

- Paragraph 7: agreement needed!

JOINT VENTURE AGREEMENT

AGREEMENT dated January 4, 1989, among CAPITOL RECORDS, INC., a Delaware corporation ("Capitol") and MARTIN N. BANDIER ("Bandier") and CHARLES A. KOPPELMAN ("Koppelman") (Bandier and Koppelman are collectively referred to hereinafter as "BK") and a corporation to be formed by BK, tentatively to be named SBK ENTERTAINMENT WORLD II INC. ("SBK II").

W I T N E S S E T H :

WHEREAS BK and THORN EMI North America Inc. ("EMI"), an affiliate of Capitol, are simultaneously entering into the Stock Purchase Agreement dated January 4, 1989 among EMI and all of the Shareholders of SBK Entertainment World, Inc. ("SBK") (the "Stock Purchase Agreement"), and are desirous of forming a joint venture between Capitol and SBK II to carry on a record music production and artist management business under the name SBK Records and to exploit its assets on a worldwide basis.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. It is a condition precedent to this agreement that the Stock Purchase Agreement be fully executed. Unless

and until the Stock Purchase Agreement is fully executed, this agreement shall have no force and effect.

2. The parties hereto agree that, upon the closing under the Stock Purchase Agreement, a joint venture (the "Joint Venture") located in New York City shall be formed between Capitol and SBK II to carry on a record production and artist management business on a worldwide basis. The business of the Joint Venture shall include the acquisition and development of recorded music repertoire, song copyrights and the worldwide exploitation thereof (to the extent practicable). SBK II and Capitol will be equal partners, each with a fifty percent interest in equity, profits and losses. Notwithstanding the foregoing, if EMI or any affiliate of EMI, as a result of the net operating loss carryforward of SBK as of December 31, 1988 being less than \$11 million, incurs an actual tax liability for a period beginning after December 31, 1988 that it would not have incurred had such net operating loss carryforward been no less than \$11 million then from and after the date such tax liability is incurred, 100 percent of the profits of the Joint Venture shall be distributed to Capitol up to the lesser of (x) \$1 million and (y) the amount of such tax liability.

3. SBK II shall be the managing partner of the Joint Venture and shall furnish the services of BK to manage

the day-to-day operations of the Joint Venture, including the choice of artists with whom the Joint Venture enters into agreements (subject to the provisions set forth below). Capitol will review and have approval of: annual budgets and forward plans; any borrowing proposed to be undertaken by the Joint Venture; all contracts involving a total commitment in excess of \$1,000,000; all personnel (including BK) at an annual salary (including bonus and/or expenses) in excess of \$200,000; and all personnel who may be rewarded by way of a bonus or severance upon the termination of the Joint Venture (as set forth in Paragraph 11 below) and the terms of any and all contracts relating to the foregoing. In addition, Capitol will receive, and may comment upon, the Joint Venture's monthly statement of profit and loss balance sheet and cash flow, and the Joint Venture's three month forward forecasts of the same. The Joint Venture will be audited annually by an auditing firm to be agreed between SBK II and Capitol.

The parties hereby acknowledge that they agree in principle to an operating structure outlined in the five-year operating plan attached hereto as Exhibit A, but this shall be at all times subject to the overall restrictions upon borrowing and deficits set forth in Paragraph 6 of this agreement. BK will provide a detailed preliminary budget for the first year's operations for review by Capitol by February 1, 1989. Both parties will use their best efforts to agree upon the said budget of the Joint Venture by March 1, 1989.

4. Upon the closing under the Stock Purchase Agreement and the simultaneous formation of the Joint Venture, Capitol will contribute \$5,000,000 to the Joint Venture as equity, and will contribute a further \$5,000,000 upon SBK II's request as and when required by the Joint Venture's operations and subject to the conditions herein. Upon formation of the Joint Venture, SBK II will contribute to the Joint Venture, subject to any restrictions disclosed in or in connection with the Stock Purchase Agreement, (i) the right to occupy approximately 15,000 square feet of office space (the "Office Space") on the 42nd Floor at 1290 Avenue of the Americas, New York, New York occupied by SBK, subject to the terms of the Lease (the "Lease") dated April 24, 1987 between SBK and 1290 Associates; (ii) the fixtures, fittings and other office equipment located in the Office Space, excluding any leased equipment and the furniture, artwork and personal belongings of BK located in their respective offices; (iii) the artist and producer record production contracts owned by SBK Record Production Inc. as of the date the Joint Venture is formed; and (iv) SBK II's interest in the artist management contracts to which SBK Management Inc. is a party as of the date the Joint Venture is formed, subject to Arma Andon's 25% interest in SBK Artists Management Inc. to be further clarified prior to formation of the Joint Venture; provided however that BK and SBK II shall retain their interest in the

