

Contract No. *CRI-D-1017*

Los Angeles, California

Date: October 1, 1985

DISTRIBUTION AGREEMENT

This Distribution Agreement ("Agreement") is made as of October 1, 1985 by and between Rhino Records, Inc. a California corporation ("RHINO") and Capitol Records, Inc., a Delaware corporation ("CAPITOL").

RECITALS

A. RHINO is engaged in the business of acquiring and producing audio masters and manufacturing records and tapes derived therefrom.

B. RHINO desires CAPITOL to distribute throughout the Territory all audio disc and tape records manufactured by or for RHINO during the term of this Agreement derived from all masters now or hereafter owned or controlled by RHINO ("the Masters"), including without limitation all compilation sound recordings produced by RHINO embodying Masters ("Compilation Masters").

NOW, THEREFORE, the parties hereto agree as follows:

1. RHINO hereby authorizes and appoints CAPITOL to be RHINO's exclusive distributor during the term hereof in the Territory (as that term is defined in Paragraph 33.d. hereof), either directly or through such licensees as CAPITOL may in its sole discretion designate, of all audio disc and tape records (hereinafter "Records") manufactured by or for RHINO from the Masters.

2. The term of this Agreement shall commence on the date hereof and shall continue for an initial period of thirty (30) months ("Initial Period"). RHINO hereby grants to CAPITOL one (1) option to extend the term of this Agreement for a period of one (1) year, said option period to commence at the expiration of the Initial Period. The option may be exercised, if at all, by CAPITOL's giving RHINO written notice of such exercise at any time prior to the expiration of the Initial Period.

3. RHINO will deliver or cause to be delivered to CAPITOL, at CAPITOL's Distribution Centers, finished Records in box lots.

4. RHINO shall be solely responsible for, and shall pay all costs in connection with:

a. All activities and costs in connection with the Masters, including without limitation all costs arising out of the creation of, and/or the acquisition of RHINO's rights in, the Masters.

b. All activities and costs in connection with the manufacture of finished Records from the Masters, including without limitation, all jackets, sleeves, inserts, bar coding and other components of the finished Records.

c. Obtaining all mechanical licenses and paying all mechanical license fees; filing copyright registration on all recordings subject to copyright; obtaining all consents, authorizations and clearances with respect to the reproduction, use and commercial exploitation of the Masters; obtaining all consents, authorizations and clearances with respect to the services, names, and likenesses of any person whose performances and/or services are embodied in any Record distributed hereunder; and providing CAPITOL with complete documentation, in a form satisfactory to CAPITOL, evidencing RHINO's compliance with the requirements of this Paragraph 4. and RHINO's ownership or exclusive control of the Masters as warranted in Subparagraph 5.a.

d. All advertising, promotional, merchandising and similar materials and services in connection with the Records, including without limitation ordering of Records.

5. RHINO represents and warrants to CAPITOL as follows:

a. RHINO is the owner, or a licensee of the owner for the Territory, of the Masters delivered hereunder, of all performances embodied therein, all records, tapes and reproductions derived therefrom, and all sound recording copyrights therein. No person, firm or corporation other than RHINO has any rights in or to the Compilation Masters, or any copy thereof in the Territory;

b. RHINO is duly qualified to do business in the state of California and has the full right, power and authority to enter into this Agreement; and RHINO has not done or permitted to be done anything which may curtail or impair any of the rights given or granted herein; and

c. There are no liens, encumbrances, rights, or obligations upon or in connection with the Compilation Masters nor in connection with the production and/or recording of the Compilation Masters, other than those granted to CAPITOL herein; and (i) all costs of recording have been paid in full; and (ii) all of the performers and other persons whose services were rendered in connection with the recording of the Masters were contractually free to record phonograph records of the selection embodied in the Masters for RHINO; and

d. RHINO has and will have the right to record and reproduce mechanically any and all musical compositions (the "Compositions") embodied in the Masters; and

e. Provided that CAPITOL's distribution and sale of Records hereunder is in accordance with the terms and conditions of this Agreement, none of the Records, the Compositions, the Masters, or any other materials or services supplied by RHINO hereunder including, without limitation, album jackets or other packaging, artwork liner notes, advertising and promotion materials and advertising marketing services (the "Materials"), nor RHINO's authorization and appointment of CAPITOL to distribute and sell the same, violate or infringe, or will violate or infringe, any statute or law, or any common law or statutory rights of any person whatsoever, including, without limitation, contractual rights, copyrights, trade marks, rights of privacy and publicity, and obscenity laws; and

f. There is not, and will not be any claim, demand, or any form of litigation or other judicial or regulatory proceeding whatsoever pending or threatened with respect to any of the Records, the Masters, the Compositions, or the Materials; and

g. Except as otherwise expressly set forth in Paragraph 28. hereof, RHINO will not at any time during the term hereof, as the same may be extended pursuant to the provisions of Paragraph 2. hereof, distribute or allow any person other than CAPITOL to distribute the Records or any reproductions of the Masters in the Territory; and

h. The Masters have been and will be recorded in all respects in accordance with the rules and regulations of the American Federation of Musicians ("A.F.M.") and RHINO has made and will make payment in full for the musicians' services at not less than applicable A.F.M. scale (including Pension and Welfare payments), it being understood and agreed that this representation and warranty is included for the benefit of the A.F.M. as well as for that of CAPITOL and may also be enforced by the A.F.M. or by such person or persons as the A.F.M. may designate; and

i. The Masters have been and will be recorded in accordance with the rules and regulations of any other unions having jurisdiction over the recording thereof; and

j. All AFTRA members whose performances are embodied on the Masters have been and will be paid not less than the minimum rates specified in the applicable AFTRA collective agreements and all payments due to the AFTRA Pension and Welfare funds have been and will be made; and

k. All other costs and expenses in connection with the recording of the Masters have been and will be paid, and all necessary licenses, consents or clearances have been and will be obtained; and

l. RHINO will be solely responsible for and shall pay any and all artists' royalties, musicians' royalties, producers' royalties, publishers' and/or writers' mechanical and synchronization royalties, payments to the A.F.M. Music Performance Trust Fund and Special Payments Fund, and any and all other royalties or similar payments as may be or become payable in connection with the Masters, the Compositions, the Materials, and the Records; and RHINO will collect and remit all taxes, other than taxes on the income or earnings of CAPITOL, which may be payable by reason of the manufacture, sale, and distribution of the records in the Territory; and

m. RHINO and CAPITOL acknowledge and agree that parties other than CAPITOL and RHINO, including without limitation RHINO's licensors and other licensees, may have rights in Masters licensed to RHINO, including without limitation the rights to manufacture and sell records derived from such Masters.

6. CAPITOL will furnish:

a. Warehousing of finished Records and, if applicable, finished jackets, sleeves, inserts and other components ("Inventory) at its Distribution Centers;

b. Shipment of finished goods to CAPITOL's customers at CAPITOL's expense, as ordered by RHINO, except as provided below with respect to so-called "cutouts"; and

c. Billing for Records delivered to customers and collection thereof.

7. From and after December 31, 1985 (and as of the end of each monthly period thereafter), CAPITOL may, by written notice to RHINO, request RHINO to remove so much of its inventory of

Records (including lp-discs, audio tapes, audio-video tapes, singles, and paper components) from CAPITOL's warehouses which exceeds fifty percent (50%) of CAPITOL's sales of the Records in the six (6) month period immediately preceding the date as of which said request is made. RHINO shall, within thirty (30) days after such request, remove such excess inventory from CAPITOL's custody, but RHINO shall not be entitled to dispose of such inventory except pursuant to the terms and provisions of this Agreement. If RHINO fails to remove such excess inventory within such thirty (30) day period, RHINO hereby authorizes CAPITOL to ship such excess inventory to RHINO, freight collect; and, in the event RHINO fails to accept such inventory and/or fails to agree to pay for such freight charges, CAPITOL may scrap such excess inventory at CAPITOL's sole discretion.

8. RHINO shall pay the freight charges (including charges for air and/or surface shipment) for shipment from the plants where the Records and merchandising materials are pressed or fabricated to CAPITOL's Distribution Centers and merchandising warehouses. If RHINO's Records are manufactured by CAPITOL, the freight charges for shipments of RHINO's Records to CAPITOL's Distribution Centers shall be the cost charged to CAPITOL by CAPITOL's shipper, adjusted on a pro-rata basis to reflect the portion of the shipment represented by RHINO's Records. Notwithstanding anything in the foregoing to the contrary, during the period from October 1, 1985 through and including December 31, 1985 only, RHINO shall pay the freight charges (including charges for air and/or surface shipment) for shipment of Records and merchandising material to one (1) of CAPITOL's Distribution Centers only (to be chosen by RHINO); and during such period CAPITOL shall be responsible for subsequent shipments of such Records and merchandising material between CAPITOL's Distribution Centers.

