

## Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Relief from registration and prospectus requirements in connection with an arrangement where exemptions may not be available in certain jurisdictions for technical reasons. First trade deemed a distribution unless made in accordance with specified provisions of Multilateral Instrument 45-102: *Resale of Securities*.

### Applicable Ontario Statutory Provisions

Securities Act, R.S.O. 1990, c. S.5, as am., ss. 25, 53 and 74(1).

### Applicable Ontario Rules

Rule 45-501 - *Exempt Distributions* (2001) 24 OSCB 7011 (November 23, 2001).

### Applicable National Instruments

Multilateral Instrument 45-102: *Resale of Securities* (2001) 24 OSCB 7029 (November 23, 2001), ss. 2.6(3), 2.6(4), 2.9(1), 2.14.

IN THE MATTER OF  
THE SECURITIES LEGISLATION OF  
BRITISH COLUMBIA, SASKATCHEWAN, MANITOBA,  
ONTARIO, QUEBEC, NOVA SCOTIA, NEWFOUNDLAND AND LABRADOR, NEW  
BRUNSWICK, PRINCE EDWARD ISLAND, THE NORTHWEST TERRITORIES,  
YUKON TERRITORY AND NUNAVUT

AND

IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM FOR  
EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF  
ROXIO, INC., ROXIO-MGI HOLDING CORP. AND MGI SOFTWARE CORP.

#### MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the *ADecision Maker*) in each of British Columbia, Saskatchewan, Manitoba, Ontario, Québec, Newfoundland and Labrador, Nova Scotia, New Brunswick, Prince Edward Island, Northwest Territories, Yukon Territory and Nunavut Territories (the *AJurisdictions*) has received an application from Roxio, Inc. (*ARoxio*), Roxio-MGI Holding Corp. (the *ARoxio Subsidiary*) and MGI Software Corp. (*AMGI*) (collectively the *AApplicants*) for a decision under the securities legislation of the Jurisdictions (the *ALegislation*) that the requirements under the Legislation to be registered to trade in a security (the *ARegistration Requirement*) and to file and to obtain a receipt for a preliminary prospectus and a prospectus (the *AProspectus Requirement*) shall not apply to certain trades and distributions of securities to be made in connection with the proposed acquisition by the Roxio Subsidiary of all of the issued and outstanding shares of MGI pursuant to a plan of arrangement;

AND WHEREAS pursuant to the Mutual Reliance Review System For Exemptive Relief Applications (the *ASystem*), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS the Applicants have represented to the Decision Makers that:

1. MGI is a corporation amalgamated under the *Business Corporations Act* (Ontario) (the *AOBCA*). The registered office of MGI is situated in Richmond Hill, Ontario.

