

LIQUID AUDIO INC
Form DEF 14A
July 01, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant Under Rule 14a-12

Liquid Audio, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

CALCULATION OF FILING FEE

(1) Title of each class of securities to which transaction applies	(2) Aggregate number of securities to which transaction applies	(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined)	(4) Proposed maximum aggregate value of transaction	(5) Total Fee Paid
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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid: _____

(2) Form, Schedule or Registration Statement no.: _____

(3) Filing Party: _____

(4) Date Filed: _____

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

JUNE 27, 2003

TO THE STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Liquid Audio, Inc., a Delaware corporation, will be held on Wednesday, July 30, 2003 at 10:00 a.m., Eastern Daylight Time, at the offices of Kramer Levin Naftalis & Frankel LLP, 919 Third Avenue, New York, New York 10022-3852, for the following purposes:

1. To elect two (2) Class I directors to serve until their successors are duly elected and qualified;
2. To change the name of the corporation to L Q Corporation, Inc. ;
3. To approve an amendment to our certificate of incorporation as currently in effect to effect a 1-for-250 reverse stock split;
4. Assuming proposal 3 is approved by our stockholders, to approve another amendment to our certificate of incorporation, as amended by the foregoing amendment represented by proposal 3: (a) to effect a forward 35-for-1 stock split of our common stock; and (b) to reduce the number of common stock shares authorized for issuance from 50,000,000 shares to 30,000,000 shares;
5. To ratify the appointment by our Board of Directors Audit Committee of Rothstein, Kass & Company, P.C. as our independent accountants for the fiscal year ending December 31, 2003; and
6. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on June 16, 2003 are entitled to notice of and to vote at the Annual Meeting.

By order of the Board of Directors of

Liquid Audio, Inc.

/s/ MELVYN BRUNT

Melvyn Brunt

Secretary

New York, New York

June 27, 2003

WHETHER OR NOT YOU EXPECT TO ATTEND THIS ANNUAL MEETING, YOU ARE REQUESTED TO VOTE YOUR SHARES BY SIGNING, DATING AND RETURNING THE ENCLOSED FORM OF PROXY IN THE ENVELOPE PROVIDED, WHICH IS POSTAGE PAID IF MAILED IN THE UNITED STATES.

888 SEVENTH AVENUE, 17TH FLOOR

NEW YORK, NEW YORK 10019

TEL: (212) 974-5730

PROXY STATEMENT

FOR 2003 ANNUAL MEETING OF STOCKHOLDERS

INFORMATION CONCERNING SOLICITATION AND VOTING

The enclosed proxy is solicited on behalf of the board of directors (our Board) of Liquid Audio, Inc., a Delaware corporation (Liquid Audio), for use at our annual meeting of stockholders to be held on Wednesday, July 30, 2003 at 10:00 a.m., Eastern Daylight Time, or at any adjournment thereof (the Annual Meeting), for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. Our Annual Meeting will be held at the offices of Kramer Levin Naftalis & Frankel LLP, 919 Third Avenue, New York, New York 10022-3852. The telephone number at that location is (212) 715-9100.

These proxy solicitation materials were first mailed on or about July 1, 2003 to all stockholders entitled to vote at the Annual Meeting.

WE HAVE INCLUDED A COPY OF OUR ANNUAL REPORT ON FORM 10-K TOGETHER WITH THE FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES REQUIRED TO BE PROVIDED WITH THE ANNUAL REPORT IN THE MAILING OF THIS PROXY STATEMENT. ADDITIONAL COPIES ARE AVAILABLE UPON REQUEST OF THE STOCKHOLDER MADE IN WRITING TO LIQUID AUDIO, INC., 888 SEVENTH AVENUE, 17TH FLOOR, NEW YORK, NEW YORK 10019, ATTN: SECRETARY OR BY TELEPHONE TO (212) 974-5730.

PURPOSE OF THE MEETING

The specific proposals to be considered and acted upon by our stockholders at the Annual Meeting are summarized below.

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Proposal 1 Election of Directors. Our stockholders will vote to elect two (2) Class I directors to serve until their successors are duly elected and qualified. The term of office for nominees elected to serve as Class I directors will expire at the annual meeting of stockholders in 2006. The Board has nominated William J. Fox and Michael A. McManus, Jr. to continue serving as the Class I directors (together, the Liquid Nominees).

Proposal 2 Approval of Name Change. Our stockholders will vote on an amendment of our certificate of incorporation (as currently in effect, our Current Certificate) to change the name of the corporation to L Q Corporation, Inc. (the Name Change).

Proposal 3 Approval of Reverse Stock Split. Our stockholders will vote on an amendment to our Current Certificate (Amendment One) that has been proposed by our Board to effect a 1-for-250 reverse stock split pursuant to which every 250 shares of common stock issued and outstanding shall be automatically converted

into 1 share of common stock, as described in further detail below (the Reverse Stock Split). Stockholders should note that the Board does not intend to implement this Proposal 3 if the stockholders do not concurrently approve the following Proposal 4. Thus, a negative stockholder vote on either Proposal 3 or Proposal 4 will cause the Board not to implement either proposal. However, if the stockholders approve both Proposal 3 and Proposal 4, the Board intends to file Amendment One to implement Proposal 3, to be followed immediately by filing Amendment Two (as defined below) to implement Proposal 4.

Proposal 4 Approval of Forward Stock Split and Decrease in Authorized Shares. Our stockholders will vote on an amendment to our Current Certificate that has been proposed by our Board: (a) to effect a forward 35-for-1 stock split, pursuant to which every 1 share of common stock then outstanding shall be automatically converted into 35 shares of common stock, as described in further detail below (the Forward Stock Split); and (b) to reduce the number of shares of common stock authorized for issuance from 50,000,000 shares to 30,000,000 shares (collectively, Amendment Two). Stockholders should note that the Board does not intend to implement this Proposal 4 if the stockholders do not concurrently approve Proposal 3. Thus, a negative stockholder vote on either Proposal 3 or Proposal 4 will cause the Board not to implement either proposal. However, if the stockholders approve both Proposal 3 and Proposal 4, the Board intends to file Amendment One to implement Proposal 3, to be followed immediately by filing Amendment Two to implement Proposal 4. While the Reverse Stock Split may render more difficult or may discourage a merger, tender offer or proxy contest by reducing the number of Liquid Audio stockholders, its purpose is not to discourage such takeovers, nor are the proposals the result of management s knowledge of any specific effort to accumulate Liquid Audio securities or to obtain control of Liquid Audio by means of a merger, tender offer or solicitation in opposition to management. Rather, the Company believes that implementing the Reverse Stock Split followed by the Forward Stock Split will result in significantly reduced stockholder record keeping and mailing expenses, and provide holders of fewer than 250 shares with an efficient, cost-effective way to cash out their investment in the Company without incurring excessive transaction costs (as described more fully below).

