



D I S T R I B U T I O N

21700 Oxnard Street, Suite 700
Woodland Hills, CA 91367-3642

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Vice President, Marketing/Sales

(818) 587-4020
Fax (818) 999-9906

March 1, 1993

To: Distribution *JM*

Due to the many changes in our CEMA Sales Policy Handbook since the last update, we have rerun the whole book. Therefore the old data in your handbook is obsolete. Please replace it with the attached material.

If you have any questions, please call.

Distribution:

CEMA Branch Managers (10 sets enclosed)

Bach, Russ

Callahan, Kathy

Fox, Phil

Jackson, Mark

Kleinhandler, Joe

Kolitz, Jim

Kronemyer, Dave

Marlow, Stu

O'Shea, Bud

Reese, Paul

Roden, Michael

Rosenblatt, Steve

Saadi, George

Schuster, Steve

Simons, Scott

Singer, Bob

Snyder, Sue

ANGEL:

Gilbert Hetherwick

BARKING PUMPKIN: Mark Holden

BLUE NOTE: Saul Shapiro

CAPITOL: Lou Mann / George Nunes

CURB: Dennis Hannon

DCC/SANDSTONE: Del Costello

EMIRG: Bob Cahill / Phil Blume

IRS: Barbara Bolan

LATIN: Dave Palacio

LIBERTY: Bob Freese

SPARROW: Bill Hearn

VIRGIN: Joyce Castagnola

JM:vd

CEMA
SALES POLICY
HANDBOOK

March 1993 Edition

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INTRODUCTION

This CEMA Policy Handbook is a concise summary of current CEMA practices and procedures. It does not constitute, nor should it be interpreted as, any form of express contract or implied agreement between CEMA and its customers. CEMA retains the prerogative to modify or revoke the contents of this manual at any time, in CEMA's sole discretion.

CEMA HOME OFFICE

21700 Oxnard Street, Suite 700
Woodland Hills, California 91367-3642

(818) 587-4000

Fax: (818) 999-9906 (Executive, Marketing & Operations)

Fax: (818) 999-9505 (Finance & Credit)

DISTRIBUTION CENTERS

JACKSONVILLE

500 Capitol Way
Jacksonville, IL 62650

or

P.O. Box 579
Jacksonville, IL 62651
(217) 243-8661
(800) 637-7454
(800) 468-2362
Fax: (800) 288-2362
or (800) 322-5297
Fax inside Illinois:
(217) 243-1207

LOS ANGELES

3116 West Avenue 32
Los Angeles, CA 90065
(213) 257-8224
Order Desk: (800) 421-0132
Customer Service: (800) 255-9302
or (800) 255-9298
Fax: (213) 255-3392
or (800) 233-9823
IT Fax: (213) 341-5801
Fax inside California:
(800) 451-2800
IMR Fax: (213) 341-5675

GREENSBORO

4229 Beechwood Drive
Greensboro, NC 27410
(919) 854-2272
(800) 452-5665
Order Desk: (800) 441-2362
Customer Service: (800) 242-4813
Fax: (800) 448-7322
IMR Fax: (919) 299-5716
Credit Fax: (919) 299-6876

RETURNS CENTER

500 Capitol Way
Jacksonville, IL 62650

or

P. O. Box 579
Jacksonville, IL 62651

(217) 243-8661
(800) 637-7454
(800) 468-2362
Fax: (800) 288-2362

or

(800) 322-5297
Fax inside Illinois:
(217) 243-1207

or

(217) 243-6804

CREDIT SERVICES

NATIONAL CREDIT

21700 Oxnard Street, Suite 700
Woodland Hills, CA 91367-3642
(818) 587-4158
Fax: (818) 999-9505

Scott Simons
Gail Grimes

WESTERN CREDIT

3116 West Avenue 32
Los Angeles, CA 90065
(213) 341-5850
Fax: (213) 341-5813

Janet Fellner

CENTRAL CREDIT

513 Capitol Way
Jacksonville, IL 62650
or
P.O. Box 579
Jacksonville, IL 62651
(217) 243-3579
(800) 637-7454
(800) 468-2362
Fax: (800) 288-2362
or (800) 322-5297
Fax inside Illinois: (217) 243-6704

Grant Kottmeyer

NORTHEASTERN CREDIT

3 University Plaza, Suite 604
Hackensack, NJ 07601
(201) 801-9252

Phil Dailey

SOUTHEASTERN CREDIT

4229 Beechwood Drive
Greensboro, North Carolina 27410
(919) 854-3699
Fax: (919) 299-6876

Chris Serlin

BRANCH OFFICES

NEW YORK

3 University Plaza, Suite 604
Hackensack, NJ 07601
(201) 342-4900
(800) 524-0487
(201) 342-2319

BM: Gene Rumsey
SM: Joe Pszonek
FSM: Leo Geiger
BMM: Suzanne Fitzsimmons

WASHINGTON, D.C.

14502 Greenview Dr., Suite 100
Laurel, MD 20708
(301) 369-4194
(301) 369-4190
Fax: (301) 369-4198

BM: Kathy Aderman
SM: Gregg Vickers
BMM: Kim Longnecker

ATLANTA

3500 Parkway Lane, Suite 100
Norcross, GA 30092
(404) 447-0940
(800) 476-2327
Fax: (404) 449-4742

BM: Jerry Brackenridge
SM: Dave Womack
BMM: Jim Spencer

CHICAGO

145 East Algonquin Road
Arlington Heights, IL 60005
(708) 806-5000
Fax: (708) 806-6077

BM: Dave Witzig
SM: Paul Wittcoff
BMM: Risa Bridges-Hall

CLEVELAND

17851 Jefferson Park Dr.
Suite 102
Middleburg Heights, OH 44130
(216) 826-1118
Fax: (216) 826-1363

BM: Mike Greene
SM: Mickey Paterniti
BMM: Karen Bordner

DALLAS

1231 Greenway Dr., Suite 300
Irving, TX 75038
(214) 580-1700
(800) 527-9478
Fax: (214) 550-8353

BM: Tom Tilton
SM: Mark Wheeler
BMM: Grant Spofford

LOS ANGELES

111 N. First St., Suite 200
Burbank, CA 91502
(818) 563-6300
Fax: (818) 563-2410

BM: Vyto Lazauskas
SM: Ed Maxin
BMM: Joy Feuer

SAN FRANCISCO

1115 Atlantic Ave., Suite 102
Alameda, CA 94501
(415) 865-8441
Sales Fax: (415) 865-8469
Promo Fax: (415) 769-2143

BM: Terry Sautter
SM: James (Fuzzy) Swing
BMM: Karen Roth

NATIONAL ACCOUNTS OFFICES

MINNEAPOLIS

10800 Lyndale Ave. South
Suite 297
Bloomington, MN 55420
(612) 884-0444
(800) 727-2362
Fax: (612) 884-8527

Bruce Gearhart

DETROIT

36461 Grandon
Livonia, Michigan 48150
(313) 525-4222
(313) 525-2678 (home)
Fax: (313) 425-5866

Len Mardeusz

SATELLITE OFFICES

SEATTLE (reports to San Francisco Branch)