9. With respect to net sales by CAPITOL of Records distributed hereunder in the Territory, CAPITOL will pay RHINO (1) until Full Recoupment (as that term is defined in Paragraph 31. hereof) of the Recoupable Advance by CAPITOL: Seventy-eight percent (78%) of CAPITOL's selling price to subdistributors (or seventy-eight percent (78%) of CAPITOL's price to independent distributors and military exchanges on sales to those classes of customers) for such Records in the Territory; and (2) from and after Full Recoupment of the Recoupable Advance by CAPITOL: Eighty percent (80%) of CAPITOL's selling price to subdistributors (or eighty percent (80%) of CAPITOL's price to independent distributors and military exchanges on sales to those classes of customers) for such Records in the Territory. Such prices are subject to change without notice to RHINO.

10. CAPITOL shall be entitled to a two percent (2%) cash discount for any payment by CAPITOL to RHINO on or before the

last day of the second full calendar month following the end of the monthly period with respect to which such payment is due.

11. CAPITOL shall render statements setting forth the sales and returns of Records distributed hereunder and the amount, if any, due RHINO therefor on a monthly basis, commencing on the last day of the second (2nd) month following the initial distribution by CAPITOL of a Record hereunder. Such statements shall thereafter be rendered within sixty (60) days after the end of each monthly period during the term hereof. Subject at all times to the provisions of Paragraph 27. hereof, amounts owing to RHINO, less a reasonable reserve against returns, shall be paid with CAPITOL's statement. During the first one (1) year period of the term of this Agreement ("Initial Reserve Period"), the reserve for returns shall be twenty percent (20%) of the amount shown to be owing from CAPITOL to RHINO on account of distribution of Records hereunder. Upon expiration of the Initial Reserve Period and semi-annually thereafter, the reserve percentages with respect to all records shall be subject to review and modification by CAPITOL in good faith consultation with RHINO. All such modifications shall be based upon a reasonable and prudent relationship between the actual number of RHINO's Records returned to Capitol during the twelve (12) month period immediately preceding CAPITOL's review and the reserve percentages for the subsequent six (6) month period; provided, however, that subject to the provisions of Paragraph 27. hereof, reserves shall be liquidated in equal one-sixth (1/6) amounts during each of the six monthly accounting periods following the date of the first withholding thereof and such reserves shall not exceed fifty percent (50%) of the amount shown to be owing from CAPITOL to RHINO on account of distribution of Records hereunder. Notwithstanding the foregoing, CAPITOL shall have no obligation to liquidate reserves during the six (6) month period immediately preceding the termination of this Agreement, whether by expiration of the term, notice of termination, or otherwise and CAPITOL shall be entitled to increase reserves for returns during such six (6) month period to fifty percent (50%) of the amount otherwise payable to RHINO by CAPITOL hereunder.

12. Provided that RHINO shall have theretofore notified CAPITOL in writing of its objections to such statement, specifying with particularity each element of such statement to which objection is made, RHINO may, at any time within one (1) year after any statement is rendered to RHINO hereunder, examine the books and records of CAPITOL described below with respect to such objections. Such examination shall be conducted at RHINO's sole cost and expense by RHINO's Controller or an independent certified public accountant designated by RHINO, either of whom shall certify that (i) he will conduct such examination in

accordance with the then-current rules and regulations of the applicable society of Certified Public Accountants; and (ii) such examination shall be made in accordance with generally accepted accounting principles. Such examination shall be made during CAPITOL's usual business hours at the place where CAPITOL maintains the books and records described below, and RHINO's examination shall be limited to the same. RHINO's sole right to inspect CAPITOL's books and records shall be as set forth in this Paragraph 12, and CAPITOL shall have no obligation to produce such books and records more than once with respect to each statement rendered to RHINO nor more than twice in any calendar year. Without limiting the generality of the foregoing, CAPITOL shall have no obligation to furnish RHINO with any books or records that do not specifically show sales, gratis distribution and scrapping of phonograph records as to which monies may be payable to RHINO hereunder; provided, however, that CAPITOL shall make available for RHINO's inspection books and records showing the disposition of all Records delivered by RHINO to CAPITOL hereunder. CAPITOL shall have no obligation to furnish RHINO with any additional books or records. Except with respect to objections made by RHINO in accordance with the first sentence of this Paragraph, each statement rendered to RHINO shall be final, conclusive and binding on RHINO and shall constitute an account stated. RHINO shall be foreclosed from maintaining any action, claim or proceeding against CAPITOL in any forum or tribunal with respect to any statement or accounting due hereunder unless such action, claim or proceeding is commenced against CAPITOL in a court of competent jurisdiction within three (3) years after the date of such statement or accounting is rendered.

13. No payment shall be due from CAPITOL on Records (a) given away for promotional purposes to disc jockeys, radio and television stations or networks or others; or (b) distributed as a sales inducement or otherwise and invoiced on a "no charge" basis to independent distributors, subdistributors, dealers and others ("Free Goods"); or (c) sold at CAPITOL's "close-out" price; provided, however, that, except as expressly approved hereinbelow, CAPITOL shall not distribute Records as Free Goods without the written consent of RHINO. Albums distributed as Free Goods to independent distributors, subdistributors and dealers shall be distributed only with the written consent of RHINO and only pursuant to sales programs of limited duration. RHINO shall have the right to participate in sales programs and discount programs involving less than company-wide application by notifying CAPITOL of RHINO's desire to participate and specifying the particular albums and terms upon which RHINO requests CAPITOL to make such sales or give such discounts prior to RHINO's inclusion in such programs. CAPITOL shall be entitled to charge to RHINO the actual dollar amount of discounts given to CAPITOL's

customers under discount programs requested or approved by RHINO. RHINO hereby approves the following standard Free Goods programs with respect to seven-inch (7") singles: For every one hundred (100) 7" singles ordered, CAPITOL shall be permitted to ship one hundred (100) such 7" singles and bill its customer for a sale of eighty (80) such 7" singles. RHINO hereby approves the following standard Free Goods programs with respect to twelve-inch (12") singles: For every one hundred (100) 12" singles ordered, CAPITOL shall be permitted to ship one hundred (100) such 12" singles and bill its customer for a sale of ninety-one (91) such 12" singles.

14. If returns of Records in any monthly period exceed sales, CAPITOL shall be entitled to bill RHINO for the overpayment by CAPITOL and RHINO shall be entitled to a two percent (2%) cash discount on payments received by CAPITOL on or before the thirtieth (30th) day following the date of such billing. Unless otherwise instructed by RHINO in writing, CAPITOL shall ship to RHINO all shop-worn Records returned to CAPITOL by its customers. RHINO shall not be entitled to dispose of such shop-worn records except pursuant to the terms and conditions of this Agreement. "Shop-worn" Records are those Records, in any configuration, which, by CAPITOL's standards, are deemed to be so damaged as to be unsaleable and not economically salvageable.

15. Inventory shall at all times be RHINO's property, subject, however, to the terms and conditions of the Security Agreement attached hereto as Exhibit "A" and fully incorporated herein by this reference. All Records shall be on RHINO's label bearing RHINO's logo, both of which RHINO warrants are duly registered federal trademarks in the United States. Subject to CAPITOL's rights and remedies under the Security Agreement, at the end of the term RHINO will promptly instruct CAPITOL with respect to disposition of all Inventory. RHINO shall be entitled to take physical inventory of the Records distributed hereunder; provided, however, that any such inventory must coincide with the regular CAPITOL annual physical inventory at the applicable factory or Distribution Center. All transfers and removals of inventory shall be at RHINO's expense and the quantities of such transferred or removed inventory shall be subject to a shrinkage allowance of two percent (2%). All returns after the end of the term shall be RHINO's sole responsibility. RHINO shall remove its inventory from CAPITOL's custody within thirty (30) days after CAPITOL's written demand for such removal. The cost of such removal (including charges for CAPITOL's loading services, if any) and storage charges from and after the thirty-first (31st) day following such written demand shall be paid by RHINO. If RHINO's inventory, or any portion thereof, is not removed from

CAPITOL's facilities within forty-five (45) days from the date of such written demand, RHINO hereby authorizes CAPITOL, in addition to all other remedies available to CAPITOL, to sell such inventory as "cut-outs" or to scrap such inventory, with the cost of any scrapping to be borne by RHINO. CAPITOL shall have the right to mark inventory returned by CAPITOL to RHINO in such a way as to distinguish such returned inventory from those Records sold by CAPITOL pursuant to this Agreement.

16. Subject to the terms and provisions of Exhibit "A" hereto, RHINO shall have the right, with CAPITOL's consent, to delete Records from CAPITOL's catalog and will have full responsibility for all inventory and returns of such Records after such deletion. If RHINO wishes to sell all or any part of such inventory of deleted Records, shipment and collection shall be the sole responsibility of RHINO. At any time after RHINO deletes one or more Records, CAPITOL may, by written notice to RHINO, require RHINO to remove its inventory of such Record or Records from CAPITOL's warehouses and RHINO shall do so within thirty (30) days after such notice. The cost of such removal (including charges for CAPITOL's loading services, if any) and storage charges from and after the thirty-first (31st) day following such notice shall be paid by RHINO.

