

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

**BEFORE THE CALIFORNIA
STATE BOARD OF EQUALIZATION**

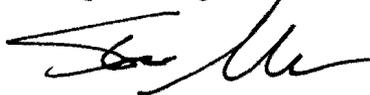
In the Matter of)
Richard N. and Anita Eisenberg) Case ID No. 610025
) Appellants' Hearing Exhibits

Appellants Richard N. and Anita Eisenberg submit the following hearing exhibits:

<u>Exhibit</u>	<u>Description</u>
A	Declaration of Ken Pedersen
B	12/22/97 Westwood Stock Sale Agreement (w/o Exs.)
C	9/29/98 Castalian Purchase Offer
D	11/18/98 Castalian Purchase Letter Agreement
E	9/7/99 Castalian / Stewart Employment Agreement (w/o Exs.)
F	9/7/99 Castalian Sale Summary

Dated: July 28, 2014

Respectfully submitted,



STEVE MATHER
Attorney for Taxpayers

STATE BOARD OF EQUALIZATION



Appeal Name: Richard N. Eisenberg & Anita Eisenberg
Case ID: 610025 ITEM # B3
Date: 8/5/14 Exhibit No: B.2

TP FTB DEPT PUBLIC COMMENT

TAXPAYER EXHIBIT

B3

August 5, 2014

**Richard N. Eisenberg and Anita Eisenberg
610025**

1 **DECLARATION OF KEN PEDERSEN**

2 I, **KEN PEDERSEN**, declare and state as follows:

3 1. I was employed by Virgin Records America, Inc. ("Virgin") as
4 Executive Vice President during the time at issue, 1997 through
5 2002, and was directly involved in the acquisition of multiple
6 companies from Anita Stewart ("Stewart").

7 2. The principal companies acquired by Virgin from Stewart
8 were Westwood Promotions, Inc. ("Westwood") and Castalian Music,
9 LLC/Abacus Media, LLC ("Castalian").

10 3. The method of determining the amount Virgin paid for
11 Westwood and Castalian was essentially the same. Virgin was
12 acquiring several similar companies at the time and used the same
13 formula to pay for the seller's interest in the companies. That
14 formula was a multiple of future earnings (typically eight times a
15 portion of the earnings) with the purchase price subject to a floor
16 and a ceiling.

17 4. This is the formula Virgin used in the acquisition of
18 Westwood. For this purchase, the purchase price was based on a
19 formula of eight times 57% of the average annual pre-tax earnings
20 with a minimum purchase price of \$1,114,350 and a maximum
21 purchase price of \$3,192,000 for Stewart's minority interest. There
22 were no continuing services required of Stewart in connection with
23 the Westwood purchase. Therefore, there was no separate
24 employment agreement.

25 5. Virgin later determined that it also wanted to purchase
26 Castalian from Stewart. An initial proposal was set forth in the
27 Letter of Intent was made on September 29, 1998, for the purchase
28 of the Castilian ownership interests. This proposal was specifically

1 based on the formula used for the purchase of Westwood, and as
2 part of the purchase of Castalian, Stewart was asked to give up her
3 continuing interest in Westwood buy out.

4 6. Because Virgin wanted Stewart to continue working for
5 Castalian after the purchase, there was a separate arrangement to
6 pay Stewart salary of \$300,000 per year and plus performance
7 bonuses. The purchase of Castalian, however, was made in
8 substantially the same manner and on the same formula as the
9 purchase of Westwood and as set forth in the Letter of Intent.

10 7. I was not involved in the documentation of the purchase. I
11 am aware, however, that the purchase was implemented on the
12 formula set forth in Virgin's original Letter of Intent, which specified
13 a down payment with installment payments (including advances) on
14 the full purchase price.

15 I declare under penalty of perjury under the laws of the State of
16 California that the foregoing is true and correct and that if called
17 upon as a witness, I could and would competently testify thereto.

18 Executed this 31 day of DECEMBER 2013, at
19 AGONA Hills California.

20
21 
22 KEN PEDERSEN
23
24
25
26
27
28

**SALE OF STOCK
BY
ANITA STEWART
TO
VIRGIN RECORDS AMERICA, INC.**

AND

**SETTLEMENT AGREEMENT
BY AND BETWEEN
LEE R. BARBAKOFF
WES SAMUELS
ANITA STEWART
WESTWOOD PROMOTIONS, INC.
MUSIC DIRECT, INC.
MATTHEW & ROBERTS ADVERTISING, INC.
2 BARBS, INC.
DIRECT SPECIALTIES, INC.**

AND

**THE WESTWOOD PROMOTIONS, INC.
SAVINGS & PROFIT SHARING PLAN**

DECEMBER 22, 1997

Prepared By:

**Patzik, Frank & Samotny Ltd.
150 South Wacker Drive
Suite 900
Chicago, Illinois 60606
Tel: (312) 551-8300
Fax: (312) 551-1101**

HEARING EX. B

B-1

AGREEMENT, dated as of the 22nd day of December, 1997 ("Agreement"), between VIRGIN RECORDS AMERICA, INC., a California corporation (the "Purchaser") and ANITA STEWART (the "Seller").

W I T N E S S E T H:

WHEREAS, the Seller is the holder of 32,995 shares of Westwood Promotions, Inc. ("Company") common stock (the "Common Stock");

WHEREAS, the Purchaser desires to acquire from the Seller, and the Seller desires to sell to the Purchaser, all of her Common Stock, on the terms and subject to the conditions set forth herein;

WHEREAS, contemporaneously herewith Purchaser is entering into an agreement with Lee Barbakoff ("Barbakoff") and Wes Samuels ("Samuels") to purchase the shares of stock that Barbakoff, Samuels and the Westwood Promotions, Inc. Savings and Profit Sharing Plan (the "Plan") own for the benefits of Barbakoff and Samuels (the "B & S Stock") in the Company ("the Acquisition Agreement"); and

WHEREAS, prior hereto the parties along with Barbakoff and Samuels entered into a Letter of Intent (the "Letter of Intent") outlining the principal terms upon which Purchaser was to purchase the Common Stock and the B & S Stock.

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

ARTICLE I
DEFINITIONS

For purposes of this Agreement, the following terms shall have the respective meanings set forth for them below:

"Acquisition Agreement" has the meaning ascribed to such term in the recitals hereto.

"Agreement" has the meaning ascribed to such term in the preamble hereto.

"Album" means a set of no less than nine (9) Master Recordings having an aggregate playing time of no less than

12/16/97

cc/vra/westwood/westwoodA.7

thirty-five (35) minutes in duration, embodied on compact disc, tape, vinyl, Digital Record or New medium equivalent.

"Annual Anniversary" has the meaning ascribed to such term in Section 2.03(c) hereof.

"Annual Operating Budget" has the meaning ascribed to such term in the Acquisition Agreement.

"Average Annual Pretax Net Earnings" has the meaning ascribed to such term in Section 2.01(b) hereof.

"B & S Stock" has the meaning ascribed to such term in the recitals hereto.

"CERCLA" has the meaning ascribed to such term in the definition of "Hazardous Substances".

"Closing", "Closing Date", "Closing Time" and "Closing Place" have the respective meanings ascribed to such terms in Section 2.02 hereof.

"Closing Payment" has the meaning ascribed to such term in Section 2.01(c)(i) hereof.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Stock" has the meaning ascribed to such term in the recitals hereto.

"Company" has the meaning ascribed to such term in the Employment Agreement.

"Contracts" has the meaning described to such term in Section 3.21 hereof.

"Corporation" and "Corporations" shall mean collectively and individually Westwood, Matthew & Roberts and Music Direct unless otherwise specifically noted to the contrary.

"Damages" has the meaning ascribed to such term in Section 12.01 hereof.

"Defaulted Common Stock" has the meaning ascribed to such term in Section 2.01 (d).

"Digital Record" means a record the signals of which are encoded and decoded by so-called "digital" technology whether now known or hereafter devised as opposed to so-called "analog" technology, and shall include without limitation Compact Discs, Digital Audio-Tape records and Digital Compact Cassettes.

12/16/97
cc/vra/westwood/westwoodA.7

"EMI Company" shall mean Purchaser or any of Purchasers affiliates.

//
//
//
//
//
//
//
//
//
//
//

"Exempt Interest" shall mean the interest on the first Five Hundred Thousand (\$500,000) of loans made to Westwood by Purchaser or any EMI Company or any third party.

"Facility" means any facility which is now or has heretofore been owned or used by the Corporation.

"Fee" has the meaning ascribed to such term in Section 2.01(c)(1) hereof.

"Fiscal Year" means the twelve month period commencing April 1 and ending March 31.

"First Anniversary, Second Anniversary, Third Anniversary, Fourth Anniversary and Fifth Anniversary shall mean respectively April 1, 1999, April 1, 2000, April 1, 2001, April 1, 2002 and April 1, 2003.

//
//
//
//
//
//
//
//
//

"GAAP" means generally accepted accounting principles in the United States of America in effect from time to time.

"Governmental Body" means any Federal, state, local or foreign governmental authority or regulatory body, any subdivision, agency, commission or authority thereof (including, without limitation, environmental protection, planning and zoning), or any quasi-governmental or private body exercising any regulatory authority thereunder and any person directly or

12/16/97

cc/vra/westwood/westwoodA.71

indirectly owned by and subject to the control of any of the foregoing, or any court, arbitrator or other judicial or quasi-judicial tribunal.

"Governmental Rules" means any statute, law, treaty, rule, code, ordinance, regulation, permit, certificate or order of any Governmental Body or any judgment, decree, injunction, writ, order or like action of any Governmental Body.

"Indemnified Party" has the meaning ascribed to such term in Section 12.03 hereof.

"Indemnifying Party" has the meaning ascribed to such term in Section 12.03 hereof.

"Letter of Intent" has the meaning ascribed to such term in the recitals hereto.

"Lien" means any mortgage, charge, pledge, lien, security interest, claim, encumbrance or restriction, of any kind or nature.

"Liability" means any direct or indirect liability, indebtedness, obligation, guarantee or endorsement, whether known or unknown, whether accrued or unaccrued, whether absolute or contingent, whether due or to become due, whether liquidated or unliquidated.

"MAC/GLC" and "MAC/GLC Payment" have the respective meanings ascribed to such terms in Section 2.01(c)(i) hereof.

"Master Recording" shall mean every form of recording (whether now known or unknown), embodying sound alone, sound accompanied by visual images, or visual images alone, which may be used in the recording, production or manufacture of Phonograph Records, including without limitation all multitrack recordings and production masters.

"material adverse change" means any material adverse change in the business, operations, properties, financial condition, results of operation or prospects of the Corporations taken as a whole, whether or not occurring in the ordinary course of business.

"material adverse effect" means any material adverse effect (i) on the business, operations, properties, financial condition, Liabilities, results of operation or prospects of any of the Corporations or their affiliates taken as a whole, or (ii) on the assets, value, condition or nature of any of the Corporations or their affiliates taken as a whole, whether or not occurring in the ordinary course of business.

12/16/97
cc/vra/westwood/westwoodA.7

"Matthew & Roberts" means Matthew & Roberts Advertising, Inc., a wholly owned subsidiary of the Company.

"Matthew & Roberts Shares" has the meaning ascribed to such term in Section 3.04(b) of the Acquisition Agreement.

"Maximum Purchase Price" has the meaning ascribed to such term in Section 2.01 hereof.

"Minimum Purchase Price" has the meaning ascribed to such term in Section 2.01 hereof.

"Music Direct" means Music Direct, Inc., a wholly owned subsidiary of Westwood.

"Musical Compositions" means all musical compositions and copyrights therein owned or licensed by either of the Corporations.

"Phonograph Record" means every form of reproduction (whether now known or unknown), embodying sound alone, or sound accompanied by visual images, distributed primarily for home use, school use, juke box use, and use in means of transportation, including, without limitation, discs of any speed or size, reel-to-reel tapes, cartridges, cassettes, or other pre-recorded tapes.

"Plan" has the meaning ascribed to such term in the preamble hereto.

"Pretax Net Earnings" shall mean for any Fiscal Year the audited pretax consolidated net earnings of the Corporations which net earnings are calculated prior to income taxes and prior to the Exempt Interest and without any charge for overhead or similar type expense by Purchaser or any of Purchaser's affiliates. Such audited accounts of the Corporations for the Fiscal Year in question shall be kept in accordance with GAAP.

"Purchase Price" has the meaning ascribed to such term in Section 2.01 hereof.

"Purchase Price Acceleration Event" shall mean (i) the occurrence of any act by the Purchaser where Westwood and Matthew & Roberts are not treated as a separate accounting unit; (ii) a permanent material change to the Company's principal business (Company's principal business being the sale of Phonograph Records through TV advertising); (iii) a sale by Purchaser of more than fifty percent (50%) of the stock of the Company to a company which is not an affiliate, subsidiary, or parent of Purchaser or Purchaser's ultimate parent, EMI Music Worldwide,

12/16/97

cc/vra/westwood/westwoodA.7

plc.; or (iv) a change in control of the Corporations resulting ^{OK} control of the Corporations by a third party who is not ⁱⁿ affiliated with or related to Purchase; or (iv) Purchaser's failure to provide any financing required pursuant to any approved Annual Operating Budget unless the Corporations are not meeting their approved Annual Operating Budgets or such financing is not required as determined by Purchaser.

"Purchaser" has the meaning ascribed to such term in the preamble hereto.

//
//
//
//
//
//

"Release" means general releases in substantially the form of Exhibit B hereto to be executed by the Seller and the directors and officers of the Corporation in favor of the Corporation and the Purchaser.

"Royalties" and "Royalty Album" have the respective meanings ascribed to such terms in Section 2.03(a).

"Royalty Year" means each Fiscal Year commencing April 1, 1998.

"Sales through Normal Retail Channels" means sales through record or other retail stores to the end consumer.

//
//
//
//
//
//
//
//
//
//
//

"Securities Act" means the Securities Act of 1933, as amended.

"Seller" has the meaning ascribed to such term in the preamble hereto.

"Seller's Knowledge" means the actual knowledge of Seller without independent inquiry.

12/16/97
cc/vra/westwood/westwoodA.71

~~"Share" means Eleven and Four Tenths Percent (11.4%).~~

"Seller's Knowledge" means the actual knowledge of Seller without independent inquiry.

"Statement of Financial Condition" has the meaning ascribed to such term in the Acquisition Agreement.

"Tax" has the meaning ascribed to such term in Section 3.16 of the Acquisition Agreement.

"Term" shall have the meaning ascribed to such term in the Employment Agreement.

"Territory" means the world.

"Third Party Common Stock Sale Advance" has the meaning ascribed to such term in Section 2.01(f) hereof.

"Yearly Royalty Guarantee" has the meaning ascribed to such term in the Acquisition Agreement.

ARTICLE II PURCHASE AND SALE

Section 2.01. Purchase of the Common Stock and Payment of Purchase Price.

(a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, at the Closing Time and at the Closing Place, the Seller agrees to sell, exchange, assign, transfer and deliver to the Purchaser certificates for the Common Stock, duly endorsed in blank or accompanied by stock powers in blank, with signatures guaranteed by a commercial bank or trust company or member firm of a national securities exchange, and with all necessary transfer stamps affixed thereto or such other assignments, deeds, share transfer forms, or other instruments or documents, duly stamped where necessary, as are necessary in order effectively to transfer the Common Stock to the Purchaser free and clear of all Liens.

(b) The purchase price ("Purchase Price") for the Common Stock shall be a sum equal to eleven and four tenths percent (11.4%) of the average annual Pretax Net Earnings during the five (5) Fiscal Years beginning April 1, 1998 or such shorter period, as provided in Section 2.01(e)(i) and (iii) (the "Average Annual Pretax Net Earnings") multiplied by a factor of eight (8), provided, however, that in no event shall the Purchase Price be less than One Million One Hundred and Fourteen Thousand Three Hundred and Fifty Dollars (\$1,114,350.00) (the "Minimum Purchase

12/16/97

cc/vra/westwood/westwoodA.7

Price") or exceed Three Million One and Ninety Two Thousand Dollars (\$3,192,000.00) (the "Maximum Purchase Price") except as otherwise provided herein.

