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# Beatmatch Business Plan Project
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## Table of Contents

- Executive Summary ........................................................................................................................ 4
- The Company .................................................................................................................................. 5
- The Service ..................................................................................................................................... 6
- The Market ...................................................................................................................................... 8
- Competition ..................................................................................................................................... 8
  - SoundClick .................................................................................................................................. 9
  - Beat Brokerz ............................................................................................................................... 9
  - BeatStars ................................................................................................................................... 10
- Marketing and User Acquisition ................................................................................................... 10
  - Social Media Engagement ........................................................................................................ 11
  - Social Media Advertising ......................................................................................................... 11
  - Search Engine Optimization ..................................................................................................... 12
  - Industry Spokesperson .............................................................................................................. 12
- Implementation ............................................................................................................................. 13
  - Development and Design .......................................................................................................... 13
    - SoundCloud API ....................................................................................................................... 13
    - PayPal Adaptive Payments API ............................................................................................ 13
  - Operations ..................................................................................................................................... 14
    - Platform Maintenance and Upgrades. .................................................................................... 14
    - Amazon Web Services .......................................................................................................... 14
    - Legal Consultation ................................................................................................................. 15
- Financials ...................................................................................................................................... 15
  - Discounted Cash Flow Analysis ............................................................................................... 16
  - Enterprise Value ........................................................................................................................ 16
- Risks .............................................................................................................................................. 17
  - Copyright Infringement ............................................................................................................. 17
  - Competitor Replication .............................................................................................................. 17
- Summary ....................................................................................................................................... 18
- Bibliography ................................................................................................................................. 19
- Appendix A: Financial Analysis ................................................................................................... 21
  - Figure 1: Free Cash Flows ........................................................................................................ 21
Executive Summary

Beatmatch is the revolutionary social commerce platform to buy and sell instrumentals. Beatmatch affords music producers and recording artists all the necessary tools to buy and sell licenses to original musical content intended for use in derivative works, commonly referred to as “instrumentals.” Instrumentals are musical selections without vocal elements that will be used in finished songs by recording artists. A music producer’s instrumental can be thought of as the underlying “canvas” upon which a recording artist creates a vocal “painting.” Instrumental sales take place every day around the world as producers provide new soundscapes for recording artists who seek to create derivative works and add to their library of finished songs.

Prior to Beatmatch, the other services and processes used by participants in this market to conduct instrumental sales lacked several features that are crucial to proper licensing transactions. Although a limited number of sites already offer an aggregation of some necessary components, they either present unnecessary barriers to user adoption, like unreasonable subscription and commission fees, or fail to include certain key features for instrumental sales platforms. The competitive landscape indicates that there exists an unquestionable need for a better instrumental marketplace, as competitors have not yet presented the optimal solution for music producers and recording artists.

The biggest need for this market is a reasonably priced legal framework for effectively managing licensing agreements made between producers and artists. Beatmatch will provide this to all users with no subscription model at next to no cost. Beatmatch will afford all producers the ability to (1) centrally catalog all their instrumentals for sale, (2) easily create and manage instrumental licensing agreements with buyers, (3) receive payment, and (4) transfer purchased content. Beatmatch offers users all these features at no upfront cost, earning a 1% commission fee only after a sale is completed.

Our marketing strategy centers on industry recognition. Our key tactics are social media advertisement and engagement, search engine optimization, and spokesperson representation, specifically DJ Drama. To reach our target market we will utilize services like HootSuite and SocialBro. These tools will help us find our target customers, manage posts to social media platforms, and analyze the demographics of our users.

Using our discounted cash flow model\(^1\), Beatmatch is currently valued at about $2 million. We are seeking $200,000 investment for 10% ownership of the company. This capital will be used to develop and deploy the first iteration of the Beatmatch marketplace. Startup costs include web development and design to build the online platform, legal consultation to create the licensing framework for our marketplace, and digital advertising to drive user acquisition.

\(^1\) See Appendix A for support.
**The Company**

Beatmatch was born from one music producer’s desire to create a better marketplace for selling instrumentals. Founder Chris Williams realized that, presently, the predominant processes for licensing instrumentals are disaggregated, inefficient, and ineffective. Chris envisioned the solution as a single website with all the tools needed to facilitate transactions in this market. At Beatmatch, music producers can connect with recording artists, sell them licenses for original instrumentals, and effectively manage the legal agreements pertaining to these copyrighted materials. Although several websites have attempted to fulfill this role, none have been able to achieve the optimal combination of services and pricing. Beatmatch will outcompete existing instrumentals marketplaces through unrivaled service offerings and an unbeatable pricing structure.

Chris Williams will act as Chief Executive Officer, setting general vision and playing a major role in all critical decisions affecting the company. Steven Marino will act as Chief Operating Officer, ensuring that day-to-day functions of the business are performed in a high-quality and timely manner. Liane Yue will act as Chief Technology Officer, overseeing the development and implementation of technical infrastructure. Kimberly Tsarpalas will act as Chief Marketing Officer, assessing how to best reach, engage, and activate our target market. Kyle Ewert will act as Chief Financial Officer, estimating and analyzing the fiscal impact of Beatmatch’s decisions. We will immediately hire a lead web developer and lead designer to help build our platform, either by salary or by equity compensation.

Beatmatch will incorporate as a limited liability company, which is an ideal structure for our startup venture for several reasons. The limited liability feature offers protection for our members’ personal assets, and the pass-through tax benefits afforded by the LLC present great financial incentive to choose this structure. We anticipate limited capital expenditures throughout the product lifecycle; therefore, we are seeking investment from only a limited number of members. However, the LLC structure will allow us to bring on an unlimited number of new members as needed with the growth of our company. Because of the flexible membership feature, we will enjoy the ability to delineate passive versus active members and properly distribute profits or losses.

In the future, Beatmatch could potentially expand its focus by evolving into a licensing platform for all types of digital content rather than solely instrumentals. With the proper technical and legal frameworks already established, Beatmatch would be well positioned to extend service to more genres of digital content, including video and graphic design. As the recent proliferation of technological capabilities leads to a greater number of digital content creators, the extension of Beatmatch’s licensing services to other digital content markets becomes an increasingly attractive prospect.