1818 Westlake Ave. North
Suite 228C
Seattle, WA 98109
(206) 284-3928
Fax: (206) 282-3817

BOSTON (reports to New York Branch)

600 West Cummings Park
Suite 1750
Woburn, MA 01801
(617) 932-0409
Fax: (617) 932-3886

PHILADELPHIA (reports to Washington, D.C. Branch)

1034 Laurel Oak Road
Suite 4
Vorhees, NJ 08043
(609) 854-3775
Fax: (609) 858-6520



NEW ACCOUNTS

CEMA retains the prerogative to service or not to service any customer, in CEMA's sole discretion. While it is not conclusive, one of the primary factors that CEMA uses in deciding whether or not to open, or to continue servicing any customer, is if the volume of business expected from that customer warrants the cost of opening and servicing the account.

Sales representatives should apply to Credit Services to receive account numbers for new stores opened by a current CEMA customer.

CREDIT

The decision to extend credit to a prospective customer is made by CEMA Credit Services in consultation with CEMA branch management. This decision is made after investigation and analysis of the credit history, financial condition and sales potential of the prospective customer. CEMA reserves the prerogative in its sole discretion to extend or deny credit to any customer, and to set credit limits, based upon such factors that CEMA deems pertinent.

If shipment of goods to a customer is delayed because that customer is on "credit hold" or "credit referral", as a result of which shipment occurs after the expiration of a discount program, the customer is not entitled to the program price.

Following this page is a copy of CEMA's current form of customer application and related documents.

BOTH SIDES MUST BE COMPLETED IN FULL
PLEASE TYPE OR PRINT

B
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L
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N
G

A
D
D
R
E
S
S

Legal Name of Business:

Doing Business As (DBA):

Street Address:

City, State, Zip Code:

Financial Contact:

NAME	TITLE	TELEPHONE
		()

Purchasing Contact:

NAME	TITLE	TELEPHONE
		()

Have you purchased from CEMA or other company affiliated with Capitol-EMI Music, Inc. before? Yes No If yes, when? _____
Year

Name of Business Unit _____ Account # _____

Return to:

CEMA DISTRIBUTION
Attention: Credit Services
1750 North Vine Street
Hollywood, California 90028

**THE INFORMATION BELOW IS FOR THE CONFIDENTIAL USE OF CREDIT SERVICES ONLY
THIS SECTION MUST BE COMPLETED IN FULL**

OWNERSHIP:

Corporation: State of Incorporation _____ Date _____ Sole Proprietor Partnership
Federal Tax I.D. or Social Security No. _____ Year Business Started _____

IF CORPORATION:

1. Name & Title of Chief Executive Officer _____
2. Is Corporation a Division or Subsidiary ? If a subsidiary, name of Parent Corporation _____

IF SOLE PROPRIETOR OR PARTNERSHIP, please list Principal(s) (Attach Additional Sheets If Needed):

1. Full Name _____
Home Address _____ Telephone () _____
City, State, Zip Code _____

2. Full Name _____
Home Address _____ Telephone () _____
City, State, Zip Code _____

BANK REFERENCES:

<p>1. Bank Name _____ Address _____ City, State, Zip _____ Telephone () _____ Contact/Title _____ Type of Account: Checking Acct. # _____ Loan Acct. # _____</p>	<p>2. Bank Name _____ Address _____ City, State, Zip _____ Telephone () _____ Contact/Title _____ Type of Account: Checking Acct. # _____ Loan Acct. # _____</p>
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TRADE REFERENCES:

<p>1. Name _____ Address _____ City, State, Zip _____ Telephone () _____ Contact/Account # _____</p>	<p>2. Bank Name _____ Address _____ City, State, Zip _____ Telephone () _____ Contact/Account # _____</p>
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ATTACH COPIES OF MOST RECENT INTERIM AND ANNUAL FINANCIAL STATEMENTS

HAS THE APPLICANT EVER FILED A PETITION FOR BANKRUPTCY? YES NO IF YES, WHEN? _____
AMOUNT OF CREDIT LINE REQUESTED: _____

THIS APPLICATION IS SUBJECT TO CEMA DISTRIBUTION'S TERMS AND CONDITIONS OF SALE. APPLICANT AUTHORIZES CEMA DISTRIBUTION TO OBTAIN CREDIT INFORMATION FROM ANY CREDIT SOURCE.

Applicant's Name (Please Print)	Applicant's Signature	Title	Date
---------------------------------	-----------------------	-------	------

FOR CEMA DISTRIBUTION USE ONLY			
Approved by Branch Manager	Date	Approved by Credit Manager	Date

BOTH SIDES MUST BE COMPLETED IN FULL

1. Legal name of business: _____

2. Please check the ONE category below that best describes your business:

A. **PURE SUBDISTRIBUTOR**

My business stocks product for wholesale redistribution to retailers. It does not sell product at retail. It does not own (and is not affiliated by ownership with) any business selling product at retail.

B. **PURE RETAILER**

My business retails product to consumers only. It does not wholesale product to retailers. It does not own (and is not affiliated by ownership with) any business selling product at wholesale.

C. **PARTIAL SUBDISTRIBUTOR**

My business in part wholesales product to retailers with which my business has no ownership affiliations. It also retails product through outlets owned by (or affiliated by ownership with) my business.