(c) The Purchase Price shall be paid as follows:

(i) At the Closing, the Purchaser shall pay as advances against the Purchase Price (A) to Seller a sum equal to One Million Forty Three Thousand and One Hundred (\$1,043,100) Dollars ("Closing Payment") and (B) to the Mid-Atlantic Companies, Ltd. and Gruppo, Levey and Capell, Inc., (collectively "MAC/GLC") eleven and four tenths percent (11.4%) of fifty percent (50%) of the fee (the "Fee") due MAC/GLC at the Closing (the "MAC/GLC Payment"), provided, however, that in no event shall the MAC/GLC Payment exceed Fourteen Thousand Two Hundred and Fifty (\$14,250.00) Dollars. Purchaser shall deduct from the Closing Payment and pay a sum equal to eleven and four tenths percent (11.4%) of the balance of the Fee to MAC/GLC. The balance of the Minimum Purchase Price shall be paid as set forth in Section 2.03 (e).

provided however, that in no event shall such payment exceed Fourteen Thousand and Two Hundred Fifty Dollars (\$14,250.00)

(ii) The balance of the Purchase Price (i.e., the Purchase Price less the Closing Payment, the total Yearly Royalty Guarantees and the Third Party Common Stock Sale Advance, if any), subject to Section 2.01(e), shall be paid to the Seller within 120 days following the Fifth Anniversary.

(d) If Barbakoff, Samuels, the Plan or the Seller shall fail or refuse to deliver at the Closing any of the Common Stock (which term shall for purposes of this Section 2.01(d) include the common stock of the Company to be sold by Barbakoff, Samuels and the Plan pursuant to the Acquisition Agreement) (the "Defaulted Common Stock") to be sold by the Seller, Barbakoff, Samuels and the Plan (a "defaulting seller") hereunder or pursuant to the Acquisition Agreement, as the case may be, such failure or refusal shall not relieve the non-defaulting sellers of their obligations hereunder and the Purchaser, at its option and without prejudice to its rights against such defaulting seller, shall at such time have the right either (i) to purchase the remainder of the Common Stock that it is entitled to purchase hereunder (provided that the aggregate Purchase Price shall be reduced by the Purchase Price allocable to the Defaulted Common Stock) or (ii) to give notice pursuant to Section 12.01 hereof of its refusal to make such purchase and thereby terminate all of its obligations hereunder.

(e) Notwithstanding the foregoing:

(i) If, at any time prior to the Fifth Anniversary, a Purchase Price Acceleration Event occurs, then the Purchase Price shall be calculated and paid as follows: (A) if a

12/16/97
cc/vra/westwood/westwoodA.7

B-9

Purchase Price Acceleration Event occurs prior to the First Anniversary, the Purchase Price shall be paid pursuant to Section 2.01(b) above, but subject to the method of calculating the Pretax Net Earnings as set forth in 2.01(e)(i)(D), provided that (w) notwithstanding Section 2.01(b), the Purchase Price shall be calculated at the end of the last month prior to the month in which such Purchase Price Acceleration Event occurs and (x) notwithstanding Section 2.03(e) Seller shall not be entitled to any Yearly Royalty Guarantee payments not already earned; and Purchaser shall pay to the Sellers One Hundred Fifty Percent (150%) of the Purchase Price (less the Closing Payment, the MAC/GLC Payment, the total Yearly Royalty Guarantees paid or payable as of the date of the calculation of the Average Annual Pretax Net Earnings and the Third Party Common Stock Sale Advance, if any) within 120 days following the date of such Purchase Price Acceleration Event; (B) if a Purchase Price Acceleration Event occurs on or after the First Anniversary but prior to the Second Anniversary, the Purchase Price shall be paid pursuant to Section 2.01(b) above, provided that (y) notwithstanding Section 2.01(b), the Purchase Price shall be calculated at the end of the last month prior to the month in which such Purchase Price Acceleration Event occurs and (z) notwithstanding Section 2.03(e) Seller shall not be entitled to any Yearly Royalty Guarantee payments not already earned; and the Purchaser shall pay to the Sellers One Hundred Twenty-Five Percent (125%) of the Purchase Price (less the Closing Payment, the MAC/GLC Payment, the total Yearly Royalty Guarantees paid or payable as of the date of the calculation of the Average Annual Pretax Net Earnings and the Third Party Common Stock Sale Advance, if any) within 120 days following the date of such Purchase Price Acceleration Event; (C) if a Purchase Price Acceleration Event occurs on or after the Second Anniversary but prior to the Fifth Anniversary, the Purchase Price shall be paid pursuant to Section 2.01(b) above, but subject to the method of calculating the Pretax Net Earnings as set forth in Section 2.01(e)(i)(D), provided that (y) notwithstanding Section 2.01(b), the Purchase Price shall be calculated at the end of the last month prior to the month in which such Purchase Price Acceleration Event occurs and (z) notwithstanding Section 2.03(e), Seller shall not be entitled to any Yearly Royalty Guarantee payments not already earned; and the Purchaser shall pay to Seller One Hundred Percent of the Purchase Price (less the Closing Payment, MAC/GLC Payment, total Yearly Royalty Guarantees paid or payable as of the date of the calculation of the Average Annual Pretax Net Earnings and the Third Party Common Stock Sale Advance, if any) within 120 days following the date of such Purchase Price Acceleration Event; (D) for any partial Fiscal Year in which the Purchase Price Acceleration Event occurs, the annual Pretax Net Earnings for the period from April 1, 1998 to the month immediately preceding the month in which the Purchase Price Acceleration Event occurs (the "Calculation Period") shall

12/16/97

cc/vra/westwood/westwoodA.7

but subject to the method of calculating the Pretax Net Earnings as set

Fiscal Years beginning April 1, 1998 or such shorter period, as provided in Section 2.01(e)(i) (the "Average Annual Pretax Net Earnings") multiplied by a factor of eight (8), which sum shall in no event exceed Six Hundred Ten Thousand and Four Hundred Dollars (\$610,400).

Section 2.02. Closing. (a) The Agreement and the Exhibits will be executed in counterpart as of the date first set forth above (the "Closing"). (Hereinafter, the date on which the Closing shall take place is referred to as the "Closing Date" and the time on the Closing Date when the Closing shall take place is referred to as the "Closing Time".

(b) The Closing may be held at such other date, time and place as may be agreed upon in writing by the parties.

Section 2.03. Royalty Earnings. (a) Company will be paid Royalties (as such term is defined in the Acquisition Agreement) in the manner as set forth in Section 2.03 of the Acquisition Agreement.

(b) through (d) Not used

(e) The Yearly Royalty Guarantees shall be deemed earned at the end of the applicable Royalty Year and you shall be paid ~~eleven and four tenths percent (11.4%)~~ of the Yearly Royalty Guarantee (as such term is defined in the Acquisition Agreement) not later than 30 days following the fifth Annual Anniversary as an additional advance against the Purchase Price.

AMS
thirteen and fifty-eight one-hundredths percent (13.58%)

Seller
MS

(f) Only Royalties in excess of the Yearly Royalty Guarantee shall be included in calculating Company's Pretax Net Earnings for the purpose of calculating the Purchase Price. For purposes of clarification the first Five Hundred Thousand (\$500,000) in actual Royalties shall not be included in calculating the Pretax Net Earnings.

Section 2.04. Loans to Westwood. In the event that Westwood borrows money from Purchaser or any of its affiliates, Westwood will be charged interest by Purchaser or any of its affiliates at the normal and ordinary interest rates charged by Purchaser or its affiliates on loans to its subsidiaries, parents or affiliates, not to exceed two percent (2%) over the "prime" or "reference" rate announced from time to time by the Mid-City National Bank at its principal office in Chicago, Illinois or the maximum rate permitted by law, if less, with adjustments to be made retroactive to the date of the announcement of such change of rate.

Section 2.05. Not used.

12/16/97
cc/vra/westwood/westwoodA.72

B-14

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE SELLERS

Seller represents and warrants to the Purchaser that (wherever the term Corporations is used herein it shall include and mean without limitation, Westwood and Matthew & Roberts as if the representation and warranty was only to such Corporation):

Sections 3.01 through 3.03 Not used.

Section 3.04. Title To Common Stock; Authority of Sellers.

(a) Seller has good and valid title to the Common Stock set forth opposite Seller's name on Schedule 1 hereto, and the Common Stock is, and on the Closing Date will be, owned of record and beneficially by Seller, free and clear of any Liens.

(b) and (c) Not used.

(d) Seller has the power and authority to execute and deliver this Agreement and the Release executed by Seller and all other documents hereby and thereby contemplated, to consummate the transactions hereby and thereby contemplated and to take all other actions required to be taken by her pursuant to the provisions hereof and thereof. The execution, delivery and performance of this Agreement and the Release executed by Seller and all other documents hereby and thereby contemplated to be executed by or with respect to Seller, and the consummation by the Seller of the transactions hereby and thereby contemplated have, or prior to the Closing will have, been duly authorized by any and all necessary action, corporate or otherwise, of the Seller and the Corporation, and this Agreement and the Release and all other documents hereby and thereby contemplated to be executed by the Seller constitute legal, valid and binding obligations of the Seller, enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy and other laws affecting the enforceability of creditors' rights generally or laws governing the availability of specific performance or other equitable remedies.

(e) Seller understands the terms of the arrangements between her and Purchaser and the transactions hereby contemplated. Seller has been represented by counsel in connection with this Agreement and will not raise any objection or claim against the Purchaser of the Corporations or any of the shareholders, officers or directors of either of them on the basis that she was not properly represented in connection with the Agreement.

12/16/97
cc/vra/westwood/westwoodA.7

B-15

Section 3.05. Not used.

Section 3.06. Capitalization; Options. (a) (i) To the best of Seller's Knowledge Company was and is authorized to issue the shares of Common Stock and B & S Stock, which constitute all of the issued and outstanding capital stock of the Company, all of which are issued and outstanding and currently owned by Seller, Barbakoff, Samuels and the Plan. There are no other series or classes of capital stock of the Company authorized or issued.

(ii) To the best of Seller's Knowledge there are not and on the Closing Date will not be, outstanding any warrants, options, contracts, rights (pre-emptive or otherwise), calls, commitments or demands of any character relating to any authorized and issued or unissued shares of capital stock of Westwood, including, without limitation, the Common Stock and the B & S Stock, or outstanding securities, obligations, rights or other instruments convertible into or exchangeable for such stock, or which obligate Westwood to seek authorization to issue additional shares of any class of stock, nor will any such rights be created by virtue of this Agreement or the transactions hereby contemplated.

(b) (i) To the best of Seller's Knowledge Matthew & Roberts is authorized to issue the Matthew & Roberts Shares, which constitute all of the issued and outstanding capital stock of Matthew & Roberts, all of which are issued and outstanding and currently owned by Westwood. There are no other series or classes of capital stock of Matthew & Roberts authorized or issued.

(ii) To the best of Seller's Knowledge there are not and on the Closing Date will not be, outstanding any warrants, options, contracts, rights (pre-emptive or otherwise), calls, commitments or demands of any character relating to any authorized and issued or unissued shares of capital stock of Matthew & Roberts, including, without limitation, the Matthew & Roberts Shares, or outstanding securities, obligations, rights or other instruments convertible into or exchangeable for such stock, or which obligate Matthew & Roberts to seek authorization to issue additional shares of any class of stock, nor will any such rights be created by virtue of this Agreement or the transactions hereby contemplated.

Section 3.07. Common Stock. (a) To the best of Seller's Knowledge the Common Stock and the B & S Stock have been legally and validly issued, and are fully paid and nonassessable and none of the Common Stock or the B & S Stock has been or, at the Closing Time, will have been issued in violation of the Securities Act or the securities or blue sky laws of any state or territory of the United States of America.

12/16/97
cc/vra/westwood/westwoodA.7

(b) To the best of Seller's Knowledge the Matthew & Roberts Shares have been legally and validly issued, and are fully paid and nonassessable none of the Matthew & Roberts Shares have been or, at the Closing Time, will have been issued in violation of the Securities Act or the securities or blue sky laws of any state or territory of the United States of America.

Section 3.08. No Violation of Other Instruments or Obligations. To the best of Seller's Knowledge neither the execution and delivery of this Agreement and the Release to be executed by Seller and all other documents hereby or thereby contemplated nor the consummation of the transactions hereby and thereby contemplated will (i) constitute any violation or breach of the Certificate of Incorporation or the By-laws of any of the Corporations; (ii) constitute any violation or breach of any provision of, or constitute a default under or breach of, or result in acceleration of any obligation under, any provision of any Contract, lease, mortgage or other instrument to which the Seller or any of the Corporations are a party or by which any of her or any of their or its assets may be affected or secured, which default, breach or acceleration has not been waived; (iii) violate any judgment, order, writ, injunction, decree, statute, rule or regulation affecting any of the Corporations or any of their assets; (iv) result in the creation of any Lien on any of the assets or properties of Seller or any of the Corporations; or (v) result in the termination of any Contract, license, franchise, lease or permit to which any of the Corporations are a party or by which any of the Corporations are bound, which would not, individually or in the aggregate, limit any Seller's ability to consummate the transactions hereby contemplated or have a material adverse effect on the business, assets or financial condition of any of the Corporations.

Section 3.09 through 3.10 Not used.

Section 3.11.

(a) through (b) Not used.

(c) The inventory reflected on the Statement of Financial Condition will be the inventory on the Closing Date for the Corporations except for inventory items acquired, distributed or disposed of in the ordinary course of business.

Section 3.12 through 3.20 Not used.

Section 3.21. Contracts. Seller is not aware of the existence of any contracts, arrangements or agreements as in effect on the date hereof (the "Contracts") to which any of the Corporations is a party, including evidences of indebtedness,

12/16/97

cc/vra/westwood/westwoodA.7

whether written or oral, agreements with employees, agreements with recording artists, agreements with publishers and/or songwriters or composers, agreements with producers, sales representatives and distributors, and agreements with factors, banks or other lending institutions, except the leases and other agreements listed in Schedule 3.12 hereto and except for any contracts which involve media buys and contracts in the ordinary and regular course of business, none of which contracts result or will result in a material adverse effect to any of the Corporations which are not listed on Schedule 3.21 hereto. To the best of Seller's Knowledge none of the Corporations is in default in any material respect under any Contract and no event has occurred thereunder in each case which, with the lapse of time or the giving of notice, would constitute such a default, and to the Sellers' knowledge, no other party to any Contract is in default in any material respect thereunder. To the best of Seller's Knowledge each of the agreements listed on Schedule 3.21 hereto constitutes a valid, binding, enforceable and legal obligation of the Corporation which has executed such Contract. To the best of Seller's Knowledge neither the Seller nor any Corporation has received notice from any party to a Contract asserting that a Contract is not a fully valid, binding, enforceable and legal obligation of such other party or any letter claiming a breach of a Contract. To the best of Seller's Knowledge there are, and at the Closing Time there will be, no Contracts which are not enforceable against the other party(s) to such Contract except as such enforcement may be limited by bankruptcy and other laws affecting the enforceability of creditors' rights generally or laws governing the availability of specific performance or other equitable remedies with any Seller or any affiliate of any Seller or pursuant to which any Seller or affiliate thereof receives any payments or benefits.

Section 3.22 through 3.24 Not used.

Section 3.25. Indemnification. No indemnification or similar arrangements exist for Seller or, to the best of Seller's Knowledge, the directors of any of the Corporations except as provided by statute or the Certificate of Incorporation or the By-laws of the Corporation.

Section 3.26. Not used.

Section 3.27. Finder's Fees. Neither Seller or to the best of Seller's Knowledge, none of the Corporations has incurred any liability for finder's or brokerage fees or agent's commissions in connection with this Agreement or the transactions hereby contemplated, except as set forth on Schedule 3.27 hereto.

Section 3.28. Full Disclosure. No representation or warranty of the Seller in this Agreement or any other

12/16/97
cc/vra/westwood/westwoodA.7

B-18

certificate, schedule or other document delivered to the Purchaser pursuant to this Agreement contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein not misleading in light of the circumstances in which made.

Section 3.29 and 3.30 Not used.