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The Service

Beatmatch includes every tool music producers need to sell licenses for their instrumentals to recording artists. Music producers must (1) catalog their instrumentals for sale, allowing recording artists to browse and select an instrumental of interest; (2) agree with the recording artist on the terms of sale, including price and licensing specifications; (3) request and receive payment from the recording artist who purchases the instrumental license; and (4) send the instrumental sound file to the buyer. Beatmatch affords producers the ability to perform all of these essential functions.

Producers using Beatmatch first create a profile. Users can either select the SoundCloud login option for instant authentication or register an account manually via email and password. The profile will include basic information, such as location, display name, and biography. Its primary purpose is to provide producers a homepage with a public catalog of their instrumentals for sale through which potential customers can browse. Recording artists have highly varied tastes in the instrumentals they use, and the profile catalog gives them an opportunity to review instrumentals prior to purchase, ensuring customer satisfaction. Additionally, the profile gives producers a vehicle to build their personal brand and to connect with other musicians using our platform.

After creating a profile, producers populate their profile catalog by importing instrumentals for sale and specifying the licensing options offered for each instrumental. There are endless ways to structure instrumental licensing agreements. For this reason, Beatmatch provides producers several pre-defined licensing agreements from which to choose. We also give producers a custom licensing agreement tool to specify their own terms in case our pre-defined licensing agreements do not sufficiently cover their demands. While the multi-website system that currently predominates the instrumental sales market sets out no legal framework for creating and managing licensing agreements, Beatmatch makes this an integral step in the instrumental sales process. After setting which licensing options will be available and deciding the price for each option, producers publish their offerings to their profile and also to any social media per our sharing integrations with all major social media platforms.

When a recording artist sees an instrumental he would like to purchase on Beatmatch, he or she accesses the licensing option dropdown menu embedded in the track’s music player. On this menu, the artist selects his preferred licensing option from among the producer’s listed offerings and adds it to his cart. If the buyer does not find any of the listed licensing offerings amenable, he can use Beatmatch’s custom licensing agreement option to propose a contract with new terms that the seller can accept, reject, or counter. Once the producer and the recording artist agree on terms of sale, the legal agreement is registered in our database, the monetary transfer from buyer to seller takes place, and the buyer can instantly download the purchased file. We will use the PayPal Adaptive Payments API to integrate payment processing into our website, allowing users to pay each other directly. PayPal Adaptive Payments rates start at 2.9% + $.30 per transaction and decrease to 2.2% + $.30 per transaction as monthly sales increase.3 Beatmatch will allow sellers to keep 99% of total post-transaction fee revenue, and we will monetize at a 1% commission rate.4

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4 See Appendix B for support.
Beatmatch will serve not only as a commercial platform but also as a social platform, facilitating engagement among users and building a community around instrumental sales. Beatmatch will include the standard features users are accustomed to in a social platform, including private messaging and commenting. The private messaging feature will allow users to contact each other directly while centralizing all of their communications related to instrumentals sales on Beatmatch. The commenting feature will give users an option to leave a publicly viewable comment either on other users’ tracks or activity. To comment on a track, users will click the “Comment” button embedded in each music player to reveal a dropdown menu containing a list of the most popular comments and a textbox where they can leave their own comment. To comment on activity, users will simply click the activity item of interest on another user’s profile, which will automatically reveal the dropdown menu described previously.

Our simplest engagement tool will be the “Up” button. The Up is attached to every track on Beatmatch, and it allows users to indicate that they like a particular instrumental. If a user likes an instrumental, he gives it an Up; if a user does not like an instrumental, he moves on. All instrumentals on Beatmatch will be measured by the number of Ups they have, and this metric will display prominently next to every instrumental on the site. By implementing the Up feature, we will present new visitors an immediate vehicle to engage with our platform and get involved in the community. Users will only be able to give Ups once they are signed in to Beatmatch. If an unauthenticated visitor attempts to Up a track, he will be prompted to sign-in or sign-up before he can give the Up. This will help us acquire users and create new participants in our community.

Ups will inform the Beatmatch charting system, which acts as our second social engagement tool. While competitor sites give more chart exposure to users who pay for promotion, Beatmatch’s charts will determine rankings in a purely democratic manner, using Ups as our main criterion for chart placement. Preserving the integrity of the Up metric is supremely important for our democratic charting system. In order to achieve this, we will enforce a limitation of one Up per track per user to prevent the possible artificial inflation of an instrumental’s Up count. Users can toggle the charts’ “local” filter to return results only from music producers in a specified geographic radius or with other specified geographic criteria, such as city, state, and country. Users can sort charts in various increments of recency, including today, this week, this month, this year, and all-time. Finally, users can sort charts based on genre.

Further, Beatmatch will host forums where users can interact with each other and discuss topics relevant to instrumental production and sales. The forums feature will prove exceptionally effective in acquiring and retaining a loyal user base, as Beatmatch producers will enjoy a venue dedicated to conversation exclusively about tips, tricks, and techniques for participating as sellers in the instrumental sales market. Although the forum is listed as our site’s third user engagement tool, we recognize that this is an indispensable component for allowing users to create meaningful connections with others in the Beatmatch community.
The Market

Overall, the US Audio Production Studios Industry is worth $1.1 billion. This figure only represents the small number of officially registered audio production companies in the US and does not capture all instrumental sales taking place as a result of market activity that is disaggregated and unregistered. The industry is growing at 4.5% per year due to decreased barriers to entry in music production, recording, and engineering. Mastering and engineering postproduction work accounts for a significant portion of the $1.1 billion figure, as recording artists need engineers to fine-tune the vocal tracks they record create over instrumentals purchased from producers. Music producers’ original instrumental preproduction work would also be categorized under this industry, but many of these revenues are overlooked and unrecognized by official reports.5