2. MGI carries on business as a provider of visual media software products and infrastructure that enable users to develop and utilize digital photographs and video.
3. The authorized capital of MGI consists of an unlimited number of MGI common shares (the "MGI Common Shares"). As at December 31, 2001, there were 37,331,478 MGI Common Shares issued and outstanding.
4. The MGI Common Shares are listed on The Toronto Stock Exchange (the ATSE<sup>®</sup>) under the symbol AMGI<sup>®</sup>. MGI is a Reporting issuer<sup>®</sup> or the equivalent in all of the provinces of Canada and is not in default of any of the requirements contained in the Legislation.
5. As of December 6, 2001, there were 85 registered holders of MGI Common Shares resident in Canada holding 34,671,750 MGI Common Shares, representing approximately 81.7 % of the total number of issued and outstanding MGI Common Shares.
6. As of December 6, 2001, of all of the options outstanding under the MGI stock option plans (AMGI Options<sup>®</sup>), MGI Options representing the right to acquire 3,086,363 MGI Common Shares were held by residents in Canada, representing approximately 83.0% of the total number of MGI Common Shares which may be acquired pursuant to the exercise of MGI Options.
7. The following warrants to acquire MGI Common Shares have been previously issued and remain outstanding: (i) 135,000 warrants to purchase 135,000 MGI Common Shares issued on April 16, 1999 on a private placement basis to an Ontario resident (the Non-listed warrants<sup>®</sup>); and (ii) 1,437,500 warrants to purchase 1,437,500 MGI Common Shares issued publicly on or about January 31, 2001 and listed on The Toronto Stock Exchange (the Listed warrants<sup>®</sup>). The non-listed warrants and the listed warrants are collectively referred to as the AMGI Warrants<sup>®</sup>.
8. Roxio was incorporated under the laws of the State of Delaware. Roxio carries on business as a developer of software that enables users to create, manage and move digital media.
9. The authorized capital of Roxio consists of 100,000,000 common shares (the "Roxio Common Shares") and 10,000,000 shares of preferred stock. As at December 18, 2001, there were 16,924,483 Roxio Common Shares and no shares of preferred stock issued and outstanding.
10. The Roxio Common Shares are quoted on the Nasdaq National Market (ANasdaq<sup>®</sup>) under the symbol AROXI<sup>®</sup>. Roxio is subject to the United States *Securities Exchange Act* of 1934, as amended (the AExchange Act<sup>®</sup>).
11. Roxio is not a Reporting issuer<sup>®</sup> or the equivalent in any province or territory of Canada.

12. As of December 6, 2001, there were 2 registered holders of Roxio Common Shares in Canada holding 16 Roxio Common Shares, representing approximately 0.0000009% of the total number of issued and outstanding Roxio Common Shares.
13. The Roxio Subsidiary has been incorporated under the laws of Delaware for the purposes of the Transaction (defined below) and is an indirect wholly-owned subsidiary of Roxio.
14. Pursuant to a Combination Agreement dated December 3, 2001 between Roxio and MGI, Roxio, through the Roxio Subsidiary, intends to acquire all of the issued and outstanding MGI Common Shares in a transaction (the **Transaction**) to be effected pursuant to a plan of arrangement (the **Arrangement**).
15. The effect of the Arrangement will be to provide holders (the **MGI Shareholders**) of MGI Common Shares (other than MGI Common Shares held by dissenting shareholders or by Roxio or its affiliates) with Roxio Common Shares at a rate (subject to certain adjustments) equal to 0.05269 Roxio Common Shares for every one (1) MGI Common Share.
16. Conditional upon the completion of the Transaction, all unvested stock options granted under MGI's employee stock option plan shall be deemed to have vested and become exercisable on the day immediately preceding the closing date of the Transaction and the expiry date under all stock options granted under such plan shall have been accelerated such that any options that remain unexercised immediately prior to the closing shall terminate as of the closing date of the Transaction.
17. The warrant holders (listed and unlisted) have agreed to redeem their warrants on the effective date of the transaction.
18. The Arrangement will be carried out under Section 182 of the OBCA. MGI has applied for and obtained, under section 182 of the OBCA, an interim order (the **Interim Order**) of the Superior Court of Justice (Ontario) which order specifies, among other things, certain procedures and requirements to be followed in connection with the calling and holding of the Special Meeting (as defined below) and the completion of the Arrangement.
19. A special meeting (the **Special Meeting**) of the MGI Shareholders was held on January 28, 2002 at which MGI sought and obtained, among other things, the requisite MGI Shareholder approval (which, pursuant to the Interim Order, is 66 2/3% of the votes attached to the MGI Common Shares represented by proxy or in person at the Special Meeting) for the special resolution approving the Arrangement. At the Special Meeting 97% of the votes attached to the MGI Common Shares represented at the Special Meeting voted in favour of the Arrangement.