Please set forth your retail versus wholesale sales mix for the last 12 months:

Retail _____ %

Wholesale _____ %

3. Please list all shipping locations below:

A
D
D
R
E
S
S
1

Attention:

Street Address:

City, State, Zip Code:

A
D
D
R
E
S
S
2

Attention:

Street Address:

City, State, Zip Code:

A
D
D
R
E
S
S
3

Attention:

Street Address:

City, State, Zip Code:

A
D
D
R
E
S
S
4

Attention:

Street Address:

City, State, Zip Code:

(Please attach additional sheets if necessary)



In order to avoid charging sales tax on sales made to you, we must have in our files acceptable evidence that such sales are for resale. Therefore, please sign and return the attached resale certificate.

Sincerely,

CEMA DISTRIBUTION

BLANKET RESALE CERTIFICATE

WE HEREBY CERTIFY: That we hold seller's permit (registration) No. _____ issued pursuant to the sales tax laws; that we are engaged in the business of selling _____.

That the compact discs and related materials we shall purchase from Cema Distribution, a division of Capitol-EMI Music, Inc. will be resold by us; PROVIDED, however, that in the event any of such property is used by us we will pay the tax.

Purchaser _____

Address _____

City _____

Authorized Signature _____

Title _____

Date _____

Form 3192-CS/HW (10/90)

CUSTOMER CLASSIFICATIONS

Upon being opened as an active CEMA account, each customer will be assigned a customer classification code. CEMA presently has three types of customers: wholesalers, retailers, and customers whose business comprises both wholesale and retail operations. In this latter case, the customer will be asked to identify that percentage of its business that is wholesale or retail.

From time to time, CEMA may offer programs that are available to one class of customers but not another.

ORDER PLACEMENT

CEMA's Distribution Centers endeavor to fulfill all customer orders in a timely and efficient manner. While they will vary depending upon many factors, CEMA's current service targets are:

Box Lots: will be picked, packed and shipped within two days following order placement.

Loose Pick: will be picked, packed and shipped within three days following order placement.

Centrally-Located Product: will be picked, packed and shipped within two days following order placement.

MINIMUM ORDER POLICY

The minimum order quantity for cassettes and CDs is 25 units per order, *i.e.*, a single order may be comprised of a mixed quantity of cassettes and CDs, so long as it comprises at least 25 units overall. The minimum order quantity per order for video product is 10 units. CEMA will not accept individual orders for less than this amount. While Angel product and singles (all configurations) are excluded from this policy, it does apply to Capitol/EMI Latin.

LOOSE HANDLING CHARGE

CEMA's box-lot price will be charged for all orders of a standard factory pack. A loose handling charge will be imposed on all orders in less than full box-lot quantities (including those for video products), with the exception of Angel product and singles product, which is exempt from loose handling charges.

CEMA is not able to accommodate a customer requesting that an order not be filled or back-ordered unless we can ship a full box lot, so as to avoid the assessment of a loose handling charge.

NEW RELEASE SHIPPING

CEMA will endeavor to ship all new release product in order to arrive in store on or before street date. Early delivery may be requested (*e.g.*, by a one stop), however any decision to grant early delivery remains in the discretion of CEMA's branch management.

Orders for new releases must be in by 4:00 PM on the order due date in order to maximize the likelihood of shipment by street date.

The Distribution Centers will ship late orders for new releases only if sufficient inventory remains on hand after servicing those customers with orders in house by the order due date.

Customers violating CEMA's published "street date" for new release shipments may be subjected to penalties established by CEMA in its sole discretion, including delayed shipping of subsequent new releases.

INFORMATION TECHNOLOGY ISSUES

EDI is an abbreviation for Electronic Data Interchange. It is a method by which a customer's computer communicates directly with CEMA's computer to place sales orders. EDI replaces slower methods for communicating information, such as calling the order in by telephone or sending a fax. Because relevant data only is entered once, EDI also reduces errors. For these reasons, CEMA encourages greater customer use of EDI. If you have a customer that you believe would benefit from EDI, please so advise your sales manager.

From time to time a CEMA Customer may request a computer tape of CEMA's catalog. Please direct all such requests to the Information Technology Group at CEMA's National Office.

ALLOCATIONS

From time to time it may become necessary for the Distribution Centers to allocate new release or "hot" product. Typically this occurs only when customer demand for a given title exceeds a label's current inventory. CEMA has an allocation program that evaluates a number of factors in determining priority for shipment. In order to become a candidate for timely and complete shipment, a customer should place its order as soon as possible, and in any event not later than 4:00 PM on the order due date.

BACK ORDERS

From time to time it may become necessary to back order product due to insufficient inventory availability. Back orders will ship as and when the product ordered becomes available. Back orders are not subject to CEMA's minimum order policy.

Loose handling charges do not apply to back orders for less than full box-lot quantities unless the order giving rise to the back order was for less than a full box-lot quantity, in which case a loose handling charge will be assessed.

CEMA will cancel any back order that it is unable to fill after 45 days, except for new release product, which will be cancelled after 60 days.

CUSTOMER SERVICE

Each Distribution Center has a Customer Service Department. Customers and sales representatives can reach the Customer Service Department for their DC by calling the following "800" numbers:

Jacksonville: (800) 637-7454
(800) 468-2362

Los Angeles: (800) 255-9302
(800) 255-9298

Greensboro: (800) 242-4813

All Customer Service inquiries regarding Angel product or any other centrally-located product should be routed to Greensboro.

The Customer Service Department handles mis-shipments and order discrepancies. The following information is required by Customer Service in order to take action:

1. Account name and number
2. Contact name (person calling with problem)
3. Phone number
4. Invoice number on which error occurred
5. Date on order document
6. Date received
7. Problem with the shipment.

Mis-shipments must be reported within five working days of the customer's receipt of the shipment. Mis-shipments reported after that date must be handled as a regular return. If a mis-shipment involves less than 25 units, it must be handled as a regular return

Customer Service at each DC is prepared to handle all inquires regarding the status of particular orders, mis-shipments, or product availability. Inquiries regarding returns should be directed to the CEMA Returns Center located in Jacksonville, Illinois. Inquiries regarding Credit or account status should be directed to the appropriate Credit Services office.