Because buyers and sellers in the instrumental market use a variety of platforms and services to conduct transactions, there are no accurate figures readily available on the size of this particular industry segment. Using strongly conservative assumptions based upon user statistics from comparable companies, including our direct competitors and SoundCloud, we estimate that there are at least 750,000 music producers actively selling instrumentals. With this calculation and price averages from the aforementioned websites, we estimate that at least $830 million of instrumental sales occur every year. Worth nearly a billion dollars, the instrumental sales segment of the audio production industry presents extraordinary financial incentive for aggregating market activity in the Beatmatch marketplace.6

Despite a recent decline in record sales, many new recording artists are emerging and entering the market as instrumental buyers, driving exceptional market growth. Barriers to entry for recording artists have fallen sharply with the advent of cheaper, better, and more accessible technology. Recording artists can now create sophisticated recordings that are more easily distributed and consumed by listeners.7 As more recording artists launch their careers with the help of improved technology, demand for instrumentals increases year over year. This market has outstanding potential. With Beatmatch assisting market participants and facilitating activity, the expansion of the instrumental sales industry segment will continue to accelerate.

Competition

The competitive landscape for this market presents an extremely attractive opportunity that has not yet been fully exploited. Although a number of platforms already afford users most of the necessary tools for buying and selling instrumentals, they either lack some key functions or present unnecessary barriers to entry, including unreasonable subscription or commission fees and unfriendly user experiences with steep learning curves. Providing users a single, simple, well-designed marketplace to buy and sell instrumentals will create a unity, and consequent community, never before achieved in the music industry.

6 See Appendix C for support.
7 “Audio Production Studios,” 27.
Currently, many producers utilize a system involving several platforms, including SoundCloud, PayPal, and Google Drive to conduct the sale of an instrumental. SoundCloud serves as the producer’s primary method of cataloging and showcasing their instrumentals for potential clients. PayPal acts as the payment processor for the transaction. Google Drive facilitates transfer of the instrumental sound file from the seller to the buyer. This system is highly inefficient, requiring a producer to use several websites for one sale. Most importantly, this multi-site method offers no legal framework for effectively managing licensing agreements between producers and artists.

**SoundClick**

SoundClick can hardly be considered a serious competitor due to its poor execution of user experience and inclusion of unnecessary features. SoundClick’s most immediate issue is its harsh, outdated design. The website came into existence in 1997, and its interface still reflects its origins from that era. This presents a major obstacle to usability for potential users of the site. Further, SoundClick offers such a large range of features, including radio stations, forums, and community boards, that the website seems to be more focused on playing a variety of roles for a group of dedicated users than on providing the ideal marketplace for buying and selling instrumentals.

The legal implications of using SoundClick as a vehicle to sell instrumentals also demonstrate this platform’s inferiority. A SoundClick user who uploads music to the website grants SoundClick a nonexclusive, worldwide, royalty-free license to reproduce, distribute, publicly and digitally perform and display his content. To license also grants SoundClick the right to create and use samples of the user’s uploaded music as well as use any trademarks, service marks, or trade names incorporated in the uploaded music. Finally, SoundClick offers no framework to effectively manage legal agreements reached between buyers and sellers of instrumentals using the platform, instead providing only a suggestion for drafting fair legal agreements. Clearly, SoundClick fails to give adequate consideration to the importance of producers’ rights to their music.

**Beat Brokerz**

Beat Brokerz is Beatmatch’s most comparable competitor in terms of service offerings, but they fail to achieve capacity because of their failure in several areas. Unlike most other instrumentals marketplaces, Beat Brokerz offers a legal framework for managing licenses. It includes a number of features we will also provide, such as a free copyright registry that allows users to create verifiable proof of copyright ownership for content they upload. However, Beat Brokerz’s pricing structure and other weaknesses cripple its ability to compete with Beatmatch.

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8 "SoundClick." *SoundClick.com*. SoundClick Inc., n.d. Web. 02 Nov. 2015.
Even for its highest paid membership tier, the “Premium” subscription, Beat Brokerz allows producers to keep only 71% of revenue in many cases. Premium subscribers are limited to a maximum of 250 instrumentals in their catalog, while “Basic” subscribers face a limit of 100, and “Free” subscribers are limited to just 25.11 All subscribers must price their instrumentals above $10, greatly restricting their ability to price competitively. Beat Brokerz’s restrictions extend beyond pricing to the creative aspect of instrumental sales, as the website mandates that producers upload a unique cover image for each instrumental. Additionally, Beat Brokerz’s charting system favors users who pay for promotion, giving them higher ranking on the website’s top instrumentals charts.12 This diminishes the charts’, and the website’s, integrity and credibility. Beat Brokerz does not offer Free subscribers the ability to alter their standard licensing terms or to use social media widgets for easy integration. Finally, Beat Brokerz does not transfer payments instantly but instead determines frequency of payment transfer based on a user’s subscription tier, paying out only monthly for some users.13

**BeatStars**

BeatStars also appears to be a similar competitor in terms of service offerings. BeatStars, however, displays fatal flaws in its subscription pricing model. By offering exceedingly limited features to BeatStars Free plan users, BeatStars strongly influences users to subscribe for a paid plan to receive anything of value. BeatStars’ highly restrictive free account gives users just 1 GB of music storage, allows users to keep only 70% of revenue from the sale of their instrumentals, limits users to just 5 private messages with other musicians using the platform, and only provides an option for producers to create a personal instrumental sales website with advertisements, failing to offer an ad-free sales space.14

BeatStars’ failure to implement a well-designed pricing model is further illustrated by the “Pro” plan, priced at $9.99/month, versus the “Unlimited” plan, priced at $19.99/month. While BeatStars Unlimited plan users receive unlimited music storage on the BeatStars website, BeatStars Pro plan users receive just 10 GB of music storage. BeatStars Unlimited plan users also enjoy a free SoundCloud Pro Unlimited account, whereas BeatStars Pro users are not even given a basic SoundCloud Pro account. Both types of BeatStars paid accounts allow producers to keep only 80% of revenue generated from SoundCloud and YouTube Content ID. BeatStars Pro plan users are limited to a mere 20 private messages.15

