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MERLIN NEWSLETTER FOR INDEPENDENT TRADE ASSOCIATIONS

We are pleased to set out below the first of a regular update for Independent Trade Associations around the globe on Merlin's activities and issues of importance to us.

OVERVIEW

I am pleased to report that we have paid our members over US\$3 million in settlement and deal proceeds over the past year and expect to see that figure grow substantially by the end of 2010.

The past 12 months have marked the achievement of a number of landmarks for Merlin. With the conclusion of our first major legal settlements, the positive resolution of our contentious and protracted negotiation with MySpace Music, the announcement by Spotify that Merlin content represents more than 10% of all usage on its service and the conclusion of our deals with SkySongs, AT&T, Muzu.TV, Simfy, Audible Magic and others, Merlin has arrived as a credible, tangible and permanent force, for both its members and in the market in general.

Spotify in particular is now providing a significant revenue flow for those members who are participating in that deal. Additionally, we are equity participants in Spotify and in the long term this should provide a significant additional benefit to our members who are participating in that deal.

Merlin Membership continues to grow with key labels like Demon, Naxos, Ministry of Sound, Victory, Dramatico, Righteous Babe, Because, Barsuk, Compass Group, Independiente, Merge, MBO and others joining the organisation as members.

After the complex work that we have undertaken to construct the organisation to achieve maximum benefits for our members, it has certainly been satisfying to see the organisation start to achieve some of its stated goals and to see the increased support from the independent community.

Market conditions continue to be difficult, both in raw business terms, and in the seeming willingness of some new services (such as Rdio) to undervalue independent repertoire. We need to be clear that despite our positive results, we face a complex and difficult undertaking. Additionally and as you are aware, the market for new media continues to see the launch of businesses along the lines of infringe first, pay later – and this remains a key focus.

We are further engaged in a number of ongoing actions to deliver benefits, which we believe members could not individually achieve without the existence of Merlin.

The feedback from our members, has been extremely encouraging and I am confident that we will continue making Merlin an important resource for independent rights owners around the world.

Best Regards

Charles Caldas

Merlin UPDATE

1. Current Negotiations and Actions:

We, and our legal representatives, continue to focus on delivering settlements and deals that are valuable to, and in the best interests of our members.

These are all complex and involved actions, which require constant thought, analysis and attention. We are all working hard to ensure that the deals we deliver to our members are the best possible and that they reflect the substantial value of our collective licensing approach - and where our members' rights have been infringed we are working to ensure we achieve appropriate compensation.

We are constantly monitoring and evaluating new services and are in early discussions with a number of these in order to assess whether we will ask the Merlin board to approve these as potential deal targets for Merlin.

These are all very important and visible negotiations, and we believe that if Merlin can negotiate deals on behalf of all our members, then the efficiencies we can consequently provide to these services should enable us to obtain better terms than any individual member may be offered.

2. Membership

Number of members

Merlin's current membership stands at 424 members, made up of both labels and distributors. Combined, Merlin's members represent over 10,000 labels, and over two million tracks.

Market Share

Industry figures are available for the digital market in the UK where our membership's 2009 share was over 11% and the USA, where our share was just under 10%. These numbers are borne out by public announcements from business partners such as Spotify, who have said that Merlin represents over 10% of the usage on their service.

How do I join Merlin?

Membership is free and open to all companies controlling master rights that fulfil the Merlin Membership Criteria.

The current Membership Criteria are that membership is open to any company owning or controlling master recording rights, with an annual share of the global market for recorded music of less than 5% except any company which is owned in whole or in part, or controlled, by either a "non qualifying company" or a company which is a member of a "non qualifying group of companies". Please see full details at:

<http://merlinnetwork.org/merlincriteria/?phpMyAdmin=5C4ECj7oCGMWkI5ICZbpiU7Yo3b>

Membership applications can be made via the Merlin website at www.merlinnetwork.org

Membership Categories

We categorise Merlin members as follows:

Category 1 Members - labels or distributors, who control their own digital rights and are able to participate in all Merlin actions (subject to an opt-out right).

Category 2 Members – labels or distributors who have granted on going licensing rights to **non-Merlin** member companies or distributors, but who may still be able to participate in our settlements (subject to an opt-out right).

Category 3 Members - labels or distributors who have granted on going licensing rights to **Merlin member** companies or distributors, and who participate in Merlin actions via those member companies, who are therefore responsible for managing the member's participation in Merlin deals.

3. Members Meeting

We recently held a members meeting in New York, where (under the oversight and guidance of Antitrust Counsel) we briefed members on our membership categories, outlined the overall progress of Merlin and took questions regarding content delivery, US copyright registration and Merlin's administration fees.

We plan to conduct similar meetings at future industry events, such as Popkomm and Midem.

4. Protecting Copyrights

Merlin works to enforce and remedy copyright infringement on behalf of members, who on their own do not have the resources to do so effectively. Merlin also creates opportunities for its members to properly register and fingerprint their digital content so that they are in the best possible position to be able to deal with unauthorised usage of their repertoire.

Merlin's licences and copyright enforcement services offer tremendous opportunity and value to our members because the market is such that our members, would otherwise not have access to the same licensing opportunities we offer or be able to protect their copyrights with the same significant amount of financial and human resource expended by Merlin.

5. US Copyright Registrations

As part of the process of ensuring that our members rights are properly protected, we have a program to register our members' most important copyrights with the US copyright office. We think that it is important members participate in this program in order to ensure they are in the best possible position to protect their rights and we encourage each member to register at least their 3-5 most valuable works.

6. Antitrust and Competition Law Compliance

Merlin takes extensive advice on keeping compliant with competition law, and regularly circulates relevant guidance to its members.

Best regards.

Charles Caldas

CEO, Merlin BV

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