Section 3.31. Representations and Warranties. At the Closing Time, each of the representations and warranties of the Seller contained in this Article III shall be true as though made on and as of such time, other than those representations and warranties which are expressly made as of a specified date.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Sellers that:

Section 4.01. Organization and Good Standing. The Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of California and it has the corporate power and authority to own or lease all of its properties and assets and carry on its business as it is now being conducted.

Section 4.02. Not used.

Section 4.03. Authority Relative to Agreement. The Purchaser has the corporate power and authority to execute and deliver this Agreement and all other documents hereby contemplated, to consummate the transactions hereby contemplated and to take all other actions required to be taken by it pursuant to the provisions hereof. The execution, delivery and performance of this Agreement and all other documents hereby contemplated to be executed by the Purchaser, and the consummation by the Purchaser of the transactions hereby contemplated, have, or prior to the Closing will have, been duly authorized by any and all necessary corporate action of the Purchaser, and the Agreement and all other documents hereby contemplated to be executed by the Purchaser constitute the legal, valid and binding obligations of the Purchaser enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy and other laws affecting the enforceability of creditors' rights generally or laws governing the availability of specific performance or other equitable remedies.

Section 4.04. No Violation of Other Instruments or

12/16/97
cc/vra/westwood/westwoodA.7

B-19

Obligations. Neither the execution and delivery of this Agreement nor the consummation of the transactions hereby contemplated will (i) constitute any violation or breach of the certificate of incorporation or bylaws of the Purchaser; (ii) violate any judgment, order, writ, injunction, decree, statute, rule or regulation affecting the Purchaser or any of its assets.

Section 4.05. Consents and Approvals. Except as disclosed on Schedule 4.05 hereto, no authorization, approval, order, license, permit, franchise or consent, and no registration, declaration, notice or filing by or with any domestic or foreign governmental authority by the Purchaser is required in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

Section 4.06. Not used.

Section 4.07. Finder's Fees. The Purchaser has not incurred any liability for finder's or brokerage fees or agent's commissions in connection with this Agreement or the transactions hereby contemplated.

Section 4.08. Representations and Warranties. At the Closing Time, each of the representations and warranties of the Purchaser contained in this Article IV shall be true as though made on and as of such time, other than those representations and warranties which are expressly made as of a specified date.

Section 4.09. Investment Representations. The Purchaser is acquiring the Common Stock solely for its own account with the intention of holding such securities for purposes of investment and it has no intention of selling such securities in a public distribution in violation of the federal securities laws. The Purchaser shall cause each new certificate for Common Stock to be imprinted with a legend in substantially the following form:

"The securities represented by this certificate are not registered under the Securities Act of 1933, as amended and cannot be transferred or sold unless they are subsequently registered under the Act or, an exemption from such registration is available."

Section 4.10. Full Disclosure. No representation or warranty of the Purchaser in this Agreement or any other Certificate, schedule or document delivered to the Seller pursuant to this Agreement contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein not misleading in light of the circumstances in which made.

ARTICLE V
Not used.

ARTICLE VI
Not used.

ARTICLE VII
CONDITIONS TO THE PURCHASER'S OBLIGATIONS

All obligations of the Purchaser under this Agreement are subject to the fulfillment, at the Closing Time, of each of the following conditions, any or all of which may be waived in whole or in part, at or prior to the Closing Time by the Purchaser in its sole discretion:

Section 7.01. Representations and Warranties. The representations and warranties contained in Article III hereof shall be true in all material respects at and as of the Closing Time as though such representations and warranties were made at and as of such time. Neither the Seller nor, to the best of Seller's Knowledge, the Corporations have taken any action which would cause or constitute a material breach of any of the representations and warranties set forth in Article III hereof.

Section 7.02. Covenants. The Seller shall have performed and complied in all material respects with all agreements, covenants and conditions on their part required by this Agreement to be performed or complied with prior to or at the Closing Time, including, without limitation, the transfer and delivery to Purchaser of the certificates of the Common Stock. Each of the Corporations shall have complied with all material, terms and conditions contained in this Agreement and the related documents contemplated herein.

Section 7.03. Seller's Certificate. The Purchaser shall have received (i) a certificate of the Seller, dated the Closing Date, certifying to the fulfillment of the conditions specified in Sections 7.01 and 7.02 hereof and (ii) such other evidence with respect to the fulfillment of any of said conditions as the Purchaser may reasonably request.

Section 7.04. Not used.

Section 7.05. Employees. Neither the Seller nor any of her affiliates shall have retained, or agreed to retain, any person for the purpose of providing services to any of the Corporations subsequent to the date hereof, except with the Purchaser's prior

B-21

written consent, except as set forth in Schedule 7.05 hereto.

Section 7.06. Resignations. Except as specified in Schedule 7.06, the Seller shall have delivered to the Purchaser Seller's written resignations, effective as of the Closing, as a director of Company and Matthew & Roberts.

Section 7.07 Not used.

//
//
//
//
//

Section 7.08. and 7.09 Not used.

Section 7.10. Releases. Seller shall have executed and delivered to the Purchaser a general release in favor of such Corporation in the form set forth on Exhibit B hereto, other than with respect to the obligations contemplated by this Agreement and the agreements contemplated hereby.

Section 7.11. through 7.13 Not used.

Section 7.14. Injunctions. No court, agency or other authority shall have issued any order, decree or judgment to set aside, restrain, enjoin or prevent the performance of the Purchaser's obligations in Article II hereof.

Section 7.15. Institution of Proceedings. There shall not have been instituted by any third party any suit or proceeding to restrain or invalidate this Agreement or the transactions hereby contemplated or seeking damages from or to impose obligations upon any of the Corporations or the Purchaser by reason of this Agreement or the transactions hereby contemplated which, in the Purchaser's good faith judgment, would involve expenses or lapse of time that would be materially adverse to the Purchaser's interests.

ARTICLE VIII CONDITIONS TO THE SELLER'S OBLIGATIONS

All obligations of the Seller under this Agreement are subject to the fulfillment, at the Closing Time, of each of the following conditions, any or all of which may be waived in whole or in part, at or prior to the Closing Time by the Sellers:

Section 8.01. Representations and Warranties. The representations and warranties contained in Article IV hereof shall be true in all material respects at and as of the Closing

12/16/97

cc/vrs/westwood/westwoodA.71

Time as though such representations and warranties were made at and as of such time. The Purchaser has not taken any action which would cause or constitute a material breach of any of the representations and warranties set forth in Article IV hereof.

Section 8.02. Not used.

Section 8.03. Not used.

Section 8.04 and Section 8.05. Not used.

Section 8.06. Injunctions. No court, agency or other authority shall have issued any order, decree or judgment to set aside, restrain, enjoin or prevent the performance of the Sellers' obligations in Article II hereof.

Section 8.07. Institution of Proceedings. There shall not have been instituted by any third party any suit or proceeding to restrain or invalidate this Agreement or the transactions hereby contemplated or seeking damages from or to impose obligations upon Seller by reason of this Agreement or the transactions hereby contemplated which, in the Seller's good faith judgment, would involve expenses or lapse of time that would be materially adverse to the Seller's interests.

ARTICLE IX
CONDITION OF THE CORPORATIONS AT CLOSING

Not Used.

ARTICLE X
POST-CLOSING COVENANTS

Section 10.01. Further Assurances. From and after the Closing Date, the Seller shall, at any time and from time to time, at her sole cost and expense, make, execute and deliver, or cause to be made, executed and delivered, such assignments, deeds, bills of sale, drafts, checks, stock certificates, returns, filings and other instruments, agreements, consents and assurances and take or cause to be taken all such actions as counsel for the Purchaser may reasonably request for the effectual consummation, confirmation and particularization of this Agreement and the transactions hereby contemplated. The Seller will obtain the consent of all third parties to any Contract whose consent is required to the consummation the transactions contemplated hereby and which consent has not been obtained prior to the Closing.

12/16/97
cc/vra/westwood/westwoodA.7

8-23

Section 10.02. Seller's Access. (a) After the Closing, the Seller and her accountants and attorneys shall have reasonable access during usual business hours to the relevant books and records relating to each of the Corporations, including, without limitation, financial and tax records, and may make copies or extracts from the relevant portions of such books and records for reasonable business purposes. The Purchaser will reasonably cooperate with the Seller and her accountants and attorneys in these matters. The Purchaser agrees to retain the books and records of the Corporation relating to its operation prior to the Closing Date for at least one year after the Closing Date.

(b) *Rider 10.02 (b)* 
Section 10.03. Employee Benefit Plans. The Purchaser reserves the right, on or after the Closing Date, to amend or terminate, in whole or in part, each Plan, whether or not set forth in Schedule 3.23 hereto, and the Seller acknowledges such right, provided that no such action will adversely affect any of the Seller's accrued benefits to date.

Section 10.04 through 10.06 Not used.

Section 10.07. Purchase Price Acceleration Event. Purchaser hereby covenants and agrees that Purchaser will not cause the occurrence of any Purchase Price Acceleration Event prior to April 1, 1996.

ARTICLE XI TERMINATION

Not used.

ARTICLE XII INDEMNIFICATION

Section 12.01. By the Sellers. For the two (2) year period immediately following the Closing Date, the Seller agrees to indemnify and hold harmless the Purchaser, the Corporations and their respective directors, officers, employees and agents (the "Purchaser Parties") against, and to reimburse the Purchaser Parties on demand with respect to up to eleven and four tenths (11.4%) percent of the total amount of, any and all losses, liabilities, obligations, suits, proceedings, demands, judgments, damages, claims, expenses and costs (including, without limitation, reasonable fees, expenses and disbursements of counsel and accountants) (collectively, "Damages") which each may suffer, incur or pay by reason of (i) the breach by Seller of any representation, warranty, agreement or covenant contained in this Agreement or in any agreement, certificate or other document delivered to the Purchaser pursuant to the provisions of this

12/16/97

cc/vra/westwood/westwoodA.7

Rider 10.02(b)

AM

(b) The Company shall maintain, at its executive offices, which are presently in the State of Illinois, books of account concerning Royalties earned hereunder and our calculation of the Purchase Price. A certified public accountant on Seller's behalf, may, at Seller's sole expense, examine such books relating to the Royalties and the calculation of the Purchase Price (collectively referred to as the "Records") solely for the purpose of verifying the accuracy thereof, only during our normal business hours and upon reasonable written notice. Such Records may only be examined for a period of 90 days following Purchaser's submission to Seller of a letter reflecting Purchaser's calculation of the Purchase Price. Seller shall only have the right to perform this audit on one occasion. Seller agrees to notify Purchaser in writing within ninety (90) days after such examination if Seller believes that Purchaser's Records are not accurate, and to supply Purchaser with the report of Seller's accountants including their description of any and all alleged inaccuracies contained therein. Seller and its accountants agree to keep all information obtained in such examination confidential and to use it solely for the purpose of this paragraph. The rights hereinabove granted to Seller shall constitute Seller's sole and exclusive rights to examine the Records.

Agreement, (ii) the failure of Seller to perform any agreement required by this Agreement or any agreement executed pursuant to the provisions of this Agreement, (iii) any failure by the Corporation, prior to the Closing Date, to comply in all respects with all laws, rules, regulations, orders, decrees or judgments applicable to it; and (v) any adjustments, interest, penalties or other assessment by any taxing authority for Taxes for any of the Corporations for the period ending July 31, 1997 or earlier.

Section 12.02. By the Purchaser. For the two (2) year period immediately following the Closing Date, the Purchaser agrees to indemnify and hold harmless the Sellers against, and to reimburse the Sellers on demand with respect to, any and all Damages which she may suffer, incur or pay by reason of (i) the breach by the Purchaser of any representation, warranty, agreement or covenant contained in this Agreement or in any agreement, certificate or other document delivered to the Sellers pursuant to the provisions of this Agreement, (ii) the failure of the Purchaser to perform any agreement required by this Agreement or any agreement executed pursuant to the provisions of this Agreement, and (iii) the allegation in writing by any third party of the existence of any liability, obligation, lease, agreement, contract, other commitment or state of facts which, if such allegation were true, would constitute a breach by the Purchaser of any representation or warranty contained in this Agreement or in any agreement, certificate or other document delivered by or on behalf of the Purchaser to the Sellers pursuant to the provisions of this Agreement or of any covenant made by the Purchaser herein or therein.

Section 12.03. Indemnification Procedure. The Purchaser Parties, in the case of Section 12.01 hereof, and the Sellers, in the case of Section 12.02 hereof (hereinafter, the applicable party or parties providing indemnity, the "Indemnifying Party" and the party or parties being indemnified, the "Indemnified Party") agree to give the Indemnifying Party prompt written notice of the occurrence of any event which may result in indemnification hereunder. If such event involves a claim by a third party, the defense of such claim shall be at the Indemnifying Party's sole cost and expense. Purchaser shall, in all cases whether it is the Indemnifying Party or the Indemnified Party, have the sole right to control the contest, defense, settlement or compromise of any matter giving rise to such indemnification. The Sellers shall have the right to participate in such defense at the Sellers' cost and expense. The indemnification provided herein shall be the exclusive remedy which the Indemnified Party shall have for the breach of a representation, warranty or covenant.

Section 12.04. Omitted.

12/16/97

cc/vra/westwood/westwoodA.7

B-26

Section 12.05. Limitations on Indemnification. Neither ~~Sellers~~, on the one hand, nor ~~Purchaser~~, on the other, shall be required to make any indemnification payments under Section 12.01 or Section 12.02, as the case may be, except to the extent that the cumulative amount of the damages actually incurred by the other party hereto actually exceeds the sum of Fifteen Thousand (\$15,000) Dollars. ~~The Sellers' aggregate liability for indemnification payments under Section 12.01 shall not exceed Seven Hundred and Fifty Thousand Dollars (\$750,000). The Purchaser's aggregate liability for indemnification payments under Section 12.02 shall not exceed Seven Hundred and Fifty Thousand Dollars (\$750,000).~~

the Purchaser Parties

Seller's

Purchaser Parties

Section 12.06. Exclusive Remedies. The respective indemnity rights set forth in this section are intended to be the exclusive monetary remedies of the parties in connection with this Agreement and the transactions contemplated by this Agreement, except that nothing in this Agreement shall limit in any way the availability of specific performance, injunctive relief, or other equitable remedies to which a party may otherwise be entitled.

ARTICLE XIII OPERATION OF AGREEMENT

Section 13.01. Implementation. Each of the parties agrees and covenants promptly to execute and deliver, or cause to be executed and delivered, to each of the other parties such documents or instruments, in addition to those expressly required by the Agreement to be executed and delivered, as any of the other parties may reasonably deem necessary or desirable to carry out or implement any provision of the Agreement.

Section 13.02. Merger Provision. All prior or contemporaneous agreements (including, without limitation, the Letter of Intent"), contracts, promises, representations and statements, if any, among the parties hereto as to the subject matter hereof, are merged into this Agreement. This Agreement, together with all agreements, Schedules, Exhibits, documents and other instruments to be attached hereto or delivered herewith sets forth the entire understanding between the parties, and there are no terms, conditions, representations, warranties or covenants other than those contained herein and in such agreements, Schedules, Exhibits, documents and other instruments to be attached hereto or delivered herewith.

Section 13.03. Amendment and Modification. No term or provision of the Agreement may be amended, released, discharged or modified in any respect except in writing signed by the party

12/16/97

cc/vra/westwood/westwoodA.7

B-27

to be charged and only to the extent therein set forth.

Section 13.04. Waiver. (a) No waiver shall be deemed to be made by any of the parties to any of its rights hereunder unless that waiver shall be in a writing signed by the waiving party and only to the extent therein set forth.

(b) No failure of any of the parties to exercise any power given such party hereunder or to insist upon strict compliance by any other party with its obligations hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of the right of any party to demand precise compliance with the terms of the Agreement.

