

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MAINE

_____	§	MDL Docket No. 1361
IN RE: COMPACT DISC MINIMUM	§	Judge D. Brock Hornby
ADVERTISED PRICE ANTITRUST	§	
LITIGATION	§	THIS DOCUMENT APPLIES
_____	§	TO ALL ACTIONS EXCEPT
	§	<u>TROWBRIDGE et al. v. SONY</u>
	§	<u>MUSIC ENTERTAINMENT</u>
	§	<u>INC., et al.,</u> Orig. Dkt. No. 00-
_____	§	CIV-6065 (S.D.N.Y.)

**AGREEMENT OF SETTLEMENT AND RELEASE WITH  
MUSICLAND STORES CORP.**

This Settlement Agreement, dated as of \_\_\_\_\_, is made and entered by and among the following parties (as defined further in Paragraph 1) to the above-entitled Litigation: (i) the Plaintiff States, by and through their Attorneys General; (ii) the Named Class Plaintiffs (on behalf of themselves and each member of the Plaintiff Settlement Class), by and through their counsel of record in the Litigation; and (iii) Musicland Stores Corp. (“Musicland”) by and through its counsel of record in the Litigation. This Settlement Agreement is intended by the parties to fully, finally and forever resolve, discharge and settle the Released Claims (as defined herein), upon and subject to the terms and conditions hereof.

## **I. CLAIMS OF THE PLAINTIFF STATES AND PLAINTIFF SETTLEMENT CLASS**

The States and the Named Class Plaintiffs believe that the claims asserted in the Litigation have merit and that the evidence developed to date in the Litigation supports the claims asserted. However, counsel for the Plaintiffs recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against Musicland through trial and appeals. After conducting an extensive investigation into the facts and issues raised by the Litigation, including substantial party and third-party discovery, counsel for the Plaintiffs believe that the settlement set forth in this Settlement Agreement confers substantial benefits upon, and is in the best interests of, the Plaintiffs. Counsel for the Plaintiffs consider the settlement set forth in the Settlement Agreement to be fair, reasonable, and adequate, and in the best interests of the Plaintiffs.

## **II. MUSICLAND'S DENIALS OF WRONGDOING AND LIABILITY**

Musicland has denied and continues to deny each and all of the claims and contentions alleged by the Plaintiffs, or arising from the activities, conduct, statements, acts or omissions alleged or that could have been alleged in the Litigation. Nonetheless, Musicland has concluded that further conduct of the Litigation would be protracted and expensive. Musicland has also taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like the Litigation and has therefore determined that it is desirable and beneficial to it that the Litigation be settled in the manner and upon the terms and conditions set forth in this Settlement Agreement.

## **III. TERMS OF SETTLEMENT AGREEMENT**

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and among

counsel for the Plaintiff States and the Named Class Plaintiffs, and Musicland, by and through their counsel of record, that, subject to the approval of the Court, the Litigation and the Released Claims shall be finally and fully compromised, settled, and released, and the Litigation shall be dismissed on the merits and with prejudice, as to all Settling Parties, upon and subject to the terms and conditions of this Settlement Agreement, as follows:

**1. Definitions**

**FOR PURPOSES OF SETTLEMENT ONLY**, and as used in this Settlement Agreement, the following terms shall have the meanings specified below:

1.1 “Alternative Distribution Plan” means the plan or method of allocating the portion of the Settlement Fund attributable to this Musicland settlement, should the Distributor Defendants not settle or should the Distributor Defendants’ settlement be terminated or canceled and the Distributor Defendants’ remaining portion of the Settlement Funds returned to them. If the Distributor Defendants do not settle, this plan will be submitted to the court with the motion for preliminary approval of the Settlement Agreement. If the Distributor Defendant’s settlement is terminated or canceled, this plan will be submitted to the court within 45 days of such termination or cancellation. Plaintiffs will provide a substantially final copy of this plan to Musicland at least ten (10) business days prior to filing it with the Court.

1.2 “BMG” means Bertelsmann Music Group, Inc.

1.3 “Cy Pres Distribution Plan” means the state-specific plan or method of allocation of that portion of the Settlement Fund (after payment of attorneys’ fees, costs, and expenses) designated in the Distribution Plan or Alternative Distribution Plan for *cy pres* distribution. This Plan will be submitted to the Court with the motion for final approval of the Settlement Agreement

and is not part of the Settlement Agreement. Plaintiffs shall provide Musicland with a copy of the Cy Pres Distribution Plan at least ten (10) business days prior to filing their motion for final approval of the Settlement Agreement.

1.4 "Distribution Plan" means the plan or method of allocation of the Settlement Fund (after payment of attorneys' fees, costs, and expenses). This plan will be submitted to the Court with the motion for preliminary approval of the Settlement Agreement and is not part of this Settlement Agreement. Plaintiffs will provide a copy of this plan to Musicland at least ten (10) business days prior to filing it with the motion for preliminary approval of the Settlement Agreement.

1.5 "CD" means album-length prerecorded music compact discs.

1.6 "Defendants" means all of the defendants named in the Litigation.

1.7 "Distributor Defendants" means EMD, WEA, Universal, Sony and BMG.

