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ALLIANCE ENTERTAINMENT CORP
Form 425
August 15, 2002

[LIQUID AUDIO LOGO]

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August 15, 2002

Subject Company: Alliance Entertainment Corp.
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LIQUID AUDIO ANNOUNCES 2Q02 RESULTS

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INVESTOR CONTACT:
Michael Bolcerek
650-549-2000
mbolcerek@liquidaudio.com

MEDIA CONTACT:
Kimberly Strop
650-549-2194
kstrop@liquidaudio.com

A. FOR IMMEDIATE RELEASE

LIQUID AUDIO ANNOUNCES SECOND-QUARTER 2002 RESULTS

REDWOOD CITY, Calif., August 14, 2002 -- Liquid Audio, Inc. (Nasdaq:LQID), a leading provider of software, infrastructure and services for secure Internet media delivery, today announced its financial results for the second quarter ended June 30, 2002.

Net revenues for the second quarter were \$151,000, compared with \$135,000 for the first quarter of 2002 and with \$1.0 million for the second quarter of 2001. Net loss for the second quarter was \$5.6 million, or a loss of \$0.25 per share(1). This compared sequentially with a net loss of \$4.9 million, or a loss of \$0.22 per share, and year-over-year with a net loss of \$14.0 million, or a loss of \$0.62 per share. Net loss for the year-ago quarter included the effect of non-cash charges of \$4.0 million for restructuring and strategic marketing -- equity instruments. Liquid Audio's cash and cash equivalents at June 30, 2002 were \$81.0 million, compared with \$86.4 million at March 31 and with \$91.6 million at December 31, 2001.

Today, Liquid Audio filed its Quarterly Report on Form 10-Q for the second quarter ended June 30, 2002 with the United States Securities and Exchange Commission (SEC). In connection with this filing, President and Chief Executive Officer Gerry Kearby and Senior Vice President and Chief Financial Officer Michael Bolcerek executed and filed sworn certification as to the second-quarter 2002 report and the financial results contained therein with the SEC, in compliance with Section 906 of the Sarbanes-Oxley Act of 2002.

On July 13, 2002, Liquid Audio announced a proposed merger with Alliance Entertainment Corp., one of the largest home entertainment product distribution, fulfillment and infrastructure companies in the United States. Liquid Audio announced an amended merger agreement with Alliance Entertainment on July 15, 2002.

"While quarterly revenues continue to be disappointing, we have

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consistently reduced costs and expenses to keep cash burn to a minimum, as we prepare to complete our proposed merger with Alliance Entertainment," said Kearby. "Recently, we closed our offices in Japan and Europe, and reduced our work force by 35%, leaving approximately 70 employees. We strongly believe that the merger agreement -- as amended to include a \$30-million cash return to

1 All per-share computations are both basic and diluted.

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Liquid Audio stockholders, in addition to the strategic combination of our digital media delivery business with Alliance Entertainment's high-growth distribution and fulfillment services business -- offers maximum value to all Liquid Audio stockholders."

Liquid Audio's 2002 Annual Meeting of Stockholders to vote on the election of directors and Special Meeting of Stockholders to vote on the issuance of common stock to effect the proposed merger with Alliance Entertainment are scheduled for September 26, 2002, in Redwood City, California.

LIVE WEBCAST OF MANAGEMENT TELECONFERENCE

Liquid Audio plans to hold its regular management teleconference on first-quarter 2002 financial results today at 2:00 p.m. PT / 5:00 p.m. ET. A live webcast of this call will be available at www.liquidaudio.com. In addition, a phone replay will be available for seven days after the call at 706-645-9291, code #5034003.

THE COMPANY

Liquid Audio, Inc. is a leading provider of software, infrastructure and services for the secure digital delivery of media over the Internet. The Liquid Audio solution gives content owners, websites and companies the ability to publish, syndicate and securely sell digital media online with copy protection and copyright management. Using the Liquid(TM) Player software, available for free download at www.liquidaudio.com, consumers can preview and purchase downloadable music from hundreds of affiliate websites in the Liquid Music Network(SM).

EDITOR'S NOTE: Liquid; Liquid Audio; Liquid Audio, Inc.; the Liquid Audio logo; Liquid Music Network; and Liquid Player are trademarks and service marks of Liquid Audio, Inc. All other trademarks and service marks are the property of their respective owners.

B. FORWARD-LOOKING STATEMENTS

All statements made in this release, other than statements of historical fact, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "guidance" and similar expressions typically are used to identify forward-looking statements. Forward-looking statements are based on the then-current expectations, beliefs, assumptions, estimates and forecasts about the businesses of Liquid Audio and Alliance Entertainment Corp. and the industries and markets in which the companies operate. Those statements are not guarantees of future performance and involve risks, uncertainties and assumptions that will be difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied by those forward-looking statements. Factors that may affect Liquid Audio's and Alliance Entertainment's businesses, financial condition and operating results include

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the effects of changes in the economy, consumer spending, the stock market and the industries in which they operate generally, changes affecting the Internet and e-commerce, the ability of the companies to maintain relationships with strategic partners and suppliers, the ability of the companies to timely and successfully develop, maintain and protect their technology and product and service offerings and execute operationally and the ability of the

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companies to attract and retain qualified personnel. These factors may also include, but are not limited to, general market conditions, our ability to develop new products to meet market demand, our ability to successfully combine two geographically dispersed businesses, our ability to realize synergies of the merger; our ability to maintain cost controls; the mix of products and services our customers require and the effects of natural disasters, international conflicts and other events beyond our control. More information about potential factors that could affect Liquid Audio can be found in its most recent Form 10-K, Form 10-Q and other reports and statements filed by Liquid Audio with the Securities and Exchange Commission ("SEC"). Each of Liquid Audio and Alliance Entertainment expressly disclaims any intent or obligation to update those forward-looking statements, except as otherwise specifically stated by it.