17. The risk of loss of RHINO's property in CAPITOL's possession (i.e., finished goods inventory, finished jackets, inserts, and other components) shall be borne by CAPITOL, and CAPITOL shall obtain insurance coverage for such property.

18. If RHINO desires to furnish prizes or "spiffs" to CAPITOL salesmen and district managers, such programs must be approved in writing by RHINO and CAPITOL. If CAPITOL agrees to pay for such prizes or "spiffs", CAPITOL shall be entitled to recoup such payments from any monies due RHINO from CAPITOL.

19. a. All notices, statements and payments which CAPITOL may be required or desire to serve upon RHINO shall be served by depositing same, postage prepaid, in any mail box, chute, or other receptacle authorized by the United States Post Office Department for mail, addressed to RHINO at the address below its signature, or at such other address as RHINO may from time to time designate by written notice to CAPITOL pursuant to Paragraph 19(b). The date of service of any notice, statement, or payment so deposited shall be five (5) business days following the date of deposit.

b. All notices, statements, and payments which RHINO may be required or desire to serve upon CAPITOL shall be served by depositing same, postage prepaid, 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, or at such other address as CAPITOL may from time to time designate by written notice to RHINO pursuant to Paragraph 19(a). The date of service of any notice, statement, or payment so deposited shall be five (5) business days following the date of deposit.

20. Upon RHINO's written request CAPITOL will hand-deliver Records to radio stations normally serviced by CAPITOL on a hand-delivery basis. Upon RHINO's written request, and at RHINO's sole expense for such materials, CAPITOL will furnish RHINO's merchandising materials (as provided by RHINO) to CAPITOL's customers in the same manner that such merchandising materials are normally furnished by CAPITOL; provided, however, that any postage expense for mailings of such materials done at RHINO's request shall be borne solely by RHINO.

21. Nothing in this Agreement shall be construed to prevent or restrict CAPITOL from producing, distributing, promoting and otherwise exploiting records of any kind, including those produced by itself or other persons, whether or not competitive with any of the Records distributed hereunder.

22. CAPITOL has not made and does not make hereby, any representation or warranty of any kind or nature with respect to the quantities of Records which may be sold or the prices at which the same may be sold or the proceeds which will or may be derived by CAPITOL or RHINO pursuant to this Agreement. RHINO acknowledges and agrees that the extent of the sales and the amount of proceeds which may be derived therefrom is speculative and RHINO further agrees that the judgment of CAPITOL in regard to any matters affecting the sale, distribution, and exploitation of the Records hereunder shall be binding and conclusive upon RHINO. RHINO agrees that it will not make any claim, nor shall any liability be imposed upon CAPITOL based upon any claim that more sales could have been made than were made by CAPITOL. The parties agree to exercise all of their respective rights under this Agreement in good faith and in accordance with their customary business practices and policies.

23. The waiver by either party hereto of any term or condition of this Agreement or any part hereof shall not be deemed a waiver by such party of any other term or condition of this Agreement or of any later breach of this Agreement or of any part thereof.

24. Neither party may assign this Agreement, or any part hereof, or any rights hereunder to any person without the written

consent of the other, except that CAPITOL may, without such consent, assign this Agreement to its shareholder or shareholders, to a parent, subsidiary or affiliated corporation, or to any person acquiring substantially all of CAPITOL's assets.

25. This Agreement shall be governed by the laws of the State of California applicable to contracts made and to be performed in California.

26. a. RHINO agrees to indemnify CAPITOL against, and hold CAPITOL harmless from, any and all claims, liabilities, causes of action, damages, expenses, costs of defense (including reasonable attorney's fees and court costs) and other costs arising out of or in any way related to any breach or claimed breach of any representation, warranty or agreement by RHINO contained in this Agreement; or though not a breach of this Agreement, any act for which CAPITOL has no responsibility, including without limitation artist claims, producer claims, union claims, copyright claims, trademark claims, and disputes as to the ownership of or rights in the Masters. RHINO agrees that CAPITOL may withhold sums otherwise due RHINO hereunder in amounts reasonably related to such claim(s) until such time as such claim(s) are reduced to a final judgment by a court of competent jurisdiction or are settled. In the alternative, RHINO may furnish CAPITOL at RHINO's expense with a non-cancellable bond 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). At RHINO's expense, RHINO shall defend any such claim, demand or litigation with counsel approved by CAPITOL.

b. CAPITOL agrees to indemnify RHINO against, and hold RHINO harmless from, any and all claims, liabilities, causes of action, damages, expenses, costs of defense (including reasonable attorney's fees and court costs) and other costs arising out of or in any way related to any breach or claimed breach of any representation, warranty or agreement by CAPITOL contained in this Agreement; or though not a breach of this Agreement, any act for which RHINO has no responsibility. In the alternative, CAPITOL may furnish RHINO at CAPITOL's expense with a non-cancellable bond in favor of RHINO with coverage in an amount not less than the amount of such claim(s), with no deductible, insuring payment of the claim(s). At CAPITOL's expense, CAPITOL shall defend any such claim, demand or litigation with counsel approved by RHINO.

27. a. Upon termination of this Agreement and upon deletion of a Record or Records from CAPITOL's catalog, CAPITOL shall have the option but not the obligation to continue to

accept returns from CAPITOL's customers for a period not to exceed six (6) months ("Extra Returns Period"). For purposes of this Paragraph, a return shall be deemed to have been accepted on the date CAPITOL executes its Return Authorization with respect to such return. In such event CAPITOL shall bill RHINO and RHINO shall pay CAPITOL any applicable overpayment pursuant to Paragraph 14. above. Any reserves withheld by CAPITOL pursuant to Paragraph 11. as of six (6) months prior to the end of the term need not be liquidated until the statement following the end of such Extra Returns Period.

b. From and after the expiration of the term hereof, RHINO hereby agrees that RHINO shall accept all returns which CAPITOL does not accept hereunder at the address set forth below or at such other address as RHINO may advise CAPITOL of in writing, and for the benefit of CAPITOL's customers, RHINO shall give such customers credit, or cash refund if demanded, for said returns.

c. Notwithstanding anything to the contrary in this Paragraph 27., and as a material condition of this Agreement, if RHINO desires to permit a third party to distribute Records previously distributed hereunder after the term of this Agreement, RHINO shall permit the same only under a written contract providing as a material term thereof that said third party shall, for CAPITOL's benefit, (1) accept all returns of Records manufactured hereunder at a location, of which location and any changes thereof said third party shall promptly notify CAPITOL in writing; and (2), for the benefit of CAPITOL's customers, give credit, or cash refund if demanded, to such customers for said returns.

28. a. Except as otherwise expressly set forth in Paragraph 16. and in Paragraph 28.b. hereof, RHINO may not sell, license, or otherwise distribute manufacturing overruns of Records derived from the Masters to any person, firm, association, corporation, or entity other than CAPITOL in the Territory during the term of this Agreement.

b. Notwithstanding anything to the contrary contained in this Agreement, RHINO may distribute Records derived from the Masters (1) to specialty shops which are not part of CAPITOL's customer base, (2) by mail order, (3) through record clubs, and (4) to non-retail special markets; provided, however, that all Records so distributed by RHINO and/or its licensees shall be packaged, labelled and/or marked in a manner agreed to by CAPITOL in writing as distinguishing such Records from Records distributed by CAPITOL.

29. RHINO shall execute the Security Agreement and a Financing Statement naming CAPITOL as the Secured Party, in the form of those marked as Exhibits "A" and "B" respectively and attached hereto; and shall execute any and all other security instruments CAPITOL deems necessary to effectuate the terms and provisions of this Agreement. The Security Agreement shall be terminated promptly after RHINO has completed its performance of all obligations secured thereby.

30. CAPITOL shall advance the sum of Seven Hundred Thousand Dollars (\$700,000.00) ("the Recoupable Advance") to RHINO at the times and in the amounts set forth below, which advance shall be a direct debt from RHINO to CAPITOL, payable on demand, which, in addition to any other remedies CAPITOL may have at law, in equity or under this Agreement, CAPITOL may recover in the manner set forth in Paragraph 31. below from any and all monies otherwise payable by CAPITOL to RHINO hereunder. CAPITOL agrees that, so long as RHINO is not in breach of any of its obligations under this Agreement, CAPITOL shall not demand direct repayment of the Recoupable Advance from RHINO during the first Contract Year of this Agreement. The Recoupable Advance shall be paid by CAPITOL to RHINO as follows:

a. The sum of Three Hundred Thousand Dollars (\$300,000.00) within five (5) business days following the full execution of this Agreement;

b. The sum of One Hundred Thousand Dollars (\$100,000) on or before November 6, 1985;

c. The sum of One Hundred Thousand Dollars (\$100,000) on or before December 6, 1985;

d. The sum of One Hundred Thousand Dollars (\$100,000) on or before January 6, 1986; and

e. The sum of One Hundred Thousand Dollars (\$100,000) on or before February 5, 1986.