1.8 "Effective Date" means the first date by which all of the events and conditions specified in Paragraph 7.1 of this Settlement Agreement have been met and have occurred.

1.9 "EMD" means Capitol Records, Inc., EMI Music Distribution, Inc., Virgin Records America, Inc., Priority Records L.L.C. and all of their predecessors, successors, parents, subsidiaries, divisions, officers, directors, employees or agents, and related or affiliated entities.

1.10 "Escrow Agent" means First Third Bank, whose duties are described more fully in Paragraph 3 below.

1.11 "Final", with respect to the Judgment to be rendered by the Court, means: (i) the date of final affirmance on an appeal of the Judgment, the expiration of the time for a petition for or a denial of a writ of certiorari to review the Judgment and, if certiorari is granted, the date of final affirmance for the Judgment following review pursuant to that grant; or (ii) the date of final

dismissal of any appeal from the Judgment or the final dismissal of any proceedings on certiorari to review the Judgment; or (iii) if no appeal is filed, the expiration date of the time for the filing or noticing of any appeal from the Judgment, *i.e.*, thirty (30) days after entry of the Judgment. Any proceeding or order, or any appeal or petition for a writ of certiorari pertaining solely to the Distribution Plan, Alternative Distribution Plan, and/or application for attorneys' fees, costs or expenses, shall not in any way delay or preclude the Judgment from becoming final.

1.12 "Judgment" means the judgment to be rendered by the Court, substantially in the form attached hereto as Exhibit 1.

1.13 "Lead Counsel for Plaintiff States" means Florida State Attorney General Robert Butterworth, c/o Lizabeth Leeds, PL-01, The Capitol, Tallahassee, Florida 32399-1050, and New York State Attorney General Eliot L. Spitzer, c/o Linda Gargiulo, Office of the Attorney General, 120 Broadway, New York, New York 10271-0332.

1.14 "Lead Counsel for the Plaintiff Settlement Class" means Joseph C. Kohn, Steven M. Steingard, KOHN, SWIFT & GRAF, P.C., One South Broad Street, Suite 2100, Philadelphia, PA 19107.

1.15 "Lead Counsel for Plaintiffs" means Lead Counsel for Plaintiff States and Lead Counsel for the Plaintiff Settlement Class.

1.16 "Litigation" means the actions consolidated for pretrial purposes in this MDL proceeding, other than *Trowbridge, et al. v. Sony Music Entertainment, Inc.*.

1.17 "MAP" means Minimum Advertised Price, and includes all Minimum Advertised Price programs and policies adopted and/or administered by any Defendant in this Litigation.

1.18 "Music Product" means prerecorded music CDs, cassettes and/or vinyl LPs.

1.19 "Musicland" means Musicland Stores Corp.

1.20 "Named Class Plaintiffs" means the plaintiffs named in the private class action lawsuits consolidated for pretrial purposes in this MDL Proceeding, listed on Exhibit 2 hereto, and not including *Trowbridge, et al. v. Sony Music Entertainment, Inc.*.

1.21 "Notice Period" means the minimum of forty-five (45) days, or such other time period as set by the Court, during which counsel for the Plaintiffs will disseminate notice to the natural persons in the Plaintiff States and members of the Plaintiff Settlement Class.

1.22 "Notice Plan" means the plan specifying the manner and content of the program whereby the public is notified of this Settlement Agreement. The Notice Plan shall specify the manner in which the public is to be notified of this settlement, which shall consist, at a minimum, of publication of notice of this settlement in newspapers and other media within 90 days of entry of the Preliminary Approval Order. The Notice Plan shall also specify the form of such notice, which shall include, at a minimum, a short form notice for publication in newspapers and other media, and a long form notice to be mailed to those persons requesting more information regarding the settlement. The Notice Plan must be submitted to and approved by the Court. Plaintiffs will provide Musicland a substantially final copy of the Notice Plan, including the short-form and long-form notices, at least ten (10) business days prior to filing the Preliminary Approval Motion.

1.23 "Plaintiffs" means the Plaintiff States and the Plaintiff Settlement Class as these terms are defined herein.

1.24 "Plaintiff Settlement Class" means all natural persons in the States of Colorado, Georgia, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, South Dakota, the District of Columbia and the U.S. Territories of Guam and American

Samoa, and all non-natural persons in the United States and its Territories who purchased CDs directly from one or more Retailers during the period January 1, 1995 to December 22, 2000, but excluding Defendants, their subsidiaries, affiliates, officers, directors, and employees; and also excluding those persons who timely and validly request exclusion from participation in this Settlement Agreement in response to the notice provided under the Notice Plan.

1.25 "Plaintiff States" means the States identified in Paragraph 1.34 in their sovereign capacities as *parens patriae* on behalf of all natural persons residing in the States, who purchased Music Products from Retailers during the period from January 1, 1995 to December 22, 2000, but excluding Defendants, their subsidiaries, affiliates, officers, directors, and employees, as well as those persons who timely and validly request exclusion from participation in this Settlement Agreement in response to the notice provided under the Notice Plan.

1.26 "Preliminary Approval Order" means an order, as described in Paragraph 5.2, substantially in the form of Exhibit 3.

