

## MANUFACTURING AGREEMENT

This Manufacturing Agreement (the "Agreement") is entered into on \_\_\_\_\_ by and between Capitol Records, Inc., a Delaware corporation ("Capitol") and \_\_\_\_\_, a \_\_\_\_\_ corporation ("Company"), in view of the following facts:

### RECITALS

A. Company is engaged in the business of acquiring rights in and producing master recordings for the manufacture and distribution of Records derived therefrom.

B. Capitol is engaged in the business of manufacturing Records.

C. Company desires for Capitol to manufacture Records from Masters owned or controlled by Company.

D. Simultaneously herewith, Company is entering into a Distribution Agreement (the "Distribution Agreement") and a Security Agreement (the "Security Agreement") with CEMA Distribution ("CEMA"), a division of Capitol.

THEREFORE, it mutually is agreed as follows:

#### 1. Definitions:

As used in this Agreement, the following terms shall have the meanings set forth below:

a. "Master" or "Masters" shall mean and refer to all recordings embodied in any form (including audio and audio-video recordings) from which Records may be derived, now or hereafter owned, controlled or distributed by Company, or by any Person which is, directly or indirectly, affiliated with Company by common ownership or control.

b. "Record" or "Records" shall mean and refer to all forms of discs, tapes and other devices (whether now known or unknown and howsoever used, and whether embodying sound alone or synchronized with or accompanied by visual images) upon which sound, derived in whole or part from Masters, is recorded, and which are manufactured into finished goods, including the package into which they are assembled.

c. "Disc" or "Discs" shall mean and refer to 12" vinyl and 7" vinyl or styrene analog phonograph Records (including those that are digitally mastered). 12" Discs shall include both

albums and singles in that configuration.

d. "Cassette" or "Cassettes" shall mean and refer to pre-recorded analog or digital audio tape recordings in the cassette configuration (including those that are digitally mastered).

e. "Compact Disc" shall mean and refer to any Record from which sound is replayed by means of a laser.

f. "Components" shall mean and refer to the jackets or other containers into which Discs, Cassettes or Compact Discs are collated; together with all other packaging, merchandising or promotional elements included therein or utilized in connection therewith, such as inserts, cards, and stickers.

g. "Territory" shall mean and refer to the entire United States, and its territories and possessions.

h. "Person" shall mean and refer to any natural person, firm, corporation, association, union, or other entity recognized by law.

i. Distribution or sale of Records through "Normal Record Retail Channels" shall mean distribution or sale of Records through subdistributors, one-stops, rack jobbers and/or dealers for sale to the consumer in retail record stores and other retail stores.

## 2. Basic Order Requirements:

a. Company shall order all of its manufacturing requirements from Capitol for Records to be distributed by CEMA in the Territory during the Term. Except as otherwise provided herein, Capitol shall furnish the materials and services to manufacture Records ordered by Company specified in Exhibits A, B, C and D hereto. During the Term, Company shall not itself manufacture Records in the Territory, or license or allow any Person other than Capitol to manufacture Records to be distributed through Normal Record Retail Channels by means of a system of branch distribution in the Territory.

Company shall not be required to manufacture with Capitol any Record that Company is not required to distribute with CEMA under or pursuant to the Distribution Agreement. Company may, however, at its election, order Records from Capitol, under and pursuant to this Agreement, and at the prices set forth herein, for purposes other than CEMA's distribution under or pursuant to the Distribution Agreement (hereinafter sometimes referred to as "non-CEMA Records"). Capitol shall undertake such manufacturing of non-CEMA Records subject to the availability of Components and other production elements. Non-CEMA Records must be numbered or

otherwise identified so as to readily distinguish them from Records sold by CEMA under or pursuant to the Distribution Agreement.

b. Capitol hereby reserves the right to refuse to manufacture at any time any Record that, in Capitol's sole judgment, is obscene, defamatory, unlawful, likely to result in disputes or litigation, infringes upon the rights of others, or that Capitol in its sole discretion otherwise determines is not appropriate for its manufacture hereunder, or for manufacture on behalf of a label distributed by Company, or other client of Company's.

In such event, Capitol promptly shall notify Company, and Company thereupon shall have the option to obtain the manufacture of such Record from an alternative source. Capitol's prior manufacture of a Record shall not constitute a waiver of said right. Company shall have no right to contract for alternative manufacture until its receipt of written notice from Capitol. Capitol's election not to manufacture a particular Record shall not affect Company's obligation to manufacture Records exclusively through Capitol, whether by the same or different artists (except for those Records that Capitol specifically elects not to manufacture). Capitol's manufacture of a particular Record, or its failure to object to the contents of a particular Record on the grounds set forth, shall not constitute (expressly or impliedly) approval of or acquiescence in such contents of such Record.

c. Nothing in this Agreement shall be construed to prevent or restrict Capitol or CEMA from producing, manufacturing, distributing, promoting or otherwise exploiting Records, including those owned or controlled by Capitol or other Persons, whether or not competitive with any Records manufactured hereunder.

### 3. Prices:

Company shall pay to Capitol the prices set forth in this Paragraph 3:

a. For standard configurations of Records ordered by Company, the prices set forth in Exhibits A, B, C and D hereto for the Basic Services specified in said Exhibits (the "Basic Prices").

b. For special handling or the furnishing of materials or services not included in the Basic Services specified in Exhibits A, B, C and D, additional charges shall be made as set forth in Exhibit E. Special items not listed in Exhibit E shall be quoted at the time those services are requested.

c. Semi-annually during the Term, Capitol may increase its Basic Prices and additional charges in relationship to its actual costs of manufacture by giving notice thereof to Company.

d. The prices set forth herein also shall apply to any non-CEMA Records.

4. Term:

a. The term of this Agreement (the "Term") shall commence on \_\_\_\_\_, and shall continue for an initial period of Three (3) years (the "Initial Period"), except if the Distribution Agreement shall be sooner terminated in accordance therewith, in which event this Agreement: (i) also shall be terminable by written notice from either party to the other, or (ii) if not so terminated, it automatically shall become non-exclusive.

b. Company hereby grants to Capitol Two (2) options, each to extend the Term for additional consecutive periods of One (1) year, commencing with the expiration of the Initial Period ("Option Periods"). Each such option shall be exercisable by Capitol's giving written notice of exercise to Company not later than Three (3) months prior to the end of the then-current period.

5. Company's Obligations:

Company solely shall be responsible for all activities, and shall pay all costs, expenses and charges incurred in connection with:

a. Obtaining Masters, including (without limitation) all costs arising out of the creation of or the acquisition of Company's rights in Masters, and all steps required to utilize Masters in the manufacture of Records.

b. The timely delivery of Masters, color separations and label copy to Capitol's studio in Hollywood, California in the following forms:

(i) With respect to Discs and non-XDR Cassettes, a high quality, fully edited and equalized two-track Master tape from which lacquer Masters and running Masters can be manufactured hereunder. Company may supply its own lacquer Masters of a quality satisfactory to Capitol (but not running Masters) f.o.b. Capitol's manufacturing facility.

(ii) With respect to Compact Discs, actual parts suitable for the manufacture of Compact Discs. (iii) With respect to XDR Cassettes only, an original fully-

edited and equalized two-track master tape produced in accordance with Capitol's XDR standards. "XDR" is a special process employed by Capitol in connection with the manufacture of Cassettes. On Company's request, Capitol shall advise Company of its XDR specifications, which Capitol may change from time to time without notice to Company.

c. Selecting the carrier and method of transportation to deliver Masters, packaging Masters, arranging for their shipment and delivery to Capitol's studio in Hollywood, California, and the payment of all freight charges for shipment of Masters by air or surface transportation to Capitol's studio in Hollywood, California.

d. Obtaining Components for all Records; and their timely delivery in good condition to Capitol's designated manufacturing facility, freight charges pre-paid.

e. The removal of all non-CEMA Records from Capitol's manufacturing facility, not consigned for shipment to one of CEMA's Distribution Centers, within Five (5) days after completion of manufacture. Upon Company's written request, Capitol will ship such non-CEMA Records f.o.b. to a single destination in the Territory, designated by Company in writing, at a charge of \$.02 per Record shipped (for 12" Discs, Compact Discs or Cassettes) or \$.01 per Record shipped (for 7" Discs). Capitol shall not be required to drop-ship non-CEMA Records to more than one such destination.

