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BACKGROUNDER

The eMusic Story

eMusic is a digital entertainment retailer focused on serving customers aged 25 and older. The service offers a vast selection of independent music and audio books in a universally compatible file format at great value. eMusic is the world's largest retailer of independent music and the world's second-largest digital music retailer overall, with more than 3.5 million tracks from over 33,000 independent labels and more than 2,000 titles from top audio book publishers.

A subscription-based service that allows consumers to own, not rent, their entertainment, eMusic is the largest service to sell music -- and the first service to sell audio books -- exclusively in the popular MP3 format. (MP3 is the only digital format that is compatible with all digital audio devices, including the iPod® and Zune ®.) eMusic targets and successfully direct-markets to consumers who are sophisticated, tech-savvy and knowledge-hungry, dramatically expanding the sale of catalogue widely known as "the long tail." Since Dimensional Associates acquired eMusic in 2003, the company has more than tripled its subscriber base and sold more than 200 million downloads.

Dimensional Associates is the operating company that manages private equity investments made by JDS Capital. In 2003, Dimensional purchased eMusic from VU Net USA, which bought the company in 2001. The groundbreaking digital music retailer was originally founded as GoodNoise in 1998 by entrepreneurs Gene Hoffman and Bob Kohn and was the first company to sell digital music in the MP3 format. It was renamed eMusic in 1999 and launched the world's first digital music subscription service in 2000.

The eMusic Experience

eMusic caters to music and book lovers of all types in the underserved 25-54 demographic. It does so by cultivating a vast catalogue from the world's top independent labels and audio book publishers that spans every conceivable musical and literary genre, by offering unrivaled discovery tools, and by providing tracks in a high-quality MP3 format (192 Kbps VBR for music and 64 Kbps for books) with no DRM (digital rights management). It all adds up to a pro-consumer experience that gives subscribers the ultimate in flexibility and ample opportunities to discover new, exciting music and books.

eMusic sells all of its content in MP3, the digital music format used by hundreds of millions of consumers and the only one that offers all the functions of physical music products such as the CD. The MP3 format allows consumers to play tracks on any device, burn CDs and make as many copies as they like for personal use.

eMusic focuses on selling music beyond the commercial mainstream in every genre, including rock, jazz, comedy, hip-hop, blues, classical, country, folk, children's music, electronic, world, reggae and more. Unlike so much of today's commercial Top 40, independent music is simply about great music. Top independent artists include familiar names such as Johnny Cash, Ray Charles, Miles Davis, Bob Marley and Creedence Clearwater Revival, legendary mavericks such as the Pixies, Lucinda Williams and Black Flag, and breaking new artists like Spoon, the New Pornographers and Ying Yang Twins.

eMusic has deep relationships with the world's most innovative independent record labels, enabling it to offer cutting-edge music to its subscribers on or before release date. eMusic's label roster includes top sellers like Concord Music Group, Koch, Naxos and Beggars Group, and other well-known independents such as Touch and Go, Merge, Sun, Cooking Vinyl, Fantasy, Bloodshot, Blood and Fire, TVT, Nettwerk, Thrill Jockey, Fat Possum, Razor & Tie, Six Degrees, SST, Smithsonian Folkways, Stones Throw and more.

To satisfy eMusic's intellectual customer, the website's newly launched audio books catalogue includes more than 2,000 titles spanning top-selling fiction and non-fiction, biography/memoir, mystery, history, business, politics, science language instruction, self-help, and children's books. Among them are notable books narrated by well-known voices such as: Michael Ondaatje's *The English Patient*, read by Ralph Fiennes; Shakespeare's *Hamlet*, read by Sir John Gielgud; Henry James' *A Portrait of A Lady*, read by Elizabeth McGovern; Nicola Kraus's *The Nanny Diaries*, read by Julia Roberts; and Barack Obama reading his own books, *Dreams of My Father* and *The Audacity of Hope*. eMusic has cultivated relationships with major publishers such as Blackstone Books, Hachette, Naxos, Penguin and Random House, with more to come.

To help consumers navigate this wide-ranging catalogue, eMusic provides award-winning editorial created by a staff of more than 200 of the best music and book journalists around the world. The web site includes the music and book Review of the Day, regular columns in every genre, a wide variety of features, the popular eMusic Dozen -- which is a brief overview of a genre, era, place or artist, followed by concise, insightful reviews of the 12 best eMusic albums fitting the topic -- and now, the eMusic Bookshelf, a similar feature on books.

Other music discovery tools include the eMusic Toolbar, which offers members a free MP3 download every day, and puts Internet search and quick search of eMusic's vast music catalogue at users' fingertips. On the eMusic site, "Neighbors," "Friends" and "Playlists" features allow members to share their music discoveries with each other, and eMusic provides powerful technology that analyzes members' download histories and ratings to suggest playlists and personalized recommendations of new arrivals. Members can further customize their eMusic experience by developing their own PowerCharts™ and subscribing to genre-specific newsletters.

eMusic is a subscription-based service, allowing members to download tracks for substantially less than they would pay with other download services. Various pricing plans allow customers to pay as little as 33 cents per track or \$9.99 per book, encouraging them to sample new artists and authors and as a result, purchase more entertainment — eMusic customers typically buy more than 20 music tracks per month, while iTunes® users average only between one and two tracks per month.

Executive Management

eMusic's finely tuned user experience is the product of seasoned music, book, direct marketing, product development and technology experts. eMusic President and CEO David Pakman is a pioneering digital music entrepreneur, having co-founded digital music "locker" company

Myplay, Inc. (acquired by Bertelsmann), held senior positions with BeMusic/Bertelsmann, N2K Entertainment, and served as a co-creator of Apple Computer's Music Group. The rest of the eMusic staff includes more than ten actively recording and gigging musicians, as well as industry veterans who've worked closely with a variety of artists including Bobby McFerrin, Ornette Coleman, Ben Folds and the Donnas and who have contributed to the success of BMG Music Service, Earthlink, Yahoo! Audible, CDNOW, Real Networks, Infoseek and Microsoft.

Value to Labels and Partners

eMusic is a superior partner for independent labels and publishers, enabling them to introduce new bands and authors to an audience that is eager to sample new works. The eMusic subscription model and low consumer price point help labels and publishers increase the sales of non-mainstream, niche and "long tail" titles.

eMusic actively works with consumer-facing companies to develop customized digital music strategies for their customers. Current major marketing partners include AT&T, Audiovox (formerly Thomson Multimedia), Avis, Circuit City, CompUSA, Netflix, Lloyds TSB and SanDisk.

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