1.27 "Related Parties" means Best Buy Co., Inc. and Musicland's past or present directors, officers, employees, partners, principals, agents, insurers, co-insurers, reinsurers, controlling shareholders, attorneys, accountants, auditors, banks or investment banks, associates, personnel or legal representatives, predecessors, successors, parents, subsidiaries, divisions, joint ventures, assigns, or affiliated entities including without limitation The Musicland Group, Inc., Musicland Retail, Inc., Media Play, Inc., On Cue, Inc., TMG-Virgin Islands, Inc., TMG-Caribbean, Inc., Suncoast Group, Inc., Suncoast Retail, Inc., MLG Internet, Inc., and Suncoast Motion Picture Company, Inc..

1.28 "Released Claims" shall mean all claims, demands, rights, liabilities, and causes of action, whether known or unknown, asserted or that could have been asserted against Musicland or the Related Parties in connection with the facts, transactions, events, occurrences, acts, disclosures, statements, omissions, or failures to act alleged in the Litigation, whether under federal law or under the laws of any of the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, or the Northern Mariana Islands, including without limitation claims arising under the federal and/or state antitrust laws, as well as claims arising under any state or federal unfair acts, practices or competition laws or other laws or the common law. Released claims include without limitation any claim arising out of or relating to any minimum advertised price ("MAP") policy related to Music Products or to any conspiracy, whether horizontal or vertical, involving MAP related to Music Products and any effect of MAP on purchases of Music Products from Retailers, or any other claim related to MAP policies relating to Music Products, except that the Released Claims do not include claims arising out of or relating to direct purchases from Music Clubs, as that term is addressed in *Trowbridge, et al. v. Sony Music Entertainment Inc., et al.* (original docket no. 00-CIV-6065 (S.D.N.Y.)). Nothing in this definition of Released Claims is intended to constitute, or shall be construed as, a release of or a covenant not to sue any party other than Musicland and the Released Persons for any claim or cause of action whatsoever, including, but not limited to, claims founded, in whole or in part, upon Musicland's conduct.

1.29 "Released Persons" means Musicland and all of its Related Parties.

1.30 "Retailer" means any entity, rack jobber, third-party distributor or any other person or business entity engaged in the sale, at retail, of Music Product. "Retailer" shall not include any Record Clubs, as that term is addressed in *Trowbridge, et al. v. Sony Music Entertainment, Inc.*



1.31 “Settlement Fund” or “CD MAP Litigation Settlement Fund” means the fund into which Musicland shall deposit all monies to be paid by Musicland to Plaintiffs, in exchange for the settlement and release of all claims identified in this Settlement Agreement, together with any interest earned on such monies. This fund shall be the same as that into which Distributor Defendants shall deposit monies under their settlement agreement with Plaintiffs.

1.32 "Settling Parties" means, collectively, the Plaintiffs and Musicland.

1.33 “Sony” means Sony Music Entertainment, Inc.

1.34 “States” means Florida, New York, Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Mississippi, Montana, Nevada, New Mexico, North Carolina, North Dakota, Northern Mariana Islands, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Virgin Islands, Washington, West Virginia, Wisconsin, and Wyoming.

1.35 “Universal” means Universal Music and Video Distribution Corporation, UMG, Inc., and UMG Recordings, Inc.

1.36 “WEA” means Time Warner, Inc., Warner-Elektra-Atlantic Corp., WEA, Inc., Warner Music Group, Inc, Warner Bros. Records, Inc., Atlantic Recording Corporation, Elektra Entertainment Group, Inc., and Rhino Entertainment Company.

1.37 “Written Direction” means a written notification directed to the Escrow Agent relating to disbursements from the Settlement Fund, signed by the Lead Counsel for Plaintiff States and Lead Counsel for Plaintiff Settlement Class. Each Written Direction shall include a certification

by the Plaintiffs' Lead Counsel that the instructions in the notification are being made pursuant to a finalized Settlement Agreement.

## **2. The Settlement Terms**

2.1 As part of this Settlement, Musicland shall pay to Plaintiffs two million dollars (\$2,000,000). Musicland shall not be obligated to make any other cash payments in connection with this Settlement Agreement beyond those specified herein.

2.1.1. Musicland shall make the cash payment called for above to the Plaintiffs, c/o the Escrow Agent, by wire transfer within ten (10) business days after execution of this Settlement Agreement.

2.2 Musicland warrants that, as of the date of this Settlement Agreement, it is not insolvent, nor will its payment to the Settlement Fund and any accrued interest render Musicland insolvent within the meaning of and/or for the purposes of the United States Bankruptcy Code. If a case is commenced with respect to Musicland under Title 11 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the payment of the principal amount of the Settlement Fund and any accrued interest, or any portion thereof, by or on behalf of Musicland, to be a preference, voidable transfer, fraudulent transfer or similar transaction, then the Settlement Agreement, releases given and judgment entered in favor of Musicland pursuant to this Settlement Agreement shall be voidable, at the option of the Plaintiffs.

2.4 No part of the cash payments described in this Settlement Agreement shall constitute, nor shall they be construed or treated as constituting, a payment in lieu of treble damages, fines, penalties, forfeitures or punitive recoveries.

2.5 Upon the Effective Date, all remaining interest or right of Musicland in or to the Settlement Fund shall be absolutely and forever extinguished.