**Marketing and User Acquisition**

Because the target market is a niche market, Beatmatch’s marketing and user acquisition strategy focuses on industry recognition. Considering Beatmatch’s superiority in terms of service and price, our platform should be able to attract a large number of producers to the marketplace once they are aware it exists. Our unique aggregation of comprehensive service offerings presents a strong draw for potential users to join Beatmatch. Social media engagement and advertising,

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13 "Membership Options.”
15 "Pricing."
search engine optimization, and spokesperson representation will serve as the chief drivers of our industry recognition strategy upon launch. We plan to capture a market share of 1% in Year 1 and grow this market share to 10% by Year 5.16

**Social Media Engagement**

User engagement on social media acts as our first user acquisition tactic. Social media continues to gain promotional influence in the music industry, as music producers and recording artists increasingly employ their social media profiles, including Facebook and Twitter, to connect with audiences and build publicity for themselves.17 When producers join Beatmatch and begin cataloging their instrumentals on our website, they will make others aware of their activity via their social media profiles. Much of a musician’s success in the industry is determined by personal relationships and connections with other musicians.18 This implies a high level of interconnectivity among industry participants and indicates that as producers use social media to share their activity on Beatmatch, they will attract other producers in their network to our platform. We will offer social media integrations that allow producers to automate posts to their profiles when they upload new instrumentals for sale. Nielsen research reveals that an overwhelming 92% of consumers trust recommendations from friends and family over all other forms of advertising.19 Because of this fact, user advocacy on social media will probably be Beatmatch’s strongest marketing tactic.

We plan to engage directly with potential and current Beatmatch users through a variety of tools, including HootSuite and SocialBro. Hootsuite will allow us to coordinate our social media posts to profiles across numerous platforms to ensure consistency, accuracy, and timeliness.20 When we want to share a post with our social media circle, we can easily post across all platforms (Facebook, Twitter, Instagram, etc.) with one click and then see how many views and clicks we receive on each social media platform using HootSuite. This will help us to analyze what hashtags work well, what times of the day are best to post and the demographics of our followers. We will use SocialBro as a tool to identify and target potential Beatmatch users based on Twitter analytics. For example, we can search “producer,” and SocialBro will return every Twitter profile that contains the word “producer” in the bio. This will help us target and reach potential customers on social media.21

**Social Media Advertising**

In addition to social media advocacy and engagement, we will reach our target market through social media advertising. Just a decade after Facebook debuted its first advertising option in 2005, social media advertising revenue is projected to reach $8.4 billion in 2015. This particular

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16 See Appendix C for support.
18 “Audio Production Studios,” 22.
form of advertising allows companies to target users based upon information they have shared from their social media profiles. Considering that several social media sites like Facebook and Twitter have become indispensable promotion and distribution vehicles for all musicians building audiences in the modern era, there is a massive amount of relevant social media data to target the right users with ads on these platforms. A variety of new targeting methods, including interest-based and interaction-based targeting, will prove invaluable in identifying and reaching prospective Beatmatch users who have interest in the instrumental sales market and interact with music producers or recording artists. We anticipate an expenditure in the first year of slightly more than $40,000 on our social media advertising campaign, which will be comprised of Facebook Ads and Twitter Promoted Posts.

Search Engine Optimization

Furthermore, we take advantage of search engine optimization tools and techniques to increase Beatmatch’s online visibility. Primarily, we will use Google AdWords to improve our search result rankings, targeting users who search keywords and phrases like “buy instrumentals,” “sell instrumentals,” “buy beats,” and “sell beats.” This tool will help us gain the recognition of musicians actively participating in the market we are targeting. Additionally, we will consistently create and publish original content like articles, photos, and videos that are relevant to music production and recording artistry in order to establish a strong inbound marketing aspect to our SEO approach. More links and substantive content lead to higher search result rankings and offer more access points across the web for potential users to visit Beatmatch. Our efforts to appear toward the top of search result rankings for likely Beatmatch users will drive online visibility. We estimate first-year expenditures of approximately $25,000 on our SEO strategy.

Industry Spokesperson

Finally, we will contract a reputable producer in the music industry to act as Beatmatch’s official spokesperson. This will allow us to establish credibility as a marketplace and gain visibility within the industry as both aspiring and established music producers recognize the partnership Beatmatch makes with a well-known spokesperson. We have identified DJ Drama as our ideal spokesman. With over 1.75 million Twitter followers and more than 1.1 million Facebook likes, DJ Drama has a large online audience paying attention to his posts, and many of his followers represent our target market. We plan to offer DJ Drama a 5% equity stake in Beatmatch and exemption from our 1% commission fee for his commitment to represent Beatmatch as our official spokesman and sell instrumental licenses exclusively on our platform.

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24 Ganguly.
27 See Appendix C for support.
Implementation

Development and Design

Web development will take a large portion of our focus in implementing Beatmatch. For the development of this platform, we will need personnel possessing extensive experience in frontend and backend programming languages. Key frontend languages for our project include HTML, CSS, and JavaScript. Backend languages used to build the web application may consist of Ruby on Rails, Python, or PHP depending on our backend development team’s proficiencies and recommendations. The backend team will also need experience working with database languages like MySQL to effectively manage users’ data. We will require web developers who are familiar with building content management system plugins. Considering one of our key user acquisition tactics is to offer convenient CMS plugins for producers operating their own websites using Wordpress, Squarespace, Drupal, or Joomla, it is essential that our web development team has knowledge of CMS plugin creation. Initial development and design costs are budgeted at $50,000.

SoundCloud API

We will build our platform with the SoundCloud API to handle users’ musical content. This has several benefits. First, it will provide an instant authentication method for new and existing users to sign-up or sign-in. Second, this will eliminate all storage and streaming costs we would incur if we were hosting users’ music on our own site. Third, it will facilitate user acquisition, as the majority of producers already upload instrumentals to SoundCloud as their primary cataloging platform. Fourth, it will grant us access to the data and content users have previously given to SoundCloud. Using the SoundCloud API as the backbone of Beatmatch provides us a great edge over other instrumental sales websites because none of our direct competitors’ platforms are built with the SoundCloud API. This detail stands out as one of Beatmatch’s most important competitive advantages.