TERMS OF SALE

The following is CEMA's Terms of Sale as printed on the back of CEMA's customer invoice:

1. The accompanying invoice and these terms of sale comprise the entire agreement between the parties with respect to the shipment made pursuant hereto. Fulfillment in response to customer's purchase order does not constitute acceptance of any terms of sale set forth thereon.

2. CEMA's box-lot price will be charged for all orders of a standard factory pack. A loose handling charge will be imposed on all orders in less than full box-lot quantities, with the exception of Angel product and singles product, which are exempt from loose handling charges.

3. All orders will be fulfilled within a reasonable time after receipt of customer's purchase order by CEMA's distribution center, and are subject to availability of finished goods. CEMA may make partial or multiple-lot shipments.

4. All shipments are C.F. F.O.B. CEMA's distribution center, *i.e.* CEMA pays freight from its distribution center to customer's loading dock, and risk of loss transfers to customer upon CEMA's consignment of the shipment to carrier. All sales are final upon shipment, and title passes to customer on delivery to carrier. In the event goods are damaged in transit, customer is advised to file a claim with carrier. CEMA does not undertake to furnish customer with carrier's proof of delivery ("P.O.D.") to customer.

5. Sales, use or similar taxes shall be payable by customer to CEMA when applicable. Customers not supplying a resale tax certificate to CEMA will be charged all applicable taxes.

6. Terms are 2% 15th *prox.* plus 30, net 25th (net 60 for CEMA Special Markets and ancillary lines). Any line of credit granted to customer shall be subject to advance approval by CEMA's Credit Department, which approval shall be subject to change from time to time. CEMA reserves the right not to ship an order if customer's credit history is unsatisfactory, or to require cash payment in advance of shipment.

7. In the event that goods are non-conforming, customer promptly shall advise CEMA in writing. For this purpose, "non-conforming" excludes consumer- defective items. All claims must be submitted within ten (10) days following customer's receipt of the goods. CEMA's sole responsibility for non-conforming goods shall be limited to replacement of the defective product, or crediting customer for customer's actual purchase cost, at CEMA's election. In no event shall CEMA be liable for any other actual or consequential damages that customer may sustain or

incur, including, but not limited to, lost revenue or profits. All warranties, express or implied, including warranties of merchantability and fitness for a particular purpose, are disclaimed. CEMA may change the technical specifications for product without approval by, or notice to, customer.

8. Except for customers that specifically have been qualified to export, all product sold by CEMA is intended for resale only in the United States, its territories and possessions. CEMA reserves the prerogative not to fill orders if it believes (in its sole discretion) that the product will be exported without CEMA's prior written authorization.

9. CEMA reserves the right to change prices, discounts, customer classifications, customer eligibility criteria and other terms of sale from time to time, without notice to customer. CEMA's waiver of any provision hereof shall not be deemed a waiver of any other provision.

CUSTOMER ADVERTISING POLICY

CEMA supports customer advertising in newspapers, on radio or television, or through point of purchase materials such as special window and in-store displays. The customer's submission of claims to CEMA pursuant to this policy shall constitute its acceptance of the policy, and agreement to abide by all of the terms and conditions set forth herein.

To become eligible for customer advertising, the customer first must receive an official advertising commitment from Pinpoint Marketing, CEMA's customer advertising audit firm. Pinpoint's address for obtaining commitment forms and submitting claims is: JAF Box 3167, New York, NY 10016-3167. The advertising commitment assigns a tracking number; specifies how much cost CEMA will support; and the media, artist and dates for which the advertising is authorized. The commitment is based on the customer's prior discussion of its advertising plans with a CEMA Sales Representative. CEMA Sales Representatives, however, do not have authority to commit customer advertising, and customers must wait for the commitment form from Pinpoint before advertising is placed. No claim for customer advertising will be honored without a valid commitment form. Any advertising placed without an official CEMA commitment is done entirely at the customer's expense.

In particular, there is no such thing as a "verbal advertising commitment". If a customer claims credit based on a "verbal advertising commitment" (for example, from a label regional representative), then CEMA will *deny the claim*.

Only after the customer receives the CEMA commitment form may the customer buy the advertising. The advertising must be in conformance with CEMA's written commitment, *i.e.*, in the media, and for the dates authorized. Product, media and dates authorized by CEMA for advertising cannot be changed without CEMA's prior written approval. After it has been run, the customer must submit proof of its actual cost to Pinpoint, at the address set forth above. All claims for reimbursement of advertising costs actually incurred must be in complete, final form and submitted to Pinpoint (together with all required documentation) not later than 90 days from the date upon which the advertising last ran. If a claim is not received prior to this expiration date, the authorization automatically will be canceled, and any claim later submitted will not be honored.

To substantiate its cost, the customer also must submit original media and vendor invoices, together with a copy of CEMA's official advertising commitment. The commitment form is CEMA's prior approval of the customer's advertising, and a copy also must be submitted together with the customer's advertising claim when seeking reimbursement. No claim for customer advertising will be honored without a valid commitment form. Each CEMA label's share of the customer's total advertising cost must be identified. Specific documentation requirements for various media are as follows:

Print: actual full-page tear-sheets for each CEMA label advertised (no photocopies), and media invoice indicating: publication, dates upon which the advertising appeared, size of ad and total cost. Each CEMA label's share of the customer's total advertising cost must be specified on the commitment form.

Radio and TV: station invoice for each CEMA advertising commitment, indicating: label, identity of specific product advertised by artist and title, number of spots, cost per spot and dates and times broadcast (as taken from the official continuity log maintained by the station in compliance with F.C.C. regulations). The invoices should be accompanied by the appropriate ANA/RAB, ANA/TVB or ANA/CAB affidavit form, notarized by the station and showing the broadcast copy. Each CEMA label's share of the customer advertising must be specified on the commitment form.

Mailer or Catalog: copy of the complete piece (actual mailer, catalog, circular, or leaflet), paid printing bills and U. S. government postal receipts for each CEMA label advertised. Alternatively, customers may submit a copy of the complete piece (actual mailer, catalog, circular, leaflet or stuffer) and a signed and notarized statement from the advertiser itemizing: total quantity printed, total cost of printing, how distributed and in what quantities, total cost of distribution and each CEMA label's share of the customer's total costs of the advertising.