Proposal 5 Ratification of Appointment of Independent Accountants. Our stockholders will vote on whether to ratify the Audit Committee s selection of Rothstein, Kass & Company, P.C. (RK) to serve as our independent public accountants for the fiscal year ending December 31, 2003. Although stockholder ratification is not required by our Bylaws or any other applicable legal requirement, the Board is submitting the selection of RK to the stockholders for ratification as a matter of good corporate governance.

Other Matters. Our stockholders may transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

VOTING AND SOLICITATION OF PROXIES

Number of Shares Outstanding; Record Date. We have one class of voting stock outstanding, all of which is designated common stock, \$0.001 par value. As of June 16, 2003 (the Record Date), 23,175,036 shares of our common stock were issued and outstanding. All stockholders of record at the close of business on the Record Date are entitled to notice of and to vote at the Annual Meeting. Except as described below, stockholders present in person or by proxy at the Annual Meeting will be entitled to one vote on each proposal for each share of common stock held by such stockholder on that date. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions, and broker non-votes.

Quorum Requirement for the Annual Meeting. Our Bylaws provide that the holders of record of a majority of the shares of common stock issued and outstanding on the Record Date, present in person or represented by proxy, constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted as present for the purpose of determining the presence of a quorum at the Annual Meeting.

Voting Rights in the Election of Directors. Unless the stockholders are entitled and actually elect to cumulate their votes as described in the next paragraph, members of our Board will be elected by a plurality of the affirmative votes cast by those shares present in person or represented by proxy and entitled to vote at the Annual Meeting. Accordingly, the two nominees for Class I director receiving the highest number of affirmative votes will be elected. A stockholder may, with respect to the election of directors, (i) vote for the election of all of the Liquid Nominees, (ii) withhold authority to vote for any one or more of the Liquid Nominees, or (iii) withhold authority to vote for all of the Liquid Nominees by so indicating in the appropriate spaces on the enclosed proxy card. Since the Liquid Nominees will be elected by a plurality vote, neither broker non-votes nor shares abstaining from the vote on the proposal to elect the slate of Liquid Nominees will have an effect on the outcome of the vote on Proposal 1. **IF YOU ARE IN FAVOR OF THE SLATE OF LIQUID NOMINEES, YOU ARE URGED TO VOTE FOR EACH NOMINEE IDENTIFIED IN PROPOSAL 1.**

Special Rules for Cumulative Voting. As of June 5, 2003, we have been delisted from the Nasdaq National Market. As such, our stockholders may be entitled to cumulate votes in the election of Class I directors at the Annual Meeting, pursuant to Sections 2115 and 301.5 of the California General Corporation Law, copies of which sections are available without charge to our stockholders upon request made in writing to Liquid Audio at our principal office, Attn: Secretary, or by telephone to (212) 974-5730. If any stockholder entitled to vote at the Annual Meeting believes that he or she is entitled to cumulate his or her votes in the election of directors pursuant to Sections 2115 and 301.5 of the California General Corporation Law, then the stockholder requesting cumulative voting must inform us of his or her intention to do so prior to commencement of the Annual Meeting. If cumulative voting has been properly requested, then each stockholder who elects to cumulate votes will be entitled to cast a number of votes equal to the product obtained by multiplying (i) the number of shares of common stock held of record by such stockholder on the Record Date, by (ii) the number of directors to be elected. For example, a stockholder with 100 shares of common stock would be entitled to cast 200 votes. A stockholder who is entitled to cumulate votes may cast all of such votes for a single director, or may divide them among the number of directors to be voted for, however he or she may see fit.

Voting Rights with Respect to the Name Change. A stockholder may vote for or against or abstain from voting on the proposal to approve the amendment of the Current Certificate to change the name of the corporation to L Q Corporation, Inc. This proposal requires the affirmative vote of a majority of the shares of common stock issued and outstanding on the Record Date. Accordingly, broker non-votes and abstentions on Proposal 2 will have the same effect as a vote against changing the name of the corporation. **IF YOU ARE IN FAVOR OF THE NAME CHANGE, YOU ARE URGED TO VOTE FOR PROPOSAL 2.**

Voting Rights with Respect to the Reverse Stock Split. A stockholder may vote for or against or abstain from voting on the proposals to approve the Reverse Stock Split. This proposal requires the affirmative vote of 66²/₃% of the shares of common stock issued and outstanding on the Record Date. Accordingly, broker non-votes and abstentions on Proposal 3 will have the same effect as a vote against the Reverse Stock Split. **IF YOU ARE IN FAVOR OF THE REVERSE STOCK SPLIT, YOU ARE URGED TO VOTE FOR PROPOSAL 3.**

Voting Rights with Respect to the Forward Stock Split and the Decrease in Authorized Shares. A stockholder may vote for or against or abstain from voting on the proposal to approve the Forward Stock Split and the decrease in the number of authorized shares. This proposal requires the affirmative vote of 66²/₃% of the shares of common stock issued and outstanding on the Record Date. Accordingly, broker non-votes and abstentions on Proposal 4 will have the same effect as a vote against the Forward Stock Split. **IF YOU ARE IN FAVOR OF THE FORWARD STOCK SPLIT, YOU ARE URGED TO VOTE FOR PROPOSAL 4.**

Voting Rights with Respect to the Ratification of the Appointment of Independent Accountants. Stockholder ratification of the selection of Rothstein, Kass & Company, P.C. (RK) as our independent public accountants is not required by our Bylaws or other applicable legal requirement. However, the Board is submitting the selection of RK to the stockholders for ratification as a matter of good corporate governance. If the stockholders fail to ratify the selection, the audit committee of the Board will reconsider whether or not to retain that firm. Even if the

selection is ratified, the audit committee at its discretion may direct the appointment of a different independent accounting firm at any time during the year if it determines that such a change would be in our and our stockholders' best interests. The affirmative vote of the holders of a majority of the shares represented and entitled to vote at the Annual Meeting will be required to ratify the selection of RK as our independent public accountants for the fiscal year ending December 31, 2003. Accordingly, broker non-votes and abstentions on Proposal 5 will have the same effect as a vote against ratifying the appointment of the independent accountants. **IF YOU ARE IN FAVOR OF RATIFYING THE APPOINTMENT OF ROTHSTEIN, KASS & COMPANY, P.C. AS OUR INDEPENDENT ACCOUNTANTS, YOU ARE URGED TO VOTE FOR PROPOSAL 5.**

Proxies. Whether or not you are able to attend the Annual Meeting, you are urged to complete and return the enclosed proxy, which is solicited by the Board, and which will be voted as you direct on your proxy when properly completed. In the event no directions are specified, such proxies will be voted FOR each Liquid Nominee identified in Proposal 1, and FOR Proposals 2, 3, 4 and 5. As to other matters that may properly come before the Annual Meeting, proxies with no specified directions will be voted in the discretion of the proxy holders. You may also revoke or change your proxy at any time before the Annual Meeting. To do this, send a written notice of revocation or another signed proxy with a later date to our principal executive offices, attention: Secretary, before the beginning of the Annual Meeting. You may also automatically revoke your proxy by attending the Annual Meeting and voting in person. All shares represented by a valid proxy received prior to the Annual Meeting will be voted.

