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ALLIANCE ENTERTAINMENT CORP  
Form 425  
September 20, 2002

Filed by Liquid Audio, Inc.  
Pursuant to Rule 425 under the Securities Act of 1933  
and deemed filed pursuant to Rule 13e-4(c) and Rule 14a-12  
under the Securities Act of 1934  
September 20, 2002

Subject Company: Alliance Entertainment Corp.  
Registration Statement Number 33-96925

[LIQUID AUDIO LOGO]

FOR IMMEDIATE RELEASE

LIQUID AUDIO AND STEEL PARTNERS SETTLE LAWSUIT

REDWOOD CITY, Calif. (Sept. 20, 2002) -- Liquid Audio, Inc. (Nasdaq: LQID) today announced that it has entered into a stipulation in settlement of its lawsuit against Steel Partners II, L.P. The suit was originally filed on Aug. 21, 2002 in the United States District Court for the Southern District of New York.

The stipulation agreed to by both parties provides that:

1. Steel Partners, including its affiliates and employees, will not issue any press release or other public dissemination regarding Liquid Audio between the date of the stipulation and the earlier of the following: (i) the stockholders' meeting on the proposed merger between Liquid Audio and Alliance Entertainment Corp.; or (ii) December 31, 2002.
2. Except as provided in paragraph 3 below, the restrictions on Steel Partners will not apply if (i) Liquid Audio issues any press release or other public dissemination disparaging or otherwise referencing Steel Partners in a negative light; (ii) there is a material change in the terms of the proposed merger between Liquid Audio and Alliance Entertainment Corp. or to the matters to be voted upon by Liquid Audio's stockholders at either the annual or the special meeting; or (iii) the merger agreement between Liquid Audio and Alliance Entertainment Corp. is terminated.
3. In the event of a material change in the terms of the proposed merger between Liquid Audio and Alliance Entertainment Corp., Steel Partners may issue a press release which addresses the material change and the effects of such change on the proposed merger.
4. The Stipulation is not to be construed, in any respect, as an admission or concession by either party.
5. Upon the execution of this Stipulation, Liquid Audio will dismiss without prejudice its lawsuit against Steel Partners.

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, Web sites 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

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free download at [www.liquidaudio.com](http://www.liquidaudio.com), consumers can preview and purchase downloadable music from hundreds of affiliate Web sites in the Liquid Music Network (TM).

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Liquid Audio, Liquid Player, Liquid Music Network and the Liquid Audio logo are trademarks of Liquid Audio, Inc.

For more information, press only:

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### 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 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 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.

### 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

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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>.

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