Other Forms of Promotion: documentation must conform with requirements to be established by CEMA at the time the advertising is committed.

Additional Documentation: for all media, CEMA reserves the right to require substantiation in addition to that set forth.

If CEMA product is advertised together with that of other distributors, then CEMA will issue credit only for that portion of the advertising that is devoted to CEMA products. CEMA will not honor any claim for advertising that contains material error, improper label identification, or does not prominently feature the product for which the advertising was authorized. In no event will CEMA pay any claim not featuring CEMA products at least as prominently as those of any other distributor paying the same advertising cost, or for any advertising in which blank tapes or used CDs also are advertised. As a condition of receiving advertising support, CEMA may require the customer to offer advertised product to consumers (or, in the case of wholesalers, their retail customers) at a discounted price. CEMA will not support customer advertising for product that is advertised for sale to consumers at a price that is below CEMA's then-current minimum advertised prices.

CEMA reserves the right not to participate in customer advertising if, in its sole judgment, CEMA determines that the proposed advertising or promotional activity may (a) violate Federal, state or local laws or regulations; (b) is false, misleading or defamatory; or (c) otherwise is harmful or detrimental to CEMA or its labels, to their good will, or to the reputation of their products, personnel or artists.

CEMA will issue credit for the cost of print or broadcast advertising at the lowest local earned contract rates. For other forms of advertising (approved in advance by CEMA), credit will be issued at actual cost, subject to verification by Pinpoint. Costs incurred for advertising exceeding the amount authorized will not be reimbursed. CEMA is entitled to the benefit of any agency discount that may be available. Any preparation costs or production charges incurred are entirely at the customer's expense. Any print advertising set in color without CEMA's prior written approval is entirely at the customer's expense.

After the claim has been processed, CEMA then credits the customer for its substantiated cost. The credit may not exceed the total amount originally authorized by CEMA's written advertising commitment. The customer may use this credit to pay for purchases of any product distributed by CEMA, pursuant to CEMA's then-current terms of sale. Customers not in good credit standing may not be eligible for customer advertising support. Under no circumstances may any customer deduct the cost of advertising from CEMA's invoice before credit has been issued.

MINIMUM ADVERTISED PRICES FOR COMPACT DISCS

While customers may advertise CDs for sale to consumers at any price, CEMA will not support customer advertising for CDs that are advertised for sale to consumers at prices that are *below* the following amounts:

<u>Prefix</u>	<u>Cost</u>	<u>MAP</u>
X	\$10.70	\$11.85
Z	\$10.30	\$10.85
S	\$ 9.14	\$ 9.85
Y	\$ 7.87	\$ 8.85

LOFI

CEMA uses a "LOFI" accounting system for crediting its customers on account of returns. LOFI stands for "last out, first in". LOFI credits CEMA's customer on the return of product with the last price paid by that customer for the title being returned, factoring in all discounts or free goods. This prevents product bought on program from being returned at full price.

RETURNS

CEMA presently credits its customers with a purchase discount upon purchase of product, and debits a returns charge if the product is returned. The purchase discount and returns charge are calculated so that the purchase discount is fully absorbed by the returns charge at a specified returns allowance percentage. Customers returning less than the returns allowance percentage in effect save the difference. CEMA's current purchase discounts, returns charges and returns allowances are as follows:

	<u>Purchase Discount</u>	<u>Returns Charge</u>	<u>Breakeven</u>
<u>Cassettes, CD's, Video and Seasonal</u>			
Wholesale	1.8%	10%	18%
Retail	1.6%	10%	16%
<u>Cassette Singles, CD-5's, 12" Singles</u>			
Wholesale	4.5%	20%	22.5%
Retail	4.5%	20%	22.5%

All vinyl product (12" disc LP albums, 12" singles, and 7" singles) are sold on a "one-way" basis only, *i.e.*, there is no returns privilege.

The following additional rules pertain and are printed on the back of CEMA's returns authorization ("RA") form:

1. No new release product, excluding singles, may be returned until at least 90 days have elapsed since date of shipment. Returns on singles (of any configuration) may be made at any time.
2. Product must be received by CEMA's returns center within 30 days after returns authorization has been issued by a CEMA sales representative.
3. Product designated by CEMA's sales representative as "priority" or "concentration" may not be returned.

4. Counterfeit product, parallel imports and product not sold by CEMA are not eligible for credit. If returned, such product either will be destroyed or sent back (freight collect) by CEMA in its sole discretion.

5. Customers may be issued a returns credit upon their purchase of product and debited a returns charge upon their return of product. The amount of the credit and charge for each type and configuration of product will be determined by CEMA from time to time in its sole discretion.

6. From time to time, CEMA may offer selected product on a "returns exempt" basis. Such selections neither will receive a returns credit nor be assessed a returns charge. LOFI will apply on these selected titles.

7. Customers will be credited for product returned pursuant to CEMA's LOFI accounting system.

8. In order to be eligible for credit, deleted product must be returned within six months after notification, or within such shorter time period that CEMA may establish.

9. Customer may not pre-deduct returns credits from CEMA's statements under any circumstances.

10. CEMA's count of returned product is final.

11. Any product claimed to be defective (as defined in CEMA's Terms of Sale) must be returned with all packaging elements. Even if defective, all returns are subject to returns charges.

12. CEMA reserves the right to modify or amend its returns policy from time to time.

The next page is a facsimile of CEMA's current form of returns authorization.



RETURN AUTHORIZATION

CEMA CUSTOMER RETURNS CENTER

SHIPMENT TO

**CEMA CUSTOMER RETURNS CENTER
#1 CAPITOL WAY
JACKSONVILLE, IL 62650**

CUSTOMER NAME AND ADDRESS

PRODUCT TYPE	AUTHORIZED QUANTITY		
	OVERSTOCK	DEFECTIVE	TOTAL UNITS
7"			
12" SINGLES			
CASS. SINGLES			
12" ALBUMS			
CASSETTE			
CD'S ALL			
MUSIC VIDEO			
		TOTAL UNITS	
		EST. TOTAL \$	

RA # - 24204

DATE AUTH. _____

CUSTOMER ACCOUNT # _____

CEMA SALES TERRITORY # _____

CEMA SALES DISTRICT # _____

SHIP PREPAID

COLLECT

CUSTOMER MUST SHIP BY (DATE) _____

OF CARTONS _____

OF PALLETS _____

CUSTOMER DEBIT MEMO

AUTHORIZED BY

CEMA SALES REP.