Section 13.05. Notices. (a) All notices, consents, demands or other communications required or permitted to be given pursuant to the Agreement shall be in writing and shall be deemed sufficiently given on (i) the day on which delivered personally or by facsimile (with prompt confirmation by mail) during a business day to the appropriate location listed as the address below, (ii) three business days after the posting thereof by United States registered or certified first class mail, return receipt requested with postage and fees prepaid, or (iii) one business day after deposit thereof for overnight delivery. Such notices, consents, demands or other communications shall be addressed respectively:

As to the Seller:

Anita Stewart
[REDACTED]

with a copy to:

~~Attn: Alan Patzik, Esq.~~
Patzik, Frank & ~~Samony~~, Ltd.
150 South Wacker Drive
Chicago, Illinois 60605
Telecopy No.: (312) 557-8101

Attn: Alan Patzik, Esq. ON

✓
Samotny

As to the Purchaser:

Virgin Records of America, Inc.
338 Foothill Road
Beverly Hills, California 90210
Attention: President
Telecopy No.: (310) 278-9818

B-28

with a copy to: Fischbach, Perlstein,
Lieberman & Yanny
1925 Century Park East, Suite 1260
Los Angeles, California 90067
Attention: Bernard J. Fischbach
Telecopy No.: (310) 556-1956

or to any other address or telecopy number which such party may have subsequently communicated to the other parties in writing.

(b) Except as otherwise provided in the Agreement, any notice, consent, demand or other communication given hereunder may be signed on behalf of a party by any duly authorized representative of that party.

Section 13.06. Successors and Assigns. Each and every representation, warranty, covenant, agreement, indemnification, and provision of the Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto. Except as otherwise expressly provided herein, this Agreement may not be assigned by any party hereto without the prior written consent of the other parties hereto. Any purported assignment in violation of this Agreement shall be void.

ARTICLE XIV CONSTRUCTION OF AGREEMENT

Section 14.01. Governing Law. The Agreement and any other agreement entered into in connection herewith shall be governed by, and construed under and in accordance with the laws of the State of California applicable to contracts made and wholly to be performed therein by residents thereof, without giving effect to the conflict of laws principles thereof.

Section 14.02. Gender and Person. Wherever the context so requires, the masculine pronoun shall include the feminine and the neuter, and the singular shall include the plural.

Section 14.03. Captions. The captions and the table of contents appearing in this Agreement, are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope or intent of this Agreement or any of the provisions hereof.

Section 14.04. Savings Provision. If any term or provision of this Agreement, the application thereof to any person, or circumstance shall, to any extent, be invalid or unenforceable,

12/16/97
cc/vra/westwood/westwoodA.7

the remainder of the Agreement or the application of such term or provision to persons or circumstances other than those as to which it is held void or unenforceable, shall not be affected thereby, and each term and provision of the Agreement shall be valid and be enforced to the fullest extent permitted by law.

ARTICLE XV
MISCELLANEOUS

Section 15.01. Survival of Representations and Warranties. Except to the extent set forth in Section 12.01, above, all statements, certifications, indemnifications, representations and warranties made hereby by the parties to this Agreement and their respective covenants, agreements and obligations to be performed pursuant to the terms hereof, shall survive the consummation of the transactions contemplated hereby for a period of two years from the Closing Date, unless waived in writing, notwithstanding any examination by or on behalf of any party hereto and notwithstanding the consummation of the transactions hereby contemplated.

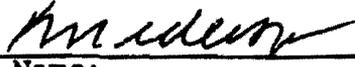
Section 15.02. Confidentiality of Disclosures. Any corporate information, records, documents, descriptions or other disclosures of whatsoever nature or kind made or disclosed by any of the parties to any of the other parties, or to the authorized representative thereof, or learned or discovered by such other party or by any representative thereof in the course of the investigations pursuant to the consummation of the transactions contemplated by the Agreement (whether prior to or after the date of the execution of the Agreement) and not known by or available to the public at large, shall be received in confidence and none of the parties nor any such authorized representative shall disclose or make use of such information or authorize anyone else to disclose or make use thereof without the written consent of the other relevant parties hereto, except (a) as necessary to consummate the transactions contemplated hereby or (b) as compelled by judicial or administrative process or by other requirements of applicable law including, in the case of the Purchaser, any disclosure under federal securities laws; provided, however, that in the case of any disclosure contemplated pursuant to this clause (b), the party seeking to disclose such information shall give the other party or parties reasonable prior written notice thereof in order to afford such other party or parties reasonable opportunity to seek a protective order or other limitation under such disclosure.

Section 15.03. Not used.

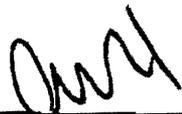
Section 15.04. Cumulative Rights and Remedies. The rights

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the 22nd day of December, 1997.

VIRGIN RECORDS OF AMERICA, INC.

By 
Name:
Title:

SELLER:

By: 
Anita Stewart

12/16/97
cc/vra/westwood/westwoodA.7

LAW OFFICES
FISCHBACH, PERLSTEIN & LIEBERMAN LLP

BERNARD J. FISCHBACH
RICHARD J. PERLSTEIN
ROBERT M. LIEBERMAN
DAVID B. ROSENBAUM
CHRISTOPHER DODDY
SAMUEL P. FRIEDMAN
TERRI L. DIFABO
MANNING, GOPPENRATH,
JAPPE & REARSON LLP

A LIMITED LIABILITY PARTNERSHIP
INCLUDING A PROFESSIONAL CORPORATION
AND A LIMITED LIABILITY PARTNERSHIP
1988 CENTURY PARK EAST, SUITE 1800
LOS ANGELES, CALIFORNIA 90067

TELEPHONE
(310) 444-1938
TELEFAX
(310) 444-4817
(310) 444-0000

*A PROFESSIONAL CORPORATION

September 29, 1998

VIA FAX: (310) 312-3788

Phil Davis, Esq.
Mitchell, Silberberg & Knupp
11377 W. Olympic Blvd.
Los Angeles, CA 90054-1683

Re: Purchase of Castalian Music LLC/Anacus Media LLC ("Castalian")

Dear Phil:

Set forth below is Virgin's proposal to acquire Castalian and the services of Anita Stewart.

1. Castalian - AS would sell to Virgin all of the issued and outstanding stock of Castalian.
2. Purchase price - Virgin would pay AS for such stock an amount equal to 8 times the net earnings derived from Castalian. The calculation and basis of the purchase price would be as set forth in paragraph 2.01 (b) of Virgin's agreement with AS for the purchase of her stock in Westwood Promotions ("Westwood"). Again this would be based on a 5 year average. The purchase price would be capped at \$18 million.
3. Advance/Castalian profit stream - We would propose to either advance AS against the purchase price a sum of \$1 million on execution or in the alternative Anita could retain her profit stream on projects (other than the Now Album project) on which she is presently working. This would include the new projects that Polygram has recently offered AS. If she elects to take the profit stream, then those earnings would not be included in calculating the purchase price.
4. Operation of Castalian/Backroom functions - As you know Virgin expects that Castalian will continue to operate substantially as a stand alone autonomous company. For the present time, however, Virgin will handle the backroom functions (e.g. finance, royalty accounting, payment of bills; legal) for a small fee. However, it would be our intention to have Castalian employ the appropriate individuals to actually handle these functions. Virgin would then assist in the management of those functions without charge.

ORIGINAL STAMPED
IN RED

P. 01/02

17:42

Sep 29 '98

1 (PRINTED PAGE 1)

Fax: 3105564617

PAGE

HEARING EX. C

FISCHBACH

RECEIVED 09/29 17:11

17

LAW OFFICES
FISCHBACH, PERLSTEIN & LIEBERMAN LLP

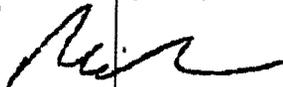
Phillip Davis, Esq.
September 29, 1998
Page 2

5. Compensation - AS will receive a salary of \$300,000 per year. The term of her employment agreement would be 5 years.
6. Fulfillment - Castellan will continue to use the Westwood fulfillment center pursuant to the agreement recently negotiated between Castellan and Virgin.
7. Westwood Interest - Since we are setting up AS in her own business, Virgin would ask that AS assign to us her interest in her rights to future payments pursuant to her agreement with Virgin.

The above are the principal deal points. Please note that this offer is subject to the negotiation and execution of formal agreements. Please give me a call after you have discussed this with Anita.

As a side note Ken is extremely pleased with the early success of the Now Record and looks forward to continuing to work with Anita.

Very truly yours,



Bernard J. Fischbach

BJF/djl

cc: Kon Berry
Ashley Newton
Ray Cooper
Ken Pedersen
Shelagh MacLeod
Susan Foingold

(C-2)

BERNARD J. FISCHBACH
MICHAEL H. PERLSTEIN
ROBERT M. LIEBERMAN
DAVID S. ROSENBERG
CHRISTOPHER COHEN
MANUEV, GERSHBERG,
JAFFE & HEARDEN LLP
IN REPLYING, REFER TO

LAW OFFICES
FISCHBACH, PERLSTEIN & LIEBERMAN LLP
1000 CENTURY PARK EAST, SUITE 1000
LOS ANGELES, CALIFORNIA 90067

TELEPHONE
(310) 552-1000
TELEFAX
(310) 552-1001
(310) 552-8334

November 18, 1998

VIA FAX: (310) 312-3788

Phil Davis, Esq.
Mitchell, Silberberg & Krupp
11377 W. Olympic Blvd.
Los Angeles, CA 90084-1883

ORIGINAL STAMPED
IN RED

Re: Purchase of Castellon Music LLC/Amesuz Media LLC ("Castellon")

Dear Phil:

Following discussions between Ken Pederson and Anita Stewart ("AS") in connection with Virgin Records America, Inc.'s purchase of all of the outstanding stock of Castellon Music LLC ("Castellon") and acquiring the employment services of AS, set forth are the principal terms and conditions agreed by the parties.

1. Castellon - AS would sell to Virgin all of the issued and outstanding stock of Castellon.
2. Purchase price - Virgin would pay AS for such stock an amount equal to 8 times the average annual net earnings derived from Castellon. The calculation and basis of the purchase price would be as otherwise set forth in paragraph 2.01 (b) of Virgin's agreement with AS for the purchase of her stock in Westwood Promotions, Inc. ("WP"). Again this would be based on a 8 year average. The purchase price would be capped at Twenty-One Million (\$21,000,000) Dollars. Virgin would advance AS against and recoupable from the purchase price the sum of One Million (\$1,000,000) Dollars on Closing. In addition, in the event that Castellon has average annual net earnings during its first 2 full fiscal years following Virgin's acquisition of Castellon of Two Million Six Hundred and Twenty-five Thousand (2,625,000) Dollars, then Virgin shall pay to AS a further non recoupable advance against the purchase price the sum of One Million (\$1,000,000) Dollars.
3. Castellon profits - Just prior to Closing (as defined below) AS would have the right to withdraw from Castellon bank accounts all cash excluding any amounts to cover outstanding checks, amounts to cover outstanding payables and any amounts that have been given to Castellon in trust by one of its clients or otherwise earmarked by a client to be expended on media, advertisements, marketing, etc. Further AS would be entitled to all net profits accrued to Castellon from certain TV Marketed albums to be hereafter agreed by the parties (the "Projects"). AS will be entitled to receive the net profits (or net losses) from such Projects whether earned by the Closing or at any time after the Closing. In calculating the net profits from such

FISCHBACH, PERLSTEIN & LIEBERMAN LLP

Philip Davis, Esq.
November 18, 1998
Page 2

- Projects following the Closing an overhead fee of 3% would be imputed for use of Castellan's services in the collection or handling of any monies that accrue to Castellan from the Projects. In essence as of the Closing, Virgin would take over a zero balance sheet. Thus any money in the Castellan bank account (or liabilities) at Closing would go to AS.
4. **Operation of Castellan** - As you know Virgin expects that Castellan will continue to operate substantially as a stand alone autonomous company. In that regard AS will be expected to operate Castellan pursuant to the budgets approved by Virgin. The budget for the first full fiscal year of operation following the Closing shall be agreed by the parties and attached to the formal purchase agreement. Further AS will be expected to comply with EMI business guidelines (a copy of which we will give you in due course). Castellan would have the right to TV market product of AS' choice, subject to the approved budgets, provided, however, that Castellan and AS could not TV market any record which is similar to or the same genre as the "Now Album" recently released by Castellan on behalf of Virgin/EMI/Polygram/MCA Records; and provided further that Castellan will TV market records as requested by Virgin or any other EMI company. Other than that, AS would be free to operate her company.
 5. **Backroom Functions** - Virgin will, at Castellan's request, manage payroll, human resources and accounting functions for Castellan for a fee of 3% of net revenues. However, it would be our intention to have Castellan employ the appropriate individuals to actually handle these functions. Virgin would then assist in the management of those functions without charge.
 6. **Compensation** - AS will receive a salary of \$300,000 per year. The term of her employment agreement would be 5 years. In addition AS would receive a bonus at the end of each fiscal year in the event that the Westwood Fulfillment Center processed on behalf of Castellan or on behalf of any other Directed Company (as such term is defined below) during such Fiscal Year more than X number of records. Such bonus would be a sum equal to Y cents multiplied by the difference between X and the number of records processed on Castellan's behalf in excess of X. A Directed Company shall mean a company who uses the Westwood Fulfillment Center as a direct result of AS' efforts (We will fill in the missing amounts next week) In addition to the above AS would receive an auto allowance of Seven Hundred and Fifty (\$750.00) per month during the term of her employment.
 7. **Fulfillment** - Castellan will continue to use the Westwood's fulfillment center pursuant to the agreement recently negotiated between Castellan and Virgin.
 8. **PW Interest** - Since Virgin is setting up AS in her own business, Virgin would ask that AS assign to us her interest in her rights to future payments pursuant to her agreement with Virgin in connection with her PW shares.
 9. **Software Systems** - As we discussed Virgin will assure AS and obtain her approval

LAW OFFICES

FISCHBACH, PEARLSTEIN & LIEBERMAN LLP

Philip Davis, Esq.
November 18, 1998
Page 8

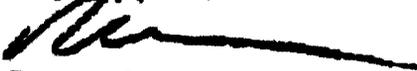
prior to Closing of the software systems to be used by Castellan following the Closing.

10. **Polygram Records** – Virgin would agree to offer up to thirty percent of its shareholding in Castellan to Polygram Records. The price for same will be negotiated between Virgin and Polygram Records.
11. **Virgin Product** – Virgin will agree to exclusively run its wholly owned short form DRTV projects through Castellan (there may be exceptions should Virgin do a stand alone project with a Virgin artist who refuses to use Castellan, although this would be highly unlikely).
12. **Termination** – Virgin would have the right to terminate AB's employment agreement and her right to receive the purchase price payable at the expiration of the Term under the acquisition agreement, in the event Castellan incurs cumulative losses of \$5 million or more.
13. **Loans** – The first Five Hundred Thousand (\$500,000) of monies loaned to Castellan by Virgin will not carry an interest factor in determining the average annual net earnings for purposes of computing the Purchase Price.
14. **Closing Date** – Virgin would be agreeable to closing the deal after Jan 5, 1999. Virgin would like to get the agreement done now and set up a closing for after the new year (whatever date works for Anita).

The above are the principal deal points. As I mentioned above we will be back to you next week with the missing numbers in paragraph 6. Please note that Ken has asked me to forward this proposal to you without his review being that he is out of town and we did not want to hold up getting the revised proposal to you. Thus I must reserve his right to make any changes he might require. Further this offer is subject to the negotiation and execution of formal agreements.

Please give me a call after you have discussed this with Anita.

Very truly yours,



Bernard J. Fischbach

BJF/ajl

cc: Ken Berry
Ashley Newton
Ray Cooper
Ken Pedersen
Shelagh MacLeod
Susan Feingold

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is entered into as of this 7th day of September, 1999 by and between Castalian Music, LLC ("Company") and Anita Stewart ("Executive"), in connection with Company's engagement of Executive's personal services as President of Company.

1. EMPLOYMENT; DUTIES AND ACCEPTANCE:

(a) Employment by Company.