If shipping of such non-CEMA Records is delayed through no fault of Capitol's for more than Five (5) working days after completion of manufacture, Capitol may assess a reasonable storage charge. In any event, Company shall remove all such non-CEMA Records from Capitol's custody within Thirty (30) days after Capitol's written request for such removal. The cost of such removal (including charges for loading services, if any) and storage charges from and after the Thirty-First (31st) day following such written request shall be paid by Company. As an accommodation to Company, Capitol will ship such Records to Company, upon Company's written request therefor, at Company's sole cost and expense.

If such non-CEMA Records, or any portion thereof, are not removed from Capitol's facilities within Thirty (30) days from the date of such written demand, Company irrevocably authorizes Capitol, in addition to all other remedies available to Capitol, to sell such non-CEMA Records, or any portion thereof, as "cut-outs," and to retain the proceeds thereof, or to scrap such non-CEMA Records, with the cost of any scrapping to be borne by Company. Capitol shall have the right to mark at Company's expense any non-CEMA Records returned by Capitol to Company, or

sold by Capitol as "cut-outs," in such a way as to distinguish such non-CEMA Records from those Records sold by CEMA under or pursuant to the Distribution Agreement.

f. The procurement, in writing, of all necessary rights, licenses, consents, authorizations and clearances to manufacture Records, together with Components, including (without limitation):

(i) mechanical licenses for all copyrighted compositions embodied in any Record,

(ii) authorizations from each artist and any other Person whose name, likeness, performance or services are embodied in any Record or in any advertising or promotional materials in connection therewith,

(iii) all consents and clearances necessary to use any copyrights, trademarks, tradenames, artist names, group names, artwork, patents or any similar intangible property rights of any Person in or on Masters, Records and accompanying printed materials, and

(iv) upon Capitol's request, evidence that the facility utilized by Company to master Compact Discs duly was licensed and authorized to do so by the holder of any applicable patents covering Compact Disc mastering technology.

g. The payment of all royalties, fees, costs and other sums payable to any Person in connection with Masters and Capitol's manufacture of Records derived therefrom, including (without limitation) all royalties and fees payable to artists, producers, musicians, publishers, writers and other Persons; all mechanical license fees; and all synchronization license fees.

#### 6. Order Procedures:

a. It shall be Company's responsibility to determine its production requirements and to order Records. All orders of Records shall be evidenced by a written purchase order, telefax, or by telex or mailgram subsequently confirmed by a written purchase order. Orders must include all information necessary to properly identify the product to be manufactured, including artist, title, catalog number, configuration, quantity, special handling or special items requested by Company, desired delivery date, and destination for shipment.

Prior to manufacture, all orders must be Workable. A "Workable" order is an order for which all of the necessary items to be furnished by Company, Components and similar materials have been received by Capitol. All orders shall be manufactured

within a reasonable time after they become Workable, and subject to the availability of Components.

b. Capitol reserves the exclusive prerogative to designate which of its manufacturing facilities shall fabricate any given purchase order for Records.

c. All orders shall be subject to the minimum order requirements set forth on Exhibits A-D. For each selection in an order, there shall be an allowable fulfillment deviation of Ten Percent (10%). Orders filled within such deviation shall be deemed to be satisfied, and Company shall pay Capitol on the actual number of units shipped. Once placed, an order may not be cancelled or changed without Capitol's approval. In such event, Capitol may assess a reasonable termination charge.

d. Records manufactured by Capitol for Company, and all of the materials supplied by Capitol, shall be of a quality level equivalent to standard "pop" Records then being manufactured domestically for Capitol labels in each applicable configuration. All warranties, express or implied, including warranties of merchantability and fitness for a particular purpose, are disclaimed.

As used in this paragraph, the terms "manufacturing defects" and "defective product" shall mean and refer to the following only:

- (i) Discs bearing a "split" label;
- (ii) Records the labels of which incorrectly identify the contents of the Record;
- (iii) jackets or other packaging that incorrectly identify the Record collated therein; or
- (iv) Records the entire fabrication run of which was defectively manufactured.

In the event of actual manufacturing defects, Capitol's responsibility shall be limited to replacement of the defective product or crediting Company for its cost of manufacture, at Capitol's election. Capitol shall not be liable for any other actual or consequential damages that Company may sustain or incur, including (but not limited to) lost revenue or profits. Capitol may change the technical specifications for Records manufactured hereunder without approval by or notice to Company.

e. Capitol grants to Company a limited sub-license to use Capitol's XDR trademark on Cassettes manufactured for Company by Capitol using XDR technology. Capitol grants to Company a limited sub-license to use certain trademarks licensed to Capitol

by Dolby Laboratories Licensing Corporation on Cassettes manufactured for Company by Capitol using Dolby technology.

f. Capitol has contracted with WEA Manufacturing for certain Disc manufacturing services. Capitol may utilize the services of WEA Manufacturing to fulfill its Disc manufacturing obligations hereunder, and Capitol's duties in that regard are subject to WEA's performance.

g. Capitol may supply an appropriate manufacturing by-line to indicate the source of Records manufactured hereunder, though it shall not be required to do so.

h. (i) Upon the completion of an order for Records to be distributed by CEMA under or pursuant to the Distribution Agreement, Capitol shall, at its own expense, ship all such Records to the CEMA Distribution Center designated by Company, or with respect to orders placed by Company for non-CEMA Records, to Company's warehouse.

(ii) Company shall pay all freight charges attributable to non-CEMA Records not consigned for shipment to one of CEMA's Distribution Centers, pursuant to Paragraph 5.e.

#### 7. Statements and Payments:

a. For each calendar month during the Term, Capitol shall render and mail a statement to Company, setting forth all fees and charges to Company for such calendar month. The amount due to Capitol pursuant to such statement shall constitute an account stated, and (subject to Paragraph 7.d.) shall be due and payable by Company to Capitol on or before the last day of the second full calendar month following the end of the monthly period covered by the statement. Capitol's failure to set forth an amount due and payable by Company to Capitol shall not constitute a waiver of any amount due.

b. Said statement shall be consolidated with any statement rendered by CEMA pursuant to the Distribution Agreement between Company and CEMA, such that both sums are due and payable simultaneously. Any balance for manufacturing services rendered by Capitol to Company shall be deducted from any sums due to Company by CEMA under or pursuant to the Distribution Agreement.

c. Capitol shall not be required to account to or render separate statements to Company, any label or artist on account of the manufacture of Records hereunder by Capitol bearing such label or recorded by such artist, but rather Capitol shall render a single consolidated statement for all such Records manufactured by Capitol hereunder, and may cross-collateralize

and set-off all debits and credits owed by or to Company in respect of the manufacture of any and all such Records, so as to arrive at a net balance payable by Company hereunder.

d. Company represents, warrants and promises that it shall make all payments when due, without set-off or delay. Time of payment is of the essence of this Agreement. If Company fails to pay any statement in full when due, Capitol may charge Company interest at the maximum legal rate and, in addition to its other remedies at law, in equity or pursuant to this Agreement, suspend or terminate its performance hereunder.

e. Any line of credit granted to Company shall be subject to advance approval by Capitol's credit department, which approval shall be subject to change from time to time. Any balance due from Company to Capitol for manufacturing services in excess of such line of credit immediately shall be due and payable by Company to Capitol upon the rendering of a statement therefor. Company's failure to make payments when due shall be cause for Capitol to require payment, in advance, accompanying orders.

8. Security Agreement:

Simultaneously with the execution of this Agreement, Company shall execute a Security Agreement and Financing Statements ("Security Agreement"); and Company shall execute any and all other documents Capitol deems necessary to effectuate the terms and provisions of this Agreement, and the Security Agreement.