**3 COPIES OF THIS DOCUMENT:
CEMA SALES REP (TO MAIL TO CEMA CUSTOMER RETURNS CENTER) — WHITE
PACKING LIST TO ACCOMPANY SHIPMENT — YELLOW
CUSTOMER COPY — PINK**

ANY NON-CEMA DISTRIBUTED PRODUCT OR NON-RETURNABLE PRODUCT WILL BE RETURNED TO CUSTOMER FREIGHT COLLECT

RETURNS MUST BE SENT FREIGHT PREPAID (UNLESS OTHERWISE AUTHORIZED)

RA # MUST APPEAR ON EACH CARTON

INVENTORY STATUS CODES

The Distribution Centers use Inventory Status Codes to designate the disposition of returns and other matters. Inventory Status Codes are assigned by the label that owns the title. Current Inventory Status Codes, and the corresponding action to be taken, are set forth below:

<u>Code</u>	<u>Description</u>
1	The title has been deleted. Returns will be scrapped upon receipt.
2	The title has been deleted. Returns will be saved.
3	The title is in CEMA's active catalog. Returns will be saved. "Catalog" for this purpose means titles other than new releases or current active label priorities.
4	The title is seasonal ("Christmas") product. Returns will be saved.
5	In the near term, the label is unsure of the project's future. When inventory is depleted, it may order more finished goods, or delete the title, depending on sales. Returns will be scrapped upon receipt.
6	In the near term, the label is unsure of the project's future. When inventory is depleted, it may order more finished goods, or delete the title, depending on sales. Returns will be saved.
7	The title is a new release or a current active label priority, thus requiring special visibility at the label's production coordination group. Returns will be saved. After the label has stopped "working" the record, its status typically is changed to Code 3.
8	The label has stopped production of the title at the manufacturing plant. Returns will be scrapped upon receipt.
9	The label has stopped production of the title at the manufacturing plant. Returns will be saved.
0	Used only by Special Markets.

ANTITRUST POLICY

The antitrust laws are the Magna Carta of the American free market system. Their goal is to promote healthy competition and to protect consumers and companies from unfair or predatory trade practices, thereby fostering efficiency and innovation in the economy.

CEMA subscribes to the letter and spirit of the antitrust laws. Equally important, non-compliance with the antitrust laws could subject CEMA and even individuals to harsh penalties.

It therefore is imperative that you become familiar with the overall purpose and coverage of the antitrust laws. This guide, while not a substitute for legal advice, will enable you to identify problem areas in advance. It does not set forth a complete list of all situations in which antitrust concerns may arise, but rather highlights those areas where problems most likely will be encountered, and alerts you to other areas where legal advice should be sought.

CEMA urges you to familiarize yourself with this guide for your own protection, as well as for CEMA's protection.

A. What Are the Antitrust Laws?

The antitrust laws are a series of criminal, civil and administrative statutes designed to promote operation of the free market system by encouraging vigorous competition at all levels of trade. On the Federal level, there are three principal antitrust statutes:

1. The Sherman Act makes it a felony (a) to contract, combine or conspire to restrain trade or adversely affect competition, or (b) to monopolize, attempt to monopolize or conspire to monopolize any market or line of business. The Sherman Act, especially with regards to point (a), is the most important antitrust law.

2. The Clayton Act declares unlawful various types of conduct that may result in a restraint of trade, or may tend to create a monopoly if left unchecked. It prohibits sales of a company's products on the condition that the customer also purchase a separate product, or not deal in competitive products. It prohibits unjustified price discrimination or the creation of "favored customers." It also prohibits those mergers, acquisitions and joint ventures that may have the effect of substantially lessening competition.

3. The Federal Trade Commission Act is a catch-all statute proscribing "unfair methods of competition." Generally, any violation of the Sherman Act or the Clayton Act also violates this statute. It also applies independently to problem areas such as false, misleading or deceptive advertising.

In addition to the Federal statutes, virtually every state has antitrust and unfair

competition laws that typically are patterned on the Federal acts. Unlike the Federal acts, however, they do not require an adverse effect on interstate or foreign (as distinguished from intrastate) commerce. If you adhere to the Federal antitrust laws, you almost always will be in compliance with the state laws. The focus of this guide therefore is on the Federal laws.

B. Enforcement of the Federal Antitrust Laws

The United States Department of Justice prosecutes violations of the Sherman Act by means of either a criminal or a civil action. A company or business association convicted of a criminal violation may be fined up to \$1,000,000 on each count. Individual employees and officers responsible for the violation also are subject to fines of up to \$250,000 or imprisonment for up to three years, or both. In the past several years, the Government has collected hundreds of millions of dollars in antitrust fines, and businessmen were sentenced to over 100 years of incarceration. In addition, the Department of Justice is authorized to obtain injunctions, *i.e.* court orders prohibiting the illegal conduct.

The Federal Trade Commission is authorized to enforce the Clayton Act directly, and also to enforce the principles of the Sherman Act through its catch-all jurisdiction over unfair methods of competition, by bringing actions for injunctions.

Private individuals or companies injured by a violation of the antitrust laws, or state attorney generals suing on behalf of their citizens injured by such a violation, may bring an action for damages, or injunctive relief, or both. If a private action for damages is successful, the plaintiff will be awarded *three times the amount of damages actually sustained*, plus attorney fees. Such actions can be particularly devastating if brought as a "class action" to recover damages for all persons situated similarly to the plaintiff. There have been numerous private antitrust actions which have resulted in multi-million dollar judgments or settlements.

In addition to the high financial cost of fines and treble damages, an antitrust suit is expensive to defend, not only because of the legal fees that are incurred, but also due to the time of corporate officers consumed by investigations, preparation for trial, *etc.*

As the law now stands, CEMA may be vicariously liable for the conduct of its employees, whenever such employees use their position or "apparent authority" with CEMA to effect a restraint of trade. "Apparent authority" refers to actions or statements by an employee that an outsider reasonably could assume were authorized by CEMA. Liability may be imposed even if CEMA does not expressly ratify the actions or statements, or indeed is totally unaware of the conduct.