Special Procedures for Shares Held of Record by Brokers. If your shares are held in the name of a broker, then only your broker can execute a proxy and vote your shares and only after receiving your specific instructions. Remember that your shares cannot be voted unless you return a signed and executed proxy card to your broker. However, please be advised that broker non-votes with respect to any matter to be voted on at the Annual Meeting will not be voted but will be counted as present to determine whether there is a quorum for voting purposes on such matters at the Annual Meeting. Broker non-votes occur when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular proposal and has not received instructions from the beneficial owner. **PLEASE SIGN, DATE AND PROMPTLY MAIL THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED BY YOUR BROKER.**

PROPOSAL ONE

ELECTION OF DIRECTORS

General. Our Board is comprised of five (5) members divided into three (3) classes that serve in staggered three-year terms. At the Annual Meeting, the two (2) Class I director seats will up for election, there will be one (1) incumbent Class II director, and there will be two (2) incumbent Class III directors. Our Board has proposed a slate of Liquid Nominees to fill the two Class I director positions that are currently up for re-election. The Class I directors will serve until the annual meeting of stockholders in 2006, the incumbent Class II director will continue to serve until the annual meeting of stockholders in 2004, and the incumbent Class III directors will continue to serve until the annual meeting of stockholders in 2005.

The Liquid Nominees. We are asking the stockholders to vote in favor of re-electing William J. Fox and Michael A. McManus, Jr. to continue serving as the Class I directors. Unless otherwise instructed, the persons named in the enclosed proxy (Seymour Holtzman and James Mitarotonda, collectively, the Proxy Holders) will vote proxies received by them for the election of the Liquid Nominees. The Proxy Holders may not vote the proxies for a greater number of persons than the number of nominees marked by the stockholders on such proxies. The Liquid Nominees have consented to being named in this Proxy Statement and to serve if elected; however, in the event that a nominee is unable to or declines to serve as a director at the time of the Annual Meeting, proxies will be voted for a substitute nominee designated by our present Board. In the event that additional persons are nominated for election as directors, the Proxy Holders intend to vote all proxies received by them in such a manner as will assure the election of as many of the nominees listed below as possible, and, in such event, the specific nominees to be voted for will be determined by the Proxy Holders. The term of office of each person elected as a director will continue until such director's term expires or until such director's death, resignation or removal. **OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE LIQUID NOMINEES.**

Information Regarding Nominee and Other Directors. Set forth below is certain information regarding the nominees for Class I directors and each of our other directors whose term of office continues after the Annual Meeting. Information as to the stock ownership of each director and all of our current directors and executive officers as a group is set forth below under *Security Ownership of Certain Beneficial Owners and Management.*

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Class I Directors			
William J. Fox	46	Chairman, President and Chief Executive Officer of AKI, Inc. and President and Chief Executive Officer of AKI Holdings, Inc.	2003
Michael A. McManus, Jr.	59	President and Chief Executive Officer of Misonix, Inc.	2003
Class II Director			
Jesse Choper	67	Earl Warren Professor of Public Law at University of California at Berkeley School of Law (Boalt Hall)	2003
Class III Directors			
Seymour Holtzman	67	Chairman and Chief Executive Officer of Jewelcor Management, Inc.	2002
James A. Mitarotonda	48	President and Chief Executive Officer of Barington Capital Group, L.P., Barington Companies Investors, LLC and MM Companies, Inc.	2002

NOMINEES FOR CLASS I DIRECTORS.

Mr. Fox has served as one of our directors since April 2003. Mr. Fox, since February 1999, has been Chairman, President and Chief Executive Officer of AKI Inc. and President and CEO of AKI Holdings, Inc. (collectively, AKI), an international multi-sensory marketing, advertising and sampling systems business. From 1992 until January 1999, Mr. Fox was Senior Executive Vice President of Revlon, Inc., President of Strategic and Corporate Development, Revlon Worldwide, Chief Executive Officer of Revlon Technologies, and, until December 1997, was Chief Financial Officer of Revlon, Inc. Mr. Fox was concurrently Senior Vice President of MacAndrews & Forbes Holdings Inc. At various times, beginning in April 1983, Mr. Fox was also an executive officer of MacAndrews, Revlon and several affiliates, including Technicolor Inc., The Coleman Company, New World Entertainment and Revlon Group Incorporated. Mr. Fox currently serves, since October 2000, as a director and Co-Chairman of Loehmann's Holdings Inc. Mr. Fox also serves on the Advisory Board of Barington Companies Investors, LLC.

Mr. McManus has served as one of our directors since April 2003. Mr. McManus has also been President and CEO of Misonix, Inc., a medical device company since November 1998. He was President and Chief Executive Officer of New York Bancorp Inc. (NYBI) from 1991 to 1998, a director of NYBI from 1990 to 1998 and a director and Vice Chairman of Home Federal Savings Bank, NYBI's subsidiary, from 1991 to 1998. He is also a director of the United States Olympic Committee, Document Imaging Systems Corp., American Home Mortgage Holdings, Inc. and Novavax, Inc. He has served in numerous government capacities, including Assistant to the President of the United States from 1982 to 1985 and as Special Assistant to the Secretary of Commerce during the Ford Administration. Mr. McManus also serves on the Advisory Board of Barington Companies Investors, LLC.

INCUMBENT CLASS II DIRECTOR.

Professor Choper has served as one of our directors since April 2003. Professor Choper is the Earl Warren Professor of Public Law at the University of California at Berkeley School of Law where he has taught since 1965. Professor Choper was the Dean of the Law School from 1982 through 1992, and has been a visiting professor at Harvard Law School, Fordham Law School, University of Milan in Italy Law School and Universidad Autonoma in Barcelona, Spain. From 1960 to 1961, Professor Choper was a law clerk for Supreme Court Justice Earl Warren. Professor Choper is a widely recognized author, lecturer, consultant and commentator on issues of Constitutional Law and Corporation Law. Professor Choper is also a member of the Board of Directors of Casual Male Retail Group, Inc. and MM Companies, Inc.