9. Taxes:

Personal property taxes, taxes on Inventory and Components, and all other taxes or charges on Company's property shall be paid by Company; and if such taxes or charges should be assessed to Capitol, then Company shall pay to Capitol all sums required to discharge such liability. If taxes (e.g., sales, use, excise, value added) of any kind are or hereafter should become applicable to the services to be rendered or the transactions contemplated by this Agreement, then such taxes shall be added to the charges to be paid by Company hereunder, and Company agrees to pay same at the time when the invoice to which they pertain is due.

10. Inventory:

a. All inventory of Records and Components temporarily stored in Capitol's manufacturing facilities ("Inventory") shall become Company's property upon the completion of their manufacture; subject, however, to the terms and conditions of the Security Agreement.

Capitol shall own all manufacturing parts and all derivatives thereof, including (without limitation) all photographic films, color keys, duplicate audio tapes (analog or digital), acetate masters, glass Masters, running Masters, metal mothers and stampers. Company may acquire any of such manufacturing parts or derivatives when they become obsolete, or at the end of the Term, by paying to Capitol the actual cost of their manufacture. In the event Company elects not to acquire such manufacturing parts or derivatives, Company irrevocably authorizes Capitol to destroy them.

The risk of loss of Inventory in Capitol's possession due to any casualty or theft shall be borne by Capitol, and Capitol shall obtain insurance coverage for loss or damage to such Inventory.

b. Company shall be responsible for the obsolescence of all Records and Components. In that connection, Capitol shall not be required to order or manufacture Components on Company's behalf in excess of Company's reasonable anticipated order requirements, and may in its discretion destroy any manufactured excess Components. A reasonable quantity of Company's Components shall be stored by Capitol at no charge. If a particular selection is not ordered for a period in excess of Twelve (12) consecutive months, and at the end of the Term, Capitol may request Company to remove promptly any Components for that particular selection, at Company's expense. If such Components are not so removed within Thirty (30) days thereafter, Capitol may scrap or destroy such Components, without further notice or responsibility to Company.

11. Termination:

In the event that:

(i) Company breaches any of its warranties hereunder, or

(ii) any of the representations made herein by Company is false, or Company failed to disclose to Capitol any fact necessary to make what Company actually disclosed not misleading, or

(iii) Company fails, refuses or neglects to comply with any of Company's obligations hereunder, or

(iv) CEMA terminates any Distribution Agreement between the parties for any cause,

then, and in addition to any other rights or remedies that Capitol may have at law, in equity or under this Agreement, Capitol may elect to terminate this Agreement by notice in

writing, and thereby shall be relieved of any further liability hereunder. No actual or alleged default hereunder shall be actionable unless it is material.

Except for those provisions regarding payment, which shall apply as appropriate, no notice of default hereunder shall be effective until the expiration of Thirty (30) days after it is propounded, so as to afford Company the opportunity to: (i) cure any such default, or (ii) commence to cure any such default, if cure cannot reasonably be accomplished within Thirty (30) days, provided that it is diligently pursued to conclusion thereafter. In the event of such a termination, Company immediately shall make payment to Capitol of all sums due or owing under this Agreement and any other agreements between the parties. Nothing herein shall limit, reduce or cancel Company's duties to make any payments called for under this Agreement, or any terminated agreement, and these obligations shall survive any termination.

12. Notices:

a. All notices that Capitol may be required or desire to serve upon Company shall be served by depositing same, postage prepaid, registered mail or certified mail, return receipt requested, in any mail box, chute, or other receptacle authorized by the United States Post Office Department for mail, addressed to Company at the address below its signature, or at such other address as Company may from time to time designate by written notice to Capitol pursuant to this Paragraph. The date of notice shall be deemed to be Five (5) business days following the date of deposit into the United States mail. Statements shall be mailed to Company at the address below its signature.

b. All notices that Company may be required or desire to serve upon Capitol shall be served by depositing same, postage prepaid, registered mail or certified mail, return receipt requested, in any mail box, chute, or other receptacle authorized by the United States Post Office Department for mail, addressed to Capitol at the address below its signature, Att'n: Vice President, Manufacturing, or at such other address as Capitol may from time to time designate by written notice to Company pursuant to this Paragraph. The date of notice shall be deemed to be Five (5) business days following the date of deposit into the United States mail. Payments shall be mailed to Capitol at the address below its signature and shall be deemed made when received.

13. Force Majeure:

a. If at any time during the Term hereof, by reason of any act of God, fire, earthquake, flood, explosion, strike, labor disturbance, civil commotion, act of Government, its agencies or officers, any order, regulation, ruling or action of any labor union affecting Capitol (or, in the case of Disc fabrication, WEA

Manufacturing), or any shortage of or failure or delays in the delivery of materials, supplies, labor or equipment, or any other cause or causes beyond Capitol's control (or, in the case of Disc fabrication, WEA Manufacturing), the performance of any of Capitol's obligations hereunder is delayed, interrupted or prevented, then the performance of such obligation shall be excused to the extent so delayed, interrupted or prevented.

b. If any such period of excused non-performance exceeds Four (4) weeks, this Agreement automatically shall become and remain non-exclusive until Capitol notifies Company that its ability to perform hereunder has been substantially restored, in which event the exclusivity provisions of Paragraph 2.a. automatically shall revert into full force and effect. Company shall have the right to obtain the manufacture of Records from an alternative source in the interim; however, Company shall not enter into any contractual commitments with any third party that are not expressly subject to Capitol's right to resume its exclusive performance hereunder.

If any such period of excused non-performance exceeds Three (3) months, Company may terminate this Agreement upon giving an additional Thirty (30) days notice to Capitol, unless the conditions precipitating the event of force majeure are prevalent generally throughout the U.S. record industry, in which case this Agreement shall remain in full force and effect, subject only to the excuse of Capitol's non-performance and Company's right to obtain the manufacture of Records from an alternative source during such period.

14. Indemnification:

a. Company shall defend and indemnify Capitol, and hold Capitol harmless from and against, without setoff or allocation on any basis, any and all claims, liabilities, causes of action, damages, costs, and expenses (including reasonable attorneys' fees and court costs) arising out of or in any way related to any of the following:

(i) any breach of any promise or warranty made by Company contained in this Agreement;

(ii) any falsity of any representation made by Company contained in this Agreement;

(iii) any claim by any Person which, if sustained, would constitute a breach by Company of any promise or warranty or the falsity of any representation contained in this Agreement; or

(iv) any act, or failure to act, for which Company is responsible pursuant to this Agreement.

By way of example, and without limiting the generality of the foregoing, Company's duties of indemnification shall extend to all artist claims, producer claims, record club claims, union claims, copyright claims, trademark claims, and disputes as to ownership of or rights in Masters or Records granted to Capitol herein. This indemnification provision shall survive the expiration or any termination of this Agreement.

b. The procedure for activating the right of indemnification hereunder shall be as follows. Upon its receipt of any adverse claim, Capitol promptly shall notify Company, setting forth the particulars thereof and enclosing copies of any pertinent documents, and tendering the defense of such claim to Company. Company thereupon promptly shall advise Capitol if it accepts such tender of defense.

If such tender is accepted, Company shall have the right to select counsel to conduct a joint defense of such claim, subject to Capitol's approval, which shall not unreasonably be withheld. If such tender is not accepted, or if Company fails or refuses to respond to Capitol's request for indemnification, Capitol may take whatever steps it deems necessary or appropriate in its sole discretion to protect its interests, including (but not limited to) retaining its own counsel, and charging to and billing Company for, which sum Company promptly shall pay, the full amount of any attorneys' fees and costs incurred by Capitol in its defense. Capitol also may charge to Company the full amount of any adverse judgment, settlement or award which Capitol is required to pay in connection with any such claim.

c. Company shall not withhold any sums due or payable to Capitol hereunder for any reason. As an express condition precedent to any duty of future performance hereunder, Capitol may require Company to furnish to Capitol, at Company's expense, an unconditionally non-cancellable bond or letter of credit in favor of Capitol, with coverage in an amount not less than the amount of such claim(s), with no deductible, insuring payment of the claim(s), if upheld.