## **2.6 Injunction**

2.6.1 The Settling Parties hereby agree that the Court shall enter a temporary injunction including substantially the following provisions upon preliminary approval of the Settlement, and shall enter a permanent injunction including substantially the following provisions upon final approval of the Settlement.

2.6.2 For a period of five (5) years, Musicland shall not, directly, indirectly, or through any corporation, subsidiary, division, or other device:

2.6.2.1 Solicit, demand, request, advocate, or encourage any Distributor or wholesaler of Music Product to adopt or implement any policy, practice or plan which makes the receipt of any cooperative advertising or other promotional funds contingent upon the price or price level at which any Music Product is advertised, promoted, offered or sold.

2.6.2.2 Solicit, demand, request, advocate, or encourage any Distributor or wholesaler of Music Product to adopt or implement any policy, practice or plan which sets the price or price level at which any Music Product is advertised, promoted, offered or sold.

2.6.3 For a period of five (5) years, Musicland shall include the terms of such injunction in any and all policy manuals.

## **2.7 Class Certification**

2.7 Musicland agrees to the certification of the Plaintiff Settlement Class for purposes of this Settlement Agreement and the settlement herein. Counsel for the Plaintiff Settlement Class shall be solely responsible for filing (but shall supply copies to Distributor Defendants five (5) business days in advance of such filings) of all motions and other pleadings necessary to obtain certification

of the Plaintiff Settlement Class, except that Musicland shall inform the Court that they consent to such class certification.

**3. Settlement Administration**

3.1 The Escrow Agent for purposes of administering the Settlement Fund is First Third Bank.

3.2 The Escrow Agent shall invest the cash payment made pursuant to Paragraph 2.1 above in obligations of, or obligations guaranteed by, the United States of America or any of its departments or agencies, or in pre-refunded or escrowed municipal bonds which are federally insured, to obtain the highest available return on investment consistent with the preservation of principal, and shall reinvest the proceeds of these instruments as they mature in similar instruments at their then current market rates. Musicland shall bear no risk related to the investment of the Settlement Fund.

3.3 The Escrow Agent shall only disburse the Settlement Fund pursuant to and consistent with the Court Orders preliminarily and finally approving this Settlement Agreement, and other applicable Court orders.

3.4 Subject to further order and/or directions as may be made by the Court or by the Plaintiffs pursuant to a Written Direction, the Escrow Agent is authorized to execute such transactions on behalf of the Plaintiffs as are consistent with the terms of this Settlement Agreement.

3.5 All funds held by the Escrow Agent shall be deemed and considered to be in *custodia legis* of the Court, and shall remain subject to the jurisdiction of the court, until such time as such funds shall be distributed pursuant to the Settlement Agreement and/or further order(s) of the Court.

3.6 All costs of administering the Settlement Fund, including but not limited to

notice, administering and distributing the Settlement Fund and Non-cash Consideration, and taxes and other expenses, are the sole responsibility of the Plaintiffs and shall be paid out of the Settlement Fund, as provided herein.

### **3.7 Tax Treatment of Settlement Fund**

3.7.1 Settling Parties and the Escrow Agent agree to treat the Settlement Fund as being at all times a "qualified settlement fund" within the meaning of Treas. Reg. §1.468B-1. In addition, the Escrow Agent and, as required, Settling Parties shall jointly and timely make such elections as necessary or advisable to carry out the provisions of this Paragraph 3.7, including the "relation-back election" (as defined in Treas. Reg. §1.468B-1) back to the earliest permitted date. Such elections shall be made in compliance with the procedures and requirements contained in such regulations. It shall be the responsibility of the Escrow Agent to timely and properly prepare and deliver the necessary documentation for signature by all necessary parties, and thereafter to cause the appropriate filing to occur.

3.7.2 For the purpose of § 468B of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, the "administrator" shall be the Escrow Agent. The Escrow Agent shall timely and properly file all informational and other tax returns necessary or advisable with respect to the Settlement Fund (including without limitation the returns described in Treas. Reg. § 1.468B-2(k and l)). Such returns (as well as the election described in Paragraph 3.7.1) shall be consistent with this Paragraph 3.7 and in all events shall reflect that all taxes (including any estimated taxes, interest or penalties) on the income earned by the Settlement Fund shall be paid out of the Settlement Fund as provided in Paragraph 3.7.3.

3.7.3 All (i) taxes (including any estimated taxes, interest or penalties) arising with respect

to the income earned by the Settlement Fund, including any taxes or tax detriments that may be imposed upon Musicland with respect to any income earned by the Settlement Fund for any period during which the Settlement Fund does not qualify as a "qualified settlement fund" for federal or state income tax purposes ("Taxes"), and (ii) expenses and costs incurred in connection with the operation and implementation of this Paragraph 3.7 (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in this Paragraph 3.7) ("Tax Expenses"), shall be paid out of the Settlement Fund; in all events Musicland and its insurers shall have no liability or responsibility for the Taxes or the Tax Expenses or the filing of any tax returns or other documents with the Internal Revenue Service or any other state or local taxing authority. The Escrow Agent shall indemnify and hold Musicland and its insurers harmless for Taxes and Tax Expenses (including, without limitation, taxes payable by reason of any such indemnification). Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Settlement and shall be timely paid by the Escrow Agent out of the Settlement Fund without prior order from the Court and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Plaintiffs any funds necessary to pay such amounts including the establishment for adequate reserves for any Taxes and Tax Expenses (as well as any amounts that may be required to be withheld under Treas. Reg. § 1.468B-2(1) (2)); Musicland and its insurers are not responsible and shall have no liability therefor or for any reporting requirements that may relate thereto. The parties hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this Paragraph 3.7.