31. Notwithstanding anything to the contrary contained in this Agreement, until such time as CAPITOL has recouped from monies otherwise payable to RHINO hereunder, the total amount of the Recoupable Advance as provided in Paragraph 30. hereof ("Full Recoupment"), all monies otherwise payable to RHINO pursuant to Paragraph 9. hereof after the withholding of reasonable reserves ("the RHINO Fee"), shall instead be applied on a monthly basis as follows:

a. CAPITOL shall retain an amount equal to fifty-two percent (52%) of the RHINO Fee and shall apply the same against and reduce the Recoupable Advance provided for in Paragraph 30. hereof; provided, however, that, unless otherwise agreed to by RHINO and CAPITOL in writing, the total amount so retained and applied by CAPITOL for recoupment purposes on any monthly statement shall not exceed an amount equal to Fifty-Eight Thousand Three Hundred Thirty Three Dollars and Thirty-Three Cents (\$58,333.33) multiplied by the number of monthly statements [not to exceed twelve (12)] which have been rendered by CAPITOL to RHINO at the time of such retention, including the then-current statement.

b. After deducting from the RHINO Fee the retained amount provided for in Paragraph 31.a. above, CAPITOL shall apply sufficient monies from the RHINO Fee to pay all amounts, if any, due and owing from RHINO to CAPITOL under any agreement between RHINO and CAPITOL, including without limitation this Distribution Agreement and any manufacturing agreement between RHINO and CAPITOL, if any.

c. The remainder of the RHINO Fee, after deducting the payments provided for in Subparagraphs 31.a. and b. above, shall be paid to RHINO on all of the terms and conditions of this Agreement.

32. Within sixty (60) days following the end of each Contract Year (as that term is defined in Paragraph 33.f. hereto) of this Agreement, CAPITOL shall calculate and report to RHINO (a) the total gross dollar amount of sales of Records during such Contract Year ("Gross Sales") and (b) the total gross dollar amount of sums credited to CAPITOL's customers on account of returns of Records during such Contract Year ("Gross Returns"). In the event Gross Returns in the first Contract Year exceed fifteen percent (15%) of Gross Sales in the first Contract Year, CAPITOL shall be entitled to bill RHINO, and RHINO shall pay to CAPITOL within thirty (30) days of the date of such billing, a sum equal to twenty-two percent (22%) of the dollar amount by which Gross Returns in the first Contract Year exceeds fifteen percent (15%) of Gross Sales in the first Contract Year. In the event Gross Returns in any Contract Year other than the first Contract Year exceed fifteen percent (15%) of Gross Sales in such Contract Year, CAPITOL shall be entitled to bill RHINO, and RHINO shall pay to CAPITOL within thirty (30) days of the date of such billing, (A) prior to Full Recoupment a sum equal to twenty-two percent (22%) of the dollar amount by which Gross Returns in such Contract Year exceeds fifteen percent (15%) of Gross Sales in such Contract Year, and (B) from and after Full Recoupment a sum equal to twenty percent (20%) of the dollar amount by which Gross

Returns in such Contract Year exceeds fifteen percent (15%) of Gross Sales in such Contract Year.

33. For purposes of this Agreement, the following words, terms and phrases shall have the following definitions:

a. The word "person" means a person, firm, association or corporation.

b. The noun "record" means any device designed primarily for home use by which sound may be recorded for later transmission to listeners, whether now known or unknown and howsoever used.

c. The word "album" means one (1) or more lp-discs embodying more than one (1) selection on each side and released in one (1) package, or the tape record equivalent thereof.

d. The word "Territory" means the United States of America, its territories and possessions.

e. The phrase "net sales of records" shall refer, in the case of sales by CAPITOL, to the aggregate number of records sold for which CAPITOL has been paid or credited, in each applicable Record category, after deducting returns, rebates and credits on records returned in each Record category; or, in the case of sales by CAPITOL's licensees, to the same quantity of records for which CAPITOL is paid or credited.

f. The words "Contract Year" shall mean those twelve (12) month periods during the term of this Agreement commencing on October 1 of each year during the term of this Agreement and ending on September 30 of the following year during the term of this Agreement. By way of example, the first Contract Year is the twelve-month period commencing October 1, 1985 and ending September 30, 1986. In the event this Agreement is terminated prior to the completion of a full Contract Year, the period commencing on the October 1st immediately preceding the termination of this Agreement and ending on the date of the termination of this Agreement shall be deemed the last Contract Year of this Agreement.

34. If either party hereto commences a legal 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 its costs and expenses, including reasonable attorneys fees.

35. Wherever the consent (written or otherwise) of either party hereto is required by the provisions of this Agreement, such consent shall not be unreasonably withheld or delayed; and a party's failure to respond in writing within ten (10) business days to a written request from the other for consent shall be conclusively deemed to constitute written consent to such request.

36. 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 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.

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

WHEREFORE, the parties hereto have executed this Agreement as of the day and year first above written.

RHINO RECORDS, INC.

CAPITOL RECORDS, INC.

By: Richard Foo

By: [Signature]

Title: President
An Authorized Signer

Title: [Signature]
An Authorized Officer

Address: 1201 Olympic Blvd.
Santa Monica, CA 90404

1750 North Vine Street
Hollywood, California 90028
Attention: Secretary

Federal ID# 95-3197208

SECURITY AGREEMENT

Rhino Records, Inc. ("Pledgor"), and Capitol Records, Inc., ("Secured Party"), with addresses as they appear with their signatures below, agree as follows:

1. Pledgor hereby grants to Secured Party a security interest in all phonograph records (including without limitation, 12" albums, 12" singles, 7" singles), tape cassettes and tape cartridges, jackets and components, bearing a Rhino Records label, all contract rights and copyrights of Pledgor in the Compilation Masters, all documents covering such material, and all proceeds of their sale or other disposition, wherever located, now or hereafter owned or held by Pledgor or Secured Party ("Collateral"), to secure the performance of all obligations of Pledgor to Secured Party under that certain Distribution Agreement dated October 1, 1985 between Pledgor and Secured Party ("Distribution Agreement").

2. (a) Pledgor shall not lend, rent, lease or otherwise dispose of the Collateral or any interest therein except as authorized in this Security Agreement or in writing by Secured Party and Pledgor shall keep the Collateral free from unpaid charges, including taxes. Pledgor shall keep the Collateral free from liens, encumbrances and security interests which are granted, arise, attach, or are perfected on or after the date of this Agreement, other than the security interest granted to Secured Party herein.

(b) Pledgor shall sign and execute alone or with Secured Party any Financing Statement or other documents and shall procure any document, and pay all connected costs, necessary to protect the security interest under this Security Agreement against the rights or interests of third persons.

3. Misrepresentation or misstatement in connection with, noncompliance with, or nonperformance of any of the Pledgor's obligations or agreements of under the Distribution Agreement or this Security Agreement shall constitute a default under this Agreement. In addition, Pledgor shall be in default if bankruptcy or insolvency proceedings are instituted by or against Pledgor or if Pledgor makes any assignment for the benefit of creditors.

4. Secured Party may enter upon Pledgor's premises at any reasonable time to inspect the Collateral and Pledgor shall assist Secured Party in whatever way necessary to make any inspection.

5. Secured Party may execute, sign, endorse, transfer or deliver in the name of Pledgor any documents necessary to

evidence, perfect or realize upon the security interest of this Security Agreement.

6. Upon Pledgor's default in the performance of any obligation to be performed by Pledgor under the Distribution Agreement or this Security Agreement, Secured Party shall have all of the rights and remedies provided by the Commercial Code of the State of California at the date of execution of this Security Agreement. In addition to those rights and remedies, Secured Party may:

(a) upon five (5) days written notice mailed to Pledgor at the address set forth below its signature, sell any or all of the Collateral, or any portion thereof, at private sale to a distributor, dealer or other person at Secured Party's customary "cut-out" or "close-out" prices, which Pledgor agrees shall constitute disposition thereof in a commercially reasonable manner, and

(b) remedy any default without waiving the default remedied and may remedy or waive any default without waiving any other prior or subsequent default.

7. Upon default by Pledgor or if Secured Party deems itself insecure, Pledgor shall pay upon demand, if Secured Party so elects, the entire amount of any unpaid indebtedness to Secured Party; and Pledgor shall pay all expenses and reimburse Secured Party for any expenditures, including reasonable attorneys' fees and legal expenses, in connection with Secured Party's exercise of any of its rights and remedies hereunder.

8. Written notice mailed to Pledgor at the address set forth below its signature five (5) days prior to the date of public sale of the Collateral or prior to the date after which private sale of the Collateral will be made shall constitute reasonable notice of such sales.