In summary, a violation of the antitrust laws is one of the most serious legal matters that a company can face.

C. What Do the Antitrust Laws Prohibit?

A. Agreements That Restrain Free Trade

Section 1 of the Sherman Act is by far the most important antitrust statute. It prohibits contracts, combinations or conspiracies in restraint of trade. A "contract,

combination or conspiracy" simply means an agreement or understanding between or among competitors or those in a business relationship.

Agreements or understandings do not have to be expressed in words in order to violate Section 1 of the Sherman Act; tacit agreements embodying any "meeting of the minds" between competitors will suffice, even if not verbalized or written. Courts frequently infer such an agreement from statements made at meetings of competitors and subsequent parallel conduct by the competitors. Even innocent but careless remarks by a competitor may be construed by a court to be a thinly-veiled invitation to participate in an unlawful plan. If such statements are followed by identical competitor business practices, there is a risk that a court might conclude that a conspiracy to restrain trade was formed, even though express agreement was lacking.

The scope of "restraint of trade" has evolved through a series of court decisions over the past 90 years. Some restraints of trade are unlawful only when "unreasonable", while others are unlawful *per se*, *i.e.* without reference to whether they have redeeming or pro-competitive features. Both types of restraints, however, should be avoided. Among the most common types of agreements between or among competitors in restraint of trade are those:

- concerning the price of products sold, including agreement on terms of payment, credit terms, discounts, and the like.
- as to the customers to whom they will sell, or the territories in which they will sell.
- not to deal with particular suppliers or customers.
- to engage in parallel conduct or joint activities that have the effect of reducing competition among them.
- on standardization or certification, that have the effect of harming competition or of boycotting a third party.
- to exclude other competitors from access to an essential facility or service.
- to share proprietary information on prices, costs, profits, customers, territories, or anything else from which prices can be pegged or markets allocated.
- to limit, restrict, or curtail output, production or promotional efforts, or to limit production or promotional efforts to a certain quality, type, size, *etc.*

Certain types of agreements between a company and its customers, suppliers or distributors *also* are proscribed. These include agreements:

- concerning the price at which a product will be resold; or the customers to whom or the territories where such product will be resold.

- concerning the sellers or buyers in competition with that company, or with whom the customer or supplier will deal.

Of these restraints, price fixing, output restriction, customer or market allocation between or among competitors, and certain joint refusals to deal currently are *per se* illegal, *i.e.* conclusively deemed to be anti-competitive, and no proposed justification for the restraint will be accepted by the courts. The remaining categories are unlawful only if they "unreasonably" restrain trade. In these categories, the courts will entertain a defense that the restraint has pro-competitive or efficiency-enhancing aspects that, on balance, outweigh the anti-competitive effects.

Generally speaking, in a "rule of reason" case (as this latter class of activities has come to be known), if competitors have a sound business reason for agreeing on particular conduct, one that enhances market efficiency and is in each company's independent self-interest, the practice will not be deemed unlawful.

An example is the RIAA. Assume that through RIAA committee meetings, a consensus among record companies is reached on standardization of the size of compact discs. At first blush, because the antitrust laws contemplate that firms will compete not only on price but also on quality and all other aspects of their products, this might be considered to constitute an unreasonable restraint of trade.

However, industry-wide adoption of a standard size for CDs actually is pro-competitive, because consumers will not purchase a CD player unless virtually all companies' CDs are compatible with it. In other words, in order for *any* competitor to market the product successfully, industry-wide standardization is required. The point to remember is that bona-fide, efficiency enhancing reasons for joint conduct are needed in order to avoid liability in a rule of reason case.

The only significant exemption from liability for joint anti-competitive conduct concerns efforts by competitors to influence government action. The Constitution protects joint efforts to petition any branch of government, even if the requested action would eliminate competition. Only bona-fide efforts are within the exemption, however. If petitioning the government is a mere device, the real purpose being to harass a competitor, the exception does not apply. Also, any exchange of information arising from such a joint effort may not be used to restrain competition among the participants.

B. Other Prohibited Practices

Although most questionable practices will be analyzed as Section 1 agreements in restraint of trade, you also should be familiar with other antitrust proscriptions. This section is a brief summary.

1. It is unlawful for a firm or a group of firms having a substantial market share in a particular industry or line of commerce to monopolize, attempt to monopolize, or conspire to monopolize that industry or line of commerce. "Monopolization" means exercising the power to exclude competition.

2. Tying arrangements consist of selling a product or granting a license on condition that the customer also purchase a separate product or

license. They are illegal whenever the seller has significant market power in the first, or tying, product. If such market power is present, and competition in the second, or tied, product market is foreclosed, tying arrangements will be deemed *per se* illegal. In this context, market power does not necessarily imply a large market share, but rather product uniqueness. The existence of a copyright, for example, generally will suffice to demonstrate such market power.

3. Exclusive dealing consists of agreeing to sell to or buy from another company only on condition that the company not buy from or sell to a competitor. It likewise is illegal whenever significant market foreclosure results. If an exclusive dealing arrangement deprives competitors of a significant outlet for their products, this substantiality requirement is met. Requirements contracts, another form of exclusive dealing in which a seller and a buyer agree to purchase or sell all of the others' requirements for a particular product from each other, are governed by similar considerations.

D. Practical "Do's and Don't's"

To assist you in applying these principles, a list of practical guidelines is provided below. It must be stressed that this list is not exclusive; generally, any interference with the competitive process should be avoided. Nevertheless, the following are relatively easy to apply and must be followed:

1. First and foremost, *avoid all discussions with competitors regarding individual companies' pricing.* This includes discussing actual or proposed, current or non-current prices, including discounts, credit terms, licensing fees and anything else that may affect actual prices. This also includes discussing profits, costs, production capacity, and any other data supplied by an individual company that might give some indication of that company's pricing decisions. Note: it is permissible to discuss these matters with your customers, so long as no representative from a competitor is present.

2. *Avoid discussions of market allocation.* This includes discussions of assigning customers or territories, or type of product to be sold by individual companies. In general, any discussion of a possible agreement not to compete in some area must be avoided.