INCUMBENT CLASS III DIRECTORS.

Mr. Holtzman has served as one of our directors since September 2002, and has served as our Co-Chief Executive Officer and Co-Chairman since April 2003. Mr. Holtzman has been involved in the retail business for over 30 years. For many years he has been the President and Chief Executive Officer of Jewelcor, Inc., a former New York Stock Exchange company that operated a chain of retail stores. From 1986 to 1988, Mr. Holtzman was the Chairman of the Board and the Chief Executive Officer of Gruen Marketing Corporation, an American Stock Exchange company involved in the nationwide distribution of watches. For at least the last five years, Mr. Holtzman has served as Chairman and Chief Executive Officer of each of Jewelcor Management, Inc., a company primarily involved in investment and management services; C.D. Peacock, Inc., a Chicago, Illinois retail jewelry establishment; and S.A. Peck & Company, a retail and mail order jewelry company based in Chicago, Illinois. Mr. Holtzman is currently the Chairman of the Board of two publicly traded companies: Casual Male Retail Group, Inc. (formerly known as Designs, Inc.) and MM Companies, Inc., and also serves on the Advisory Board of Barington Companies Investors, LLC. Mr. Holtzman is a well-known shareholder activist who specializes in the banking industry and the retail industry.

Mr. Mitarotonda has served as one of our directors since September 2002, and has served as our Co-Chief Executive Officer and Co-Chairman since April 2003. Mr. Mitarotonda is Chairman of the Board, President and

Chief Executive Officer of Barington Capital Group, L.P., an investment firm that he co-founded in November 1991. Mr. Mitarotonda is also President and Chief Executive Officer of Barington Companies Investors, LLC, the general partner of Barington Companies Equity Partners, L.P., a small capitalization value fund which seeks to be actively involved with its portfolio companies in order to enhance shareholder value. Mr. Mitarotonda is also President, Chief Executive Officer and a director of MM Companies, Inc. In May 1988, Mr. Mitarotonda co-founded Commonwealth Associates, an investment banking, brokerage and securities trading firm. Mr. Mitarotonda served as Chairman of the Board and Co-Chief Executive Officer of MJM Management Company Inc., the general partner of Commonwealth Associates. From December 1984 to May 1988, Mr. Mitarotonda was employed as Senior Vice President/Investments by D.H. Blair & Co., an investment bank, brokerage and securities trading firm focused on micro-capitalization companies. From July 1981 to November 1984, Mr. Mitarotonda was employed by Citibank, N.A. with management responsibility for two of Citibank's business banking branches and became Regional Director of Citibank's Home Equity Financing and Credit Services. Mr. Mitarotonda is a member of the Alumni Advisory Council of New York University's Stern School of Business and was a member of the Executive Committee and Chairman of Membership of the Gotham Chapter of the Young President's Organization. Mr. Mitarotonda is a member of the board of directors of Friends of Green Chimneys, a charitable organization. He graduated from Queens College with a BA degree in economics and with an MBA from New York University's Graduate School of Business Administration (now known as the Stern School of Business).

There are no family relationships among any of our directors or executive officers.

BOARD MEETINGS AND COMMITTEES

During 2002, our Board held a total of twenty-nine (29) meetings, and no director attended fewer than 75% of the meetings of our Board or the meetings of committees, if any, upon which such director served. Certain matters approved by our Board were approved by unanimous consent.

Audit Committee. The audit committee of the Board reviews our internal accounting procedures and consults with and reviews the services provided by our independent accountants. During fiscal year 2002 and until April 2003, the audit committee consisted of James A. Mitarotonda and Seymour Holtzman. For the fiscal year 2002, both directors qualified as independent; however, as a result of their acceptance of executive officer positions in April of 2003 following the resignations of our former Chairman, Chief Executive Officer and President, neither Mr. Mitarotonda nor Mr. Holtzman currently qualifies as independent. On April 29, 2003, our Board replaced Messrs. Mitarotonda and Holtzman by electing William J. Fox, Michael A. McManus, Jr. and Jesse Choper to serve on the audit committee, with Mr. Fox acting as chairman. Messrs. Fox, McManus and Choper all qualify as independent directors. While Messrs. Mitarotonda and Holtzman served on our audit committee, they also served as executive officers of MM Companies, Inc. (MMC), an entity to which we made a \$929,000 payment on January 2, 2003, representing reimbursement of MMC's legal costs in connection with a stockholder derivative action. See LEGAL PROCEEDINGS. However, since this payment was made as reimbursement in connection with a stockholder derivative action, we believe that this payment arises solely from investments in our securities and therefore did not compromise the independent judgment of Messrs. Mitarotonda and Holtzman during fiscal year 2002. Our audit committee held a total of four (4) meetings during 2002. A copy of the audit committee charter is attached to this proxy statement as Appendix A.

Compensation Committee. During fiscal year 2002 and until April 2003, the compensation committee consisted of Seymour Holtzman and Ann Winblad; however, Ann Winblad resigned as a director and Seymour Holtzman has become an employee of the Company and therefore no longer qualifies as an independent director. Accordingly, on April 29, 2003, our Board replaced Mr. Holtzman by electing Jesse Choper, Michael A. McManus, Jr. and William J. Fox to serve on the compensation committee, with Mr. Choper acting as chairman. Our compensation committee reviews and recommends the compensation and benefits of all of our executive officers, administers our stock and option plans and establishes and reviews general policies relating to

compensation and benefits of our employees. Our compensation committee held a total of one (1) meeting during fiscal 2002. Our Board does not have a nominating committee or any committee performing such function.

Director Compensation. In February 2002, our Board approved a plan that provides our non-employee directors with cash compensation of \$10,000 upon initial election and on each anniversary of becoming a director during their term of service, and \$1,000 per meeting of the Board attended during their term of service. In

September 2002, our Board amended the plan to provide our non-employee directors with cash compensation of \$1,500 for any day or substantial part of the day in which such director is engaged in any activity on our behalf at the request of the Board, the Chairman of the Board, the Chief Executive Officer or the President, other than attending meetings of the Board or any of its committees. Previously, our directors did not receive cash compensation for their service as members of the Board. Our directors are reimbursed for certain expenses in connection with attendance at Board and committee meetings. In 2002, we paid Seymour Holtzman \$20,000 and James A. Mitarotonda \$20,000, and former directors Raymond A. Doig \$39,000, Stephen V. Imbler \$37,000, Robert G. Flynn \$5,000, James D. Somes \$28,500 and Judith N. Frank \$22,000 under this plan. Former director Ann Winblad declined to accept the cash compensation under this plan. James D. Somes was also paid \$84,000 as Chairman of the Board and Raymond A. Doig was also paid \$21,250 in consulting fees in 2002 related to services performed at the request of the Board and Company subsequent to his term as a director. Raymond A. Doig and Stephen V. Imbler were each also paid \$84,001 for their services as our Chief Executive Officer and President, respectively. Judith N. Frank was paid \$3,600 in consulting fees in 2002 related to services performed at the request of the Board prior to her services as a director.