9. Pledgor represents and warrants to Secured Party:

(i) That with the exception of a Financing Statement which may be on file in the State of California with respect to an existing security interest securing a total indebtedness of less than Ninety Thousand Dollars (\$90,000.00) ("Existing Security Interest"), no Financing Statement covering the Collateral or its proceeds is on file in any public office; and that, except for the security interest granted in this Security Agreement and the Existing Security Interest referred to above, there is not now, nor will there be, any adverse lien, security interest or encumbrances in or on the Collateral; and

(ii) That the address of Pledgor's residence and place of business is that appearing below Pledgor's signature; and

(iii) Notwithstanding this Security Agreement, Pledgor agrees that the Secured Party's remedies to obtain payment under the Distribution Agreement and the Manufacturing Agreement shall include all remedies under said Agreement and shall not be limited to the Collateral and Secured Party may proceed directly against Pledgor or against any assets owned by Pledgor without first proceeding against the Collateral; and Secured Party may proceed against Pledgor directly or against assets owned by Pledgor in the event the Collateral is not sufficient to satisfy Pledgor's obligations; and

(iv) That Pledgor is a corporation qualified to do business and in good standing in the State of California.

10. This Security Agreement may be amended only by a written document executed by the parties hereto. All of the rights of the parties under this Security Agreement shall be cumulative and shall inure to the benefit of their respective heirs, legal representatives, successors and assigns. Time is of the essence of this Security Agreement. The law governing this Security Agreement shall be that of the State of California in force at the date of this Security Agreement.

11. If any term, provision, covenant or condition of this Security Agreement shall be held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of this Security Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

EXECUTED IN TRIPLICATE THIS 1ST DAY OF OCTOBER 1985.

Secured Party

Pledgor

CAPITOL RECORDS, INC.

RHINO RECORDS, INC.

By: [Signature]
An Authorized Signer

By: [Signature]
An Authorized Signer

Title: VP

Title: President

1750 North Vine Street
Hollywood, California 90028

1201 Olympic Boulevard
Santa Monica, California 90404

Federal ID Number: 95-3197208

Re: Contract No. CRI-D-1017

Los Angeles, California

Date: April 25, 1986

A M E N D M E N T

1. This Amendment is made as of April 25, 1986 by and between Rhino Records, Inc., a California Corporation ("Rhino"), and Capitol Records, Inc., a Delaware Corporation ("Capitol") and amends the Distribution Agreement between Rhino and Capitol dated October 1, 1985 (the "Agreement"). Notwithstanding anything in the Agreement to the contrary and for good and valuable consideration, the receipt of which is hereby acknowledged by Capitol and Rhino, Capitol and Rhino hereby agree as follows:

2. Within five (5) business days following the execution of this Amendment by all parties hereto, Capitol shall advance to Rhino the sum of One Hundred Fifty Thousand Dollars (\$150,000.00) ("the Advance"). The full amount of the Advance, together with interest on such sum at the rate of 8.5% per annum from the date hereof through and including the date such sum is fully recouped by Capitol or otherwise repaid by Rhino as provided hereinbelow, shall be recouped by Capitol from monies otherwise payable to Rhino pursuant to the statement of account between Capitol and Rhino dated May 31, 1986 rendered to Rhino pursuant to Paragraph 11 of the Agreement. In the event that the amount payable to Rhino pursuant to the such statement is not sufficient to permit Capitol to fully recoup the Advance, Rhino hereby agrees that it shall pay to Capitol the balance of the Advance, together with interest thereon at the rate set forth above, immediately upon demand therefor by Capitol.

3. Each and every one of the other terms and conditions of the Agreement shall be and remain as they now are and this

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Amendment shall change the Agreement only insofar as expressly set forth herein.

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

RHINO RECORDS, INC.

By: *Michael Lee*

Title: *President*

CAPITOL RECORDS, INC.

By: *Ron J. [Signature]*

Title: _____

Daily Variety
10/10/1985

RECORDS, VIDEO

Capitol To Distribute Rhino Fare

Capitol Records has signed a long-term distribution deal with Rhino Records, the Santa Monica-based indie label specializing in

reissue and novelty releases. Pact, believed to cover three years, is effective immediately and gives Capitol exclusive U.S. distribution rights to all Rhino vinyl and video product.

The label, founded in 1978 by ex-record store owner Richard Foos and partner Harold Bronson, expects to exceed \$3,000,000 in sales on its approximately 225-title catalog in 1985. Diskery's top sellers through the years have been "The Turtle's Greatest Hits" and "Homecoming Queen's Got A Gun," by Julie Brown, both of which have sold between 50-70,000 units.

Contempo Fare

In addition to reissue and novelties, Rhino has released some contemporary fare, including LPs by the Beat Farmers and Los Angeles folksinger Phranc.

Rhino Video, meanwhile, boasts a dozen cassettes, including "My Breakfast With Blassie," an Andy Kaufman spoof of "My Dinner With Andre," and "Saturday Night Shockers." Company plans to release four more titles by the end of the year.

Although Capitol will distribute Rhino Video product, the indie label retains the right to strike ~~another~~ homevideo deal should a ~~better~~ offer materialize.

Billboard
11/2/1985

Capitol Distribution Pact Opens New Fields For Rhino

LOS ANGELES A new major distribution pact with Capitol underscores Rhino Records' evolution from a quirky, novelty-oriented label into a broad-based independent line that has juggled its early involvement with local Southern California rock and off-the-wall comedy with increased activity in licensed reissue packages.

The Santa Monica-based label, founded in the mid-'70s as an informal spinoff of a local retail outlet, since divested, reportedly negotiated with Capitol Records Services Group over the past two months. A U.S. distribution pact commenced Oct. 1, but Rhino co-founder Harold Bronson indicates both companies are discussing additional alliances in product manufacturing, co-production of masters that would appear on Capitol, and international licensing.

The initial distribution deal was struck between Dennis White, executive vice president for Capitol Records Group Services, and Rhino president Richard Foos. Concurrent with the move to Capitol's branch system, Rhino has added former PolyGram West Coast branch chief Kenny Hamlin in a new executive niche.

The Rhino/Capitol deal coincides with the most ambitious Rhino package to date, a five album series

inspired by Dr. Demento's syndicated weekly radio show. "Dr. Demento Presents The Greatest Novelty Records Of All Time" is being offered both as a deluxe boxed set and in individual volumes.

Other current releases, which Bronson asserts comprise Rhino's strongest Fall release in its history, reflect the label's current base. A second album of '50s-styled covers of current hits by Big Daddy has already reaped a top 20 single hit in the U.K. (Bruce Springsteen's "Dancing In The Dark"). Rhino's early involvement with wrestlers such as Fred Blassie meanwhile prompts "Wrestling Rocks," a new anthology, and a "TV Theme Sing-Along Album" marks a third novelty offering.

Capitol has also become an active licensee for '50s and '60s rock, r&b and pop material otherwise neglected by mainstream labels, a thrust that continues with a new package of James Brown's greatest hits. The label is now packaging special Compact Disc anthologies as well, with an Everly Brothers CD, inspired by Rhino's recent reissues of the duo's early Cadence albums, due this month. Also in the works: a Little Richard CD. SAM SUTHERLAND

A M E N D M E N T

This Amendment is entered into effective August 31, 1987 by and between Capitol-EMI Manhattan-Angel, a division of Capitol Records, Inc., a Delaware corporation ("CEMA"), and Rhino Records, Inc. ("Company"), in view of the following facts:

a. CEMA (as successor-in-interest to Capitol Records, Inc.) and Company are parties to a Distribution Agreement dated October 1, 1985, which is CEMA's Contract No. CRI-D-1017 (the "Agreement").

b. The parties desire to amend the Agreement as provided herein.

THEREFORE, notwithstanding anything to the contrary set forth in the Agreement, and in consideration of the terms and conditions of this amendment and other good and valuable consideration, the receipt of which hereby is acknowledged by each party, CEMA and Company hereby amend the Agreement as follows:

1. Paragraph 11 of the Agreement is deleted in its entirety.
2. Paragraphs 11A, 11B, and 11C are substituted in its place as follows:

11A. Statements and Payments:

a. For each calendar month during the term of this Agreement, CEMA shall render and mail a statement to Company setting forth the dollar amount of Gross Sales, Returns, Net Sales and Company's Percentage of Net Sales of Records distributed during such calendar month. Such statement also shall set forth any deductions therefrom pursuant to any provision of this Agreement and any other agreements between CEMA and Company, including (without limitation) any Manufacturing or Security agreements, and the dollar amount (if any) due to Company or CEMA, as the case may be.

b. CEMA shall mail such statement to Company on or before the last day of the Second (2nd) full calendar month following the end of the monthly period covered by the statement. Any net payment due from CEMA to Company shall accompany the statement; and any payment owing from Company to CEMA shall constitute an account stated and immediately shall be due and payable after the rendering of the statement. CEMA's failure to set forth an amount due and payable by Company to CEMA shall not constitute a waiver of any amount due.

c. CEMA shall not be required to account to or render separate statements to Company, any label or artist on account of sales of Records by a label or artist distributed by CEMA pursuant to contracts between such label or artist and Company, and may cross-collateralize and set-off all debits and credits owed by or to such labels, so as to arrive at a net balance due to or 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, CEMA may charge Company interest at the maximum legal rate and, in addition to its other remedies at law, equity or pursuant to this Agreement, suspend or terminate its performance hereunder.