20. In connection with the Special Meeting and pursuant to the Interim Order, MGI mailed on or about January 3, 2002 to each MGI Shareholder (i) a notice of special meeting, (ii) a form of proxy and (iii) a management information circular (the ACircular@).
21. The Circular contains, among other things, prospectus-level disclosure of the business and affairs of Roxio and such other information regarding Roxio, the Roxio Subsidiary, MGI and the Transaction, as is required by the Legislation, except as varied by the Decision of certain of the Decision Makers dated December 31, 2001.
22. Upon completion of the Arrangement or shortly thereafter, the MGI Common Shares and the listed warrants will be delisted from the TSE. The Applicants expect that the MGI Common Shares and the listed warrants will be delisted from the TSE no later than February 6, 2002.
23. Roxio is taking all required steps to ensure that the Roxio Common Shares issued pursuant to the Arrangement shall be quoted for trading on Nasdaq.
24. Upon the completion of and as a consequence of the Arrangement, Roxio will become a reporting issuer in Alberta, Saskatchewan and Québec, and may become a reporting issuer in British Columbia, Ontario and Newfoundland.
25. Similarly, upon the completion of and as a consequence of the Arrangement, the Roxio Subsidiary will become a reporting issuer in Saskatchewan.
26. Upon the completion of the Arrangement, Roxio will be the sole indirect shareholder of the Roxio Subsidiary, and the sole shareholders of MGI will be Roxio and the Roxio Subsidiary.
27. Upon the completion of the Arrangement, MGI and the Roxio Subsidiary intend to make applications to be deemed to have ceased to be a reporting issuer (or equivalent) in those Jurisdictions in which they are a reporting issuer (or equivalent). Roxio has not yet determined whether it will make a similar such application or applications. Unless and until relief in respect of such applications is granted, the Applicants will comply with all requirements of the Legislation associated with reporting issuer status.
28. Upon the completion of the Arrangement, and assuming the maximum exchange ratio applicable to the exchange of MGI Common Shares for Roxio Common Shares, and after giving effect to the exchange of the listed warrants and non-listed warrants for Roxio Common Shares, the Applicants believe that residents of Canada will not own directly or indirectly more than 15 percent of the outstanding Roxio Common Shares, and will not represent in number more than 15 percent of the total number of owners directly or indirectly of Roxio Common Shares.
29. There is no public market in Canada for the Roxio Common Shares and no such public market is expected to develop.

30. Roxio will send to all holders of Roxio Common Shares resident in Canada contemporaneously all disclosure material sent to holders of Roxio Common Shares resident in the United States.
31. The steps under the Transaction involve or may involve a number of trades of securities (collectively, the ATrades<sup>®</sup>) and there may be no registration or prospectus exemptions available under the Legislation for certain of the Trades in some or all of the Jurisdictions.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the ADecision<sup>®</sup>);

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the Trades are not subject to the Registration Requirement and the Prospectus Requirement, provided that:

- (a) except in Québec, the first trade in Roxio Common Shares acquired pursuant to this Decision (including, for greater certainty, Roxio Common Shares acquired upon the exercise of the MGI Warrants) will be a distribution or primary distribution to the public unless, at the time of the trade:
  - (i) if Roxio is a reporting issuer in any Jurisdiction listed in Appendix B to Multilateral Instrument 45-102: Resale of Securities (AMI 45-102<sup>®</sup>) other than Quebec, the conditions in subsections (3) or (4) of section 2.6 of MI 45-102 are satisfied; and for the purpose of determining the period of time that Roxio has been a reporting issuer under section 2.6, the period of time that MGI has been a reporting issuer may be included; and
  - (ii) if Roxio is not a reporting issuer in any Jurisdiction other than Québec, such first trade is made through an exchange, or a market, outside of Canada; and
- (b) in Québec, to the extent that there is no exemption available from the Registration Requirement and Prospectus Requirement in respect of any of the Trades, the Trades are not subject to the Registration Requirement and the Prospectus Requirement, provided that the issuer or one of the parties to the Arrangement (including, for greater certainty, MGI) is and has been a reporting issuer in Québec and has complied with the applicable requirements for the twelve months immediately preceding the Trades.

DATED this 31<sup>st</sup> day of January, 2002.

AR,S, Paddon@

AH. Lorne Morphy@