Non-employee directors are granted a fully vested option to purchase 30,000 shares of common stock upon initial election and a fully vested option to purchase 10,000 shares of common stock on each anniversary of becoming a director during their term of service. We do not provide additional compensation for committee participation or special assignments of the Board. In June 2002, we granted Ann Winblad an option to purchase 10,000 shares of common stock; in November 2002, we granted Stephen V. Imbler an option to purchase 10,000 shares of common stock; and in October 2002, we granted each of Seymour Holtzman and James A. Mitarotonda an option to purchase 30,000 shares of common stock.

Compensation Committee Interlocks and Insider Participation. All members of the Board's Compensation Committee during 2002 were independent directors, and none of them were employees or former employees of Liquid Audio. During 2002, no interlocking relationships existed among our Board, compensation committee or executive officers and the Board, compensation committee or executive officers of any other company.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file certain reports regarding ownership of, and transactions in, our securities with the SEC and with Nasdaq. Such officers, directors and 10% stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms that they file. To our knowledge, based solely on our review of copies of Forms 3, 4, 5 and amendments thereto furnished to us pursuant to Rule 16(a)-(e) with respect to the last fiscal year and any written representations referred to in Item 405(b)(2)(i) of Regulation S-K stating that no report on Form 5 was required for our officers, directors and 10% stockholders, we believe that all reports required to be filed under Section 16(a) have been filed on a timely basis by the foregoing persons for our 2002 fiscal year, except as follows: each of Messrs. Holtzman and Mitarotonda failed to file timely one report on Form 3, Initial Statement of Beneficial Ownership of Securities, and one report on Form 4, Statement of Changes in Beneficial Ownership of Securities, to report two transactions; and Ms. Winblad failed to file timely one report on Form 4, Statement of Changes in Beneficial Ownership of Securities, to report two transactions and one report on Form 5, Annual Statement of Beneficial Ownership of Securities, to report one transaction.

PROPOSAL TWO

APPROVAL OF CORPORATE NAME CHANGE

We are asking our stockholders to vote on a proposal to amend Article I of our Current Certificate in order to change the name of the corporation from Liquid Audio, Inc. to L Q Corporation, Inc. (the Name Change).

We desire to approve the Name Change because the previous corporate name Liquid Audio, Inc. evokes the digital music fulfillment business, which we no longer operate. We are currently exploring options for the use of our remaining assets and liabilities, and believe that changing the corporate name to L Q Corporation, Inc. will better reflect our current operations.

OUR BOARD HAS UNANIMOUSLY APPROVED THE NAME CHANGE AND RECOMMENDS A VOTE FOR THE APPROVAL OF THE NAME CHANGE.

If any action, suit, proceeding or claim has been instituted, made or threatened, relating to the Name Change, which make effectuation of the Name Change inadvisable in the opinion of our Board, or there exists any other circumstance which would make approval of the Name Change inadvisable in the opinion of the Board, the proposal to amend the Current Certificate may be terminated by the Board of Directors either before or after approval of the Name Change by the stockholders.

PROPOSALS THREE AND FOUR

APPROVAL OF THE REVERSE STOCK SPLIT, THE FORWARD STOCK SPLIT AND THE DECREASE IN AUTHORIZED SHARES

We are asking our stockholders to vote on two separate proposals to amend and restate our Current Certificate in the form of Amendment One and Amendment Two (both forms of proposed amendments are attached to this Proxy Statement as Appendix B-1 and Appendix B-2, respectively). Stockholders may vote for both, either or none of Proposals 3 and 4; however, stockholders should note that the Board does not intend to implement either Proposal 3 or Proposal 4 without stockholder approval of both.

Proposals 3 and 4 would implement a reverse stock split, followed immediately by a forward stock split and a decrease in the authorized number of shares. While the reverse stock split may render more difficult or may discourage a merger, tender offer or proxy contest by reducing the number of Liquid Audio stockholders, its purpose is not to discourage such takeovers, nor are the proposals the result of management's knowledge of any specific effort to accumulate Liquid Audio securities or to obtain control of Liquid Audio by means of a merger, tender offer or solicitation in opposition to management. Rather, the purpose of these proposals is that the Company believes that their implementation will result in significantly reduced stockholder record keeping and mailing expenses, and provide holders of fewer than 250 shares with an efficient, cost-effective way to cash out their investment in the company without incurring excessive transaction costs. The accompanying decrease in the number of authorized shares is desirable because, if the stockholders approve and the Board decides to implement the reverse stock split and the forward stock split, then the company will have fewer outstanding shares. Reduction in the number of authorized shares will reduce the company's state franchise tax liability and result in significant annual savings for the company.

Proposal 3 The Reverse Stock Split:

The Board of Directors has adopted a resolution seeking stockholder approval to amend our Current Certificate to effect a reverse 1-for-250 stock split of the company's common stock (the Reverse Stock Split).

Stockholders should note that the Board does not intend to implement the Reverse Stock Split set forth in this Proposal 3 and in the form of Amendment One if the stockholders do not concurrently approve the following Proposal 4. Thus, a negative stockholder vote on either Proposal 3 or Proposal 4 will cause the Board not to implement either proposal.

Proposal 4 The Forward Stock Split and the Decrease in Authorized Shares:

The Board of Directors has adopted a resolution seeking stockholder approval to amend our Current Certificate to effect a forward 35-for-1 stock split (the Forward Stock Split).

If the Board receives stockholder approval for, and then elects to implement both the Reverse Stock Split and the Forward Stock Split, the company will have fewer shares of common stock outstanding. Consequently, the company will not need to have 50,000,000 shares of common stock authorized for issuance, as is currently provided in the Current Certificate. Reducing the number of authorized shares of common stock will reduce the company's state franchise tax liability and result in significant annual savings for the company. If our stockholders approve both Amendment One and Amendment Two and the Board decides to implement the aforementioned Reverse Stock Split and Forward Stock Split, the Board will, concurrently therewith, reduce the number of shares of common stock authorized for issuance from 50,000,000 shares to 30,000,000 shares.

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Stockholders should note that the Board does not intend to implement the Forward Stock Split and the decrease in the number of authorized shares set forth in this Proposal 4 and in the form of Amendment Two if the stockholders do not concurrently approve Proposal 3. Thus, a negative stockholder vote on either Proposal 3 or Proposal 4 will cause the Board not to implement either proposal.