11B. Returns

Company shall be responsible to pay or reimburse CEMA for all Returns of Records hereunder. In any month where Net Sales are obtained, the charge to Company for Returns is determined in the computation of Net Sales, as set forth herein. In any month where Returns exceed Gross Sales, CEMA shall charge to Company Company's Percentage of such excess.

11C. Reserves

a. CEMA shall be entitled to deduct from any payment owing to Company (or, if such amount is insufficient, to charge and bill Company for) a Reserve against future credits, rebates, adjustments for Returns or other sums payable by Company to CEMA of Fifteen Percent (15%) of Net Sales per month for albums (in either Disc, Cassette or Compact Disc configuration) and Fifty Percent (50%) of Net Sales per month for singles (in either 7" Disc, 12" Disc or Cassette configuration) ("Reserve"). CEMA may unilaterally, upon written notice to Company, increase the amount of this Reserve percentage in the event that Company experiences Returns of Records in excess of Fifteen Percent (15%) of Net Sales averaged over any three-month period, up to and including an amount equal to Twenty Percent (20%) of Net Sales.

b. One-sixth (1/6th) of the Reserve taken in the First (1st) month of this Agreement shall be liquidated and reported on each monthly statement for the Second (2nd) through Seventh (7th) months of this Agreement, and on such basis thereafter. By way of illustration, in the Third (3rd) month of this Agreement, one-sixth (1/6th) of the Reserve taken in the First (1st) month shall be liquidated and reported, together with one-sixth (1/6th) of the Reserve taken in the Second (2nd) month; in the Fourth (4th) month, one-sixth (1/6th) of the Reserve taken in the First (1st) month shall be liquidated and reported, together with one-sixth (1/6th) of the Reserve taken in the Second (2nd) month and one-sixth (1/6th) of the Reserve taken in the Third (3rd) month; and so forth. Upon its being liquidated and reported, the amount of the Reserve shall be applied and credited to Company's account, subject to Paragraphs 11C.c. through 11C.e. The Reserve shall be reduced by the amount so applied.

c. Until it actually is paid by CEMA to Company, or otherwise reduced, the Reserve shall be accounted for separately each month but owned by CEMA; and shall be subject to all of CEMA's charges, offsets and recoupment rights, including (without

limitation) those set forth in Paragraphs 11C.d. and 11C.e. Company shall not earn the Reserve until it actually is due and paid by CEMA to Company. No creditor of Company's shall have any claim to any portion of the Reserve that has not been earned by Company. The Reserve is not intended by the parties to constitute a security device, but rather is a means to compute when Company's Percentage is earned. In the event that any court of competent jurisdiction determines that the Reserve is not owned by CEMA or is a security device, it shall be deemed to be included as an item of the Collateral described in the Security Agreement between the parties.

d. At its option, CEMA may (but shall not be required to) retain and apply all or part of the Reserve against any sum due from Company to CEMA, including (without limitation) (i) the full amount of any current, cumulative or prospective credits, rebates and adjustments for Returns received, issued or committed by CEMA to be issued as of the statement date but not included in the determination of Net Sales for the monthly period covered by the statement; (ii) any balance due to CEMA by Company for manufacturing services rendered by CEMA to Company; or (iii) any and all other sums that may be due hereunder from Company to CEMA, or otherwise payable by Company to CEMA. CEMA's rights under this Paragraph 11C.d. shall be in addition to and not in lieu of its rights under paragraphs 11B. and 11C.a., all or any of which may be exercised in any order or simultaneously. The Reserve shall be reduced by the amount so applied.

e. No part of the Reserve shall be applied and credited to Company's account for any month in which Returns exceed Net Sales. In that case, the portion of the Reserve scheduled for liquidation either may be retained and applied to CEMA's account pursuant to Paragraph 11C.d., or retained and rescheduled for liquidation as if first taken in the month retained. The Reserve shall be reduced by any amount retained and applied to CEMA's account.

f. Notwithstanding anything to the contrary contained in this Agreement, and during the Six (6) month period immediately preceding and any period following any termination of this Agreement, whether by expiration of the term, notice of termination, or otherwise: (i) CEMA shall be entitled to withhold from any funds otherwise payable to Company reasonable Reserves against Returns without regard to any limitation set forth in Paragraph 11C.a., and (ii) CEMA shall have no obligation to credit any Reserves to Company's account whatsoever. After the termination of this Agreement, CEMA may liquidate and report such Reserves without regards to the schedule set forth at Paragraph 11C.b., in such manner that CEMA deems appropriate in light of Company's returns experience. However, in no event shall CEMA withhold at any time more than Fifty percent (50%) of the amount otherwise payable to Company by CEMA.

3. Except as provided herein, the Agreement shall be and remain as it now stands.

RHINO RECORDS, INC.

CAPITOL-EMI MANHATTAN-ANGEL,
a division of Capitol Records, Inc.

By:

Richard Foos,
President

By:

Dennis R. White,
President

RHINO RECORDS INC.

Rhino Video
Rhino Bros. Music
Orange Skies Music

1201 Olympic Blvd.
Santa Monica, CA 90404
(213) 450-6323
Telex 4972305 RHINO
Telefax (213) 450-3055

September 21, 1987

Mr. Joe Smith
CAPITOL RECORDS INC.
1750 N. Vine Street
Hollywood, California 90028

Dear Joe:

It is with great regret that we are writing this letter, but we feel it is important that you know our true feelings. At this point we are unhappy with our relationship with Capitol, and we thought you should be aware of the reasons why.

In general, we get the distinct impression that the chief executives of the company (yourself included), could care less about us, and that on all levels, Rhino is an extremely low, if even existent, priority. As we will detail in this letter, it seems to us that there is a total lack of desire to have any kind of meaningful relationship with Rhino, and that any attempt on our parts to rectify the situation is met with patronizing, disdain and ultimately inaction. While our problems are too numerous to mention here, the five major areas and/or instances that are most troublesome are as follows: (1) production deal, (2) the Monkees situation, (3) Distribution with regards to independent stores, (4) licensing, (5) foreign. We will give brief details on each.

1) Production Deal. At the time our agreement with Capitol was first negotiated, it was with the understanding that it would be a combined production/distribution deal. When we only received a distribution agreement, we questioned where the production agreement was and were told it would be forthcoming. Well, it is now two years later and ~~with the exception of one feeble deal memo (which we described to you at a meeting, and you agreed it was a poor offer),~~ we have yet to receive even a serious offer from you. Your blatant neglect to even present us with an offer could possibly be understood if our track record did not include a Number One Hit, and the sweet and sour distinction of having every one of our other new artists ~~signed away by major labels whom we could not possibly compete with financially.~~

2) The Monkees Situation. After our frustrating experience in trying to release follow-up singles to "At This Moment," we realized that the odds of an independent breaking a CHR single are infinitesimal. Therefore, when the opportunity came for us to sign the Monkees, we came to you to see if we couldn't make some type of

joint venture deal. Of course, if we had the Capitol production arrangement, this wouldn't have been a problem as we could have automatically placed the album on Rhino/Capitol, but we still tried our best to interest you in the project. When interest was not forthcoming, we signed the band ourselves feeling it would be a disaster having them with another label when we had the Monkees' entire back catalogue. Still feeling that we had to get Capitol's promotional support to make this project work, we called you a couple of months prior to the release of the single and asked if Capitol could help us with the promotion on the record. You told us to meet with Don Zimmerman, which we did. At the meeting Don told us that although it might not be their staff's top priority, it would be worked. Sometime later, when we discovered that the record was not being worked by Capitol's promotion staff, we called David Berman (who had subsequently replaced Mr. Zimmerman). He said he would look into the situation and subsequently told us that the Capitol promotion staff could not work the record.

Meanwhile, much to our chagrin, our worst nightmares have come to pass. Although the Monkees record is top ten phones at NUMEROUS major stations, only a small handful have added the single. The feedback we seem to be getting is that the stations don't want to give their precious few adds to Rhino who only come to them with two or three records a year. On the video front, the situation is even more dismal. Because of a political situation with one person at MTV, they will not air the Monkees' video, even though it is consistently in their top ten requests (see accompanying MTV tracking sheet). We find it hard to believe that, with Capitol's assistance, MTV could ignore a video that has consistently been in their top ten requests even though they've never played it. Meanwhile, on the sales front, CEMA has shipped 150,000 units of the album in its first two weeks of release. With that kind of initial retail reaction, with precious little airplay, it seems obvious that with any kind of radio and/or video success, the revenues from this album could mean a few million dollars for both of us.

On the other hand, if the record does fail at MTV and radio, as it appears it will, Rhino's return exposure with 150,000 units in the field could be financially disastrous.