C. ADDITIONAL INFORMATION AND WHERE TO FIND IT

Liquid Audio has filed a Registration Statement on SEC Form S-4 in connection with the merger and plans to file a Tender Offer Statement on Schedule TO in connection with the offer. Investors and stockholders of Liquid Audio and Alliance Entertainment are urged to read the Registration Statement and the Tender Offer Statement carefully when it is available. The Registration Statement contains important information about the companies, the merger and related matters. Investors and stockholders will be able to obtain free copies of these documents through the web site maintained by the SEC at <http://www.sec.gov>. Free copies of the Registration Statement and these other documents may also be obtained from Liquid Audio by directing a request through the Liquid Audio Web site at <http://www.liquidaudio.com> or by mail to Liquid Audio, Inc., Attention: Investor Relations.

In addition to the Registration Statement and the Tender Offer Statement, Liquid Audio files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information filed by Liquid Audio at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549 or at any of the SEC's other public reference rooms in New York and Chicago. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Liquid Audio's filings with the SEC are also available to the public from commercial document-retrieval services and at the Web site maintained by the SEC at <http://www.sec.gov>.

D. INTERESTS OF CERTAIN PERSONS IN THE MERGER

The directors and executive officers of Liquid Audio and Alliance Entertainment have interests in the merger, some of which may differ from, or may be in addition to, those of the stockholders of Liquid Audio and Alliance Entertainment generally. A description of the interests that the directors and executive officers of the companies have in the merger is available in the Registration Statement.

SOLICITATION OF PROXIES

Liquid Audio and Alliance Entertainment, their respective directors, executive officers and certain other members of their management and employees may be soliciting proxies from stockholders of Liquid Audio and Alliance Entertainment

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in favor of the merger. Information concerning the participants is set forth in the Registration Statement filed with the SEC.

-- FINANCIAL STATEMENTS ATTACHED --

LIQUID AUDIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)

| | Three months ended June 30, | | Six mon Jun |
|---|--------------------------------|-------------|----------------|
| | 2002 | 2001 | 2002 |
| Net revenues: | | | |
| License | \$ 40 | \$ 194 | \$ 76 |
| Services | 111 | 362 | 210 |
| Business development (related party) | -- | 468 | 1,414 |
| | 151 | 1,024 | 286 |
| Cost of revenues: | | | |
| License | 84 | 128 | 181 |
| Services | 174 | 364 | 302 |
| Non-cash cost of revenues | 36 | 98 | 69 |
| | 294 | 590 | 552 |
| Gross profit (loss) | (143) | 434 | (266) |
| Operating expenses: | | | |
| Sales and marketing | 1,027 | 3,061 | 2,185 |
| Research and development | 2,914 | 4,731 | 5,937 |
| General and administrative | 1,905 | 3,078 | 3,011 |
| Strategic marketing -- equity instruments | -- | 340 | -- |
| Restructuring | -- | 3,672 | -- |
| Stock compensation amortization | (29) | (119) | (13) |
| | 5,817 | 14,763 | 11,120 |
| Loss from operations | (14,329) | (11,386) | (27,036) |
| Interest and other income, net | 318 | 1,176 | 851 |
| Loss in equity investment | -- | (881) | -- |
| Net loss | \$ (5,642) | \$ (14,034) | \$ (10,535) |
| Net loss per share: | | | |
| Basic and diluted | \$ (0.25) | \$ (0.62) | \$ (0.46) |
| Weighted average shares | 22,737 | 22,593 | 22,723 |
| Pro forma net loss(2): | | | |
| Net loss | \$ (5,642) | \$ (14,034) | \$ (10,535) |

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| | | | |
|---|------------|-------------|-------------|
| Pro forma adjustments: | | | |
| Non-cash cost of revenues | 36 | 98 | 69 |
| Strategic marketing -- equity instruments | -- | 340 | -- |
| Restructuring | -- | 3,672 | -- |
| Stock compensation amortization | (29) | (119) | (13) |
| | ----- | ----- | ----- |
| Pro forma net loss | \$ (5,635) | \$ (10,043) | \$ (10,479) |
| | ===== | ===== | ===== |
| Pro forma net loss per share: | | | |
| Basic and diluted | \$ (0.25) | \$ (0.44) | \$ (0.46) |
| | ===== | ===== | ===== |
| Weighted average shares | 22,737 | 22,593 | 22,723 |
| | ===== | ===== | ===== |

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- 2 This pro forma information is supplemental and not prepared in accordance with accounting principles generally accepted in the U.S.

LIQUID AUDIO, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

| | June 30, 2002 | December 31, 2001 |
|--------------------------------------|------------------|----------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$81,018 | \$91,594 |
| Accounts receivable, net | 115 | 130 |
| Other current assets | 718 | 1,099 |
| | ----- | ----- |
| Total current assets | 81,851 | 92,823 |
| | ----- | ----- |
| Restricted cash | 826 | 826 |
| Property and equipment, net | 2,391 | 3,603 |
| Other assets | 73 | 163 |
| | ----- | ----- |
| Total assets | \$85,141 | \$97,415 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,110 | \$ 1,107 |
| Accrued liabilities | 2,140 | 3,821 |
| Deferred revenue | 109 | 122 |
| Capital lease obligations | 11 | 28 |
| Equipment loan | -- | 169 |
| Note payable to related party | 376 | 343 |
| | ----- | ----- |
| Total current liabilities | 3,746 | 5,590 |
| | ----- | ----- |
| Stockholders' equity | 81,395 | 91,825 |

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| | | |
|--|----------|----------|
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$85,141 | \$97,415 |
| | ===== | ===== |