PayPal Adaptive Payments API

We will use the PayPal Adaptive Payments API to handle payment processing. This service will allow us to set up automated payments between buyers and sellers on Beatmatch. Adaptive Payments was made particularly for use in applications where payment from one sender is divided among two recipients. The Chained Payments feature is ideal for our commission-based revenue model, as we will be able to receive our 1% commission per sale and send the remaining 99% of revenue to sellers while only incurring one transaction fee for both transfers.

Adaptive Payments transaction fees begin at 2.9% + $0.30 per transaction for monthly sales from $0 to $3,000 and decrease to 2.2% + $0.30 per transaction for monthly sales greater than $10,000. Adaptive Payments has no set up fees, no monthly fees, no monthly minimums, and no cancellation charges. With seamless user experience being a significant consideration for our

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29 See Appendix D for support.
marketplace, the Embedded Payments feature will assist us in creating the ideal licensing platform by allowing us to integrate payment processing into Beatmatch without making users leave the page.30

**Operations**

We anticipate a one-month software development life cycle for design and development followed by a one-month alpha launch. The alpha launch will let us address any glitches in our marketplace before we proceed to our three-month invitation-only beta launch. For the beta launch, we will privately reach out to 1,000 producers to sign-up and provide feedback on their experience using our service. After refining the platform based on recommendations we receive from beta users, we will officially launch Beatmatch. Operating Beatmatch will require inputs on multiple fronts, ranging from web services and legal consultation to continued development and design. We have considered these items carefully below.

**Platform Maintenance and Upgrades**

Maintaining the ideal online marketplace for instrumental sales will require ongoing web development and design. An experienced developer and an experienced designer will initially prototype our marketplace, and we will expand our development design teams to include further talent as we reach sufficient scale, eventually hiring a small team of junior developers and designers to assist with routine maintenance, continued refinement, and additions. Since user experience is so crucial to acquisition and retention of potential customers, upkeep and upgrades to our platform will be our most significant operational focus. As we serve our target market and receive feedback, we will append new features, eliminate unnecessary ones, and strive for continuous improvement of the Beatmatch user interface and experience. The $50,000 first-year estimate previously mentioned for initial design and development will grow moderately year over year as we add more talent to our technical team.

**Amazon Web Services**

We plan to purchase a majority of Beatmatch’s web services from a third-party seller. Due to our varied needs, including storage for user information and hosting for the Beatmatch platform, we will most likely use Amazon Web Services. AWS stands out as an excellent option due the broad range of functions it can serve. AWS allows tech startups to avoid considerable up-front capital infrastructure expenditures by instead securing cloud-based, scalable web services with low variable costs.31 We will utilize a number of AWS Application Hosting services, including Elastic Cloud Computing (EC2), Simple Storage Service (S3), and Amazon Relational Database Service (Amazon RDS), as the backbone of our marketplace. AWS Application Hosting will let us use our preferred programming language, platform, operating system, and environment while maintaining a high level of security and reliability.32 We estimate first-year expenditures of about $20,000 on web services.

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30 “Adaptive Payments.”
**Legal Consultation**

Due to the precarious circumstances presently surrounding entertainment copyright law in the US, Beatmatch must consult with highly qualified legal counsel from our very first day of operation. We expect that legal costs will represent a large portion of our operational expenditures throughout the life of the company. We will have several automated and manual tools in place to prevent instances of copyright infringement on our website, and we will absolve ourselves of all responsibility for copyright infringement committed by users with a widely invoked clause in the Digital Millennium Copyright Act. Even with these preventative measures in place, however, we recognize that a multiplicity of scenarios requiring legal counsel for Beatmatch could arise. For this reason, we will establish a relationship with a trusted legal advisor whom we can consult when necessary. Because of the extensive filters we will implement to prevent copyright infringement issues on Beatmatch, we do not foresee a need for in-house legal counsel and believe that legal consultation on an as-needed basis will sufficiently cover our legal concerns. We have budgeted slightly upwards of $30,000 for legal consultation expenditures in our first year operating, as we construct and implement an online licensing framework we believe will become industry standard several years in the future.

**Financials**

Using a discounted cash flow analysis, Beatmatch’s current enterprise value is calculated at approximately $2 million. To arrive at this valuation, we estimate a weighted average cost of capital of 20% and an exit multiple of 12x, both of which are conservative figures compared to similar tech startups with little to no collateral and no existing operations. Ultimately, we aim to exit through acquisition, and we view SoundCloud as Beatmatch’s most likely buyer for a variety of reasons, including our unique SoundCloud integration.

Beatmatch will break even and become cash flow positive in our fourth year of operation. We project revenues of $83,122 in 2016, $166,245 in 2017, $249,367 in 2018, $415,612 in 2019, and $831,225 in 2020, the terminal year of projections. Revenue growth rates are based on current market size estimates, market share projections, and Beatmatch’s 1% commission rate. We estimate first-year expenditures of $50,000 for initial development and design and $20,000 for web services. These two figures comprise our first-year total cost of sales at $70,000, which will grow at 25% per year over the five-year projection period as the amount required to support a growing user base. We estimate first-year expenditures of $31,750 for legal consultation, $25,000 for Google Adwords, $25,000 for Twitter Promoted Posts, and $18,250 for Facebook Ads. These four figures sum to give us $100,000 first-year estimate for selling, general, and administrative costs. This number is projected to grow at 25% per year over a five-year period.

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34 See Appendix A for support.