If the stockholders approve both Proposal 3 and Proposal 4, the Board intends to file Amendment One to implement the Reverse Stock Split, to be followed immediately by filing Amendment Two to implement the Forward Stock Split and the decrease in authorized shares. As permitted under Delaware state law, stockholders whose shares of stock are converted into less than 1 share in the Reverse Stock Split will be converted into the right to receive a cash payment as described below. We sometimes refer to the Reverse Stock Split and the Forward Stock Split, together with the related cash payments to stockholders with fractional holdings, as the Reverse/Forward Stock Split.

Stockholder approval of both Proposal 3 and Proposal 4 would give the Board of Directors authority to determine if and when to implement the Reverse/Forward Stock Split. If, upon receiving stockholder approval, the Board elects to implement the Reverse/Forward Stock Split, the Reverse/Forward Stock Split will become effective on such date as may be determined by the Board upon the filing of Amendment One, as well as the immediate subsequent filing of Amendment Two, with the Secretary of State of the State of Delaware (the Effective Date). The Effective Date shall be preceded by a press release announcing the Effective Date and such Effective Date in any event shall be within one year of the date of the Annual Meeting. Note that stockholders with multiple, separate accounts will not have such accounts aggregated; rather, the Reverse/Forward Stock Split will be applied to each separate account of such a stockholder.

We desire to approve the Reverse/Forward Stock Split because we believe it will result in significantly reduced stockholder record keeping and mailing expenses, and provide holders of fewer than 250 shares with an efficient, cost-effective way to cash out their investment in the Company without incurring excessive transaction costs. The Board also believes in good faith that the Reverse/Forward Stock Split may restore the trading price of the Company's common stock to an appropriate level. Note, however, that implementation of the Reverse/Forward Stock Split will not guarantee that the price per share of our common stock will remain at or around the same price it attains immediately after the Reverse/Forward Stock Split. In fact, we were delisted from the Nasdaq National Market effective as of June 5, 2003, and such delisting may cause the trading volume of Liquid Audio common stock to decline, which could, in turn, result in a decline in the share price of Liquid Audio common stock.

If approved at the Annual Meeting and if implemented by the Board, the Reverse/Forward Stock Split will affect Liquid Audio common stockholders as follows after completion:

Common Stockholders Before	Net Effect After Completion of the
Reverse/Forward Stock Split	Reverse/Forward Stock Split
Registered stockholders holding 250 or more shares of common stock.	Each share will be converted into 0.14 shares, after which, an individual stockholder's aggregate holdings of common stock will consist of a whole number and, perhaps, a fractional interest. The stockholder will continue to hold a number of whole shares equal to the whole number, but any resulting fractional interest will be converted into the right to receive cash at a price based on the trading value of the shares at the time (see <i>Determination of Cash-out Price</i> at page 16). You will not have to pay any commissions or other fees on this cash-out.
Registered stockholders holding fewer than 250 shares of common stock.	Shares will be converted into the right to receive cash at a price based on the trading value of the shares at the time (see <i>Determination of Cash-out Price</i> at page 16). You will not have to pay any commission or other fees on this cash-out. Holders of these shares will not have any continuing equity interest in Liquid Audio.
Stockholders holding common stock in street name through a nominee (such as a bank or broker).	Liquid Audio intends for the Reverse/Forward Stock Split to treat stockholders holding common stock in a street name through a nominee (such as a bank or broker) in the same manner as registered stockholders whose shares are registered in their name. Nominees will be instructed to effect the Reverse/Forward Stock Split for their beneficial holders. However, nominees may have different procedures, and stockholders holding shares in street name should contact their nominees.

In general, the Reverse/Forward Stock Split can be illustrated by the following examples:

Hypothetical Scenario	Solution
<p>Mr. Davis is a registered stockholder who holds 249 shares of common stock in his record account immediately prior to the Reverse/Forward Stock Split.</p>	<p>Instead of receiving a fractional share (249/250 of a share) of Liquid Audio common stock after the reverse split, Mr. Davis 249 shares of common stock will be converted into the right to receive a cash payment. If the procedures described below under the <i>Determination of Cash-out Price</i> section would result in a per share price of \$0.34 per share, for example, Mr. Davis would receive \$84.66 ($\\0.34×249 shares). (Note that the \$0.34 per share price is only an estimate. The actual per share price will not be known until completion of the actions detailed in the <i>Determination of Cash-out Price</i> section.) If Mr. Davis wants to continue his investment in Liquid Audio, he can buy at least 1 share more of Liquid Audio common stock and hold it in his record account. Mr. Davis would have to act far enough in advance of the Reverse/Forward Stock Split so that the purchase is completed by the close of business (eastern time) on the Effective Date.</p>
<p>Mr. Davis holds his 249 shares of common stock in a brokerage or bank account.</p>	<p>Liquid Audio intends for the Reverse/Forward Stock Split to treat stockholders in street name through a nominee (brokerage or bank) exactly like the scenario above. However, nominees may have different procedures. Mr. Davis should contact his nominee.</p>
<p>Ms. Haynes has two separate record accounts of a total of 251 shares of the common stock, 125 in one account and 126 in the other account prior to the Reverse/Forward Stock Split. All of her shares of common stock are registered in her name only.</p>	<p>Instead of receiving fractional shares of Liquid Audio common stock after the reverse split (125/250 of a share in the first account and 126/250 of a share in the second account), Ms. Haynes 251 shares of common stock will be converted into the right to receive 2 separate cash payments. If the procedures described below under the <i>Determination of Cash-out Price</i> section would result in a per share price of \$0.34 per share, for example, Ms. Haynes would receive \$85.34 ($\\0.34×251 shares). Note that if Ms. Haynes wants to continue her investment in Liquid Audio, she can either combine the two accounts or buy at least 125 more shares of Liquid Audio common stock in the first account and/or 124 shares of common stock in the second account and then hold them in each account. Ms. Haynes would have to act far enough in advance of the Reverse/Forward Stock Split so that the purchase is completed by the close of business (eastern time) on the Effective Date.</p>