15. Attorney's Fees:

If either party hereto commences any form of action or proceeding against the other to enforce rights or obligations arising out of this Agreement, the prevailing party in such action or proceeding shall, in addition to all other sums, be entitled to recover as an element of damages its actual costs and expenses, including reasonable attorneys fees.

16. Violation of Laws:

Nothing in this Agreement shall require Capitol to perform any act or pay any monies which act or payment would

violate the laws, regulations, or judicial or administrative order of any jurisdiction in the Territory.

17. Independent Contractor Relationship:

The relationship between Capitol and Company hereunder shall at all times be that of independent contractors; and nothing contained herein shall render or constitute the parties joint venturers, partners or agents of each other. Neither Capitol nor Company shall hold itself out to third parties other than as set forth herein. Neither party shall have the right to execute any contract, or incur any obligation for which the other may be liable, or otherwise bind the other; and, except as set forth herein, neither party shall be liable for any representation, act or omission of the other. This Agreement is made for the sole benefit and protection of the parties hereto, and not for the benefit of any third party. No Person not a party to this Agreement shall have any right of action hereunder.

18. Waiver:

The waiver by Capitol of any term or condition of this Agreement, or any part hereof, shall not be deemed a waiver by Capitol of any other term or condition of this Agreement, or of any later breach of this Agreement, or of any part thereof.

19. Severability:

If any part of this Agreement is determined to be void, invalid, inoperative or unenforceable by a court of competent jurisdiction, or by any other legally constituted body having jurisdiction to make such determination, such decision shall not affect any other provisions hereof, and the remainder of this Agreement shall be effective as though such void, invalid, inoperative or unenforceable provision had not been contained herein.

If the payments required by this Agreement shall exceed the amount permitted by any present or future law or governmental order or regulation, such required payments shall be reduced while such limitation is in effect to the amount which is so permitted, and the payment of such amount shall be deemed to constitute full performance by Company of its obligations to Capitol hereunder with respect to payment during the period such limitation is in effect; provided, however, that if and when any such reduction is lifted, Capitol shall be paid the difference, plus interest thereon at the maximum legal rate from and after the time the funds were so withheld.

20. Paragraph Headings:

The paragraph headings in this Agreement are for

information purposes only, and do not form a part of this Agreement.

21. Assignment:

Company may not assign this Agreement, or any part hereof, or any rights hereunder to any Person without Capitol's prior written consent.

22. Applicable Law:

This Agreement shall be governed by the laws of the State of California applicable to contracts made and to be performed in the State of California. The jurisdiction and venue for any judicial proceeding regarding or pertaining to this Agreement shall lie in the U.S. District Court for the Central District of California, or the Superior Court of California, County of Los Angeles, Central District.

23. Entire Agreement:

The terms set forth in this Agreement constitute the entire agreement between Capitol and Company with respect to the subject matter hereof, all prior negotiations and understandings being merged herein. No Person acting or purporting to act on behalf of Capitol has made any promises or representations upon which Company has relied, except those expressly found herein. This Agreement may only be altered by an instrument in writing, executed by both Company and an authorized officer of Capitol.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

\_\_\_\_\_

CAPITOL RECORDS, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_  
An Authorized Signer

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_  
An Authorized Officer

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Address:  
1750 North Vine Street  
Hollywood, California 90028

Federal ID Number: \_\_\_\_\_

EXHIBIT A

12" DISCS

The Basic Price applicable to standard 12" Discs includes all of the following services and items:

1. Metal parts
2. Pressing of the Disc
3. Label copy set-up
4. Printing negatives for label backdrops
5. Completely printed standard (up to 4-color) label backdrops
6. Plain poly inner sleeve
7. Single Disc, inserted into inner sleeve and collated into standard single pocket jacket
8. Filmed wrapped in 50 gauge shrink wrap
9. Packed in cartons, 25 per carton
10. Six (6) test pressings. Additional test pressings will be supplied at a cost of \$2.00 each.

Company to supply at its own expense the following:

1. Lacquer masters. Capitol will provide lacquer mastering for a charge of \$120.00 per side.
2. Label copy
3. Finished standard single-pocket 4-color custom jacket (or other package if "jacket" type not used), and obsolescence thereon
4. Items specially requested by Company.

FOR A BASE PRICE OF: \$0.61

MINIMUM ORDER QUANTITIES

Initial order: 3,000 units

Reorders: 500 units

EXHIBIT A Cont'd

12" Discs - Miscellaneous Charges

	<u>Material</u>	<u>Labor</u>	<u>Total Cost</u>
<u>Jackets</u>			
1-4 color (minimum order 5,000)	.26	0	.26
<u>Stickers</u>			
<u>2-Color</u>			
3" square or circle	.06	.015	.075
2-1/2" x 3"	.06	.015	.075
2-1/2" x 3-5/8"	.06	.015	.075
3" x 4"	.068	.015	.083
3" x 5"	.084	.015	.099
3-15/16" square	.084	.015	.099
3" x 6"	.090	.015	.105
<u>Inserts</u>			
11-1/2" X 11-1/2" 1 color both sides	.205	.015	.220
11-1/2" x 11-1/2" 4 color both sides	.386	.015	.401
<u>Sleeves</u>			
Generic printed 1-4 color (minimum order 100,000)	.051	0	.051
Paper (minimum order 100,000):			
1-color	.09	0	.09
2-color	.106	0	.106
4-color	.124	0	.124

EXHIBIT B

7" Discs - 45 r.p.m. or 33-1/3 r.p.m.

The Basic Price applicable to standard 7" Discs includes all of the following services and items:

1. Metal parts
2. Pressing of the Disc
3. Label copy set-up
4. Printing negatives for label backdrops
5. Completely printed standard (up to 4-color) label backdrops
6. Plain white sleeve
7. Collation into sleeve
8. Packed 25 Records per box and 8 such boxes per carton
9. Six (6) test pressings. Additional test pressings will be supplied at a charge of \$2.00 each.

Company to supply at its own expense the following:

1. Lacquer masters. Capitol will provide lacquer mastering for a charge of \$62.50 per side.
2. Label copy
3. Items specially requested by Company.

FOR A BASE PRICE OF: \$0.24

MINIMUM ORDER QUANTITIES

Initial orders: 10,000 units

Reorders: 1,000 units

EXHIBIT B Cont'd

7" Discs - 45 r.p.m. or 33-1/3 r.p.m. - Miscellaneous Charges

	<u>Sleeves</u>		
	<u>Material</u>	<u>Labor</u>	<u>Total Cost</u>
Custom 4- color (minimum order 5,000)	.176	0	.176
Generic 2-color PMS (with or without hole) (minimum order 100,000)	.057	0	.057

EXHIBIT C-1

Pre-Recorded Cassettes

The Basic Price applicable to standard Cassettes includes all of the following services and items:

1. "Production running Master" tapes
2. Clear Cassette shell as per current Capitol standards and specifications
3. Duplication on GS-1 super-ferric oxide tape (or equivalent). Any other formulation will involve an additional charge to be quoted at the time an order is placed.
4. Direct printing on Cassette, both sides
5. Clear Norelco-type box as per current Capitol standards and specifications
6. Cassette, collated with insert into clear Norelco-type box
7. Film wrapped in 50 gauge shrink wrap
8. Packed 25 per carton
9. Six (6) test cassettes. Additional test cassettes will be provided at a charge of \$2.00 each.

Company to supply at its own expense the following:

1. EQ tape copies ("sub-masters")
2. Standard custom "J-card" or "U-card," and obsolescence thereon
3. Camera-ready label copy mechanicals for Apex printer
4. Items specially requested by Company.