3) Independent Stores. Some time ago we met with you, David Berman and Enigma's Bill Hein to discuss our grave concerns in regards to Capitol's lack of contact with independent stores. A follow up meeting was promised within a couple of weeks, yet it has now been four months and none of us have gotten any communication regarding the promised follow-up meeting.

4) Licensing. As I'm sure you realize, Rhino's backbone is in reissues. Capitol has a rich but underdeveloped catalogue. When Rhino licenses product from Capitol, Capitol wins on both ends, as you receive monies from both the licensing and the distribution of the product. While one would think Capitol would be salivating at the chance to work with us in this regard, it seems almost the

Mr. Joe Smith, Capitol Records Inc.
September 21, 1987
Page 3.,

opposite is the case. At our second meeting with you, we explained how we had been denied our request to license our charting Neville Brothers Anthology for compact disc (which Capitol had already licensed to us for album and cassette). We couldn't understand this, as even the initial shipments of this product could mean a half-million dollars in gross revenues for Capitol. Your reply was that we should give you a couple of months and things like that would be worked out. Well it is now some six months later and, even though some progress has been made on the Nevilles situation, overall with respect to licensing, the situation - if anything - has gotten even more stringent for us.

5) Foreign. Although we're not sure this is in your jurisdiction, it has amazed us that ~~EMI Worldwide~~ has shown a total disinterest in entering into any type of production arrangement or licensing agreement - in any territory in the world, for any of our albums - even though we always give them first shot. Consequently, for every one of our albums we have to scramble around to make individual licensing arrangements on a project-by-project basis which is extremely time consuming. We are continually making deals with every other major label throughout the world, and they are enjoying many successes with artists like Billy Vera, Ritchie Valens and the Monkees.

While there are also problems in numerous other areas, there is no need to belabor them here. Our basic point is that we are extremely frustrated because, as great as our success has been, we see Capitol exploiting Rhino to only a bare fraction of its potential. While we also realize that your priority (and time) is in turning around Capitol's financial state and rebuilding its organization, by ignoring a significant source of income, it seems to us you're ultimately constraining its potential.

In conclusion, all we are asking is that if we are as low a priority for Capitol as it seems, let's at the very least admit it, remain friends, and allow Rhino to seek other alternatives whereby it's full potential may be achieved.

Regards,



Richard Foos
President



Harold Bronson
Managing Director

HB\RF\ab

Enclosure

9/25 - cc: Tom Whalley
Bob Young
(for your comments)

DATE: 09/01/87
 TO: VICKI HARRIS - MTV
 FROM: TELEMARKETING CORP. OF AMERICA
 RE: TOP 40 VIDEO VOTE FOR 09/01/87

Case #

| | | | |
|----|------|---------------------|------------------------------|
| 1 | 1324 | FAT BOYS/BEACH BOYS | WIPE OUT |
| 2 | 1530 | MADONNA | WHO'S THAT GIRL |
| 3 | 1184 | GEORGE MICHAEL | I WANT YOUR SEX |
| 4 | 1380 | WHITESNAKE | HERE I GO AGAIN |
| 5 | 1252 | LOS LOBOS | LA BAMBA |
| 6 | 801 | EUROPE | CARRIE |
| 7 | 1866 | POISON | I WON'T FORGET YOU |
| 8 | 1931 | MOTLEY CRUE | WILD SIDE |
| ⇒9 | 1842 | MONKEES | HEART AND SOUL |
| 10 | 967 | MOTLEY CRUE | GIRLS GIRLS GIRLS |
| 11 | 250 | BON JOVI | WANTED DEAD OR ALIVE |
| 12 | 960 | WHITNEY HOUSTON | I WANT TO DANCE |
| 13 | 120 | BON JOVI | YOU GIVE LOVE A BAD NAME |
| 14 | 894 | POISON | I WANT ACTION |
| 15 | 1086 | HEART | ALONE |
| 16 | 153 | GENESIS | LAND OF CONFUSION |
| 17 | 1894 | HEART | WHO WILL YOU RUN TO |
| 18 | 1742 | PRINCE | YOU'VE GOT THE LOOK |
| 19 | 426 | JANET JACKSON | PLEASURE PRINCIPLE |
| 20 | 1632 | HUEY LEWIS | DOING IT ALL FOR MY BABY |
| 21 | 1478 | TPAU | HEART AND SOUL |
| 22 | 101 | ACDC | WHO MADE WHO |
| 23 | 1549 | SUZANNE VEGA | LUKA |
| 24 | 295 | WHITESNAKE | STILL OF THE NIGHT |
| 25 | 230 | BANGLES | WALK LIKE AN EGYPTIAN |
| 26 | 182 | MADONNA | TRUE BLUE |
| 27 | 164 | JANET JACKSON | CONTROL |
| 28 | 1755 | GREAT WHITE | ROCK ME |
| 29 | 745 | POISON | LOOK WHAT THE CAT DRAGGED IN |
| 30 | 1188 | BOB SEGER | SHAKE DOWN |
| 31 | 109 | BEASTIE BOYS | FIGHT FOR THE RIGHT |
| 32 | 203 | POISON | TALK DIRTY TO ME |
| 33 | 189 | MOTLEY CRUE | HOME SWEET HOME |
| 34 | 181 | MADONNA | PAPA DON'T PREACH |
| 35 | 1824 | LISA LISA | LOST IN EMOTION |
| 36 | 151 | EUROPE | FINAL COUNTDOWN |
| 37 | 1825 | DEF LEPPARD | WOMEN |
| 38 | 268 | BEASTIE BOYS | NO SLEEP TIL BROOKLYN |
| 39 | 1523 | YNT | CONTAGIOUS |
| 40 | 1199 | RICHARD MARX | DON'T MEAN NOTHING |

OTHERS 58
 TOTAL 200

OFFERED TRAFFIC: FIRST HOUR: 2293 SECOND HOUR: 2458

FROM: TELEMARKETING CORP. OF AMERICA
 REF: TOP 40 VIDEO VOTE FOR 09/02/87

| | | |
|----------------------------|--------------------------|-----|
| 1 1326 FAT BOYS/BEACH BOYS | WIPE OUT | 109 |
| 2 1260 WHITESNAKE | HERE I GO AGAIN | 106 |
| 3 1266 POISON | I DON'T FORGET YOU | 106 |
| 4 1784 GEORGE MICHAEL | I WANT YOUR SEX | 102 |
| 5 1530 MADONNA | WHO'S THAT GIRL | 102 |
| 6 EDI EUCLIP | CARRIE | 85 |
| 7 1842 MONKEES | HEART AND SOUL | 73 |
| 8 1252 LOS LOSOS | LA BAMSA | 62 |
| 9 567 MOTLEY CRUE | GIRLS GIRLS GIRLS | 59 |
| 10 250 BON JOVI | WANTED DEAD OR ALIVE | 55 |
| 11 1894 HEART | WHO WILL YOU RUN TO | 51 |
| 12 125 BON JOVI | LIVING ON A PRAYER | 55 |
| 13 660 WHITNEY HOUSTON | I WANT TO DANCE | 55 |
| 14 1785 MICHAEL JACKSON | BAD | 50 |
| 15 1762 PRINCE | YOU'VE GOT THE LOOK | 43 |
| 16 426 JAKET JACKSON | PLEASURE PRINCIPLE | 42 |
| 17 123 BON JOVI | YOU GIVE LOVE A BA AAKE | 41 |
| 18 1549 STAYNNE VEGA | LUCK | 41 |
| 19 1815 STRYPER | HONESTLY | 41 |
| 20 263 BEASTIE BOYS | NO SLEEP TIL BROOKLYN | 41 |
| 21 203 POISON | TALK DIRTY TO ME | 41 |
| 22 153 GEMESIS | LAND OF CONFUSION | 40 |
| 23 151 EUROPE | FINAL COUNTDOWN | 40 |
| 24 1826 LISA LISA | LOST IN EMOTION | 40 |
| 25 1632 WUEY LEWIS | BEING IT ALL FOR MY BABY | 39 |
| 26 1836 BANANARAMA | I HEARD A RUMOR | 39 |
| 27 483 ATLANTIL STAR | ALWAYS | 39 |
| 28 894 POISON | I WANT ACTION | 39 |
| 29 1931 MOTLEY CRUE | WILD SIDE | 39 |
| 30 162 MADONNA | TRUE BLUE | 39 |
| 31 1493 GRATEFUL DEAD | TOUCH OF GRAY | 39 |
| 32 1225 DEF LEPPARD | WOMEN | 39 |
| 33 1337 BRYAN ADAMS | HEARTS ON FIRE | 39 |
| 34 1707 SAKRY HAGAR | GIVE TO LIVE | 39 |
| 35 122 MADONNA | PAPA DON'T PREACH | 39 |
| 36 105 JAKET JACKSON | WASTY | 39 |
| 37 1035 DEBBIE GIBSON | ONLY IN MY DREAMS | 39 |
| 38 1188 BOB SEGER | SHAKE DOWN | 39 |
| 39 250 BANGLES | WALK LIKE AN EGYPTIAN | 39 |
| 40 1650 WHISPERS | ROCK STEADY | 39 |