Company hereby engages Executive and Executive hereby agrees to provide to Company and the Affiliate (as defined below) her full-time services as Company's President on the terms and conditions of this Agreement. In addition Executive shall be President of Abacus Media, LLC (hereinafter referred to as the "Affiliate"). In such capacity Executive will report directly to, and serve only under the direction of the Executive Vice President of Virgin Records America, Inc. ("VRA"), Company's parent, or such other executive(s), of equal or higher rank, designated by VRA during the Term hereof. Company may not engage any person to serve in a more senior capacity than Executive. Executive shall do and perform all services, acts or things customarily performed by presidents of companies which are necessary or advisable to manage and conduct the businesses of Company, subject always to the policies set by the Board of Managers of the Company and the Approved Budgets (as such term is defined below). Throughout the Term of this Agreement Executive shall devote her full working time and energy exclusively to performing the services and duties of her employment hereunder to the best of her ability and utilizing all of her skills, experience and knowledge; and Executive shall not engage in or participate in the operation or management of, or render any services to, any other business, enterprise or individual, directly or indirectly; provided that Executive shall have the right to perform non-professional type services (such as for charities or the like) provided further that such non-professional services or duties do not materially interfere with Executive's duties hereunder and provided that Executive's duties and obligations hereunder shall always take priority.

(b) Acceptance of Employment by the Executive.

The Executive accepts such employment.

(c) Location of Employment.

Executive shall render her services only at Company's present offices in the Santa Monica, California or such other offices as to which Executive consents, which consent shall not be unreasonably withheld, provided, such offices will not be within the offices of VRA unless

May 23, 1999

cc/vra/castalian/stewart.7

Executive consents to same.

2. **TERM:**

The term of Executive's employment hereunder shall be for a period commencing as of the date full execution of this Agreement and ending on September 6, 2006 (the "Term") unless sooner terminated pursuant to Paragraph 8 hereof ("Termination Paragraphs"). It is understood and agreed that Company shall have no obligation to either renew this Agreement, or extend the Term.

3. **COMPENSATION AND BENEFITS:**

(a) **Salary.**

Company shall pay to Executive during the Term, a salary (the "Annual Salary") at the rate of not less than Three Hundred Thousand (\$300,000) Dollars per annum. Executive's Annual Salary shall be payable in twenty-four (24) approximately equal semi-monthly payments per year, one (1) each on the fifteenth (15th) and the last day of each month during the Term. Such salary shall be less such deductions as shall be required to be withheld by applicable law and regulations and shall be pro-rated for any period that does not constitute a full twelve (12) month period.

(b) **Yearly Bonuses.** Commencing with the First Computation Year (as such term is defined below) and thereafter for each Computation Year (as such term is defined below) throughout the remainder of the Term, Executive shall also be entitled to the following bonuses (the "Yearly Bonuses") (you shall have the right to audit and examine Company's books and records in connection with such Yearly Bonuses as set forth in paragraph B of Exhibit "A" attached hereto):

(i) (A) a sum (the "Earnings Bonus") equal to 25% of Pretax Net Earnings (as such term is defined below) in excess of Three Million Four Hundred Thousand (\$3,400,000) Dollars and not exceeding Six Million (\$6,000,000) Dollars in any Computation Year; and (B) a sum equal to 20% of Pretax Net Earnings in excess of Six Million (\$6,000,000) Dollars in any Computation Year.

(B) Any such Earnings Bonus shall be payable within 90 days after the end of the applicable Computation Year in which it is earned.

(ii) the following sums:

(A) on Net Sales through Normal Retail Distribution Channels (as such term is defined below) in the United States of Albums released by any Company owned and controlled by any EMI Company (as such term is defined below) containing solely master

May 23, 1999
cc/vra/castalian/stewart.7

Ε-2

recordings owned, controlled or licensed by an EMI Company which Albums were initially marketed by Company through television advertisements, Twenty Five Cents (\$0.25) per net unit sold and not returned (the "EMI/Virgin Retail Sales Royalty"), computed and paid as set forth in paragraph A of Exhibit "A" attached hereto.

(B) on Net Sales through Normal Retail Distribution Channels in the United States of a NOW Album (as such term is defined below) released by the NOW Venture (as such term is defined below) which was initially marketed by Company through television advertisements, a number of cents per net unit sold and not returned (the "NOW Venture Retail Sales Royalty") which shall be VRA's pro-rata share of \$0.20 calculated by multiplying VRA's percentage partnership interest in the respective NOW Album by \$0.20. Such NOW Venture Retail Sales Royalty shall be computed and paid as set forth in paragraph A of Exhibit "A" attached hereto.

(iii) Three Cents (\$.03) per net unit sold and not returned (the "Westwood Fulfillment Royalty") on sales processed by the Westwood Fulfillment Center (as such term is defined below) during the applicable Computation Year on behalf of any Directed Company (as such term is defined below) paid as set forth in Paragraph B.1 of Exhibit "A". Any such Westwood Fulfillment Royalty shall be payable within 120 days after the end of the applicable Computation Year in which it is earned.

(iv) With respect to the Westwood Long Form Catalogue (as defined below), provided that Company actually undertakes the marketing of the Westwood Long Form Catalogue, Company shall pay Executive an amount equal to twenty (20%) percent of the "Net Profits" (as such term is defined below) derived by Westwood from the Westwood Long Form Catalogue (the "Westwood Long Form Profit Share") during each Computation Year. In computing Net Profits, losses from Computation Years prior to September 7, 1999 shall not be carried forward to the Computation Year in question, but losses from Computation Years commencing with the First Computation Year shall be carried forward to the Computation Year in question. Any such Westwood Long Form Profit Share shall be payable within 90 days after the end of the applicable Computation Year in which it is earned.

(v) Notwithstanding the foregoing in Paragraphs 3(a) and (b) above to the contrary, in no event shall Executive's annual compensation (including both Executive's Annual Salary and Yearly Bonuses (exclusive of the Westwood Long Form Profit Share)) exceed Two Million (\$2,000,000) per Computation Year.

(c) Incentive Bonus: In addition to the amounts set forth in Paragraphs 3(a) and (b), above, Company shall pay to Executive the following amounts (the "Incentive Bonus") less the amounts set forth in Paragraphs 3(c)(ii) below (you shall have the right to audit and examine Company's books and records in connection with such Incentive Bonus as set forth in paragraph B of Exhibit "A" attached hereto):

May 23, 1999
cc/vra/castalian/stewart.7

(i) Such Incentive Bonus shall be calculated as follows:

(A) a sum equal to sixty (60%) percent of the average annual Pretax Net Earnings derived by Company during the four (4) Computation Years commencing September 7, 1999 and ending August 31, 2003 or such shorter period, as provided in Paragraph 3(c)(iii), below (the "First Tranche Average Annual Pretax Net Earnings"), multiplied by a factor of eight (8) (the "First Tranche Incentive Bonus"), provided that (A) for purposes of calculating the First Tranche Incentive Bonus, the Pretax Net Earnings for any Computation Year shall not exceed Three Million Four Hundred Thousand (\$3,400,000) Dollars, and (B) the First Tranche Incentive Bonus shall not exceed Twelve Million Six Hundred Thousand (\$12,600,000) Dollars; and

(B) a sum equal to forty (40%) percent of the average annual Pretax Net Earnings derived by Company during the three (3) Computation Years commencing on September 1, 2003 and ending August 31, 2006, or such shorter period, as provided in Paragraph 3(c)(iii), below, multiplied by a factor of eight (8) (the "Second Tranche Incentive Bonus"), provided that (A) for purposes of calculating the Second Tranche Incentive Bonus, the Pretax Net Earnings for any Computation Year shall not exceed Three Million Four Hundred Thousand (\$3,400,000) Dollars, and (B) the Second Tranche Incentive Bonus shall not exceed Eight Million Four Hundred Thousand (\$8,400,000) Dollars.

(C) The Incentive Bonus shall be paid as follows: (1) the First Tranche Incentive Bonus, less Four Million Dollars (\$4,000,000) (the "Four Million Dollars") and any Advances (as such term is defined below), shall be paid to Executive within 90 days following August 31, 2003; and (2) the Second Tranche Incentive Bonus, less that portion of the Advances, if any, and Four Million Dollars, not set off against the First Tranche Incentive Bonus, if any, shall be paid within 90 days following August 31, 2006.

(D) Company shall recalculate the Incentive Bonus ("Recalculated Incentive Bonus") one (1) year after the end of the Computation Year in which this Agreement is expires in order to reconcile the reserves held in the original calculation of the Incentive Bonus, and if the Recalculated Incentive Bonus is greater or less than the Incentive Bonus calculated as provided in this paragraph 3(c), then the following shall occur: (x) if the difference is greater then such difference shall be paid to Executive within thirty (30) days following such recalculation; and (y) if the difference is less then such difference will be paid to Company within thirty (30) days following Company's notification to Executive showing such recalculation.

(ii) With respect to each Target Computation Year (as such term is defined below) in which Pretax Net Earnings equal or exceed Two Million One Hundred Thousand (\$2,100,000) Dollars, if any, Company shall pay to Executive as advances ("Advances") recoupable against the Incentive Bonus a sum equal to One Million (\$1,000,000) Dollars. The Advances, if any, shall be payable within 90 days following the end of the Computation Year in which such Advance was earned.

(iii) Notwithstanding anything in the foregoing to the contrary but subject to paragraph 8(f):

(A) In the event of termination of this Agreement by Company for cause pursuant to Paragraph 8(b) hereof or termination of this Agreement by Executive without cause, Executive shall be entitled to retain all Advances or Incentive Bonuses that have previously been paid to her hereunder. Executive in such event shall not be entitled to any further Advances. Further, Executive's Incentive Bonus in such event shall be calculated as specified below and not as provided in paragraphs 3(c)(i) and (ii):

(1) If such termination occurs between September 1, 2003 and August 31, 2004 Executive shall not be entitled to the Second Tranche Incentive Bonus.

(2) If such termination occurs after December 1, 2000 but prior to September 1, 2003, then such Incentive Bonus shall be calculated as follows: (a) determine the average Computation Year Pretax Net Earnings derived by Company from commencement of the First Computation Year through the end of the last Computation Year immediately preceding Executive's termination; (b) multiply the result of (a) or Three Million Four Hundred Thousand (\$3,400,000) Dollars, whichever amount is the lesser, by 8; (c) multiply the result of (b) or Twenty-one Million (\$21,000,000) Dollars, whichever amount is the lesser, by a fraction the denominator of which is seven (7) and the numerator of which is the number of Computation Years which have elapsed from September 7, 1999 through end of the last Computation Year immediately preceding the Executive's termination; (d) then deduct Four Million (\$4,000,000) Dollars and any Advances from the result of (c). Company shall pay to Executive, such Incentive Bonus within 90 days following the date of Executive's termination.

(3) If such termination occurs after August 31, 2004 but prior to August 31, 2006, then such Incentive Bonus shall be calculated as follows: (a) determine the average Computation Year Pretax Net Earnings derived by Company from commencement of the First Computation Year through the end of the last Computation Year immediately preceding Executive's termination; (b) multiply the result of (a) or Three Million Four Hundred Thousand (\$3,400,000) Dollars, whichever amount is the lesser, by 8; (c) multiply the result of (b) or Twenty-one Million (\$21,000,000) Dollars, whichever amount is the lesser, by a fraction the denominator of which is seven (7) and the numerator of which is the number of Computation Years which have elapsed from September 7, 1999 through end of the last Computation Year immediately preceding the Executive's termination; (d) then deduct the First Tranche Incentive Bonus and any part of Four Million (\$4,000,000) Dollars and any Advances which have not previously been set off against the First Tranche Incentive Bonus from the result of (c). Company shall pay to Executive such Incentive Bonus within 90 days following the date of Executive's termination.

(B) In the event of the termination of this Agreement pursuant to Paragraph 8(a) hereof (collectively a "Termination Event"):

May 23, 1999
cc/vra/castalian/stewart.7

(1) before September 1, 2003, the Incentive Bonus shall be calculated as follows: (a) determine the average monthly Pretax Net Earnings derived by Company from September 7, 1999 (for purposes of this calculation September 7, 1999 through September 30, 1999 shall be deemed to be one (1) month) through the end of the month in which such Termination Event occurs; (b) multiply the result of (a) by twelve (12); (c) multiply the result of (b) or Three Million Four Hundred Thousand (\$3,400,000) Dollars, whichever amount is the lesser, by 8; (d) multiply the result of (c) or Twenty-one Million (\$21,000,000) Dollars, whichever number is lower, by a fraction the denominator of which is eighty-four (84) and the numerator of which is the number of months which have elapsed from September 7, 1999 through end of the month in which the Termination Event occurs; (e) then deduct Four Million (\$4,000,000) Dollars and any Advances from the result of (d). Company shall pay to Executive, or to Executive's estate, as applicable, such Incentive Bonus within 90 days following the Termination Event.

(2) after August 31, 2003, the Incentive Bonus shall be calculated as follows: (a) determine the average monthly Pretax Net Earnings derived by Company from September 7, 1999 (for purposes of this calculation September 7, 1999 through September 30, 1999 shall be deemed to be one (1) month) through the end of the month in which such Termination Event occurs; (b) multiply the result of (a) by twelve (12); (c) multiply the result of (b) or Three Million Four Hundred Thousand (\$3,400,000) Dollars, whichever amount is the lesser, by 8; (d) multiply the result of (c) or Twenty-one Million (\$21,000,000) Dollars, whichever number is lower, by a fraction the denominator of which is eighty-four (84) and the numerator of which is the number of months which have elapsed from September 7, 1999 through end of the month in which the Termination Event occurs; (e) then deduct the First Tranche Incentive Bonus and any part of Four Million (\$4,000,000) Dollars and any Advances which have not been previously been set off against the First Tranche Incentive Bonus from the result of (d). Company shall pay to Executive, or to Executive's estate, as applicable, such Incentive Bonus within 90 days following the Termination Event.

(C) In the event of termination of this Agreement by Company without cause (as such term is defined in Paragraph 8(c), below) or termination of this Agreement by Executive for cause as set forth in Paragraph 8 (d), below, then Company shall calculate the Incentive Bonus as follows:

(1) if such termination occurs prior to August 31, 2003 then such Incentive Bonus shall be calculated pursuant to paragraphs 3(c)(i)(A) and (B) but modified as set forth below: (a) the average Computation Year Pretax Net Earnings shall be calculated as at the expiration of the Computation Year in which such termination occurs (the "Termination Computation Year"); (b) the First Tranche Incentive Bonus shall be based on 100% of such amount as opposed to 60% of such amount; (c) such Incentive Bonus shall not exceed Twenty-One Million Dollars (\$21,000,000) as opposed to Twelve Million Four Hundred Thousand Dollars (\$12,400,000); and (d) such Incentive Bonus shall be paid within ninety (90) days

May 23, 1999
cc/vra/castalian/stewart.7

following the expiration of the Computation Year in which such termination occurs.

(2) if such termination occurs after August 31, 2003 then such Incentive Bonus shall be calculated pursuant to paragraphs 3(c)(i)(A) and (B) except the average Computation Year Pretax Net Earnings shall be calculated as at the expiration of the Computation Year in which such termination occurs and such Incentive Bonus shall be paid within ninety (90) days following the expiration of the Computation Year in which such termination occurs.

(D) Company shall recalculate the Incentive Bonus ("Recalculated Incentive Bonus") as outlined in Paragraphs 3(c)(iii)(A),(B) and (C), above, one (1) year after the end of the Computation Year in which such termination occurs in order to reconcile the reserves held in the original calculation of the Incentive Bonus pursuant to Paragraphs 3(c)(iii)(A),(B) and (C), and if the Recalculated Incentive Bonus is greater or less than the Incentive Bonus calculated as provided in paragraphs 3(c)(iii)(A),(B) and (C), then the following shall occur: (x) if the difference is greater then such difference shall be paid to Executive within thirty (30) days following such recalculation; and (y) if the difference is less then such difference will be paid to Company within thirty (30) days following Company's notification to Executive showing such recalculation.

4. PARTICIPATION IN EXECUTIVE BENEFIT PLANS, VACATION, AUTOMOBILE ALLOWANCE, EXPENSES:

(a) Fringe Benefits.

Executive shall during the Term participate in any group life, medical, hospitalization, dental, and disability plans, the Deferred Compensation Plan, the 401(k) Solid Gold Plan (after one (1) year of employment) pursuant to the rules set forth in each of such plans, each in accordance with the terms and conditions of such plans (collectively referred to herein as "Fringe Benefits").

(b) Vacation.