EXHIBIT C-1 Con't

FOR BASE PRICE OF:

	<u>Time*</u>	<u>Super Ferric</u>	<u>Chrome</u>
	0 - 9:00	\$0.40	\$0.43
	9:01 - 19:00	\$0.55	\$0.57
	19:01 - 26:00	\$0.59	
\$0.63		26:01 - 34:00	\$0.67
\$0.74		34:01 - 45:00	\$0.77
\$0.90		45:01 - 48:00	\$0.91
\$1.06			

\*Longest side

MINIMUM ORDER QUANTITIES

Initial orders: 3,000 units

Reorders: 500 units

EXHIBIT C-2

Cassette Singles

The Basic Price applicable to standard Cassette Singles includes all of the following services and items:

1. "Production running Master" tapes
2. Clear Cassette shell as per current Capitol standards and specifications
3. Duplication on GS-1 super-ferric oxide tape (or equivalent). Any other formulation will involve an additional charge to be quoted at the time an order is placed.
4. Direct printing on Cassette, both sides
5. Cassette collated into slipcase
6. Film wrapped in 50 gauge shrink wrap
7. Packed 25 per carton
8. Six (6) test cassettes. Additional test cassettes will be provided at a charge of \$2.00 each.

Company to supply at its own expense the following:

1. EQ tape copies ("sub-masters")
2. Standard 4-color custom cardboard slipcase ("O-card"), and obsolescence thereon
3. Camera-ready label copy mechanicals for Apex printer
4. Items specially requested by Company.

FOR A BASE PRICE OF:       \$.375 if under 9 minutes\*  
                                     \$.475 if between 9-19 minutes\*

\*Longest side

MINIMUM ORDER QUANTITIES  
Initial orders: 3,000 units  
Reorders: 500 units

EXHIBIT C-3

Cassette Singles In Long Box

The Basic Price applicable to standard Cassette Maxi-Singles includes all of the following services and items:

1. "Production running Master" tapes
2. Clear Cassette shell as per current Capitol standards and specifications
3. Duplication on GS-1 super-ferric oxide tape (or equivalent). Any other formulation will involve an additional charge to be quoted at the time an order is placed.
4. Direct printing on Cassette, both sides
5. Cassette collated into cardboard slipcase
6. Cardboard slipcase and cassette collated into long box
7. Long box film wrapped in 50 gauge shrink wrap
8. Packed 25 per carton
9. Six (6) test cassettes. Additional test cassettes will be provided at a charge of \$2.00 each.

Company to supply at its own expense the following:

1. EQ tape copies ("sub-masters")
2. Standard 4-color custom cardboard slipcase ("O-card"), and obsolescence thereon
3. Standard 4-color 3x12 custom long box, and obsolescence thereon
4. Camera-ready label copy mechanicals for Apex printer
5. Items specially requested by Company.

EXHIBIT C-3 Con't

FOR A BASE PRICE OF:      \$.54 if under 9 minutes\*  
                                      \$.65 if between 9-19 minutes\*

\*Longest side

MINIMUM ORDER QUANTITIES

Initial orders: 3,000 units

Reorders: 500 units

EXHIBIT C Cont'd

Pre-Recorded Cassettes - Miscellaneous Charges

Stickers

1-Color

	<u>Material</u>	<u>Labor</u>	<u>Total Cost</u>
1/2" x 1"	.039	.015	.054
7/8" x 1-1/2"	.039	.015	.054
9/16" x 1-7/8"	.039	.015	.054
1" x 2"	.04	.015	.055
2" square or circle	.04	.015	.055
2-1/2" square or circle	.046	.015	.061
2" x 3"	.047	.015	.062

2-Color

1/2" x 1"	.052	.015	.067
7/8" x 1-1/2"	.052	.015	.067
9/16" x 1-7/8"	.052	.015	.067
1" x 2"	.053	.015	.068
2" square or circle	.053	.015	.068
2-1/2" square or circle	.06	.015	.075
2" x 3"	.061	.015	.076

J Cards

4 color front/1 color black reverse  
(minimum order 5,000)

2 panel	.02	0	.02
3 panel	.034	0	.034
4 panel	.06	0	.06
5 panel	.072	0	.072

EXHIBIT C Cont'd

U Cards

4 color front/1 color black reverse  
(minimum order 5,000)

2 panel	.04	0	.04
3 panel	.06	0	.06
4 panel	.072	0	.072
5 panel	.08	0	.08

Other

4 x 12 long box - 4 color (minimum order 5,000)	.295	0	.295
Slipcase (0 card) - 4 color (minimum order 5,000)	.065	0	.065
3 x 12 single box - 4 color (minimum order 5,000)	.23	0	.23

EXHIBIT D-1

Compact Discs

The Basic Price applicable to standard Compact Discs includes all of the following services and items:

1. Glass mastering and P-Q editing
2. Bare disc, printed up to 2 colors
3. Jewel box and tray as per current Capitol standards and specifications
4. Assembly, collation and film wrapped in 50 gauge shrink wrap
5. Packed 25 per carton.

Company to supply at its own expense the following:

1. Camera-ready label copy mechanicals
2. Folder, inlay card, and insert (if any)
3. Blister pack or 6x12 long box, and obsolescence thereon
4. Items specially requested by Company.

FOR A BASE PRICE OF: \$1.40

MINIMUM ORDER QUANTITIES

Initial orders: 2,500 units

Reorders: 500 units

EXHIBIT D-2

Compact Disc 3" Singles (Up To 20 Min. 18 Sec.)

The Basic Price applicable to standard Compact Disc Singles includes all of the following services and items:

1. Glass mastering and P-Q editing
2. Bare disc, printed up to 2 colors

Company to supply at its own expense the following:

1. Camera-ready label copy mechanicals
2. Color separations for packaging art
3. Packaging, and obsolescence thereon
4. Items specially requested by Company.

FOR A BASE PRICE OF: \$.75

MINIMUM ORDER QUANTITIES

Initial orders: 3,000 units

Reorders: 500 units

EXHIBIT D Cont'd

Compact Discs - Miscellaneous Charges

Stickers

2 Color

	<u>Material</u>	<u>Labor</u>	<u>Total Cost</u>
3" x 3"	.06	.019	.079
2-1/2" x 3"	.06	.019	.079
2-1/2" x 3-5/8"	.06	.019	.079
3" x 4"	.068	.019	.087
3" x 5"	.084	.019	.103
3-15/16" square	.084	.019	.103
3" x 6"	.090	.019	.109

Printing

Over 2 color and/or center printing on disc	0	.10	.10
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Inserts

Insertion	0	.02	.02
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Inlay and Folder

4 color front/1 color black reverse  
(minimum order 5,000)

4 panel	.12	0	.12
6 panel	.175	0	.175
8 panel	.195	0	.195

CD Inlay and Booklet

4 color front/1 color black reverse  
(minimum order 5,000)

8 page	.195	0	.195
12 page	.225	0	.225
16 page	.23	0	.23

EXHIBIT D Cont'd

Packaging

Box - 4 color (minimum order 5,000)	.295	0	.295
Box - generic - 4 color with window (minimum order 100,000)	.206	0	.206
Blister pack	.25	0	.25

EXHIBIT E

General Miscellaneous Charges

	<u>Material</u>	<u>Labor</u>	<u>Total Cost</u>
Inserts:			
Normal	*	.015	*
Booklet	*	.015	*
Poster	*	.015	*
7" Insert	*	.015	*
Rubber Stamping	0	.025	.025
Collating 2 Record set	0	.01	.01
3 Record set	0	.02	.02
4 Record set	0	.03	.03
Jackets			
12" White Jacket with hole	.17	0	.17
12" White Jacket no hole	.14	0	.14
Double Fold White Jacket	.28	0	.28
Hole punch	0	.02	.02
Band Saw	0	.015	.015
Starburning	0	.01	.01
75 Gauge shrink wrap	.0365	0	.0365
100 Gauge shrink wrap	.0515	0	.0515
150 Gauge shrink wrap	.0715	0	.0715

\*Does not include cost of components.