OTHERS 635
 TOTAL 2010

OFFERED TRAFFIC FIRST HOUR SECOND HOUR

DATE: 09/02/87
 TO: VICKI HARRIS • MTV
 FROM: TELEMARKETING CORP. OF AMERICA
 RE: TOP 40 VIDEO VOTE FOR 09/02/87

| | | | | |
|----|------|---------------------|--------------------------|------|
| 1 | 1324 | FAT BOYS/BEACH BOYS | WIPE OUT | 169 |
| 2 | 1380 | WHITESNAKE | HERE I GO AGAIN | 166 |
| 3 | 1866 | POISON | I WON'T FORGET YOU | 129 |
| 4 | 1184 | GEORGE MICHAEL | I WANT YOUR SEX | 102 |
| 5 | 1530 | MADONNA | WHO'S THAT GIRL | 85 |
| 6 | 801 | EUROPE | CARRIE | 83 |
| 7 | 1842 | MONKEES | HEART AND SOUL | 82 |
| 8 | 1252 | LOS LOBOS | LA BAMBA | 79 |
| 9 | 967 | MOTLEY CRUE | GIRLS GIRLS GIRLS | 64 |
| 10 | 250 | BON JOVI | WANTED DEAD OR ALIVE | 51 |
| 11 | 1931 | MOTLEY CRUE | WILD SIDE | 48 |
| 12 | 1894 | HEART | WHO WILL YOU RUN TO | 35 |
| 13 | 123 | BON JOVI | LIVING ON A PRAYER | 33 |
| 14 | 960 | WHITNEY HOUSTON | I WANT TO DANCE | 30 |
| 15 | 1783 | MICHAEL JACKSON | BAD | 23 |
| 16 | 1742 | PRINCE | YOU'VE GOT THE LOOK | 18 |
| 17 | 426 | JANET JACKSON | PLEASURE PRINCIPLE | 15 |
| 18 | 120 | BON JOVI | YOU GIVE LOVE A BAD NAME | 15 |
| 19 | 1549 | SUZANNE VEGA | LUKA | 13 |
| 20 | 1815 | STRYPER | HONESTLY | 13 |
| 21 | 268 | BEASTIE BOYS | NO SLEEP TIL BROOKLYN | 13 |
| 22 | 203 | POISON | TALK DIRTY TO ME | 10 |
| 23 | 153 | GENESIS | LAND OF CONFUSION | 10 |
| 24 | 151 | EUROPE | FINAL COUNTDOWN | 10 |
| 25 | 1824 | LISA LISA | LOST IN EMOTION | 9 |
| 26 | 1632 | HUEY LEWIS | DOING IT ALL FOR MY BABY | 9 |
| 27 | 1886 | BANANRAMA | I HEARD A RUMOR | 8 |
| 28 | 463 | ATLANTIC STAR | ALWAYS | 8 |
| 29 | 894 | POISON | I WANT ACTION | 7 |
| 30 | 182 | MADONNA | TRUE BLUE | 7 |
| 31 | 1493 | GRATEFUL DEAD | TOUCH OF GRAY | 7 |
| 32 | 1825 | DEF LEPPARD | WOMEN | 7 |
| 33 | 1379 | BRYAN ADAMS | HEARTS ON FIRE | 7 |
| 34 | 1707 | SAMMY HAGAR | GIVE TO LIVE | 6 |
| 35 | 181 | MADONNA | PAPA DON'T PREACH | 6 |
| 36 | 165 | JANET JACKSON | NASTY | 6 |
| 37 | 1615 | DEBBIE GIBSON | ONLY IN MY DREAMS | 6 |
| 38 | 1188 | BOB SEGER | SHAKE DOWN | 6 |
| 39 | 230 | BANGLES | WALK LIKE AN EGYPTIAN | 6 |
| 40 | 1690 | WHISPERS | ROCK STEADY | 5 |
| | | | OTHER | 594 |
| | | | TOTAL | 2000 |

OFFERED TRAFFIC: FIRST HOUR: 2188

SECOND HOUR: 2421

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RAPHAEL TISDALE
Director, Business Affairs

January 22, 1987

Jay Cooper, Esquire
Cooper, Epstein & Hurewitz
9465 Wilshire Boulevard
Beverly Hills, California 90212

Re: RHINO RECORDS, INC.

Dear Jay:

Capitol is retracting its offer of October 31, 1986 and now proposes to enter into the following arrangements with your client, Rhino Records, Inc.

A. Production Agreement:

Under this proposed agreement, for a four-year period Capitol will have the exclusive option to acquire as a Capitol artist each current or newly signed artist on Rhino or its affiliated labels. If Capitol exercises each such option, the following terms will apply:

1. Term: If Capitol exercises its option with respect to a Rhino artist, the term will be run for an initial period of no less than one (1) year from the date of exercise, plus four options at Capitol's election. Except for the initial period, each such period will commence upon the expiry of the preceding period and end six (6) months after delivery of the minimum product commitment for such period, subject to Capitol's overcall album right.

2. Production Artists:

(a) Upon Capitol's written notice to Rhino that it wishes to include a particular artist in this Production Agreement (such an artist is sometimes referred to herein as a "Production Artist"), Rhino will provide to Capitol the services of such Production Artist for the remaining term, including all options, of Rhino's agreement with such Production Artist, as of the date of Capitol's notice (such Production Artist's "Term"). Capitol would not acquire rights in catalog, but would be entitled to pick up an album in current release.

(b) Capitol will solely and perpetually own the copyright in master recordings under the Production Agreement although Production Artists will be released in the United States on a joint "Capitol/Rhino" label.

3. Product Commitment:

The minimum product commitment for each period of the term will be masters sufficient for one album, subject to one overcall album option at Capitol's election to increase the minimum product commitment in each period. The overcall album option may be exercised within six months after release of the first album.

4. Recording Funds:

(a) Following a Production Artist's first album, the recoupable minimum recording fund will be two-thirds (2/3) of the royalties derived from U.S. net retail full price sales of the prior album, including reasonable reserves, (in all configurations including compact discs) by such Production Artist in the preceding twelve month period following initial release of such prior album, subject to the following "floors" and "ceilings":

(i) With respect to a Production Artist who has never had an album released by Rhino or any other label, or with respect to a Production Artist whose previous Rhino album had net U.S. sales of 50,000 units or less in the twelve-month period following its initial U.S. release, the following will apply:

| <u>Album (if any)</u> | <u>Floor</u> | <u>Ceiling</u> |
|-----------------------|--------------|----------------|
| first | \$ 50,000 | -- |
| second | 70,000 | \$140,000 |
| third | 100,000 | 200,000 |
| fourth | 100,000 | 200,000 |
| fifth | 150,000 | 300,000 |
| sixth | 150,000 | 300,000 |
| seventh | 225,000 | 450,000 |
| eighth | 225,000 | 450,000 |
| ninth | 275,000 | 550,000 |
| tenth | 275,000 | 550,000 |

(ii) With respect to a Production Artist whose previous Rhino album had net U.S. sales of between 50,001-100,000 units in the twelve-month period following its initial U.S. release, the following will apply:

| <u>Album (if any)</u> | <u>Floor</u> | <u>Ceiling</u> |
|-----------------------|--------------|----------------|
| first | \$100,000 | -- |
| second | 125,000 | 250,000 |
| third | 175,000 | 350,000 |
| fourth | 175,000 | 350,000 |
| fifth | 225,000 | 450,000 |
| sixth | 225,000 | 450,000 |
| seventh | 275,000 | 550,000 |
| eighth | 275,000 | 550,000 |
| ninth | 325,000 | 650,000 |
| tenth | 325,000 | 650,000 |

(iii) With respect to a Production Artist whose previous Rhino album had net U.S. sales of 100,000 or more units in the twelve-month period following its initial U.S. release, the following will apply:

| <u>Album (if any)</u> | <u>Floor</u> | <u>Ceiling</u> |
|-----------------------|--------------|----------------|
| first | \$150,000 | -- |
| second | 175,000 | 350,000 |
| third | 225,000 | 450,000 |
| fourth | 225,000 | 450,000 |
| fifth | 275,000 | 550,000 |
| sixth | 275,000 | 550,000 |
| seventh | 325,000 | 650,000 |
| eighth | 325,000 | 670,000 |
| ninth | 375,000 | 750,000 |
| tenth | 375,000 | 750,000 |

(b) During the initial period and first option period, Capitol may, after consulting Rhino, require a Production Artist to record singles instead of a full album. In such event, the single recording fund will be one-tenth of the applicable album recording fund.

(c) All advances, including recording funds, to Rhino may be recouped against royalties due Rhino from all Rhino artists picked up by Capitol.