3.7.4 For the purpose of this Paragraph 3.7, references to the Settlement Fund shall include the Settlement Fund and any earnings thereon.

#### **4. Settlement Disbursements**

4.1 Portions of the Settlement Fund shall be used by the Plaintiffs to pay the costs and administrative expenses (including attorneys' fees) incurred in litigating the Litigation against defendants in the Litigation, including fees, costs and administrative expenses related to implementation of this Settlement. In particular, such portions of the Settlement Fund shall be disbursed, or as indicated below, Plaintiffs shall request court approval for disbursement of such portions of the Settlement Fund, as follows:

4.2 A portion of the Settlement Fund shall be used to pay all costs and expenses in providing proper notice of this Settlement to the Plaintiffs, the fees and expenses of the Escrow Agent, the costs and expenses of administering this settlement, including without limitation, costs and expenses necessary to secure court approval of the Settlement Agreement, such as expert affidavits, and the processing and payment of claims, and all taxes. Notice and administration costs and the fees of the Escrow Agent shall be paid by the Escrow Agent out of the Settlement Fund, following entry of the Preliminary Approval Order, as these costs accrue, upon submission to the Escrow Agent of invoices for these costs.

4.3 A portion of the Settlement Fund shall be used to reimburse counsel for the Plaintiff States for payment of attorneys' fees, expenses and costs in an amount to be approved by the Court. Such payment shall be apportioned among the States in their sole discretion and such apportionments shall then be used by each State's Attorney General for one or more of the following purposes to be chosen at his or her sole discretion:



- a. Reimbursement of attorneys' fees and expenses incurred by such state;
- b. Antitrust enforcement by the attorney general of such state;
- c. Deposit into a state antitrust or consumer protection account, (e.g., revolving account, trust account), for use in accordance with the state laws governing that account;
- d. Deposit into a fund exclusively dedicated to assisting the state Attorney General to defray the cost of experts, economists, and consultants in multistate antitrust investigations and litigations.

4.4 A portion of the Settlement Fund shall be used to reimburse counsel for the Plaintiff Settlement Class for payment of attorneys' fees, expenses and costs in an amount to be approved by the Court. Allocation of attorneys' fees among counsel for the Plaintiff Settlement Class shall be decided upon by Lead Counsel for the Plaintiff Settlement Class based upon a formula to be agreed upon exclusively among themselves, subject to Court approval.

4.5 The Escrow Agent shall promptly pay the Court-ordered attorneys' fees, expenses and costs provided for under Paragraphs 4.3 and 4.4 from the Settlement Fund after the Effective Date.

4.6 The procedure for and the allowance or disallowance by the Court of any attorneys' fees, costs and expenses, including the fees of experts and consultants, to be paid out of the Settlement Fund, are not part of the settlement set forth in the Settlement Agreement, and are to be considered by the Court separately from the Court's consideration of the fairness, reasonableness and adequacy of the settlement set forth in the Settlement Agreement, and any order or proceedings relating to the payment of any fees, costs or expenses, or any Fee and/or Expense Application, or any appeal from any order relating thereto or reversal or modification thereof, shall not operate to

terminate or cancel the Settlement Agreement, or affect or delay the finality of the Judgment approving the Settlement Agreement and the settlement of the Litigation set forth herein.

4.7 Musicland and its Related Parties shall have no responsibility for, and no liability whatsoever with respect to, any payment to counsel for the Plaintiffs from the Settlement Fund that may occur before the Effective Date. Musicland and its Related Parties shall have no responsibility for, and no liability whatsoever with respect to, the allocation among counsel for the Plaintiffs, and any other Person who may assert some claim thereto, or any Fee and/or Expense Award that the Court may make in the Litigation, and Musicland need take no position with respect to such matters.

#### **4.8 Distribution of Settlement Fund**

4.8.1 The Plaintiffs shall submit their proposed Distribution Plan or Alternative Distribution Plan to the Court for approval along with their Motion for Preliminary Approval.

4.8.2. The Distribution Plan shall specify the manner in which all funds remaining in the Settlement Fund after payment of the costs and fees set forth above shall be distributed. The Distribution Plan may provide that some or all of the remaining funds in the Settlement Fund may be distributed for the general benefit of the Plaintiffs in the form of a *cy pres* distribution.

Notwithstanding any of the foregoing, if the Distributor Defendants do not settle or if the Distributor Defendants settlement is terminated or canceled and the Distributor Defendants' portion of the Settlement Funds and/or Non-Cash Contribution are returned to the them, and this Settlement Agreement remains in effect, then the Plaintiffs may apply to the court for an Alternative Distribution Plan. The Alternative Distribution Plan may provide that some or all of the Settlement Fund (a) may be used to prosecute this Litigation against the remaining Defendants; (b) may be held until completion of the Litigation or until other settlements are obtained and then distributed in

accordance with funds obtained through litigation or such other settlements; or (c) may be distributed for the general benefit of the Plaintiffs in the form of a *cy pres* distribution.