DISTRIBUTION AGREEMENT

This Distribution Agreement (the "Agreement") is entered into on \_\_\_\_\_ by and between CEMA Distribution ("CEMA"), a division of Capitol Records, Inc., a Delaware corporation ("Capitol") and \_\_\_\_\_, a \_\_\_\_\_ corporation, ("Company"), in view of the following facts:

RECITALS

A. Company is engaged in the business of acquiring rights in and producing master recordings for the manufacture and distribution of Records derived therefrom.

B. CEMA is engaged in the business of distributing Records.

C. Company desires for CEMA to distribute Records manufactured by or for Company from Masters owned or controlled by Company, through Normal Record Retail Channels.

D. Simultaneously herewith, the parties are entering into a Security Agreement (the "Security Agreement"), and Company is entering into a Manufacturing Agreement (the "Manufacturing Agreement") with Capitol.

THEREFORE, it mutually is agreed as follows:

1. Definitions:

As used in this Agreement, the following terms shall have the meanings set forth below:

a. "Master" or "Masters" shall mean and refer to all recordings embodied in any form (including audio and audio-video recordings) from which Records may be derived, now or hereafter owned, controlled, licensed or distributed by Company, or by any Person which is, directly or indirectly, affiliated with Company by common ownership or control.

In this context, the phrase "owned, controlled or distributed" by Company shall be interpreted in a manner that is commercially reasonable in light of industry practices. For example, if a Person affiliated with Company by common ownership or control produces an artist for some other record company, and receives a producer's royalty, Company shall be under no obligation to distribute records derived from masters recorded by such artist through CEMA. On the other hand, if such Person owns or controls such masters, or owns or controls a significant interest in a Person which owns or controls those masters, then

records derived therefrom are subject to CEMA's exclusive distribution rights hereunder.

b. "Record" or "Records" shall mean and refer to all forms of discs, tapes and other devices (whether now known or unknown and howsoever used, and whether embodying sound alone or synchronized with or accompanied by visual images) upon which sound, derived in whole or part from Masters, is recorded, and which are manufactured into finished goods, including the package into which they are assembled.

c. "Disc" or "Discs" shall mean and refer to 12" vinyl and 7" vinyl or styrene analog phonograph Records (including those that are digitally mastered). 12" Discs shall include both albums and singles in that configuration.

d. "Cassette" or "Cassettes" shall mean and refer to pre-recorded analog or digital audio tape recordings in the cassette configuration (including those that are digitally mastered).

e. "Compact Disc" shall mean and refer to any Record from which sound is replayed by means of a laser.

f. "LP-Master" shall mean and refer to a set of Masters sufficient to constitute a 12" 33-1/3 RPM long-playing Disc (or the Cassette or Compact Disc counterparts thereof) embodying thereon not less than Eight (8) selections nor less than Thirty (30) minutes of playing time.

g. "Territory" shall mean and refer to the entire United States, and its territories and possessions, and shall include military and PX sales.

h. "Person" shall mean and refer to any natural person, firm, corporation, association, union, or other entity recognized by law.

i. Distribution or sale of records through "Normal Record Retail Channels" shall mean distribution or sale of records through subdistributors, one-stops, rack jobbers and/or dealers for sale to the consumer in retail record stores and other retail stores.

## 2. Appointment:

a. Company hereby appoints CEMA as its exclusive distributor during the Term of Records through Normal Record Retail Channels in the Territory, and grants and licenses to CEMA the exclusive right to distribute and sell Records through Normal Record Retail Channels in the Territory during the Term, including any extensions thereof.

b. CEMA shall not have the right to exploit Masters in any manner other than by sale and distribution of Records through Normal Record Retail Channels. Without limitation of the foregoing, CEMA may not:

(i) license Masters to third parties for use in soundtrack albums or other compilations (such as "K-Tel" type compilations, whether or not such compilations are sold by K-Tel or other firms engaged in similar endeavors, such as Priority Records, "Greatest Hits"-type records, so-called "Best Of," "Anthology" or "History Of" records, and similar records);

(ii) for special markets programs, such as television advertised for direct consumer telephone response and mail order fulfillment;

(iii) to firms such as Personics for the creation of customized point-of-purchase cassettes, or to firms such as Mobile Fidelity for the sale and distribution of half-speed mastered and other "premium" quality records;

(iv) in motion pictures or other audio-visual programs or commercials; or

(v) in connection with premium programs, or otherwise,

all of which rights are reserved by Company. Notwithstanding the foregoing, Company shall not sell Records directly to consumers by the so-called "mail order" method.

c. Notwithstanding the otherwise exclusive scope of CEMA's rights under this Agreement, Company reserves the exclusive right to license record clubs to manufacture and distribute records derived from masters, provided that:

(i) such licensed records are distributed by mail order only, in accordance with the merchandising method known and understood in the record business as "subscription" or "club" plan (as distinguished from over-the-counter sales by retail outlets);

(ii) no record shall be offered or shipped by any such record club either for sale or as a free or bonus record until Four (4) months after CEMA's release of that Record;

(iii) any such record club shall have the right to distribute Compact Discs only of those Records that

CEMA is then distributing in Compact Disc form;

(iv) the record club licensee specifically shall acknowledge CEMA's exclusive rights hereunder and shall promise, for CEMA's benefit, that it shall not infringe upon or otherwise violate such rights; and

(v) as between CEMA and Company, Company solely and exclusively shall be responsible for all costs and expenses incurred in connection with any agreement between Company and any such record club, including (without limitation) those connected with furnishing Masters and artwork, mechanical and artist royalty payments, A.F.M. payments, taxes, and administrative, overhead and accounting charges.

d. During the Term, Company shall not itself distribute Records through Normal Record Retail Channels in the Territory, or license or allow any Person other than CEMA to distribute Records through Normal Record Retail Channels in the Territory, except with respect to (i) special markets, pursuant to Paragraph 2.b., (ii) record clubs, pursuant to Paragraph 2.c., (iii) Records which CEMA elects not to distribute, pursuant to Paragraph 2.f., (iv) excess Inventory, pursuant to Paragraph 16.d., and (v) overstock or deleted Records, pursuant to Paragraph 17.

e. In furtherance of its appointment, CEMA shall have all rights reasonably attendant thereto, including (without limitation) the right to sell Records through independent distributors in Hawaii and Puerto Rico. Subject to the terms and conditions of this Agreement, CEMA hereby accepts such appointment and agrees to distribute Records hereunder.

f. CEMA hereby reserves the right to refuse to distribute at any time any Record that, in CEMA's sole judgment, is obscene, defamatory, unlawful, likely to result in disputes or litigation, infringes upon the rights of others, or that CEMA in its sole discretion otherwise determines is not appropriate for its distribution hereunder, or for distribution by a label distributed by CEMA through Company. CEMA also shall not be required to distribute any line of "classical" Records.

In such event, CEMA promptly shall notify Company in writing, and Company thereupon shall have the option to obtain the distribution of such Record by some alternative manner. CEMA's prior distribution of a Record shall not constitute a waiver of said right. Company shall have no right to contract for alternative distribution until its receipt of written notice from CEMA. CEMA's election not to distribute a particular Record shall not affect Company's obligation to distribute Records exclusively through CEMA, whether by the same or different

artists (except for those Records that CEMA specifically elects not to distribute). CEMA's distribution of a particular Record, or its failure to object to the contents of a particular Record on the grounds set forth, shall not constitute (expressly or impliedly) approval of or acquiescence in such contents of such Record.

g. Nothing in this Agreement shall be construed to prevent or restrict CEMA or Capitol from producing, manufacturing, distributing, promoting or otherwise exploiting Records, including those owned or controlled by Capitol or other Persons, whether or not competitive with any Records distributed hereunder.

h. While Company may enter into relationships of all kinds with artists and producers in the ordinary course of business, Company shall not sub-contract CEMA's services to be rendered hereunder to any other record company or label, nor shall Company enter into any agreement to sub-distribute records derived from masters owned or controlled by any such record company or label, without CEMA's prior written consent, which may not be based upon the aesthetic content of masters and which must be granted or withheld promptly upon Company's application therefor.

