and usages.

3

Units reported are net of returns, reserves withheld and released and in the case of controlled compositions, possibly net sales percentage.

4

Rate is the result of multiplying:

(Publisher Ownership Percentage)
x (Licensed Percentage)
x (Stat Rate).

It may also be determined by the artists' controlled composition clause.

5

Royalties due on non-controlled usages cannot be cross-collateralized.

RECORD NUMBER	1 SONG TITLE	2 DISTRIB CHANNEL	3 UNITS	4 RATE	5 ROYALTY
PUBLISHER ONE (a/c# 1230001)					
972 - 2	SONG #1	Reg Phys	2,168	\$ 0.04929	\$ 106.84
675 - 2	SONG #1	Reg Phys	(4,285)	\$ 0.04929	(211.21)
IS-RC1-04-45678	SONG #1	DPD	10,000	\$ 0.09100	910.00
IS-RC1-08-90123	SONG #1	MT	1,000	\$ 0.24000	240.00
					<u>\$ 1,045.63</u>
972 - 2	SONG #2	sales	2,168	\$ 0.04929	106.84
USSM10	SONG #2	DPD	425	\$ 0.06825	29.01
					<u>135.84</u>
972 - 2	SONG #4	sales	2,168	\$ 0.04929	106.84
972 - 2	SONG #5	sales	2,168	\$ 0.04929	106.84
972 - 2	SONG #6	sales	2,168	\$ 0.04929	106.84
972 - 2	SONG #8	sales	2,168	\$ 0.04929	106.84
					<u>\$ 1,608.82</u>
PUBLISHER TWO (a/c# 1230002)					
972 - 2	SONG #3	sales	2,975	\$ 0.04550	\$ 135.36
972 - 2	SONG #3	frees	525	\$ 0.04550	23.89
					<u>\$ 159.25</u>
PUBLISHER THREE (a/c# 1230003)					
972 - 2	SONG #3	sales	2,975	\$ 0.04550	\$ 135.36
972 - 2	SONG #3	frees	525	\$ 0.04550	23.89
					<u>\$ 159.25</u>
PUBLISHER FOUR (a/c# 1230004)					
972 - 2	SONG #7	sales	2,975	\$ 0.22750	\$ 676.81
972 - 2	SONG #7	frees	525	\$ 0.22750	119.44
					<u>\$ 796.25</u>
PUBLISHER FIVE (a/c# 1230005)					
972 - 2	SONG #9	sales	2,975	\$ 0.06825	\$ 203.04
972 - 2	SONG #9	frees	525	\$ 0.06825	35.83
675 - 2	SONG #15	sales	(4,285)	\$ 0.09100	(389.94)
675 - 2	SONG #15	frees	(715)	\$ 0.09100	(65.07)
					<u>\$ (216.13)</u>
TOTAL - ALL ACCOUNTS					<u>\$ 2,507.43</u>

Mechanical Royalty Audits

What is Behind the Mechanical Royalty Statement?

Cat No. 972: Shipped 5,000 Units

9 Songs / 5 Publishers

"THE RECORD COMPANY"