4.8.3. To the extent the Distribution Plan or the Alternative Distribution Plan provides that the Settlement Fund will be distributed *cy pres*, the Plaintiffs will prepare and submit with their motion for final approval of the Settlement Agreement a state-specific Cy Pres Distribution Plan which shall detail the distribution of such portion of the Settlement Fund. Distribution under the Cy Pres Distribution Plan shall be to not-for-profit corporations and/or charitable organizations and/or governmental or public entities, with express conditions ensuring that the funds be used to further music-related purposes or programs reasonably targeted to benefit a substantial number of the persons who purchased Music Products directly from one or more Retailers. Funds to be distributed under the Cy Pres Distribution Plan cannot supplant existing or reasonably anticipated funding. Plaintiffs shall provide Musicland with a copy of the Cy Pres Distribution Plan at least ten (10) business days prior to filing their motion for final approval of the Settlement Agreement.

4.8.4. It is understood and agreed by the Settling Parties that any proposed Distribution Plan, Alternative Distribution Plan, or Cy Pres Distribution Plan is not a part of the Settlement Agreement and is to be considered by the Court separately from the Court's consideration of the fairness, reasonableness and adequacy of the settlement set forth in the Settlement Agreement, and any order or proceedings relating to the Distribution Plan, Alternative Distribution Plan or Cy Pres Distribution Plan shall not operate to terminate or cancel the Settlement Agreement or affect the finality of the Court's Judgment approving the Settlement Agreement and the settlement set forth herein, or any other orders entered pursuant to the Settlement Agreement. To the extent the Distribution Plan, Alternative Distribution Plan or Cy Pres Distribution Plan are disapproved by this Court or on

appeal, the Plaintiffs shall be obligated to amend the Distribution Plan, Alternative Distribution Plan or Cy Pres Distribution Plan so as to obtain approval.

4.8.5. The Released Persons shall have no responsibility for, and no liability whatsoever with respect to, the allocation among the Plaintiffs, and any other Person who may assert some claim thereto, of the Non-Cash Consideration or any funds remaining in the Settlement Fund after payment of the costs and fees set forth above in Paragraph 4, and Musicland need take no position with respect to such matters.

## **5. Notice Order and Settlement Hearing**

5.1 Within ninety (90) days after execution of this Settlement Agreement by counsel for the Plaintiffs, or as promptly as reasonably practicable in the event a settlement is reached with other Defendants in this Litigation which impinges on approval of this Settlement Agreement, counsel for the Plaintiffs shall file a motion for preliminary approval of this Settlement Agreement with the Court (the "Preliminary Approval Motion"). Plaintiffs shall file a single Preliminary Approval Motion seeking approval of all settlements reached in the Litigation. The Preliminary Approval Motion shall include the Settlement Agreement and its Exhibits, as well as the Notice Plan and the Distribution Plan or Alternative Distribution Plan. The Preliminary Approval Motion shall request entry of a Preliminary Approval Order substantially in the form of Exhibit 3 hereto. Such Preliminary Approval Order shall include, among other things: (i) the preliminary approval of the settlement set forth in this Settlement Agreement as fair, reasonable and adequate and in the best interests of the Plaintiffs, (ii) conditional approval of certification of the Plaintiff Settlement Class, (iii) approval of the Notice Plan, and (iv) a schedule for a hearing by the Court after notice is given (the "Settlement Hearing") to approve the settlement of the Litigation as set forth herein. At least ten

(10) business days prior to filing their motion requesting entry of the Preliminary Approval Order, the Plaintiffs shall provide a substantially final copy of such motion (including all exhibits and attachments of such motion) to Musicland.

5.3 Within ninety (90) days following the conclusion of the Notice Period, counsel for the Plaintiffs shall file a single motion applicable to all settlements reached in the Litigation, seeking final approval by the Court of the settlement of this Litigation with respect to Musicland, including a determination by the Court: (i) whether the settlement set forth in this Settlement Agreement shall be approved finally as fair, reasonable and adequate, (ii) whether the Plaintiff Settlement Class shall be certified, (iii) whether Judgment approving the settlement, substantially in the form of Exhibit 1, should be entered, and (iv) whether an award of attorneys' fees and expenses should be made to counsel for the Plaintiffs.

5.4 Musicland may elect to terminate this Settlement Agreement if, after the date fixed by the Court for natural persons in the Plaintiff States and members of the putative Plaintiff Settlement Class to exclude themselves, more than five hundred thousand (500,000) natural persons in the Plaintiff States and members of the putative Plaintiff Settlement Class elect to exclude themselves in the manner provided for in the Notice. Within thirty (30) days following the date fixed by the Court for natural persons in the Plaintiff States and members of the putative Plaintiff Settlement Class to exclude themselves, Lead Counsel for the Plaintiffs shall provide to Musicland by facsimile and Certified Mail or Federal Express, written notice of the identity of all natural persons in the Plaintiff States and members of the putative Plaintiff Settlement Class that have opted out. Musicland's option to terminate the Settlement Agreement shall be exercised, if at all, within ten (10) business days of receipt by facsimile of the information required to be provided by such notice. Musicland's

election to terminate the Settlement Agreement shall be by written notice served upon all Lead Counsel for the Plaintiffs by facsimile and Certified Mail or Federal Express, and Musicland shall file a copy of such notice with the Court. No hearing on approval of this Settlement Agreement shall be held sooner than ten (10) business days after the final date for Musicland's exercise of its option to terminate the agreement, unless Musicland agrees otherwise in writing. In the event Musicland exercises this option, this Settlement Agreement shall be null and void.