In this context, the phrase "record company or label" shall be interpreted in a manner that is commercially reasonable in light of industry practices, so as to exclude companies that merely are alter-egos of artists or production companies, but include independently viable, stand-alone businesses with a roster of artists and the capability (whether or not effectively realized) to market and promote records.

The purpose of this restriction is to protect Company and CEMA from unanticipated liabilities with regards to product fabrication and Returns. Therefore, as a condition of permitting Company to enter into any such agreement, CEMA (inter alia) may:

(i) require that any such record company or label grant to Company exclusive distribution rights in the Territory;

(ii) require Company to furnish to CEMA copies of any pertinent agreements between Company and such record company or label (which CEMA shall keep confidential);

(iii) require such record company or label to meet such financial and performance suitability standards that CEMA in its sole discretion determines are appropriate;

(iv) unilaterally increase the Reserve for records derived from masters owned or controlled by such record company or label; and/or

(v) require such record company or label to be financially responsible directly to CEMA for any Returns attributable to sales of records derived from masters owned or controlled by such record company or label.

In the event that CEMA approves Company's affiliation with any such record company or label:

(i) CEMA shall look solely to Company for all production coordination and marketing and sales decisions, and the sub-contracted record company or label shall refrain from any contact whatsoever with CEMA's branches or national sales staff. In that connection, Company's agreements with any such record company or label shall provide that Company shall render to such record company or label any and all production coordination and national and regional marketing and promotion services that may be necessary or desirable; and

(ii) if such record company or label formerly was distributed by some other distributor, and CEMA agrees to take Returns, CEMA may charge Company a distribution fee on returned records for which CEMA realized no compensating sales proceeds, together with other transition costs (such as stickering inventory).

3. Term:

a. The term of this Agreement (the "Term") shall commence on \_\_\_\_\_, and shall continue for an initial period (the "Initial Period") of Three (3) years (each Twelve (12) month period from and after the commencement date thus a "Year of the Term").

b. Company hereby grants to CEMA Two (2) options, each to extend the Term for additional consecutive periods of One (1) year, commencing with the expiration of the Initial Period ("Option Periods"). Each such option shall be exercisable by CEMA's giving written notice of exercise to Company not later than Three (3) months prior to the end of the then-current period.

c. Notwithstanding the foregoing, CEMA shall have the right to terminate this Agreement, by giving written notice thereof to Company, in the event that Net Sales of Records distributed pursuant hereto do not exceed the following tiers:

<u>Year of the Term</u>	<u>Net Sales</u>
First	\$3,000,000
Second	5,000,000
Third	7,500,000

4. Company's Representations and Warranties:

Company covenants, represents and warrants to CEMA as follows:

a. Company is a corporation in good standing and duly is qualified to transact business in the State of California. Company has the right, power and authority to enter into this Agreement, and to grant to CEMA the exclusive rights set forth herein. Company actively will function as a record company throughout the Territory during the Term.

b. With respect to each Record furnished to CEMA hereunder, Company presently is, and at the time of the manufacture, distribution, and sale of such Record will be, the sole owner, assignee or licensee in the Territory of: (i) the Master from which such Record is derived, (ii) all performances embodied in such Record, (iii) the right to manufacture and distribute such Record in the Territory, (iv) all applicable sound recording copyrights in such Record, (v) all applicable copyrights in the graphic materials used in connection with the packaging, merchandising and commercial exploitation of such Record, (vi) all trademarks and tradenames used in or on such Record, and (vii) the right to license CEMA to distribute such Record in the Territory.

Company shall register such sound recording and other copyrights with the United States Copyright Office, and shall file such trademarks with the United States Patent and Trademark Office. On CEMA's request, Company shall furnish CEMA with documents evidencing Company's rights as set forth in this subparagraph.

c. Simultaneously with the execution of this Agreement, Company shall execute a Memorandum of Agreement pursuant to 17 U.S.C. 205(d) and 37 C.F.R. 201.4 for recordation with the Registrar of Copyrights in the form of Exhibit "A" attached hereto, evidencing Company's grant to CEMA of the exclusive right to manufacture and distribute through Normal Record Retail Channels in the United States phonorecords in all configurations embodying Masters owned or controlled by Company. Company authorizes CEMA to file such further forms or documents with the Registrar of Copyrights that CEMA in its sole discretion deems necessary or appropriate in order to perfect, evidence or protect its interests hereunder, including (but not limited to) sound recording copyright registrations.

d. Company shall maintain clear title to all Masters and Records distributed hereunder throughout the Term. There presently are no liens, levies, encumbrances, claims, demands, disputes, litigation (or any other form of judicial or regulatory proceedings, pending or threatened), limitations of rights, or obligations upon, concerning or in connection with Masters (other than royalty obligations), Records derived therefrom, components or manufacturing parts therefor, or the rights granted to CEMA hereunder, and there shall be none during the Term. If, contrary to this representation and warranty, any such pending or threatened claim, demand, dispute or litigation should arise during the Term, Company immediately shall notify CEMA thereof in writing, and shall take whatever steps may be necessary or appropriate to defend any such claim or eliminate any such lien.

All costs of recording Masters have been paid in full. All of the performers and other Persons whose services were furnished in connection with recording Masters (and each selection thereon) were free to furnish such services, without such conduct constituting a violation of any contract, contractual restriction or duty owed to any Person. There are no outstanding judgments, writs, garnishments or attachments against Company or Company's property. Company shall not suffer or allow any such judgments, writs, garnishments or attachments to arise during the Term. If any such judgments, writs, garnishments or attachments should arise against Company during the Term, Company promptly shall take all appropriate efforts to satisfy or remove same.

e. Company presently has, and at the time of the manufacture and distribution of Records hereunder will have, the uncontested right and license to reproduce mechanically all compositions embodied in such Records, including all copyrighted compositions. In the event of any dispute as to the validity of Company's mechanical license, or as to the Person or Persons entitled to receive payment of license fees, Company authorizes CEMA (though CEMA shall not be required to take such action) to withhold from any payments otherwise due hereunder (or to bill Company for, which sum Company promptly shall pay) a sum equal to all disputed mechanical license fees until the final resolution of any such dispute.

Prior to its release of any Record hereunder, CEMA may (but shall not be required to) request Company to furnish CEMA with actual copies of Company's mechanical licenses for any or all of the compositions embodied on such Record, which Company thereupon promptly shall furnish to CEMA.

f. Masters, Records derived therefrom and all other materials and services furnished by Company hereunder, including (without limitation) advertising and promotion activities, album jackets and other packaging, artwork, liner notes, credits, merchandising materials and similar items or services: (i) shall

comply with all applicable laws and regulations, including (without limitation) those concerning trade regulation, payola, customs, obscenity, and (ii) shall not violate, breach or infringe any contractual right, common law right or statutory right of any Person whatsoever (living or deceased), including (without limitation) rights with respect to patents, trademarks, tradenames, copyrights, defamation, and rights of privacy and publicity.

g. All Masters have been and will be recorded in all respects in accordance with the applicable rules and regulations of the American Federation of Musicians ("A. F. of M."), and Company has made and will make payment in full for musician's services at not less than applicable A. F. of M. scale (including Pension and Welfare payments). This representation and warranty is included for the benefit of the A. F. of M. as well as CEMA, and also may be enforced by the A. F. of M., or by such Person(s) as the A. F. of M. may designate.

h. All AFTRA members whose performances are embodied on Masters have been, and will be, paid by Company not less than the minimum rates specified in the applicable AFTRA collective bargaining agreements. All payments due to the AFTRA Pension and Welfare funds have been, and will be made by Company. Company shall make any and all further AFTRA payments as and when due.

i. All Masters have been, and will be, recorded in accordance with the rules and regulations of all other unions having jurisdiction over the recording thereof.

j. All Records shall be on one of Company's labels (or a label distributed by Company) bearing such label's logo, all of which logos are duly registered Federal trademarks in the Territory. Company shall not use any label or trademark owned by CEMA or Capitol or licensed to CEMA or Capitol, by any other party.

k. Company shall perform, in a diligent and timely manner, all activities for which it is responsible pursuant to Paragraph 5. below, including making all payments required therein. At CEMA's request, Company shall furnish CEMA with complete documentation, in a form satisfactory to CEMA, evidencing Company's compliance with the provisions of Paragraphs 4. and 5. hereof.

l. During each Year of the Term (including any Option Periods if the options provided for herein are exercised by CEMA), Company shall deliver to CEMA for distribution hereunder Records embodying not less than Twelve (12) LP-Masters that have not been released previously in the Territory. Exhibit "B" attached hereto and incorporated herein by reference sets forth the titles of all Masters presently owned or controlled by

Company, together with estimated sales forecasts for each such Master for each year of the Initial Period. Records derived from the Masters identified on Exhibit "B" are subject to CEMA's exclusive distribution rights during the Term. The sales forecasts for each Master identified on Exhibit "B" are true, accurate and correct, to the best of Company's knowledge, information and belief.