35 See Appendix C for support.
Discounted Cash Flow Analysis

<table>
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<th>2017</th>
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<td>% margin</td>
<td>-98.5%</td>
<td>-24.8%</td>
<td>-4.5%</td>
<td>21.3%</td>
<td>50.7%</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
</tr>
<tr>
<td>EBIT</td>
<td>$86,877.5</td>
<td>$46,255.1</td>
<td>$16,257.6</td>
<td>$83,581.0</td>
<td>$416,185.5</td>
</tr>
<tr>
<td>Taxes</td>
<td>$26,063.3</td>
<td>$13,876.5</td>
<td>$4,877.3</td>
<td>$25,074.3</td>
<td>$124,855.7</td>
</tr>
<tr>
<td>EBITAT</td>
<td>$60,814.3</td>
<td>$32,378.6</td>
<td>$11,380.3</td>
<td>$58,506.7</td>
<td>$291,329.9</td>
</tr>
<tr>
<td>Plus: Depreciation &amp; Amortization</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
</tr>
<tr>
<td>Less: Capital Expenditures</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
</tr>
<tr>
<td>Less: Increase in Net Working Capital</td>
<td>$4,000.0</td>
<td>$4,000.0</td>
<td>$4,000.0</td>
<td>$4,000.0</td>
<td>$4,000.0</td>
</tr>
<tr>
<td>Unlevered Free Cash Flow</td>
<td>$54,814.3</td>
<td>$36,378.6</td>
<td>$15,380.3</td>
<td>$54,506.7</td>
<td>$287,329.9</td>
</tr>
<tr>
<td>WACC</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Discount Period</td>
<td>0.5</td>
<td>1.5</td>
<td>2.5</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Discount Factor</td>
<td>0.91</td>
<td>0.76</td>
<td>0.63</td>
<td>0.53</td>
<td>0.44</td>
</tr>
<tr>
<td>Present Value of Free Cash Flow</td>
<td>$59,167.07</td>
<td>$27,674.11</td>
<td>$9,750.18</td>
<td>$28,794.91</td>
<td>$126,492.61</td>
</tr>
</tbody>
</table>

Enterprise Value

The five-year cash flow projection shown above along with an exit multiple at the end of 2020 of 12x implies a firm value of approximately $2 million. As shown in the figure below, the exit multiple largely determines the value of the business, largely because of negative cash balances early on in operations. We believe that a multiple of 12x is reasonable, as Beatmatch is a promising tech startup but has few assets to back up the projected cash flows.
Risks

We are aware of the risks associated with our venture, such as copyright infringement and competitor replication, and we are prepared to confront them should they arise. Our primary risks and mitigation strategies are noted below.

Copyright Infringement

Mitigating copyright infringement risk is an extremely pressing issue for Beatmatch. Many instrumentals include clips of music sampled from other finished works that are owned by third parties who have copyrights to the sampled material (Musical Groups & Artists pg. 28). Beatmatch will avoid liability with a commonly invoked clause in the Digital Millennium Copyright Act, which many other sharing platforms, including SoundCloud, have used to absolve themselves of responsibility for copyright infringement caused by user-generated content.36 This clause states that all legal responsibility for user-generated content remains entirely with the content generator and that this legal responsibility is non-transferrable to platforms hosting the user-generated content. We will require that users agree to remain within the realms of legality throughout their usage of Beatmatch in order to minimize instances of copyright infringement on our platform. Although local and national laws may vary from country to country, the DMCA has been widely adopted internationally; therefore, we believe that we will be legally protected.

Furthermore, we will implement an automated monitoring system similar to that of SoundCloud to ensure the legitimacy of instrumentals on our website. This system will automatically examine instrumentals imported by users to identify instances of copyright infringement. Since we are building Beatmatch using the SoundCloud API, we will enjoy the double protection of SoundCloud’s own copyright infringement monitoring system.37 Finally, we will provide an option for users to flag and report any instances of copyright infringement they may discover while using our website. We will manually monitor instrumentals flagged through our user reporting system and remove any illegal or questionable content we discover.

Competitor Replication

Competitor replication is another of the most immediate risks Beatmatch faces. SoundCloud, our only potential competitor of sufficient scale to effectively imitate us, does not currently have any framework in place to facilitate licensing of the audio on its platform. Although SoundCloud likely has the resources to create such a structure, implementing and maintaining this type of framework would involve substantial legal considerations that SoundCloud would probably prefer to avoid. Just last year, SoundCloud agreed to open licensing talks with record labels for the purpose of preventing a Digital Millennium Copyright Act war in which major record labels would police SoundCloud and submit takedown notices to the website for every single instance of copyright infringement38. In light of these developments, we believe there is relatively low

37 See Appendix E for support.
38 Resnikoff.
risk of SoundCloud replicating our functionality that allows users to license original content among themselves. Moreover, our decision to build Beatmatch on the SoundCloud API further mitigates concerns that SoundCloud might attempt to debut a service similar to what we are offering. As we gain traction aiding the expansion of the instrumental sales market with our marketplace that incorporates the SoundCloud API so integrally, we believe SoundCloud will recognize and appreciate the additional traffic and economic activity generated for their own site by Beatmatch. In short, Beatmatch’s SoundCloud integration will drive more users and interactions on SoundCloud’s website; consequently, SoundCloud will not interfere or compete with us due to the value we provide them. We foresee acquisition by SoundCloud as our most likely exit.