Executive shall accrue, in addition to sick days and days in which Company is closed, paid vacation days at the rate of 1.66 days per month up to a maximum of twenty (20) work days. Under no circumstances can Executive accrue more vacation than twenty (20) work days (the "Ceiling"). Thus, once the maximum amount of paid vacation time is accrued or earned, no further vacation time is accrued or earned until after vacation is taken and the amount of Executive's accrued vacation time goes below the Ceiling as stated above. At that point, Executive will start to accrue vacation time again until Executive reaches the Ceiling.

(c) Automobile Allowance.

May 23, 1999
cc/vra/castalian/stewart.7

Company shall provide Executive with an automobile allowance of Twelve Hundred (\$1200) Dollars per month and Company will pay for Executive's parking at the building in which Company's office is located.

(d) Expenses.

Following Executive's submission of her expenses to Company together with any accompanying receipts for same as required by Company, Company will promptly reimburse Executive for actual and reasonable expenses for travel and accommodation costs, entertainment and other business expenses incurred as a part of discharging the Executive's duties hereunder.

5. OPERATION OF COMPANY: (a) Company is presently engaged in the business of selling compilation albums directly to consumers through mail order or telephone orders via television advertisement ("DRTV") of such albums (herein such albums sold in such manner shall be referred to as "DRTV Albums") (herein such business and any business that the Company engages in during the Term shall be hereinafter referred to as the "TV Album Business"). Company shall be operated by Executive subject to the Approved Budget, and EMI business guidelines and further consistent with the mutually approved business plan which is attached hereto as Exhibit "B". It is understood by the parties that during the Term all of EMI's TV marketed (as such term is defined below) DRTV Albums ("EMI DRTV Albums") will be handled by Company unless a particular Artist whose performance is embodied on any proposed EMI DRTV Album objects or Executive refuses to so market any DRTV project (which Executive may only refuse to do based on her good faith business judgment that such DRTV project would not be profitable for Company). Company shall have the right to list on its internet website (1) its telephone number, postal address or e-mail address for telephone, mail or electronic mail orders, as applicable, of EMI DRTV Albums, and (2) the EMI DRTV Albums.

(b) Further, Company shall have the right to market by means of television advertising ("TV market" or "TV marketed") Albums from other record companies of Executive's own choice. In choosing such projects Executive shall take into consideration the type of DRTV Albums that Company is distributing for an EMI Company provided her decision to take such project shall be hers alone.

(c) Executive shall not have the right to cause Company to TV market more than fifty-two (52) different (herein "Album Slots") new DRTV Albums per Computation Year, of which twenty (20) shall be DRTV Albums containing solely master recordings owned, controlled or licensed by an EMI Company ("EMI Albums"); provided if VRA chooses not to TV market twenty (20) EMI Albums during any Computation Year then Executive may use such unused Album Slots for other DRTV Albums; provided that at such point in time during any Computation Year that VRA is aware that it will not use all such twenty (20) Album slots, then VRA shall so notify Company of such fact and provided further that any failure by VRA to so notify Executive shall not be deemed to be a breach of this Agreement.

May 23, 1999
cc/vra/castalian/stewart.7

(i) Notwithstanding the foregoing, in the event that Executive causes Company to purchase media only, at VRA's request, for an EMI Album that is not an EMI DRTV Album, such EMI Album shall not be included as one of the foregoing twenty (20) Album Slots.

(ii) In the event that Executive causes the Company to TV market more than thirty two (32) Albums ("Excess Albums") that are not EMI Albums, then fifty (50%) percent of any net earnings from each Excess Album shall not be included in Pretax Net Earnings.

(d) Executive shall not cause Company to TV market any Album which is a Current Pop Hits Compilation (as such term is defined below) other than the "Now" series of compilation albums; provided that Executive may cause Company to TV market other hits type compilation Albums so long as Executive does not exceed the limit on new DRTV Albums for any Computation Year set forth above. Any such Now Album shall not be deemed to be an EMI DRTV Album.

(e) During the term of this Agreement, Company shall exclusively use Westwood's Fulfillment Center pursuant to the agreement dated July 1, 1998 between Company and VRA. The term of such aforementioned agreement shall be extended to coincide with the Term hereof.

(f) Executive may cause the Company to produce and finance not more than three (3) Long Form Projects every two (2) Computation Years ("Set of Long Form Projects") during the Term, provided that (x) the cost of each such Long Form Project shall not exceed the normal and customary cost of long form television infomercials of the same type; (y) the Long Form Projects shall be subject to budget approvals as set forth in the second sentence of Paragraph 5(a); and (z) if any Set of Long Form Projects loses money, then any such further Set of Long Form Projects shall be subject to the approval of VRA.

(g) Exhibit "C" attached hereto sets forth the operating budget for Company for the First Computation Year. For subsequent Computation Years Executive shall submit to VRA for its written approval at times and in a form directed by VRA, an operating budget for Company for the upcoming Computation Year. In the event that Executive and VRA disagree as to any item of the proposed operating budget for such upcoming Computation Year, the operating budget for the immediately preceding Computation Year, except with respect to non-recurring items, shall be increased by five (5%) percent and otherwise govern with respect to such item, with a pro-rata adjustment for the difference between the number of Albums budgeted for such upcoming Computation Year and the immediately preceding Computation Year (the budget set forth in Exhibit "C" and the budgets for subsequent Computation Years are collectively referred to as the "Approved Budgets"). Notwithstanding anything contained in this subparagraph 5 (g) to the contrary, Executive shall have the right in any Computation Year to

May 23, 1999
cc/vra/castalian/stewart.7

move up to twenty (20%) of the of the monies funded for any particular item in an Approved Budget to another item in the Approved Budget for such Computation Year so long as the amount approved to be spent in any such Approved Budget is not thereby increased.

(h) Loans to Company. Other than the Initial Loan (as such term is defined below) in the event that Company borrows money from VRA or any of its affiliates, Company will be charged interest by VRA or any of its affiliates at the normal and ordinary interest rates charged by VRA or its affiliates on loans to its subsidiaries, parents or affiliates, not to exceed two percent (2%) over the "prime" or "reference" rate announced from time to time by City National Bank at its principal office in Beverly Hills, California or the maximum rate permitted by law, if less, with adjustments to be made retroactive to the date of the announcement of such change of rate. At Executive's option, VRA shall loan the Company during the Term up to One Million Five Hundred Thousand (\$1,500,000) in the aggregate (the "Initial Loan"). Such loans for the Initial Loan shall be made to Company as requested by the Executive and so long as such requests are in conformity with the Approved Budget. For the sake of clarification, any amounts repaid to VRA of such Initial Loan may be borrowed again by Company provided that in no event shall any outstanding loan from Company to VRA exceed One Million Five Hundred Thousand (\$1,500,000). All such money to be borrowed by Company during any Computation Year shall be reflected in the Approved Budget for the Computation Year in which such money is loaned.

(i) Company Board of Managers. During the Term, an operating board (the "Board") shall be created for Company. The Board shall consist of three (3) individuals. Executive shall occupy one (1) of the seats on the Board. The individuals to fill the remaining two (2) seats shall be selected by VRA subject to the following procedure. VRA shall for each Board seat propose two (2) individuals and Executive shall have the right to select one (1) of such two (2) individuals. The individual designated by Executive shall sit on the Board until removed, if ever, by VRA. If VRA removes such individual the above procedure shall be repeated to fill such vacancy. Executive and VRA agree that John Wooler and Ken Pedersen shall be VRA's initial designees as Board members.

(j) If VRA is contractually able, VRA shall assign to Company all merchant accounts owned as of September 7, 1999 by Westwood. If VRA is not able to assign such account to Company, then it will assist Company in obtaining such merchant account at no cost to Company.

(k) For as long as Executive remains employed by Company, and provided that Company actually undertakes the marketing of the Westwood Long Form Catalogue, VRA agrees to cause Westwood, in connection with Company's marketing of the Westwood Long Form Catalogue, to pay Company the sum of Eighty Five Thousand Dollars (\$85,000) on a quarterly basis in the amount of Twenty-One Thousand Two Hundred and Fifty Dollars (\$21,250) per quarter during the first year after Closing, the sum of Sixty Thousand Dollars (\$60,000) on a quarterly basis in the amount of Fifteen Thousand Dollars (\$15,000) per quarter

May 23, 1999
cc/vra/castalian/stewart.7

during the second year after Closing, and the sum of Forty Thousand Dollars (\$40,000) on a quarterly basis during the third year after Closing, to cover certain Company overhead expenses in connection with marketing the Westwood Long Form Catalogue.

6. **CERTAIN COVENANTS OF EXECUTIVE:**

Without in any way limiting or waiving any right or remedy accorded to Company or any limitation placed upon Executive by law, Executive agrees as follows:

(a) Non-Solicitation.

During the duration of Executive's employment and for one (1) year thereafter, the Executive shall not, directly or indirectly, (i) hire solicit, or encourage to leave the employment of any Protected Company, any of the respective employees of any Protected Company (each, a "Protected Employee"), or knowingly participate in any such discussions with any such Protected Employee regarding the possibility of his or her employment by any entity other than any Protected Company, or the possibility of such Protected Employee terminating his or her employment with any Protected Company, or (ii) hire any Protected Employee who has left the employment of any Protected Company within one (1) year after the termination of such Protected Employee's employment with any Protected Company, unless such employee was dismissed by any Protected Company without cause and other than clerical and similar employees (collectively such period shall be referred to as the "Restricted Periods"). Notwithstanding the foregoing to the contrary, if at any time during the Restricted Periods, neither Company nor any of its subsidiaries, affiliates or parent companies are involved or engaged in the TV Album Business (as such term is defined above), then after such point in time this provision and the Restricted Periods will be deemed waived by Company.

(b) Confidential Information.

The Executive agrees that neither during the Term nor during the Restricted Years (as such term is defined below) after the expiration or termination of the Term the Executive shall not (i) disclose to any person, firm, or corporation not employed by any Protected Company or not engaged to render services to any Protected Company or (ii) use for the benefit of herself, or others, any confidential information of any Protected Company obtained by the Executive during the Term or any time thereafter, including, without limitation, "know-how" trade secrets, details of supplier's, manufacturer's or distributor's contracts, pricing policies, financial data, operational methods, marketing and sales information or strategies, product development techniques or plans or any strategies relating thereto, technical processes, designs and design projects, and other proprietary information of any Protected Company; provided, however, that this provision shall not preclude the Executive from (x) upon advice of counsel, making any disclosure required by any applicable law or (y) using or disclosing information known generally to the public (other than information known generally to the public as a result of any violation of this Paragraph 6(b) by or on behalf of the Executive). Notwithstanding the

May 23, 1999
cc/vra/castalian/stewart.7

Ε-11

forgoing to the contrary, this paragraph 6 (b) shall not apply to any "know-how", details of suppliers, manufacturers or any knowledge regarding the marketing of Albums by television which was within Executive's knowledge prior to her executing this agreement.

(c) Property of Company.

Any interest in copyrights, copyright applications, musical compositions, Masters, patents, patent applications, records, slogans, developments and processes which the Executive, during the Term, may develop relating to the business in which the Company may then be engaged and any memoranda, notes, lists, records and other documents (and all copies thereof) made or compiled by the Executive or made available to the Executive concerning the business of any Protected Company shall belong and remain in the possession of any Protected Company, and shall be delivered to the Company promptly upon the termination of the Executive's employment with Company or at any other time on request. Notwithstanding the foregoing to the contrary, the foregoing shall not apply to Executive's telephone and address book.

7. **OTHER PROVISIONS;**

(a) Rights and Remedies Upon Breach.

If the Executive breaches, or threatens to commit a breach of, any of the provisions of Paragraph 6. hereof (the "Restrictive Covenants"), the Company shall, subject to Executive's right to cure such breach or anticipated breach as provided in Section 8(b)(iii), have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company at law or in equity.

(i) Specific Performance.

The right and remedy to seek to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction.

(ii) Accounting.

The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively "Benefits") derived or received by the Executive as a result of any transactions constituting a breach of any of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to the Company.

(b) Severability of Covenants.

If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portions.

(c) Blue-Pencilling.

If any court construes any of the Restrictive Covenants, or any part thereof, to be unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the duration or scope of such provision and, in its reduced form, such provision shall then be enforceable.

(d) Enforceability in Jurisdictions.

The parties intend to and hereby confer jurisdiction to enforce the Restrictive Covenants pursuant to the dispute resolution procedure set forth paragraph 11.2. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect Company's right to seek the relief provided in this Paragraph 6 in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

8. **TERMINATION:**

(a) Termination Upon Death or Disability.

If during the Term, Executive should (i) die or (ii) Executive becomes so physically or mentally disabled whether totally or partially, that Executive is unable to perform the duties, functions and responsibilities required hereunder for (aa) a period of two (2) consecutive months or (bb) shorter periods aggregating to three (3) months within any period of twelve (12) months ("Disability"), then in such event, Company may, within six (6) months thereafter, by written notice to Executive, terminate Executive's employment hereunder. Executive agrees to submit to reasonable medical examinations upon the request of Company. The existence of Executive's disability for the purposes of this Agreement shall be determined by a reputable physician selected by Company and approved by Executive (which approval Executive shall not unreasonably withhold) who is experienced in the relevant field of medicine. If Executive's services are terminated, as aforesaid, Executive or the designated beneficiary of Executive, shall be entitled to receive (in addition to the Incentive Bonus as provided in paragraph 3(c)(iii)(B)) Executive's base salary and Yearly Bonuses earned through the date of termination (provided that the Earnings Bonus, if any, shall be calculated as at the end of the month preceding the month in which Executive is terminated), if any, and accrued automobile allowance and unused vacation (hereinafter collectively referred to as "Fringe Benefits"), if any,

May 23, 1999
cc/vra/castalian/stewart.7

earned through the date of termination.

(b) Termination by Company for Cause.

(i) Company may terminate this Agreement and Executive's employment hereunder, without any further obligation to Executive after the date of termination (except as expressly provided herein) for "cause". As used in this Paragraph 8(b) and Paragraph 8(c), "cause" shall mean only any of the following: (A) a breach of a material term of this Agreement by Executive; (B) the failure of Executive to perform services and duties exclusively for Company; (C) conduct amounting to fraud, embezzlement, material acts of dishonesty, or willful or illegal misconduct in connection with Executive's duties under this Agreement and as an officer of Company; (D) Executive's continuous willful insubordination (for the purposes of this subparagraph 8(b)(i)(D) "continuous willful insubordination" shall not mean personality conflicts which may arise between Executive and her superiors or a good faith difference of opinion between Executive and her superiors); (E) Executive's failure or neglect to fulfill any of Executive's material obligations hereunder except due to any Disability or (E) Executive's commission of a felony. In the event Executive is terminated for "cause", Company's obligations to Executive shall be limited to the payment of Executive's base salary and Yearly Bonuses earned through the date of termination (provided that the Earnings Bonus, if any, shall be calculated as at the end of the month preceding the month in which Executive is terminated), if any, and accrued automobile allowance and unused vacation (hereinafter collectively referred to as "Fringe Benefits"), if any, earned through the date of termination and the Incentive Bonus under Paragraph 3(c)(iii)(A).

(ii) The Company may terminate Executive's employment hereunder in the event that any time after November 30, 2000 (i) the operation of Company has generated pretax cumulative losses (calculated according to Generally Accepted Accounting Principles) in excess of Three Million Dollars (\$3,000,000), or (ii) the operation of Company has generated pretax losses (calculated according to Generally Accepted Accounting Principles) in any Computation Year in excess of One Million Five Hundred Thousand (\$1,500,000) Dollars. If Company shall terminate Executive's employment as provided in this Paragraph 8(b)(ii), Executive shall be entitled to receive, as damages, and as her sole and exclusive right and remedy on account of such termination the following sums: (i) any salary earned through the date of termination but not paid; (ii) approved unreimbursed business expenses and other employee benefits accrued to the date of termination; and (iii) any vested benefits to which Executive is entitled under Company's retirement or deferred compensation plans which shall be payable to Executive in accordance with the terms of such plans. Amounts payable by Company to Executive pursuant to this Paragraph 8(b)(ii) shall be payable when and as the same would otherwise have been payable under the terms hereof. Except as provided in this Paragraph 8(b)(ii) and in paragraph 8(f) below, following termination of her employment hereunder, Executive shall not be entitled to receive any further salary, expenses, Yearly Bonuses, benefits (other than accrued medical or disability benefits, if applicable and those benefits provided for in paragraph 8(b)(ii) or other compensation hereunder).