5. Company's Obligations:

Company solely shall be responsible for all activities, and shall pay all costs, expenses and charges incurred in connection with:

a. All creative and artistic aspects of the content of Masters, and obtaining Masters, including (without limitation) all costs arising out of the creation of or the acquisition of Company's rights in Masters, and all steps required to utilize Masters in the manufacture of Records;

b. The manufacture of finished goods Records from Masters, in such configurations and quantities that Company determines, of a quality satisfactory to CEMA, including (without limitation) the procurement of all raw materials and labor, the assembly of all component parts into finished goods Records, and the packing of finished goods Records into CEMA's standard box-lot quantities ready for distribution by CEMA, subject to the Manufacturing Agreement executed contemporaneously herewith;

c. Obtaining a Universal Product Code Identification Number from the Uniform Code Council, Inc., and ensuring that appropriate bar code appears on all Records;

d. The timely delivery of Records f.o.b. to CEMA's distribution centers, in satisfactory condition and in quantities sufficient to meet CEMA's product flow requirements;

e. The payment of all costs and expenses incurred for shipment of Records by air or surface transportation from the plants where such Records are manufactured to CEMA's Distribution Centers in satisfactory condition;

f. The procurement, in writing, of all necessary rights, licenses, consents, authorizations and clearances to record, manufacture, use, sell, advertise, promote and distribute Records, including (without limitation):

(i) mechanical licenses for all copyrighted compositions embodied in any Record;

(ii) authorizations from each artist and any other Person whose name, likeness, performance or

services are embodied in any Record or in any advertising or promotional materials used in connection therewith; and

(iii) all consents and clearances necessary to use any copyrights, trademarks, tradenames, artist names, group names, artwork, patents or any similar intangible property rights of any Person in or on Masters, Records and accompanying printed materials;

g. The advertisement, promotion, and merchandising of Records in a professional manner, including (without limitation) the preparation of artwork and design layouts of all types, the furnishing of merchandising posters and displays for distribution by CEMA, promotion to radio and television for the purpose of attempting to secure air play, store reports, and the furnishing of all similar materials and services; and

h. The payment of all royalties, fees, costs and other sums payable to any third party in connection with Masters or CEMA's distribution of Records derived therefrom, including (without limitation) all royalties and fees payable to artists, producers, musicians, publishers, writers and other Persons; all mechanical license fees; Company's pro-rated share of dues payable by CEMA to the Recording Industry Association of America, Inc. ("RIAA"); and all synchronization license fees.

6. CEMA's Obligations:

a. Subject to the full and faithful performance by Company of all its obligations under or pursuant to this Agreement, CEMA shall furnish during the Term and at CEMA's expense:

(i) Warehousing of Company's Inventory of Records at CEMA's Distribution Centers and, if applicable, storage of components, such as jackets, sleeves, inserts, and promotional materials, subject to the provisions of Paragraph 16. hereof.

(ii) Scheduling the release of and soliciting sales of Company's Records to CEMA's accounts.

(iii) Subject to sufficient quantities of Records being on hand, order fulfillment, by picking, packing and shipping Records to CEMA's customers from Company's Inventory of Records at CEMA's Distribution Centers. CEMA may consolidate shipments of Company's Records with CEMA's own or those of other Persons that CEMA distributes.

(iv) Processing of Returns of Records distributed

by CEMA, subject of the provisions of Paragraphs 8., 10., 11., and 18. hereof.

(v) Billing and collection for Records shipped by CEMA to its customers, and crediting for Returns.

(vi) Sales and inventory reports pertaining to sales, Returns and Inventory of Records hereunder. CEMA will supply such information to Company via direct "on-line" access through CEMA's computer system; however, Company shall pay for the costs of all computer hardware, software necessary to access CEMA's system or format data therefrom, installation and all data access or transmission charges imposed by third-party vendors, e.g., AT&T.

(vii) Marketing Records to CEMA's customers, including the services of CEMA's national and branch marketing staffs; provided, however, that CEMA reserves the exclusive prerogative to establish priorities for its national and field sales and marketing staff.

(viii) Space at CEMA's branch offices for Company's label personnel; provided, however, that (A) CEMA's only obligation in this connection shall be to furnish space, as available and at CEMA's discretion, and Company shall pay for all telephone, fax, copier, postage, parking, or other variable or fixed costs attributable to its personnel, and (B) if CEMA commences charging all of its client labels for branch office space, CEMA may charge Company in proportion to Company's actual use thereof.

b. CEMA will, on Company's written request, distribute merchandising materials to CEMA's customers in the manner that CEMA normally distributes such items. Any such merchandising materials shall be furnished by Company at Company's sole cost and expense. Company also shall pay CEMA's fulfillment costs and all postage, freight or shipping and handling charges attributable to such distribution.

c. CEMA will not spend money for customer advertising unless Company previously has allocated funds to CEMA for such purpose; provided, however, that Company shall accrue and hereby allocates to CEMA a fund for customer advertising, to be committed by CEMA to CEMA's customers in CEMA's sole discretion, in the amount of 1.5% of estimated Gross Sales for each project released by Company, subject to reconciliation and reporting to Company by CEMA or CEMA's customer advertising sub-contractor. Thus, at the time CEMA solicits sales of a project to CEMA's customers (whether on initial release or in connection with subsequent re-orders), CEMA shall be authorized to commit 1.5% of

the estimated Gross Sales of such release to CEMA's customers for customer advertising purposes. Such sum shall not be deductible by CEMA from its periodic statements to Company, except pursuant to this sub-paragraph. CEMA will advise Company of CEMA's customers' additional customer advertising requirements, and implement and administer additional customer advertising as requested and allocated by Company.

At CEMA's election, CEMA may:

(i) advance customer advertising funds previously allocated by Company, which shall be deducted from net proceeds otherwise payable to Company (or the Reserve) in the month during which CEMA credits its customer on account of such advertising;

(ii) charge and bill Company for customer advertising, which sum Company promptly shall pay; or

(iii) require Company to fund customer advertising at the time it is allocated, by depositing the amount of the advertising allocated with CEMA.

Subject to CEMA's then-current policies, CEMA (or its subcontractor) will examine all advertising claims submitted by its customers; furnish reports thereof to Company; and credit to its customers advertising funds pursuant to Company's previous allocation. At Company's written request, CEMA will furnish Company with copies of advertising claims submitted by its customers; provided, however, that:

(i) CEMA shall have no obligation to furnish Company with copies of any claim after more than One (1) year from the date upon which such claim is submitted; and

(ii) in no event shall CEMA be required to furnish Company with copies of back-up materials or "tear sheets" accompanying co-op advertising claims for print media.

7. No Minimum Sales Warranty:

CEMA has not made, and does not hereby make, any representation or warranty of any kind or nature with respect to the quantities of Records that may be sold or returned, the time within which they shall be shipped, or the prices at which the same may be sold or the proceeds that will or may be derived by CEMA or Company pursuant to this Agreement. The extent of sales and Returns of Records hereunder, and the amount of proceeds that may be derived therefrom, is speculative. The judgment of CEMA with regard to any matters affecting the sale or distribution of