Summary
Beatmatch will revolutionize the market for instrumentals. Not only will our platform provide immediate value to the existing market, but it will also aid the market’s expansion. Beatmatch includes all of the necessary tools in one central site and encourages new users to start participating. The current competitive landscape is weak, which will allow Beatmatch to come in and quickly become a dominant player. Industry recognition, our overarching marketing strategy, will effectively make Beatmatch the top-of-mind service among producers and recording artists.
Bibliography


Appendix A: Financial Analysis

Figure 1: Free Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$83,122.5</td>
<td>$166,244.9</td>
<td>$249,367.4</td>
<td>$415,612.3</td>
<td>$831,224.6</td>
</tr>
<tr>
<td>% growth</td>
<td>N/A</td>
<td>100.0%</td>
<td>50.0%</td>
<td>66.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>$70,000.0</td>
<td>$87,500.0</td>
<td>$109,375.0</td>
<td>$136,718.8</td>
<td>$170,898.4</td>
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<tr>
<td>Gross Profit</td>
<td>$13,122.5</td>
<td>$78,744.9</td>
<td>$139,992.4</td>
<td>$278,893.5</td>
<td>$660,326.1</td>
</tr>
<tr>
<td>% margin</td>
<td>15.8%</td>
<td>47.4%</td>
<td>56.1%</td>
<td>67.1%</td>
<td>79.4%</td>
</tr>
<tr>
<td>Selling, General, &amp; Administrative costs</td>
<td>$100,000.0</td>
<td>$125,000.0</td>
<td>$156,250.0</td>
<td>$195,312.5</td>
<td>$244,140.6</td>
</tr>
<tr>
<td>EBITDA</td>
<td>-$81,877.5</td>
<td>-$41,255.1</td>
<td>-$11,257.6</td>
<td>$88,581.0</td>
<td>$421,185.5</td>
</tr>
<tr>
<td>% margin</td>
<td>-98.5%</td>
<td>-24.8%</td>
<td>-4.5%</td>
<td>21.3%</td>
<td>50.7%</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
</tr>
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<td>EBIT</td>
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<td>-$4,877.3</td>
<td>$25,074.3</td>
<td>$124,855.7</td>
</tr>
<tr>
<td>EBIAT</td>
<td>-$60,814.3</td>
<td>-$32,380.6</td>
<td>-$11,380.3</td>
<td>$58,506.7</td>
<td>$291,329.9</td>
</tr>
<tr>
<td>Plus: Depreciation &amp; Amortization</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
<td>$5,000.0</td>
</tr>
<tr>
<td>Less: Capital Expenditures</td>
<td>$ 5,000.0</td>
<td>$ 5,000.0</td>
<td>$ 5,000.0</td>
<td>$ 5,000.0</td>
<td>$ 5,000.0</td>
</tr>
<tr>
<td>Less: Increase in Net Working Capital</td>
<td>$ 4,000.0</td>
<td>$ 4,000.0</td>
<td>$ 4,000.0</td>
<td>$ 4,000.0</td>
<td>$ 4,000.0</td>
</tr>
<tr>
<td>Unlevered Free Cash Flow</td>
<td>-$64,814.3</td>
<td>-$36,380.6</td>
<td>-$15,380.3</td>
<td>$54,506.7</td>
<td>$287,329.9</td>
</tr>
<tr>
<td>WACC</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Discount Period</td>
<td>0.5</td>
<td>1.5</td>
<td>2.5</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Discount Factor</td>
<td>0.91</td>
<td>0.76</td>
<td>0.63</td>
<td>0.53</td>
<td>0.44</td>
</tr>
<tr>
<td>Present Value of Free Cash Flow</td>
<td>-$59,167.07</td>
<td>-$27,674.11</td>
<td>-$9,750.18</td>
<td>$28,794.91</td>
<td>$126,492.61</td>
</tr>
</tbody>
</table>

Figure 2: Enterprise Valuation

<table>
<thead>
<tr>
<th>Enterprise Value</th>
<th>Cumulative Present Value of FCF</th>
<th>$58,696.2</th>
</tr>
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<tbody>
<tr>
<td>Terminal Value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terminal Year EBITDA (2020E)</td>
<td>$421,186</td>
<td></td>
</tr>
<tr>
<td>Exit Multiple</td>
<td>12.00x</td>
<td></td>
</tr>
<tr>
<td>Terminal Value</td>
<td>$5,054,226</td>
<td></td>
</tr>
<tr>
<td>Discount Factor</td>
<td>0.40</td>
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<tr>
<td>Present Value of Terminal Value</td>
<td>$2,031,180</td>
<td></td>
</tr>
<tr>
<td>% of Enterprise Value</td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>$2,089,876.3</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: PayPal Adaptive Payments API

Figure 1: Overview

Adaptive Payments API

Overview

With the Adaptive Payments API, merchants and developers can create applications that manage payments, payment pre-approvals, and refunds. Merchants and developers also can send money peer-to-peer, and can split payments in both parallel and chained models. The Adaptive Payments API is robust enough to support numerous use cases, including distributing payroll online, managing a storefront for physical or digital goods, and tracking payments of group dues. Learn more about the use cases supported by Adaptive Payments and how to get started.

Figure 2: Fee Schedule

U.S. fees

There are no set-up costs, monthly minimums, cancellation charges, or monthly fees. Transaction fees are calculated as follows.

<table>
<thead>
<tr>
<th>Monthly sales</th>
<th>Your fee per transaction</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $3,000</td>
<td>2.9% + $0.30</td>
<td>$3.20 fee on a $100 sale</td>
</tr>
<tr>
<td>$3,000+ – $10,000</td>
<td>2.5% + $0.30“</td>
<td>$2.80 fee on a $100 sale</td>
</tr>
<tr>
<td>$10,000+</td>
<td>2.2% + $0.30“</td>
<td>$2.50 fee on a $100 sale</td>
</tr>
<tr>
<td>$100,000+</td>
<td>For details, call 800-514-4920.</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3: Chained Payments39