May 23, 1999
cc/vra/castalian/stewart.7

(iii) Company shall notify Executive in writing of any breach or anticipated breach of paragraph 8(b)(i) and paragraph 7(a) and any termination of Executive's services hereunder shall be effected by notice in writing stating the reason therefor, which notice shall be given to Executive as provided in Paragraph 13 hereof. To the extent cureable, Executive shall have the opportunity to cure any such breach within thirty (30) days after receiving written notice thereof from Company, except for breach or anticipated breach of the Restrictive Covenants for which the cure period shall be twenty (20) days; provided, however, there shall be no cure for any breach of this Agreement by Executive after the first breach of this Agreement by Executive for the same cause.

(c) Termination by Company Without Cause.

If the Company terminates this Agreement without cause by written notice to the Executive, the Executive shall be entitled to receive from the Company, (i) within seven (7) days from the effective date specified in the Company's notice of termination, a lump sum payment equal to the Annual Salary, unpaid vacation pay, unreimbursed business expenses, unpaid automobile allowance and any other monies payable to the Executive under any employee benefit plan, in each case earned through the date of the Executive's termination, and any Yearly Bonuses which are earned through the last day of the month prior to the date of Executive's termination; and (ii) from and after the effective date specified in the Company's notice of termination through the last day of the Term, the Annual Salary, the Termination Bonuses (as such term is defined below), except such Termination Bonuses shall only be paid for a period of four (4) years following Executive's termination pursuant to this paragraph 8(c) and the Executive's employee benefits, as such employee benefits existed immediately prior to the Executive's termination pursuant to this Paragraph 8(c), in each case as and when such Annual Salary, Yearly Bonuses and such employee benefits would otherwise have been payable or provided to the Executive had this Agreement continued for the entire Term; provided, however, if the Executive should die at any time after the termination of this Agreement pursuant to this Paragraph 8(c), the amounts or benefits payable or provided to the Executive under this Paragraph 8(c) shall cease and the provisions of Paragraph 8(a) shall apply; and provided, further, that commencing from and after the expiration of the Non-Mitigation Period (as such term is hereinafter defined) the Executive shall have an obligation to mitigate damages by seeking employment elsewhere. During the Non-Mitigation Period Executive has no obligation to attempt to mitigate her damages. For purposes of this Paragraph 8(c), the "Non-Mitigation Period" shall mean the period commencing from and after the date of termination of this Agreement pursuant to this Paragraph 8(c) until eighteen (18) months thereafter. Payments made to the Executive pursuant to this Paragraph 8(c) shall be offset by any compensation that the Executive may receive from employment that the Executive may obtain at any time following the termination of this Agreement pursuant to this Paragraph 8(c) (for purposes of clarification this would include the Non-Mitigation Period) without any regard to when such compensation is paid and, in connection therewith, the Executive shall be required to refund to the Company any amounts which shall constitute an overpayment made by the Company to the Executive under

this Paragraph 8(c) as a result of any compensation that the Executive may obtain at any time following the termination of this Agreement pursuant to this Paragraph 8(c) until two (2) years after the Term would have otherwise expired. The Termination Bonuses shall mean fifty (50%) percent of the annual average Yearly Bonuses paid to Executive pursuant to Paragraph 3(b)(exclusive of the Westwood Long Form Profit Share) prior to Executive's termination pursuant to this paragraph 8(c).

(d) Termination by Executive.

Executive may terminate this Agreement and Executive's employment hereunder for "cause". "Cause" shall mean in this Paragraph 8(d) a breach of a material term of this Agreement by Company which shall not have been cured by Company as provided in paragraph 17 below. Termination of Executive's services hereunder shall be effected by notice in writing stating the reason therefor, which notice shall be given to Company as provided in Paragraph 13 hereof. If Executive terminates this Agreement for cause and Company does not cure such breach as provided in Paragraph 17, below, then Executive shall be entitled to receive from the Company, (i) within seven (7) days from the effective date specified in the Company's notice of termination, a lump sum payment equal to the Annual Salary, unpaid vacation pay, unreimbursed business expenses, unpaid automobile allowance and any other monies payable to the Executive under any employee benefit plan, in each case earned through the date of the Executive's termination, and any Yearly Bonuses which are earned through the last day of the month prior to the date of Executive's termination; and (ii) from and after the effective date specified in the Company's notice of termination through the last day of the Term, the Annual Salary, the Termination Bonuses, except such Termination Bonuses shall only be paid for a period of four (4) years following Executive's termination pursuant to this paragraph 8(d), and the Executive's employee benefits as such employee benefits existed immediately prior to the Executive's termination pursuant to this Paragraph 8(d), in each case as and when such Annual Salary, Yearly Bonuses and such employee benefits would otherwise have been payable or provided to the Executive had this Agreement continued for the entire Term; provided, however, if the Executive should die at any time after the termination of this Agreement pursuant to this Paragraph 8(d), the amounts or benefits payable or provided to the Executive under this Paragraph 8(d) shall cease and the provisions of Paragraph 8(a) shall apply; and provided, further, that commencing from and after the expiration of the Non-Mitigation Period (as such term is hereinafter defined) the Executive shall have an obligation to mitigate damages by seeking employment elsewhere. During the Non-Mitigation Period Executive has no obligation to attempt to mitigate her damages. For purposes of this subparagraph 8(d), the "Non-Mitigation Period" means the period commencing from and after the date of termination of this Agreement pursuant to this Paragraph 8(d) until eighteen (18) months thereafter. During the Non-Mitigation Period Executive has no obligation to attempt to mitigate her damages. Payments made to the Executive pursuant to this Paragraph 8(d) shall be offset by any compensation that the Executive may receive from employment that the Executive may obtain at any time following the termination of this Agreement pursuant to this Paragraph 8(d) (for purposes of clarification this would include the Non-Mitigation Period) without any regard to

May 23, 1999
cc/vra/castalian/stewart.7

when such compensation is paid and, in connection therewith, the Executive shall be required to refund to the Company any amounts which shall constitute an overpayment made by the Company to the Executive under this Paragraph 8(d) as a result of any compensation that the Executive may obtain at any time following the termination of this Agreement pursuant to this Paragraph 8(d) until two (2) years after the Term would have otherwise expired. The Termination Bonuses shall mean fifty (50%) percent of the annual average Yearly Bonuses paid to Executive pursuant to paragraph 3(b)(exclusive of the Westwood Long Form Profit Share) prior to Executive's termination pursuant to this paragraph 8(d).

(e) Designation of Beneficiary.

The parties hereto agree that the Executive shall designate, by written notice to the Company, a beneficiary to receive the payments described in Paragraph 7 in the event of her death and the designation of any such beneficiary may be changed by the Executive from time to time by written notice to the Company. In the event the Executive fails to designate a beneficiary as herein provided, any payments which are to be made to the Executive's designated beneficiary under Paragraph 8 shall be made to the Executive's estate.

(f) No Repayment on Termination. Notwithstanding anything to the contrary contained in Paragraph 8 of this Agreement, in the event that Executive is terminated pursuant to Paragraph 8 of this Agreement, nothing herein will require Executive to repay (and Executive shall retain all previous Salary and Bonuses previously paid to Executive prior to her termination) any Salary or Bonuses, or Incentive bonuses or Advances that have been paid to Executive prior to such termination, provided it is understood that this in no way affects Company's rights or remedies for damages in connection with any termination pursuant to paragraph 8(b). Further nothing in this paragraph 8 is meant to alter, modify or in any way amend the provisions of paragraph 3(c).

9. **EXECUTIVE'S REPRESENTATIONS AND WARRANTIES:**

(a) Right to Enter Into Agreement.

Executive has the unfettered right to enter into this entire Agreement on all of the terms, covenants and conditions hereof, and Executive has not done anything which may curtail or impair any of the rights granted to Company herein.

(b) Breach Under Other Agreement or Arrangement.

Neither the execution and delivery of this Agreement nor the performance by Executive of any of her obligations hereunder will constitute a violation or breach of, or a default under, any material agreement, arrangement or understanding, or any other restriction of any kind, to which Executive is a party or by which Executive is bound. Further a breach of this Agreement by Executive shall not be deemed a breach of the agreement entered into between

May 23, 1999
cc/vra/castalian/stewart.7

Virgin Records CM Holdings, Inc. and Executive of even date herewith.

(c) Services Rendered Deemed Special. Etc.

Executive acknowledges and agrees that the services to be rendered by her hereunder are of a special, unique, extraordinary and intellectual character which gives them peculiar value, the loss of which cannot be adequately compensated for in an action at law and that a breach of any material term, condition or covenant hereof may cause irreparable harm and injury to Company and in addition to any other available remedy Company will be entitled to seek injunctive relief.

10. **USE OF NAME:**

Company shall have the right to use Executive's name, biography and approved likenesses in connection with Company's business, including advertising its products and services subject to Executive's approval, which approval she will not unreasonably withhold; and Company may grant such rights to others, but not for use as a direct endorsement.

11. **DISPUTES/GOVERNING LAW:**

11.1 This agreement shall be governed by and construed in accordance with the laws of the State of California applicable to agreements wholly to be performed therein. In the event Executive brings an action against Company due to Company's termination of this agreement pursuant to Paragraph 8 above, Executive agrees that Executive's remedy, in the event Executive shall prevail in such action, shall not include reinstatement to Executive's position, and in the absence of fraud by Company shall not include punitive or exemplary damages (it is understood that Company's termination of this agreement, whether or not due to the breach of this agreement by Executive, shall not be deemed to be fraud) and is limited, in the event Executive shall prevail in such action, to the compensation as provided in Paragraph 3, above, and in no event shall Executive be entitled to the reinstatement by Executive to Executive's position.

11.2 Resolution of Disputes. In the event of any controversy, dispute or claim between parties arising under, out of, related to or pertaining to this Agreement or any other agreement between the parties or any provision(s) of this Agreement or such agreements, then all such controversies, disputes or claims (herein "Disputes") shall be resolved at Los Angeles, California, by a general reference to try all issues of fact and law pursuant to CCP Paragraph 638(1), as amended hereafter, and in accordance with the following provisions of this Reference Paragraph. The Disputes subject to such resolution shall include without limitation all controversies, disputes or claims arising out of or related to : (a) the relationship of the parties hereto, including any tort claims; and (b) the validity, enforceability or interpretation of this Agreement or any other agreement between the parties or any provision(s) of this Agreement or such agreements, including this Paragraph (Reference Paragraph). It is the intent of the parties to

May 23, 1999
cc/vra/castalian/stewart.7

E-18

this Agreement that this general reference agreement provision be specifically enforceable. The parties hereto hereby waive, to the fullest extent permitted by law, their right to trial by jury with respect to any and all Disputes. To the fullest extent permitted by law, the parties consent to the jurisdiction of the referee appointed as provided hereafter, with respect to all Disputes, regardless of the jurisdiction or geographic area in which such Disputes arise, it being the intention of the parties that all Disputes be subject to resolution in accordance with the provisions of this General Reference Section.

(a) All Disputes. Except as provided hereafter, all Disputes shall be tried by a single referee under an order of general reference to try all issues of fact and law, whether legal or equitable. Notwithstanding any other provision herein, the Disputes to be decided by the referee shall include, without limitation, all controversies, disputes or claims as to whether any Dispute(s) is subject to reference hereunder, which shall be decided by the referee and not the court. This Reference Paragraph shall not create a right to resolve by general reference any Dispute that would not be subject to resolution by a court under the applicable decisional and statutory law. The Disputes excluded from resolution by general reference shall include, but not be limited to: Disputes relating to or arising out of the management by the Managers of the business and operations of the Company; the decisions or activities of the Controller; and the decisions and activities of the Tax Matters Partner. Unless all parties to the then existing Disputes shall agree in writing otherwise, said referee shall be chosen by counsel for the parties hereto and shall be a retired judge of the Superior Court of the State of California or a retired justice of a Court of Appeal or the Supreme Court of the State of California with all parties hereby waiving any right to trial by jury. If available, the parties shall utilize any lists of such judges or justices as are then furnished by the Superior Court of the State of California, County of Los Angeles, Central District ("Court") or any other Superior Court of the State of California. If counsel are unable to agree upon a referee, then the referee shall be appointed by the Court with each party entitled to only one disqualification pursuant to CCP Paragraph 170.6. The availability of a potential referee to conduct trials or hearings on consecutive days and not piecemeal shall be a substantial factor in the selection of such referee by counsel and, if necessary, by the Court. Except as provided in this Reference Paragraph, all matters including any trial shall be conducted and the issues determined in compliance with all rules, laws and decisional authorities applicable to an action being formally litigated in the Court and not by way of reference.

(b) Procedures. The referee shall conduct and decide all pre-trial procedures which may arise as if the Disputes were formally litigated in the Court. The judgment entered upon the decision of the referee shall be subject to all post-trial procedures and to appeal in the same manner as an appeal from any order or judgment in a civil action. All rules of evidence as set forth in the California Evidence Code, other statutory and decisional laws of California and all Los Angeles Superior Court Rules and California Rules of Court shall be applicable to any proceeding before the referee. Any trial or hearing shall be conducted in Los Angeles County and, if at all possible in light of the schedules of the referee and material witnesses, shall be conducted on consecutive dates, Sundays and holidays excepted, as opposed to being conducted

piecemeal on various dates separated by postponements or adjournments with every reasonable effort being made to avoid postponements and adjournments. It is the parties' desire to have all matters determined expeditiously and promptly by such referee. Towards that end, any party may request a resolution of any Dispute, or any issue involved in any Dispute ("Issue"), on written notice to the other parties and the referee, which notice will specify each Issue and/or Dispute involved. The responding parties shall have a reasonable time to respond to said notice, which time shall be set by the referee predicated upon the Issues or Disputes involved. Any party may then present evidence at such hearing concerning such Issues or Disputes. Each of the Issues or Disputes may be resolved separately in the interest of expeditious resolution if the referee so orders, and there shall be no requirement that all Issues or Disputes be resolved together. The referee may issue any order which he deems reasonable or appropriate to the resolution of such Issues or Disputes. Notwithstanding the foregoing, upon the application of any party, the referee may take such action as the referee deems reasonable and appropriate to limit the foregoing procedures, including without limitation restricting the nature or scope of discovery, for the purpose of limiting the expense of the parties where such limitation is appropriate given the amount and the nature of the Dispute in controversy.

(c) Specific Enforcement. The reference provisions of this Agreement may be specifically enforced by the filing of a complaint or petition or motion seeking specific enforcement in the Court or by a motion directed to the law and motion department of the Court or by such other procedure to the same effect and result as may be directed by the Los Angeles Superior Court Rules.

(d) Powers Unless Otherwise Restricted or Limited by Law. Except as otherwise provided in this Agreement, the referee shall have all powers granted under the laws of the State of California to a judge of the Superior Court, and the referee's powers shall be coextensive with that of any such judge, including without limitation the power to do any or all of the following:

- (1) Grant temporary and/or permanent injunctive relief;
- (2) Issue an order appointing a receiver;
- (3) Issue writs of mandate;
- (4) Issue writs of administrative mandamus;
- (5) Issue writs of prohibition;
- (6) Issue writs of certiorari;
- (7) Issue writs of attachment;

(8) Issue writs of execution;

(9) Render declaratory judgments;

(10) Issue all other ancillary and supplementary processes and remedies available under the laws of the State of California. In the event that it is determined by the referee or a court of competent jurisdiction that the powers of the referee are not coextensive with the powers of a judge of the Court or that any of the powers above enumerated exceed the powers which may be conferred upon a referee, then any party may apply directly to the Court solely for the purpose of invoking such powers as are not reposed in such referee, and all other powers with respect to the resolution of the Disputes or Issues shall continue to be exercised by the referee, including the power to make such binding findings of fact and conclusions of law as are necessary to invoke such powers as are not reposed in the referee; and/or

(11) Fully enforce with all remedies available in law or equity, including without limitation those listed above.