## **6. Releases**

6.1 Upon the Effective Date, the Plaintiffs shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished and discharged all Released Claims against the Released Persons, including, but not limited to any claim arising out of, relating to or in connection with the defense, settlement or resolution of the Litigation or the Released Claims.

6.2 With respect to any and all Released Claims, the counsel for the Plaintiffs stipulate and agree that, upon the Effective Date, Plaintiffs shall be deemed to have, and by operation of the Final Judgment shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights, and benefits of §1542 of the California Civil Code, which provides:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

6.3 Upon the Effective Date, the Plaintiffs shall be deemed to have, and by operation of the Final Judgment shall have waived any and all provisions, rights and benefits conferred by any law of any state or territory of the United States or principle of common law, which is similar, comparable or equivalent to §1542 of the California Civil Code.

6.4 Upon the Effective Date, as defined in Paragraph 7.1, each of the Released Persons shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished and discharged each and all of the Plaintiffs and their counsel from all claims, arising out of, relating to, or in connection with the institution, prosecution, assertion, settlement or resolution of the Litigation or the Released Claims.

**7. Conditions of Settlement, Effect of Disapproval, Cancellation or Termination**

7.1 The Effective Date of the Settlement Agreement shall be conditioned upon the occurrence of all of the following events:

7.1.1 The Court has entered the Judgment, or a judgment substantially in the form of Exhibit 1 (A judgment will not be considered to be "substantially in the form of Exhibit 1" if the Court declines or refuses to enter the injunctive provisions set forth in Paragraphs 2.6 above or a similar injunction which is acceptable to the Settling Parties); and

7.1.2 The Judgment has become Final, as defined in Paragraph 1.11 above.

7.2 If the Court denies preliminary approval or refuses to enter the Judgment as to Musicland, then within ten (10) business days of the entry of an order denying such approval or refusing to enter such judgment, this Settlement Agreement shall be canceled and terminated, subject to Paragraph 7.4 herein, unless Lead Counsel for the Plaintiff States, Lead Counsel for the Plaintiff Settlement Class, and counsel for Musicland mutually agree in writing prior to the expiration of such ten (10) business days to proceed with the Settlement Agreement.

7.3 In the event the Settlement Agreement shall terminate, or be canceled, or shall not become effective for any reason, the Escrow Agent shall refund to Musicland the portion of the Settlement Fund (including accrued interest) attributable to the cash contribution from Musicland,

less the Non-Refundable Portion, by sending such refund to its counsel herein. Such refund shall be made at the request of Musicland, but shall occur no sooner than (5) business days after written notification of the termination, cancellation, or failure to become effective is sent to the Escrow Agent by counsel for Musicland or Lead Counsel for the Plaintiff States or the Plaintiff Settlement Class. Musicland shall be responsible for any penalty incurred by virtue of an early withdrawal of funds by the Escrow Agent in response to a request by Musicland for a refund. The Non-Refundable Portion will be equivalent to Musicland's share (in proportion to Musicland's cash contribution to the Settlement Fund) of: (i) the total cost of notice then expended by Plaintiffs for all settlements in the Litigation, and (ii) the fees and costs of administration, including taxes, then accrued in good faith by the Escrow Agent. In the event of a refund under this paragraph 7.3, Musicland shall be entitled to an accounting of any such expenses. Additionally, in the event of a refund under this paragraph 7.3, Musicland shall be entitled to any tax refund owing to the Settlement Fund. At the request of counsel for Musicland, the Escrow Agent or its designee shall apply for any tax refund owed to the Settlement Fund and pay the proceeds, after deduction of any fees or expenses incurred in connection with such application(s) for refund to Musicland. If the Effective Date does not occur, or if the Settlement Agreement is terminated pursuant to its terms, the Plaintiffs shall have no obligation to refund to Musicland the Non-Refundable Portion of the Settlement Fund.

7.4 In the event that the Settlement Agreement is not approved by the Court or the settlement set forth in the Settlement Agreement is terminated or fails to become effective in accordance with its terms, the Parties shall be restored to their respective positions in the Litigation as of January 31, 2002. In such event the terms and provisions of this Settlement Agreement, with the exception of Paragraphs 3.2-3.6, 3.7, 7.2-7.5, 8.2, 8.3, 8.13, 8.15 herein, shall have no further



force and effect and shall not be used in this Litigation or in any other proceeding for any purpose, and any judgment or order entered by the Court in accordance with the terms of the Settlement Agreement shall be treated, as to such Parties, as vacated, *nunc pro tunc*. No order of the Court or modification or reversal on appeal of any order of the Court concerning the amount of any attorneys' fees, costs, expenses and interest awarded by the Court to the States, the Plaintiff Settlement Class or any of their counsel shall constitute grounds for cancellation or termination of the Settlement Agreement.