3. *Avoid any discussion of limiting production.* The decision to stop production of a particular line, as well as the decision to curtail output of a particular product, is an individual one that, in general, is inappropriate for competitor discussion.

4. *Avoid any discussion of refusals to deal with competitors, customers or suppliers.* If a company is dissatisfied with a particular merchandiser, for example, it simply should refuse to deal with that company, and not attempt to enlist the compliance of its competitors or suppliers in harming that company's business. For example, if a company has experienced credit problems with a particular customer and is refusing

to extend credit to that customer, it should not make this fact a subject of discussion with competitors.

5. *Avoid sharing information on individual companies' plans concerning new product introduction.* Again, this is a proprietary matter inappropriate for discussion among competitors.

6. *Avoid informal meetings with competitors.* All business affairs should be conducted at formal meetings.

7. *Don't imply or indirectly represent to others that your view on a matter is CEMA's view, unless you specifically are authorized by CEMA to do so.* If there may be any question in the addressee's mind about it, expressly disassociate your position from CEMA's.

8. *Watch what you write.* The evidentiary value of documents generated by CEMA will be particularly high in any antitrust lawsuit. "The strongest memory is weaker than the palest ink." Because at a trial, a jury or judge may infer things from documents which do not correspond with your intended meaning, it is essential to avoid loose language. Phrases such as "disrupting the market" or "altering competitive balance" may be innocuous in context, but suspect when read by a laymen. Words connoting dark or sinister secrecy, such as "original, no copies"; "for your eyes only"; "destroy after reading" and the like should be avoided.

Remember, in an antitrust suit, CEMA's files will be subject to disclosure to the plaintiffs. Any ambiguous notations or revisions made on documents distributed by or through CEMA should be avoided.

E. Inside Deals

Any CEMA employee initiating, facilitating, participating in or otherwise involved with "inside deals" can be disciplined, up to and including termination. An "inside deal" is a preferential or discriminatory discount in favor of a CEMA customer. Excluded are CEMA-administered discount programs, CEMA-administered customer advertising, or CEMA-administered free goods programs that apply equally to all customers in a given classification (*e.g.*, wholesalers or retailers).

If you become aware that a label represented by CEMA is setting up an inside deal, you must advise CEMA's National Sales Department immediately.

F. Conclusion

Conscientious adherence to these guidelines should avoid most antitrust problems. However, it is impossible to spell out in advance answers to all questions that may arise. Gray areas will arise, areas in which it is essential to seek advice before proceeding. Don't hesitate to call CEMA's Business Affairs Department under such circumstances.

PARALLEL IMPORTS, COUNTERFEITS, BOOTLEGS AND RECORD RENTAL

Parallel imports are copies of an album that meet the following criteria:

1. The album is legitimately manufactured and released by an EMI affiliate in a foreign territory.
2. The album is imported into the U. S. and sold in competition with or prior to the U. S. release of the same album.

As a matter of policy, sales should be recognized in the territory where they originate. Parallel imports displace legitimate domestic sales. This reduces CEMA's sales volume and significantly complicates CEMA's relationships with its foreign affiliates. Parallel imports are illegal and prohibited by the Copyright Act.

Counterfeit or "pirated" product is an illegally manufactured copy of an album distributed by CEMA. Unlike parallel imports, counterfeit product was not legitimately manufactured overseas. Rather, some unscrupulous person or company simply has duplicated one of our proprietary masters and is attempting to pass it off as the real thing. The quality of counterfeit product is inferior, derogating from our reputation for high technical standards. Counterfeit product not only displaces legitimate sales, thus reducing our turnover, but also cheats the artist out of royalties.

Bootlegs are unauthorized "live" concert recordings or compilations of studio out-takes. They comprise product that, for one reason or another, the artist's record company has chosen not to release. Bootleg recordings do not represent the artist's best work and are technically inferior. They also unfairly compete with our exclusive contractual right to release all of an artist's recordings.

Record Rental. The rental of compact discs to consumers is prohibited by the Copyright Act, primarily because it encourages unauthorized home taping.

Whenever a CEMA employee spots a parallel import, counterfeit or pirated product, bootleg records, or a store renting compact discs, that person should advise his or her branch manager. Attached is a copy of a form that also should be completed and sent to the Recording Industry Association of America, Inc.

RIAA INFRINGEMENT REPORT

Telephone: 1-800-223-2328/1-800-BAD-BEAT

I. Source of Complaint

Date _____

Name _____ Company Name _____

Address _____

Phone (Area Code) _____

II. Location of Infringing Activity

Name (Owner, Mgr., Salesperson) _____

Company Name _____ Phone (Area Code) _____

Address _____

III. Description of Seller

Race (Circle) White Black Hispanic Oriental Other (Specify) _____

Sex (Circle) Male Female

Age (Circle) Below 20 20 25 30 35 40 45 50 Over 50

Physical Characteristics (i.e. beard, glasses, mustache) _____

IV. Description of Vehicle (if appropriate)

Year _____ Make _____ Model _____ License Plate _____ State _____

V. Nature of Infringement and Product Involved

(Please circle type of infringement and estimate quantities if possible.)

	<u>Counterfeit</u>	<u>Pirate</u>	<u>Bootleg</u>	<u>Parallel Import</u>	<u>Make-A-Tape</u>	<u>Record Rental</u>
<u>LPs</u>	_____	_____	_____	_____	_____	_____
<u>Cassettes</u>	_____	_____	_____	_____	_____	_____
<u>Compact Discs</u>	_____	_____	_____	_____	_____	_____
<u>Other:</u> _____	_____	_____	_____	_____	_____	_____

VI. Description (Please attach any additional lists of titles.)

Title _____ Artist _____ Label _____

Title _____ Artist _____ Label _____

VII. Comments _____

**PLEASE ATTACH ANY ADS, RECEIPTS, AND ACTUAL PRODUCT PURCHASED AND SEND TO:
Director of Investigations, RIAA, 1020 19th Street, N.W., Suite 200, Washington, D.C. 20036**

EXPORT POLICY

Sales should be recognized in the territory where they originate. Except for customers that specifically have been qualified to export, all product sold by CEMA is intended for resale only in the United States, its territories and possessions. CEMA reserves the prerogative not to fill orders if it believes (in its sole discretion) that the product will be exported without CEMA's prior written authorization.