Hypothetical Scenario	Solution
<p>Ms. Haynes has two separate brokerage accounts of a total of 251 shares of common stock, 125 in one account and 126 in the other account, prior to the Reverse/Forward Stock Split. All shares are held in street name.</p>	<p>Liquid Audio intends for the Reverse/Forward Stock Split to treat stockholders in street name through a nominee (brokerage or bank) exactly like the scenario above. However, nominees may have different procedures. Ms. Haynes should contact her nominees.</p>
<p>Mr. Woodson holds 251 shares of common stock in his record account as of the date of the Reverse/Forward Stock Split.</p>	<p>Mr. Woodson's 251 shares of common stock will be converted into $251 \times 0.14 = 35.14$ shares, or 35 whole shares plus a 0.14 fractional interest. Mr. Woodson will continue to hold 35 shares of Liquid Audio common stock, but his 0.14 fractional interest will be converted into the right to receive a cash payment. If the procedures described below under the <i>Determination of Cash-out Price</i> section would result in a per share price of \$0.34 per share, for example, Mr. Woodson would receive \$0.04 ($\\0.34×0.14 fractional interest = \$0.0476, or simply \$0.04 rounded down to the nearest whole penny).</p>
<p>OR</p>	
<p>Mr. Woodson holds 251 shares of common stock in his brokerage account as of the date of the Reverse/Forward Stock Split.</p>	
<p>Mr. Woodson holds 300 shares of common stock in his record account as of the date of the Reverse/Forward Stock Split.</p>	<p>Mr. Woodson's 300 shares of common stock will be converted into 300×0.14, or 42 whole shares. Note that in this scenario, he will not have any fractional interest which will be converted into a right to receive any cash payment.</p>
<p>OR</p>	
<p>Mr. Woodson holds 300 shares of common stock in his brokerage account as of the date of the Reverse/Forward Stock Split.</p>	

Background and Purpose of the Reverse/Forward Stock Split

Liquid Audio has a stockholder base of approximately 6700 stockholders. As of May 19, 2003, approximately 4,300 registered holders of Liquid Audio common stock owned fewer than 250 shares of stock. At that time, these stockholders represented approximately 64.5% of the total number of registered holders of common stock, but they owned less than 1.7% of the total number of outstanding shares.

The Reverse/Forward Stock Split will provide registered and brokerage account holders with fewer than 250 shares with a cost-effective way to cash out their investments because Liquid Audio will pay all transaction costs such as brokerage or service fees in connection with the Reverse/Forward Stock Split. In most other cases, small stockholders would likely incur brokerage fees disproportionately high relative to the market value of their shares if they wanted to sell their stock. In addition, some small stockholders might even have difficulty finding a broker willing to handle such small transactions. The Reverse/Forward Stock Split, however, eliminates these problems for most small stockholders.

Moreover, Liquid Audio will benefit from the substantial cost savings as a result of the Reverse/Forward Stock Split. The costs of administering each registered stockholder's account is the same regardless of the number of shares held in each account. Therefore, Liquid Audio's costs to maintain thousands of small accounts are disproportionately high when compared to the total number of shares involved. In 2003, we expect that each registered stockholder will cost the Company approximately \$7.00 for transfer agent and other administrative fees and the printing and postage costs to mail the proxy materials and annual report. We also incur costs associated with required mailings to stockholders holding shares in street name through a nominee (i.e., a bank or

broker). We expect that these costs will only increase over time. In light of these disproportionate costs, the Board believes that it is in the best interests of the Company and its stockholders as a whole to eliminate the administrative burden and costs associated with the high number of record accounts and street name accounts with fewer than 250 shares. We expect that we will reduce the total cost of administering stockholder accounts by approximately \$30,000 per year if we complete the Reverse/Forward Stock Split.

Note that the forward stock split portion of the proposed Reverse/Forward Stock Split is of smaller magnitude than the immediately preceding reverse stock split portion because the Company is attempting to proportionally raise the per share price of the common stock. For example, on June 23, 2003, the average bid price per share of our common stock following delisting of our securities on June 5, 2003, was approximately \$0.34. If we effected a reverse stock split followed by a forward stock split of equal magnitude, the per share price of our common stock would likely remain at approximately \$0.34. By contrast, the proposed forward stock split of smaller magnitude will likely raise the per share price of our common stock, at least initially after its implementation. Note, however, that there can be no assurance that the market price per share of Liquid Audio common stock after the Reverse/Forward Stock Split will remain unchanged or increase following the reduction in the number of shares of Liquid Audio common stock outstanding before the Reverse/Forward Stock Split.

The following table sets forth the capitalization of the company before and after the Reverse/Forward Stock Split and the decrease in authorized common stock. Note that the following figures are based on numbers available to the company as of May 19, 2003, and that the exact figures may not be the same on the Effective Date due to continued trading by and among existing Liquid Audio stockholders.

	Before the Reverse/Forward Stock Split and Decrease in Authorized Shares	After the Reverse/Forward Stock Split and Decrease in Authorized Shares
Issued and outstanding shares of common stock	23,175,036	3,190,180
Authorized reserved for issuance shares of common stock (1)	9,967,000	1,395,380
Authorized but unreserved shares of common stock	16,857,964	25,413,810
Number of Liquid Audio stockholders	6,687	2,369

- (1) Includes options for common stock reserved under the 1996 Equity Incentive Plan (which automatically increases each January 1 by the lesser of 1,500,000 shares, 5% of the outstanding shares on such date, or a lesser amount determined by the Board) and the 2000 Nonstatutory Stock Option Plan (no provision for automatic annual increases), and common stock reserved under the 1999 Employee Stock Purchase Plan (which automatically increases each January 1 by the lesser of 750,000 shares, 3% of the outstanding shares on such date, or a lesser amount determined by the Board).

The number of shares of common stock that will be cashed out as a result of the Reverse/Forward Stock Split is estimated to be 383,378 shares, or approximately 1.7% of the total number of outstanding shares before the Reverse/Forward Stock Split. Sale of the aggregated fractional interests on the open market may depress the market price of our common stock (as described more fully in Determination of Cash-out Price below).

Anti-Takeover Effects of Reverse/Forward Stock Split and Decrease in Authorized Shares

As a result of the Reverse/Forward Stock Split and the decrease in the number of authorized shares, the number of Liquid Audio stockholders is estimated to decrease from approximately 6,700 to approximately 2,400. The remaining stockholders will own a larger percentage of Liquid Audio's voting securities. Consequently, these stockholders will also exercise greater control over all matters requiring stockholder consent. Matters typically submitted to our stockholders for a vote include the election of our directors, mergers or consolidations, and any sale of all, or substantially all of our assets. The more concentrated holdings of the remaining stockholders may result in delay or deterrence of possible changes in our control, which may reduce the market price of our common stock.

The Company notes, however, that, although the proposed Reverse/Forward Stock Split and the decrease in the number of authorized shares may be beneficial to management in a hostile tender offer and may have an adverse impact on stockholders who may want to participate in such a tender offer, these proposals do not make a tender offer impracticable or materially increase a bidder's costs and likelihood of failure. In fact, approximately 2,400 stockholders will remain, and the proposals will not restrict any of their rights to accept any future tender offer. In addition, these proposals are not the result of management's knowledge of any specific effort to accumulate Liquid Audio securities or to obtain control of Liquid Audio by means of a merger, tender offer or solicitation in opposition to management.