7.6 Following the Effective Date, counsel in each of the private class actions identified on Exhibit 2 shall file in those actions a copy of the Judgment and any other documents necessary to effect a dismissal with prejudice of those actions against Musicland.

## **8. Miscellaneous Provisions**

8.1 The Settling Parties (a) acknowledge that it is their intent to consummate this Settlement Agreement, and (b) agree to cooperate to the extent reasonably necessary to effectuate and implement all terms and conditions of the Settlement Agreement and to exercise their best efforts to accomplish the foregoing terms and conditions of the Settlement Agreement. The Settling Parties will exercise their best efforts to obtain entry of the Judgment (attached hereto as Exhibit 1) by the Court. The Settling Parties will not seek to appeal such entry or approval, modify the Judgment (or the terms set forth therein), or take any action, directly or indirectly, which might prevent or delay entry of the Judgment. The Settling Parties shall each use their best efforts to respond to any objections directed to the Settlement Agreement and to defend the terms of this Settlement Agreement and/or the Judgment should any objections be filed, or any appeal be taken, by anyone other than the Settling Parties.

8.2 The Settling Parties intend this Settlement Agreement to be a final and complete resolution of all disputes between them with respect to the Litigation. The settlement compromises claims which are contested and shall not be deemed an admission by Musicland as to the merits of any claim or defense. The Settling Parties agree that the amount paid to the Settlement Fund, and the other terms of the Settlement Agreement were negotiated in good faith by the Settling Parties, and reflect a settlement that was reached voluntarily after investigation into the facts and issues raised by the Litigation and after consultation with experienced legal counsel. The Settling Parties reserve their right to rebut, in a manner that such party determines to be appropriate, any contention made in any public forum that the Litigation was brought or defended in bad faith or without reasonable basis.

8.3 Neither the Settlement Agreement nor the settlement, nor any act performed or document executed pursuant to or in furtherance of negotiating, implementing or otherwise relating to the Settlement Agreement or the settlement: (i) is or may be deemed to be or may be used as an admission of, or evidence of, the validity of any Released Claim, or of any wrongdoing or liability of Musicland or its Related Parties, or (ii) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of Musicland or its Related Parties in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal. Musicland and/or its Related Parties may file the Settlement Agreement and/or the Judgment in any action that may be brought against them in order to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, release, good faith settlement, judgment, bar or reduction or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim.

8.4 Except as otherwise provided in this Paragraph or an order of the Court, Plaintiffs agree to immediately suspend any additional discovery against Musicland in the Litigation. Musicland agrees that, notwithstanding the dismissal of the Litigation against it pursuant to this Settlement Agreement, it shall treat as if made a party to the Litigation future requests for authentication of documents produced by Musicland, and shall treat as if made to a third party to the Actions other discovery posed to Musicland. Nothing in the foregoing is intended to preclude Plaintiffs' right to pursue, or Musicland's right to object to, any discovery of Musicland as a third-party.

8.5 All of the Exhibits to the Settlement Agreement are material and integral parts hereof and are fully incorporated herein by this reference.

8.6 The Settlement Agreement may be amended or modified only by a written instrument signed by or on behalf of all Settling Parties or their respective successors-in-interest.

8.7 The Settlement Agreement and the Exhibits attached hereto constitute the entire agreement among the parties hereto and no representations, warranties or inducements have been made to any party concerning the Settlement Agreement or its Exhibits other than the representations, warranties and covenants contained and memorialized in such documents. Except as otherwise provided herein, each party shall bear its own costs.

8.8 Lead Counsel for the Plaintiff States and Lead Counsel for the Plaintiff Settlement Class, on behalf of the Plaintiffs, are expressly authorized by the Plaintiff States and the Plaintiff Settlement Class to take all appropriate action required or permitted to be taken by the Plaintiffs pursuant to the Settlement Agreement to effectuate its terms.

8.9 Each counsel or other person executing the Settlement Agreement or any of its Exhibits on behalf of any party hereto hereby warrants that such person has the full authority to do so.

8.10 The Settlement Agreement may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. A complete set of original executed counterparts shall be filed with the Court.

8.11 The Settlement Agreement shall be binding upon, and inure to the benefit of, the successors and assigns of the parties hereto.

8.12 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms for the Settlement Agreement, and all parties hereto submit to the exclusive jurisdiction of the United States District Court for the District of Maine for purposes of implementing and enforcing the settlement embodied in the Settlement Agreement.

8.13 All agreements made and orders entered during the course of the Litigation related to the confidentiality of information shall survive this Settlement Agreement.

8.14 The Settlement Agreement and any related documents shall be subject to, governed by and construed, interpreted and enforced pursuant to the laws of the State of New York.

8.15 Upon final resolution of the Litigation as to all defendants in the Litigation, Defendants and their respective counsel will arrange for the disposition of document and other information they have received from other parties or non-parties to the Litigation in accordance with the Confidentiality Order entered in this Action on January 5, 2001.

8.16 Nothing herein shall be construed as setting any precedent with respect to the States Attorneys General and counsel for the Plaintiff Settlement Class.

Dated: \_\_\_\_\_, 2002

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**Kevin Freeland**  
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