STATEMENT PERIOD: QUARTER ENDED JUNE 30, 2011
STATEMENT DATE: AUGUST 15, 2011

PUBLISHER (account number)		Not Visible		DISTRIB CHANNEL	Not Visible				UNITS	Not Visible				RATE	ROYALTY
RECORD NUMBER	SONG TITLE	LICENSE NUMBER	WRITER/ COMPOSER		NET SALES	LESS: NET SALES% 15%	LESS: RESERVES (std: 30%; contr: 40%)	ADD: RESERVES RELEASED		PUB OWN SHARE	LICENSE TERMS	PLAY TIME	CURRENT STAT RATE		
PUBLISHER ONE (a/c# 1230001)															
972 - 2	SONG #1	1060141234	"Joe Singsong"	Reg Phys	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	3:18		\$ 0.04929	\$ 106.84
675 - 2	SONG #1	1060141235	"Joe Singsong"	Reg Phys	(8,500)	1,275	2,890	50	(4,285)	100%	CONTROLLED	3:18		\$ 0.04929	(211.21)
IS-RC1-04-45678	SONG #1	1060141236	"Joe Singsong"	DPD	10,000			-	10,000	100%	CONTROLLED	3:18		\$ 0.09100	910.00
IS-RC1-08-90123	SONG #1	1060141237	"Joe Singsong"	MT	1,000			-	1,000	100%	CONTROLLED	0:20		\$ 0.24000	240.00
															\$ 1,045.63
972 - 2	SONG #2	1060141238	"Joe Singsong"	sales	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	2:05		\$ 0.04929	106.84
USSM10	SONG #2	1060155679	"Joe Singsong"	DPD	500	(75)		-	425	100%	CONTROLLED	2:05		\$ 0.06825	29.01
															135.84
972 - 2	SONG #4	1060141240	"Joe Singsong"	sales	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	3:50		\$ 0.04929	106.84
972 - 2	SONG #5	1060141241	"Joe Singsong"	sales	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	6:33		\$ 0.04929	106.84
972 - 2	SONG #6	1060141242	"Joe Singsong"	sales	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	3:01		\$ 0.04929	106.84
972 - 2	SONG #8	1060141243	"Joe Singsong"	sales	4,250	(638)	(1,445)	-	2,168	100%	CONTROLLED	4:44		\$ 0.04929	106.84
															\$ 1,608.82
PUBLISHER TWO (a/c# 1230002)															
972 - 2	SONG #3	1060141244	Non-Contr. Writer A	sales	4,250	-	(1,275)	-	2,975	50%	100% STAT	4:36	0.0910	\$ 0.04550	\$ 135.36
972 - 2	SONG #3	1060141244	Non-Contr. Writer A	frees	750	-	(225)	-	525	50%	100% STAT	4:36	0.0910	\$ 0.04550	23.89
															\$ 159.25
PUBLISHER THREE (a/c# 1230003)															
972 - 2	SONG #3	1060141244	Non-Contr. Writer B	sales	4,250	-	(1,275)	-	2,975	50%	100% STAT	4:36	0.0910	\$ 0.04550	\$ 135.36
972 - 2	SONG #3	1060141244	Non-Contr. Writer B	frees	750	-	(225)	-	525	50%	100% STAT	4:36	0.0910	\$ 0.04550	23.89
															\$ 159.25
PUBLISHER FOUR (a/c# 1230004)															
972 - 2	SONG #7	1060141245	Non-Contr. Writer C	sales	4,250	-	(1,275)	-	2,975	100%	100% STAT	12:08	0.0175	\$ 0.22750	\$ 676.81
972 - 2	SONG #7	1060141245	Non-Contr. Writer C	frees	750	-	(225)	-	525	100%	100% STAT	12:08	0.0175	\$ 0.22750	119.44
															\$ 796.25
PUBLISHER FIVE (a/c# 1230005)															
972 - 2	SONG #9	1060141246	Non-Contr. Writer D	sales	4,250	-	(1,275)	-	2,975	100%	75% STAT MFN	3:28	0.0910	\$ 0.06825	\$ 203.04
972 - 2	SONG #9	1060141246	Non-Contr. Writer D	frees	750	-	(225)	-	525	100%	75% STAT MFN	3:28	0.0910	\$ 0.06825	35.83
675 - 2	SONG #15	1060141247	Non-Contr. Writer F	sales	(8,500)	1,275	2,890	50	(4,285)	100%	100% STAT	2:51	0.0910	\$ 0.09100	(389.94)
675 - 2	SONG #15	1060141247	Non-Contr. Writer F	frees	(1,500)	225	510	50	(715)	100%	100% STAT	2:51	0.0910	\$ 0.09100	(65.07)
															\$ (216.13)

Mechanical Royalty Audits

Sample Controlled Composition Rate Calculation Based on Release Date / Recording Date / Earlier Date

"THE RECORD COMPANY"

ARTIST: "Joe Singer Songwriter"
ALBUM: "THE ALBUM"

CATALOG NUMBER: 972 - 2
RECORDING DATE: APRIL 15, 2004
RELEASE DATE: JUNE 01, 2011

AGREEMENT DATED FEBRUARY 4, 1999 - CONTROLLED COMPOSITION TERMS:

- PER SONG CONTROLLED COMPOSITION RATE: 75% STAT (w/o playing)
- CAP: 10 SONGS
- STAT RATE IN EFFECT AT RELEASE DATE
- NET SALES PERCENTAGE: 85%
- FREE GOODS: NO PAYMENT
- RESERVES: 40% OF GROSS SALES TO BE HELD FOR TWO YEARS
- EXCESS MECHANICALS TO BE CHARGED AGAINST ARTIST ROYALTIES

	Stat Rate at the 2011 Release Date	What if the Stat Rate was frozen at the 2004 Recording Date?	What if the Stat Rate was frozen at the 1986 Rate?
STATUTORY RATE	\$ 0.09100	\$ 0.08500	\$ 0.05000
x STATED RATE REDUCTION	75%	75%	75%
PER SONG RATE	0.06825	0.06375	0.03750
x NUMBER OF SONGS IN CAP	10	10	10
	0.68250	0.63750	0.37500
LESS: NON-CONTROLLED ROYALTIES (A)	(0.38675)	(0.38675)	(0.38675)
ROYALTY POOL FOR CONTROLLED COMPS	\$ 0.29575	\$ 0.25075	\$ (0.01175)
/ NUMBER OF CONTROLLED SONGS	6	6	6
CONTROLLED RATE PER SONG	\$ 0.04929	\$ 0.04179	\$ (0.00196)
(A) - NON-CONTROLLED ROYALTIES:			
SONG #3	\$ 0.09100	\$ 0.09100	\$ 0.09100
SONG #7	0.22750	0.22750	0.22750
SONG #9	0.06825	0.06825	0.06825
	\$ 0.38675	\$ 0.38675	\$ 0.38675

Audit Issues and Resolution

- Music Publishing and Songwriter Audits
 - Unreported Receipts
 - Rate Errors
 - Other Errors
 - Interest
 - Audit Fee
- Mechanical Royalty Audits
 - Unit Errors
 - Rate Errors
 - Interest
- Settlement