Determination of Cash-out Price

In order to avoid the expense and inconvenience of issuing fractional shares to stockholders (such stockholders shall be referred to as Fractional Stockholders) following the Reverse/Forward Stock Split, under Delaware state law, if stockholders approve both Proposal 3 and Proposal 4 and the Board elects to implement them, the Board of Liquid Audio may, in its sole discretion, either arrange for the sale of the fractional interests on the open market or pay cash for their fair value based on the trading value of the common stock that is cashed out as of such date.

If the Board selects the first option, as soon as practicable after the Effective Date, the transfer agent will sell the aggregated fractional shares of the Fractional Stockholders at the then-prevailing prices on the open market. Sales will be executed over-the-counter as a pink sheet security in round lots to the extent practicable. Liquid Audio expects that the transfer agent will conduct the sale in an orderly fashion at a reasonable pace and that it may take several days to sell all of the aggregated fractional interests. If the transfer agent attempts to sell these shares too quickly, it could hurt the sales price for the shares. In any event, the sale of the aggregated fractional interests on the open market may depress the market price of our common stock. There can be no assurance as to the sales price that the transfer agent will receive for the aggregated fractional shares. After completing the sale of all of the aggregated fractional shares, the transfer agent will make a cash payment (without interest) equal to each Fractional Stockholder's proportional interest in the net proceeds from the sale of the aggregated fractional shares. Liquid Audio will pay all of the commissions and other out-of-pocket transaction costs in connection with the sale. Until the proceeds of the sale have been distributed, the transfer agent will hold the proceeds in trust for the Fractional Stockholders.

If the Board selects the second option, the company will remit to each of the Fractional Stockholders a cash payment in consideration of the shares they held immediately prior to the Reverse/Forward Stock Split. This cash-out payment will be an amount per share equal to the average of the closing prices per share of common stock, as traded over-the-counter as a pink sheet security, for the period of ten consecutive trading days ending on (and including) the Effective Date, without interest.

Under either option, if you are entitled to a cash payment in exchange for your fractional interest, the transfer agent will make a cash payment to you (without interest) equal to your pro rata portion of the total net proceeds from the sale of the aggregated fractional shares, rounded down to the nearest whole penny. Liquid Audio will pay all of any associated commissions and other out-of-pocket transaction costs; however, you will still be subject to federal income tax on the proceeds that you receive. In addition, you will not be entitled to receive interest for the period of time between the Effective Date of the Reverse/Forward Stock Split and the date you receive your payment for the cashed-out shares. After the Reverse/Forward Stock Split, you will have no further interest in Liquid Audio with respect to your cashed-out shares.

AMENDMENT ONE AND AMENDMENT TWO ARE ATTACHED TO THIS PROXY STATEMENT AS APPENDIX B-1 AND APPENDIX B-2, RESPECTIVELY.

OUR BOARD HAS UNANIMOUSLY APPROVED THE REVERSE STOCK SPLIT, THE FORWARD STOCK SPLIT AND THE DECREASE IN THE AUTHORIZED SHARES, AND RECOMMENDS A VOTE FOR THE APPROVAL OF BOTH AMENDMENT ONE AND AMENDMENT TWO.

If any action, suit, proceeding or claim has been instituted, made or threatened, relating to Amendment One and Amendment Two, which make effectuation of Amendment One and Amendment Two inadvisable in the opinion of our Board, or there exists any other circumstance which would make approval of Amendment One and Amendment Two inadvisable in the opinion of the Board, the two separate proposals to amend and restate the Current Certificate may be terminated by the Board of Directors either before or after approval of Amendment One and/or Amendment Two by the stockholders.

PROPOSAL FIVE

RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

The Audit Committee of our Board has selected Rothstein, Kass & Company (RK) as our independent accountants to audit our financial statements for our fiscal year ending December 31, 2003. PricewaterhouseCoopers LLP (PwC) served as our independent accountants to audit our financial statements for the fiscal year most recently completed, ending December 31, 2002. PwC audited our financial statements since 1996. However, as previously reported on Form 8-K filed with the Securities and Exchange Commission on April 24, 2003, PwC resigned as our independent auditors on April 17, 2003. PwC's reports on our financial statements for the years ended December 31, 2001 and 2002 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended December 31, 2001 and 2002 and through April 17, 2003, there were no disagreements between us and PwC on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure which, if not resolved to the satisfaction of PwC, would have caused PwC to make reference to the subject matter of the disagreement with its report. During the two most recent fiscal years and through April 17, 2003, there have been no reportable events (as defined in Regulation S-K 304(a)(1)(v)). On April 23, 2003, PwC provided a letter addressed to the Securities and Exchange Commission stating whether PwC agrees with the above statements and, if not, stating the respects in which PwC does not agree. A copy of this letter was filed as an exhibit to the Form 8-K filed on April 24, 2003.

Subsequently, our Board engaged RK to serve as our independent auditors as of May 1, 2003, as reported on Form 8-K filed with the Securities and Exchange Commission on May 8, 2003. RK will audit our financial statements for the fiscal year beginning January 1, 2003. Although stockholder ratification is not required by our Bylaws or any other applicable legal requirement, the Board is submitting the selection of RK to the stockholders for ratification as a matter of good corporate governance. Our Board recommends that stockholders vote for ratification of such appointment. In the event of a negative vote on ratification, our Board may reconsider its selection. A representative of RK is expected to be available at our Annual Meeting with the opportunity to make a statement if such representative desires to do so, and is expected to be available to respond to appropriate questions.

Audit Fees

Aggregate fees for professional services rendered by PwC in connection with their audit of our consolidated financial statements as of and for the year ended December 31, 2002 and its limited reviews of our unaudited condensed consolidated interim financial statements were \$349,127, of which an aggregate amount of \$349,127 has been billed through December 31, 2002.

Financial Information Systems Design and Implementation Fees

During the year ended December 31, 2002, PwC rendered no professional services to us in connection with the design and implementation of financial information systems.

All Other Fees

In addition to the fees described above, aggregate fees of \$268,230 were billed by PwC during the year ended December 31, 2002, primarily for the following professional services:

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Audit-related services	\$ 245,000
Income tax compliance and related tax services	\$ 23,230

The audit committee has determined that the rendering of non-audit services by PwC was compatible with maintaining their independence.

OUR BOARD RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ROTHSTEIN, KASS & COMPANY, P.C. AS OUR INDEPENDENT ACCOUNTANTS FOR THE 2003 FISCAL YEAR.