MGM Masters and the LeFrak copyrights as described below in Paragraph 10. The parties agree that the contracts listed in part (iii) of the foregoing sentence shall be substantially those listed on the schedule attached hereto as Exhibit B, subject to the conditions set forth herein. The Joint Venture shall occupy the Office Space pursuant to the terms of a sublease or an occupancy agreement to be entered into by the Joint Venture. The Joint Venture shall pay its pro-rata share of any charges under the Lease. In the event that the occupation right listed in this Paragraph is not contributed to the Joint Venture, BK agree to find and cause SBK II to contribute, at their own or SBK II's expense (excluding occupancy costs), equally suitable office space (including fixtures, fittings and other office equipment as described above) and of substantially similar standard for occupation by the Joint Venture. BK represents and warrants that they will not permit the transfer of any of the assets referred to in this Paragraph between the date of this agreement and the formation of the Joint Venture except as contemplated and permitted under the Stock Purchase Agreement; provided however that BK have the right to terminate or cause the termination of current artist and producer record production contracts and/or management contracts they deem inappropriate for the Joint Venture. BK agree to use their best efforts so that if, as of the date of this agreement, any artist(s)

and/or producer(s) under contract to SBK Record production, Inc. and/or SBK Management Inc. has not entered into, or undertaken substantial negotiations for, an exclusive recording deal with any record label, such artist(s) and/or producer(s) will not, to the extent possible, enter into any such recording agreement until the formation of the Joint Venture, and will, to the extent possible and subject to their right to select artists for the Joint Venture, as of the formation of the Joint Venture, enter into an exclusive recording contract with the record label to be formed by the Joint Venture. From and after the execution of this agreement, BK will not permit SBK Record Production Inc. SBK Management Inc., nor any principals thereof, nor the Joint Venture to enter into any recording and/or management agreements with any artist(s) and/or producer(s) which provide for a "key man" or similar clause naming Stephen Swid ("Swid"), Bandier, Koppelman, any other employee of SBK, or any other individual, without the prior written approval of Capitol.

5. Each of BK represents and warrants that neither Swid nor any other individual, firm or corporation other than SBK II, except as set forth herein, shall, as of the formation of the Joint Venture, have any right, title or interest in or to any of the assets to be contributed to the Joint Venture by SBK II pursuant to Paragraph 4 above, or pursuant to any other provision of this agreement, and agrees

that each of them, jointly and severally, will indemnify and hold harmless Capitol, the Joint Venture and their respective licensees, successors and assigns from any claims made by Swid or any other such individual, firm or corporation, against Capitol, the Joint Venture, its licensees or assigns, arising out of any breach by BK of their representations set forth herein. BK shall also indemnify and hold harmless Capitol, the Joint Venture and their respective licensees, successors and assigns from any claims made by Swid in connection with the use of "S" in the name, logo and business of SBK II, SBK Records or the Joint Venture.

BK and SBK II shall indemnify Capitol and its Affiliates against, and hold harmless Capitol and its Affiliates from, all liabilities whether known, unknown, contingent or otherwise, arising from a breach or default by SBK II or any of its Affiliates under any of the record production or management contracts contributed to the Joint Venture pursuant to Paragraph 4 above which breach or default occurred prior to the formation of the Joint Venture, including, without limitation, liabilities for all royalties, sales, use and similar taxes, reasonable attorney's fees and court costs. The term Affiliates shall mean, with respect to this agreement, any person or entity controlling, controlled by or under common control with such entity. This indemnity shall

continue in full force and effect throughout the operation of the Joint Venture and thereafter.

Subject to the foregoing paragraph, upon the formation of the Joint Venture, the Joint Venture shall assume: (i) all obligations under production and/or management contracts contributed by BK and/or SBK II; and (ii) all obligations that arise as a result of the Joint Venture's business operations; and shall indemnify BK from any personal liability with respect to such obligations, except if such liability is a result of Bandier and/or Koppelman's gross negligence, willful misconduct or breach of the terms contained herein and/or in the Stock Purchase Agreement. BK represent and warrant that to their knowledge there are no outstanding, pending or threatened claims arising from a breach or default under any of the contracts referred to in subsection (i) of the foregoing sentence.

6. Further funding for the Joint Venture, subject to the approval rights of Capitol under this agreement, will be made available as requested by BK and as required, up to a total of \$10,000,000, by each of Capitol and BK or SBK II on a dollar-for-dollar basis of up to \$5,000,000 each. Any further funding, if necessary and requested by BK, will be by way of borrowings by the Joint Venture, subject to the approval rights of Capitol under this agreement, guaranteed 50/50 by Capitol and BK up to a limit of a further \$10,000,000. The parties hereto will not at any time have any obligation

to make funds available to the Joint Venture or to permit the Joint Venture to borrow funds in excess of the aggregate of \$30,000,000 provided for in this Agreement; provided however that such calculation of cash funds shall not include internally generated funds. The partners agree that the Joint Venture will be operated so that in no year will the annual loss, pre-interest and tax, exceed \$5,000,000.

The parties hereto agree that, as a general principle, any excess cash of the Joint Venture not required in the ordinary course of business and subject to reasonable reserves, will be distributed to the partners as soon as practicable.