39 “Adaptive Payments.”
Appendix C: Estimates and Assumptions

Figure 1: Market Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>SoundClick Producers</td>
<td>150,000</td>
<td>*Number of approved SoundClick &quot;Instrumentals&quot; artists</td>
</tr>
<tr>
<td>BeatStars Producers</td>
<td>150,000</td>
<td>*50% of homepage statistic for number of BeatStars users</td>
</tr>
<tr>
<td>SoundCloud Producers</td>
<td>600,000</td>
<td>*Estimating 2x as many SoundCloud producers as SoundClick and BeatStars</td>
</tr>
<tr>
<td>Total Producers</td>
<td>750,000</td>
<td>*Assuming 50% of SoundClick and BeatStars producers also use SoundCloud</td>
</tr>
<tr>
<td>Average Lease</td>
<td>$23.78</td>
<td>*Using sample of 1000 data points from SoundClick and BeatStars</td>
</tr>
<tr>
<td>Average Exclusive</td>
<td>$268.82</td>
<td>*Using sample of 1000 data points from SoundClick and BeatStars</td>
</tr>
<tr>
<td>Leases Per Seller Per Year</td>
<td>24</td>
<td>Estimate</td>
</tr>
<tr>
<td>Exclusives Per Seller Per Year</td>
<td>2</td>
<td>Estimate</td>
</tr>
<tr>
<td>Total Market</td>
<td>$831,224,577.25</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Share</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1%</td>
<td>$83,122.46</td>
</tr>
<tr>
<td></td>
<td>2%</td>
<td>$166,244.92</td>
</tr>
<tr>
<td></td>
<td>3%</td>
<td>$249,367.37</td>
</tr>
<tr>
<td></td>
<td>5%</td>
<td>$415,612.29</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>$831,224.58</td>
</tr>
</tbody>
</table>

* Model only accounts for market share growth, not overall market growth
** Model uses 1% commission rate to calculate revenues
Figure 3: Costs

<table>
<thead>
<tr>
<th>Cost of Sales</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development &amp; Design</td>
<td>$50,000</td>
</tr>
</tbody>
</table>
| Web Services                 | $20,000 *
| Total                        | $70,000 |

Selling, General & Administrative Costs

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Google AdWords</td>
<td>$25,000 *Approximately 50 engagements per day at $1.35 CPC average</td>
</tr>
<tr>
<td>Facebook Ads</td>
<td>$18,250 *Approximately 100 engagements per day at $.50 CPC average</td>
</tr>
<tr>
<td>Twitter Promoted Posts</td>
<td>$25,000 *Approximately 50 engagements per day at $1.35 CPC average</td>
</tr>
<tr>
<td>Legal Consultation</td>
<td>$31,750</td>
</tr>
<tr>
<td>Total</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Appendix D: SoundCloud API

Figure 1: Overview

Using the SoundCloud API, you can build applications that take sound on the web to the next level. With this guide we explain and provide code examples for many common integration use cases like playing and uploading sounds or how to take advantage of SoundCloud's many social features. If you're looking for more in depth information, feel free to jump to our API Reference.

Figure 2: Acceptable Use

Acceptable Use

Only the following commercial uses are acceptable:

- the sale of an app, the primary purpose of which is the creation of User Content and the sharing of that content by the creator;
- the use of the SoundCloud® API to deliver User Content to the Uploader's own ad-enabled website, blog or social media profile;
- services aimed at helping a user to promote his/her User Content via authenticated access to the user account, provided this does not constitute a breach of the User Terms; and
- other cases that SoundCloud may approve on a case by case basis (email us at api@soundcloud.com if you have an additional commercial use that you'd like us to consider).

Appendix E: SoundCloud Copyright Infringement Notice

Hi Captain,

Our automatic content protection system has detected that your track:

"Ghetto (Prod Chris Williams)"

may contain copyrighted content. As a result, your track has been removed from your profile for the time being.

*Wait SoundCloud, I think I have the rights to this!*

If you think we’ve made a mistake, you can tell us about it by following the link below and filing a dispute.

You can file a dispute if you have the rights to post this to SoundCloud - for example, because you are the copyright owner or have permission from the copyright owner(s).

If either of these things apply to you, tell us about it here: https://copyright.soundcloud.com/dispute/soundcloud:disputes:17235323.

To learn more about copyright, please visit our copyright information page.

Thank you,

The SoundCloud Copyright Team
Appendix F: Sample Music License Agreement

PRODUCER OF TRACKS
NON-EXCLUSIVE LICENSE

The following shall constitute an Agreement ("Agreement") on this the _____ day of ____________ 20___ between __________________________ ("Licensee") and d/b/a ____________ Productions ("Producer"). The terms of this Agreement are as follows:

1. LICENSE: Producer is the owner of a master recording ("Master") titled "_________________" the music of which was composed by Producer ("Music"). Producer by this Agreement hereby grants to Licensee a non-exclusive license to use the Master and Music for the purpose of adding lyrics to the existing Music and creating a new recording ("New Recording") of a song ("Song") performed by the artist known as _______________ ("Artist") for the specific use of manufacturing, distributing and selling records ("Records") embodying the New Recording.

2. RIGHTS GRANTED: Producer hereby grants to Licensee the following right subject to the following:

a. The right to manufacture, distribute, sell, advertise, publicly perform and broadcast on a non-exclusive basis, Records containing the performance embodied in the Masters made hereunder.

b. The right to add lyrics to the existing Music and creating a song ("Song") to be owned by Producer and by the writer of lyrics added to the Music. Licensee shall have the right to record the Song and create a New Recording embodying the Song. Licensee shall not have the right to alter, adapt, change or remix the Master or Music without Producer's written approval.

c. The right to use the names, approved likeness and approved biography of Producer in connection with the advertising, publicizing or sale of Records manufactured, distributed and sold.

d. Producer has the right to license and lease the Master and Music to other third parties on a non-exclusive basis.

e. Any rights not specifically granted and set forth in this License are hereby reserved by the Producer.

3. DELIVERY: Upon receipt of payment by Licensee, Producer shall deliver to Licensee a fully mixed and equalized Master in an acceptable audio format such as CDR or MP3, WAV file, etc., commercially satisfactory to Licensee for use on a record ("Record").

4. COMPENSATION: Licensee shall pay Producer the amount of ___________ Dollars ($__________) for the rights granted in this Agreement. This amount shall cover the manufacturing, distribution and sale of one thousand (1,000) Records. In the event additional Records are manufactured, distributed or sold, Licensee shall pay to Producer the royalty set forth in the paragraph titled Royalties.

5. RIGHTS IN MASTER RECORDING: Each Master licensed under this Agreement shall be owned by Producer and Producer shall have the exclusive right to claim ownership of and register the copyright to those Masters in his name as the owner and author of them and to secure any and all renewals and extensions of such copyright.

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