(e) Third Parties. The parties, at their election, may at any time seek to join in the dispute resolution procedure any third party. Provided, however, that the failure or inability to join such third party for any reason, including without limitation the third party's refusal to be so joined, shall not affect the resolution of any of the Disputes or Issues between the parties by a reference proceeding as provided for in this Reference Paragraph and such failure to join shall not be a grounds for dismissal, postponement or delay in any such reference proceeding, unless the referee determines upon application any party that the omission of such third could materially and adversely affect the rights of the parties or any of them.

(f) Fees and Costs of Referee. The fees and costs of the referee to be appointed hereunder shall, in the first instance, be prorated equally among the parties to any dispute governed hereby and paid in such proportions currently as billed by the referee. The prevailing party in any such dispute shall be entitled to receive her/its costs (including without limitation the referees fees and costs) and reasonable legal fees.

(g) Provisional Relief Pending Reference. Nothing herein shall preclude any party from applying for provisional relief in any competent court pending the appointment of the referee, which provisional relief may include, without limitation, the issuance of writs of attachment.

12. DEFINITIONS:

The following terms, and the singular or plural thereof, used in this Agreement shall have the meanings set forth below:

(a) "Advance(s)" shall have the meaning as set forth in Paragraph 3(c)(ii)

May 23, 1999
cc/vra/castalian/stewart.7

hereof.

- (b) "Affiliate" shall have the meaning as set forth in Paragraph 1(a) hereof.
- (c) "Agreement" shall have the meaning as set forth in the preamble hereof.
- (d) "Annual Salary" shall have the meaning as set forth in Paragraph 3(a)

hereof.

(e) "Approved Budgets" shall mean the mutually approved budget for Company's First Computation Year attached hereto as Exhibit "C" and any subsequent budgets for Company's subsequent Computation Years which have been approved pursuant to the approval methods described in paragraph 5(g).

(f) "Benefits" shall have the meaning as set forth in Paragraph 7(a)(ii) hereof.

(g) "Yearly Bonuses" shall have the meaning as set forth in Paragraph 3(b)

hereof.

(h) "Budget Record" shall mean a Phonograph Record which bears an SRLP in any particular configuration in the country in question which is sixty-six and two-thirds (66-2/3%) percent or less of the SRLP of the majority of VRA's (or VRA's affiliates or licensees) then-current newly-released top-price records in such configuration.

(i) "Closing Date" shall mean the date on which this Agreement will be fully executed in counterpart.

(j) "Company" shall have the meaning as set forth in the preamble hereof.

(k) "Current Pop Hits Compilation" shall mean Albums embodying compilations of pop hit Masters (as distinguished from country or Christian master recordings) which Masters were initially released in the United States during the twelve (12) month period prior to the release of such Album.

(l) "Digital Record" shall mean a record the signals of which are encoded and decoded by so-called "digital" technology whether now known or hereafter devised as opposed to so-called "analog" technology, and shall include without limitation Compact Discs, Digital Audio Tape records and Digital Compact Cassettes.

(m) "Directed Company" shall mean a company which uses the Westwood Fulfillment Center as a direct result of Executive's efforts of referring and introducing such company to senior executives at the Westwood Fulfillment Center.

(n) "Disability" shall have the meaning as set forth in Paragraph 8(a) hereof.

- (o) "DRTV" shall have the meaning as set forth in Paragraph 5(a) hereof.
- (p) "DRTV Albums" shall have the meaning as set forth in Paragraph 5(a) hereof.
- (q) "Earnings Bonus" shall have the meaning as set forth in Paragraph 3(b)(i)(A) hereof.
- (r) "EMI Company" or "EMI Companies" shall mean those companies set forth on Exhibit "D".
- (s) "EMI Accounting Policies" shall mean EMI's accounting policies, a copy of which are attached hereto as Exhibit "E".
- (t) "EMI/Virgin Retail Sales Royalty" shall have the meaning as set forth in Paragraph 3(b)(ii)(A) hereof.
- (u) "Executive" shall have the meaning as set forth in the preamble hereof.
- (v) "Exempt Interest" shall mean the interest on first One Million Five Hundred Thousand Dollars (\$1,500,000) of loans made to Company by Purchaser or any EMI Company.
- (w) "First Computation Year" shall mean the period commencing on the date of full execution of this Agreement and ending August 31, 2000.
- (x) "First Tranche Average Annual Pretax Net Earnings" shall have the meaning as set forth in Paragraph 3(c)(i) hereof.
- (y) "First Tranche Incentive Bonus" shall have the meaning as set forth in Paragraph 3(c)(i) hereof.
- (z) "Computation Year" shall, except for the First Computation Year, mean the twelve month period commencing September 1 and ending August 31.
- (aa) "Incentive Bonus" shall have the meaning as set forth in Paragraph 3(c) hereof.
- (bb) "Long Form Projects" shall mean Albums advertised by means of long form TV infomercials.
- (cc) "LP" and "Album" shall mean a set of no less than ten (10) Masters having an aggregate playing time of no less than thirty-five (35) minutes in duration, embodied on compact disc, tape, vinyl, Digital Record or New Medium equivalent.
- (dd) "Mid-Priced Record" shall mean a Phonograph Record bearing an SRLP

in any particular configuration in the country in question in excess of sixty-six and two-thirds (66- 2/3%) percent of the SRLP of the majority of VRA's (or VRA's licensees or affiliates, as applicable) then-current, newly-released top-price records in such configuration but not more than the greater of (i) eighty (80%) percent of the SRLP of VRA's (or VRA's affiliates or licensees, as applicable) then current newly-released top-price records in such configuration, or (ii) Two Dollars (\$2.00) (or the local currency equivalent thereof) less than the SRLP of the majority of VRA (or VRA's licensees or affiliates, as applicable), then current newly-released records in such configuration.

(ee) "Multiple LP" shall mean a single package containing two (2) or more LPs, or their tape, Digital Record or New Medium equivalent, which is sold as a single unit, and where the context requires, Master Recordings sufficient to constitute a single package containing two (2) or more LPs, or their tape, Digital Record or New Medium equivalent, which is sold as a single unit.

(ff) "Musical Composition" and "Composition" shall mean a single musical composition and, for the purposes of computing mechanical royalties hereunder, shall include a medley.

(gg) "Net Profits" shall mean Westwood's Net Receipts less the following:

(1) all direct and actual out-of-pocket costs and expenses incurred by Westwood attributable to the manufacture, marketing, promotion, publicity, advertising and exploitation of the Westwood Long Form Catalogue (as such term is defined below) (e.g., manufacturing costs, marketing expenditures, copyright proprietors, mechanical royalties and payments to unions and guilds [but excluding any Westwood overhead expenses]);

(2) an amount equal to all actual artwork creation costs paid to third parties associated with the Westwood Long Form Catalogue, as well as all other actual artwork, reproduction and packaging costs [but excluding any Westwood overhead expenses];

(hh) "Net Receipts" shall mean Westwood's gross receipts less bad debts and returns from its customers from the sale by means of DRTV of Albums in the Westwood Long Form Catalogue.

(ii) "Net Sales" shall mean, in the case of sales of Albums by VRA and VRA's licensees, one hundred (100%) percent of the aggregate number of LPs sold for which VRA has been paid or credited, in each applicable royalty category, after deducting returns, reserves against anticipated returns, rebates and credits on records returned in each royalty category.

(jj) "New Medium Record" means a record in any medium which is not in general commercial distribution in the United States as of the date hereof (and shall specifically include so-called "DAT", "DCC" and Sony "Mini-discs").

(kk) "Non-Mitigation Period" shall have the meaning as set forth in Paragraphs

8(c) and 8(d) hereof.

(ll) "NOW Albums" shall mean Current Hits Compilations released by the NOW Venture.

(mm) "NOW Venture" shall mean the joint venture presently comprised of VRA, EMI and Universal Music Group or any successor entity involving VRA.

(nn) "NOW Venture Retail Sales Royalty" shall have the meaning as set forth in Paragraph 3(b)(ii)(B) hereof.

(oo) "Person" shall mean an individual, firm, trust, association, corporation, partnership, joint venture, joint-stock Company, trust, unincorporated organization, or other entity.

(pp) "Phonograph Record" shall mean every form of reproduction (whether now known or unknown), embodying sound alone, or sound accompanied by visual images, distributed primarily for home use, school use, juke box use, and use in means of transportation, including, without limitation, discs of any speed or size, reel-to-reel tapes, cartridges, cassettes, or other pre-recorded tapes.

(qq) "Pretax Net Earnings" shall mean for any Computation Year, the audited pretax consolidated net earnings of the Company which net earnings are calculated pursuant to GAAP as modified by EMI Accounting Policies prior to income taxes, Exempt Interest and without any charge for overhead or similar type expense charged by VRA or any of VRA's affiliates to Company (unless otherwise specifically provided for herein) and excluding the EMI/Virgin Retail Sales Royalty, that portion of the NOW Venture Retail Sales Royalty paid by Virgin pursuant to paragraph 3 (b), the Westwood Long Form Profit Share, and any monies paid to Executive as Yearly Bonuses pursuant to Paragraph 3(b) above. For purposes of clarification, Pretax Net Earnings shall not include fifty percent (50%) of the net earnings from the Excess Albums.

(rr) "Protected Company" shall have the meaning as set forth in Paragraph 6(a) hereof.

(ss) "Protected Employee" shall have the meaning as set forth ins Paragraph 6(b) hereof.

(tt) Not used

(uu) "Restrictive Covenants" shall have the meaning as set forth in Paragraph 7(a) hereof.

(vv) "Second Tranche Incentive Bonus" shall have the meaning as set forth in Paragraph 3(c)(i)(B) hereof.

May 23, 1999
cc/vra/castalian/stewart.7

(xx) "Set of Long Form Projects" shall have the meaning as set forth in Paragraph 5(f) hereof.

(yy) "Sound Recordings" shall mean the aggregate of sounds (including without limitation a sound track associated with a motion picture) embodied in Masters and capable of being reproduced by means of Records.

(zz) "Target Computation Year" shall mean Company's Computation Years ending August 31, 2000, 2001 and 2004.

(aaa) "Term" shall have the meaning as set forth in Paragraph 2 hereof.

(bbb) "Termination Event" shall have the meaning as set forth in Paragraph 3(c)(iii)(B) hereof.

(ccc) "Termination Computation Year" shall have the meaning as set forth in Paragraph 3(c)(vi)(D)(1) hereof.

(ddd) "Termination Paragraphs" shall have the meaning as set forth in Paragraph 2 hereof.

(eee) "Third Computation Year" means the Computation Year commencing on September 1, 2001 and ending on August 31, 2002.

(fff) "VRA" shall have the meaning as set forth in Paragraph 1(a) hereof.

(ggg) "Westwood" means Westwood Promotions, Inc.

(hhh) "Westwood Fulfillment Center" shall mean the DRTV fulfillment center operated by Westwood which is presently located in Colorado.

(iii) "Westwood Fulfillment Royalty" shall have the meaning set forth in Paragraph 3(b)(iii) hereof.

(ijj) "Westwood Long Form Catalogue" shall mean Westwood's catalogue of Albums advertised by means of long form TV infomercials existing prior to commencement of the First Computation Year.

(kkk) "Westwood Long Form Profit Share" shall have the meaning as set forth in Paragraph 3(b)(iv) hereof.

(lll) "Restricted Years" shall mean one (1) year following the expiration of this agreement, two (2) years following the termination of this Agreement pursuant to paragraph 8(b) or eighteen (18) months followings termination of this agreement pursuant to paragraph 8(c) or (d), as applicable.

Ε-26

13. NOTICES:

(a) Delivery.

Any notice, consent or other communication under this Agreement shall be in writing and shall be delivered personally, telexed, sent by facsimile transmission or overnight courier (regularly providing proof of delivery) or sent by registered, certified, or express mail and shall be deemed given when so delivered personally, telexed, sent by facsimile transmission or overnight courier, or if mailed two (2) days after the date of deposit in the United States mail as follows: to the parties at the following addresses (or at such other address as a party may specify by notice in accordance with the provisions hereof to the other):

(i) If to Executive, to her address at:

Anita Stewart
C/o Mitchell, Silberberg & Knupp LLP
11377 W. Olympic Blvd.
Los Angeles, CA 90064-1683
Attn: Phil Davis, Esq.

With copies to:

Mitchell, Silberberg & Knupp LLP
11377 W. Olympic Blvd.
Los Angeles, CA 90064-1683
Attn: Phil Davis, Esq.

(ii) if to Company, to Company's address at:

338 North Foothill Road
Beverly Hills, CA 90210

With copies to:

Virgin Records America, Inc.
Attention: President
338 North Foothill Road
Beverly Hills, CA 90210

and

Fischbach, Perlstein & Lieberman LLP
1925 Century Park East, Ste. #1260
Los Angeles, CA 90067
attn: Bernard J. Fischbach, Esq.

(b) Change of Address.

Either party may change its address for notice hereunder by notice to the other party in accordance with this Paragraph 12.

14. COMPLETE AGREEMENT; MODIFICATION AND TERMINATION:

This Agreement contains a complete statement of all the arrangements between the parties with respect to Executive's employment by Company, supersedes all existing agreement between them concerning Executive's employment. This Agreement may be amended, modified, superseded or canceled, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any such right or remedy, nor any single or partial exercise of any such right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy.

15. HEADINGS:

The headings in this Agreement are solely for the convenience of reference and shall not affect its interpretation.

16. GUARANTY:

Concurrently herewith Purchaser shall execute and deliver to Executive a Guaranty substantially in the form of Exhibit "F" hereto.

17. BREACH BY COMPANY:

Company shall not be deemed to be in breach of any of its obligations hereunder unless and until it shall have been given specific written notice thereof as provided in Section 13 and the opportunity to cure such breach within thirty (30) days after receiving written notice thereof from Executive

//
//
//
//
//
//
//

May 23, 1999
cc/vra/castalian/stewart.7

8-28

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

CASTALIAN MUSIC, LLC

By: *HM edison*

AS
ANITA STEWART

Virgin Records America, Inc. hereby agrees to abide by the terms of paragraphs 5(c), (f), (g) through (k) and 11(f) as well as to account and pay to Company the EMI/Virgin Retail Sales Royalty, the Now Venture Retail Sales Royalty (providing it is VRA who has paid such royalty as opposed to one of the other Now Venture members), the Westwood Fulfillment Royalty and the Westwood Long Form Profit Share so that Company may pay such royalty on to Executive and to allow Executive to audit VRA's books and records as provided in Exhibits A.

VIRGIN RECORDS AMERICA, INC.

By: *HM edison*

	AMOUNT	Calculation/ Formulae	Document Reference	Modified
SECTION 1 (employment)				
Salary	\$300k per Annum		Employment Contract 3 (a)	NA
VRA(Now) Royalty	VRA TV royalty (or share)	\$.25 (%share) per unit sold	Employment Contract 3(b)(ii)A & B	Letter May 20, 2002
Westwood Longform	20% of Net Profits	Profit Share	Employment Contract 3(b) (iv)	
Westwood Fulfillment	\$.03 per unit shipped	Royalty	Employment Contract 3(b)(iii)	
Car Allowance	\$750/mo	EMI Standard by job title	Employment Contract 4	
Annual Performance Bonus	25%/20% company earnings over \$3.4m/\$6m	Percentage of Annual Profits	Employment Contract 3(b)(i)A	
Max. Annual Earnings	Cap. \$2m/4m	cap'd on Salary + performance bonus		Letter May 20, 2002
SECTION 2 (Company)				
Downpayment	\$4m (minus Reserves)	\$4m minus reserves	Employment Contract 3(c)(i)C	
First Tranche (4th year)		60% of Eight times average earnings divided by 7, minus advances & down-payment, capped % of \$21m	Employment Contract 3(c)(i)(A)	Modified May 20, 2002
Second Tranche (7th year)		40% of Eight times average earnings divided by 7, minus advances & down-payment, capped at % of \$21m	Employment Contract 3(c)(i)(B)	Modified May 20, 2002
Advances	\$1m Annually based upon minimum performance		Employment Contract 3(c)(ii)	Modified May 20, 2002
WESTWOOD Payments				
Salary	NONE	No Employment		
Downpayment				
Earnout (5 year)				
Royalty				