7. The Joint Venture will exploit its recorded music repertoire in the United States by way of a Pressing, Distribution and Sales ("PD&S") agreement with Capitol/EMI/Angel ("CEMA") on terms equal to the best terms available from CEMA to any third party; provided however, that the Joint Venture has the right to enter into U.S. record club deals on its own behalf and into deals for secondary exploitation on records of its repertoire in the U.S. (but not to include midline and budget exploitation which shall fall within the PD&S agreement).

8. The Joint Venture will exploit its recorded music repertoire throughout the world, excluding the United States, by way of a license agreement with Capitol or any of its Affiliates. Such license agreement shall be consistent

with the terms and conditions applicable to Capitol's own repertoire, which include, without limitation, the following:

(a) No advances;

(b) A royalty of 21.6% on 100% of the net sales, computed on the dealer price with no packaging allowance (i.e. - the EMI Music Group's standard inter-company royalty of 24%, less 10% for the International Marketing Department, which will operate on the same basis for the Joint Venture's artists internationally as it does for Capitol's and its Affiliates' own artists);

(c) Reduced rate royalties will apply to midline and budget exploitation, consistent with the policies of the EMI Music Group then in effect;

(d) There shall be no exploitation of the repertoire in other than full price without the consent of the Joint Venture as repertoire owner.

9. The Joint Venture will exploit its song copyrights pursuant to a worldwide administration deal with a music publishing Affiliate of Capitol on terms to be further discussed; provided however, that the terms of such deal will represent a fair market agreement for administration of the copyrights hereunder. If SBK II purchases Capitol's interest in the Joint Venture pursuant to Paragraph 11 of this agreement, such administrative deal shall terminate 6 months thereafter.

10. Each of Bandier and Koppelman will be employed by, and will render services to, the Joint Venture in a management capacity for a period of 5 years from the date upon which the Joint Venture is formed. Thereafter, either Bandier or Koppelman may voluntarily terminate his employment by the Joint Venture or the management of the Joint Venture upon giving 12 months notice, but if one so terminates his employment, the other may not voluntarily terminate his employment for a period of 12 months thereafter. At all times that the Joint Venture continues in effect, BK and SBK II will conduct all of their entertainment industry activities through the Joint Venture, excluding (i) their interest in music publishing interests owned or controlled jointly with members of the LeFrak organization pursuant to an Administration Agreement dated January 11, 1984, as amended to date among Samuel J. LeFrak, individually and as trustee, Richard S. LeFrak, Ethel LeFrak, individually and as trustee, Francine LeFrak, Denise Bandier, 212 Music Corp., Fun City Music Corp., 40 West Music Corp., Purple Record Distributing Corp. and The Koppelman Administration Co., Inc. and related collection agreements and other agreements relating to the Neil Sedaka catalog, as amended to date (collectively referred to as the "LeFrak Copyrights"), which have never been part of SBK, (ii) prior passive interests in record royalties arising from contracts entered into prior to

the formation of SBK and which have never been part of SBK, and (iii) their interest in certain original soundtrack recordings of certain motion pictures produced by MGM which were acquired by SBK's predecessor and are referred to as the "MGM Masters"; provided, however, that the opportunity to exploit such masters on records shall be offered on a last refusal basis to either the Joint Venture or Capitol; provided, further, however, that if BK or SBK II submit an entertainment industry proposal (in connection with a matter other than recorded music, music publishing, artists management or music video) to the Joint Venture, and Capitol does not wish the Joint Venture to participate in all or a part of such venture, then BK or SBK II may undertake such part of the venture as is not placed within the Joint Venture on their own behalf, or in association with third parties outside the Joint Venture. All recorded music, music publishing, artists management and music video activities in which BK have an interest, subject to the exclusion with respect to the MGM Masters, the LeFrak copyrights and passive interests set forth in the foregoing sentence, will be conducted through the Joint Venture; provided, however, if BK or SBK II propose that the Joint Venture acquire a music publishing catalogue and Capitol does not wish the Joint Venture to participate in such acquisition, then BK may make such acquisition on their own behalf or in association with third parties, provided

that such acquisition is entered into on the same or less favorable terms than those proposed to the Joint Venture. Notwithstanding any of the above, BK will devote substantially all their time to the Joint Venture while they remain employees and responsible for its management. BK hereby permit Capitol to carry insurance on their lives and agree to submit to medical examinations with respect to such life insurance policy. The full cost of such insurance will be borne by Capitol.

11. Upon (i) 5 years from the date on which the Joint Venture is formed, (ii) the date on which the Joint Venture has violated the conditions of this agreement, including, but not limited to, the limitations on borrowing contained in Paragraph 6, or (iii) a date on which neither of Koppelman nor Bandier is physically able to fulfill his management responsibilities hereunder, Capitol shall have an option to buy out SBK II's 50% interest in the Joint Venture controlled by BK. SBK II shall propose the price for its 50% interest (the "Offer Price"); if Capitol does not accept the Offer Price, then Capitol may require SBK II to buy out Capitol's 50% interest at the Offer Price. If Capitol does not so require SBK II, then the Joint Venture will continue as set forth in this agreement. Upon the date 6 years after formation of the Joint Venture, either SBK II or Capitol may initiate the buy-out process; if either partner does so,