

**MUSICLAND HOLDING CORP., ET. AL.,
DEBTORS AND DEBTORS IN POSSESSION (“DEBTORS”)
BANKRUPTCY CASE NO. 06-10064**

AUCTION AND BIDDING PROCEDURES FOR LEASES

1. Background. The following Auction and Bidding Procedures (“Bidding Procedures”) for leases and related leasehold assets have been authorized by order by the U.S. Bankruptcy Court for the Southern District of New York dated February ___, 2006, in the Chapter 11 Cases of Musicland Holding Corp., et. al., Case No. 06-10064 (“Procedures Order”).

2. Bid Deadline. Prior to 5:00 p.m. EST on March 7, 2006, a Qualified Bidder (as defined below) that desires to make a bid for one or more of the Leases (as defined below) shall deliver written copies of its bid to: (i) Kirkland & Ellis LLP, 200 East Randolph Drive, Chicago, Illinois, 60601 Attn: Bradley V. Ritter; and (ii) Retail Consulting Services, Inc., 460 West 34th Street, 4th Floor, NY, NY 10007 Attn: Ivan L. Friedman.

3. (A) Qualified Bid. In order for a bid to be considered a qualified bid (a “Qualified Bid”) and a bidder to be a qualified bidder (a “Qualified Bidder”) any bids for any of the Leases identified on the schedule appended hereto must be submitted in conformity with these Auction and Bidding Procedures. A bid must be a written irrevocable offer from a Qualified Bidder (i) pursuant to an executed and notarized Assumption and Assignment and Sale Agreement (or in the case of a Landlord, a Lease Termination Agreement, as applicable) in the forms attached hereto including name of Assignee, basic Lease information, Purchase Price, Use, Notice Addresses, and any and any and all other changes (or in the case of the Lease Termination Agreement, name of the Parties, basic lease information, Cash Consideration, and any and all other changes) in the Rider attached thereto, that are being proposed by the Qualified Bidder (the “Marked Agreement”) **[ONLY CHANGES INCLUDED IN THE RIDER ATTACHED TO THE ASSIGNMENT, ASSUMPTION AND SALE AGREEMENT OR LEASE TERMINATION AGREEMENT, AS APPLICABLE, WILL BE CONSIDERED A PART OF THE QUALIFIED BID]**; (ii) enclosing a written and electronic copy of the proposed Marked Agreement; (iii) accompanied with a bank check or wire transfer of at least fifteen (15%) percent of the amount of the Qualified Bid as a good faith deposit (the “Good Faith Deposit”) with payment of such Good Faith Deposit to be transmitted to Retail Consulting Services, Inc., 460 West 34th Street, 4th Floor, NY, NY 10007 Attn: Ivan L. Friedman, with the copy of the bid sent to Attn. Bradley V. Ritter, Kirkland & Ellis, LLP, 200 E. Randolph Drive, Chicago, IL 60601.

(B) A bid must also include a signed statement, including the following:

- Identification of the proposed use for each of the leasehold locations for which an offer is being submitted;
- Financial statements of the entity in whose name an assignment will be taken showing the bidder’s ability to close and other information to support its ability to provide adequate assurance of future performance as that term is referred to under Section 365 of the Bankruptcy Code, with respect to any leases for which a bid is being submitted (the “Adequate Assurance Information”). Landlords shall not be required to provide the Adequate Assurance Information in order to qualify as a Qualified Bidder

or to have a Qualified Bid, other than financial information to support its ability to fund any offer in excess of undisputed cure amounts (the “Landlord Excess Amount”), and a Landlord’s Good Faith Deposit shall be 15% of the Landlord Excess Amount.

- Full disclosure of the identity of each entity that will be bidding or otherwise participating in connection with such bid, and the complete terms of any such participation, and
- Full disclosure of the names of the individuals who will be present and participating at the Auction.

C. In addition to the foregoing requirements, to be a “Qualified Bidder” and to have a “Qualified Bid” the following will apply:

- Bids for one or more locations must include a commitment to be obligated for: (i) leasehold obligations for such locations from and after the later of the date following the conclusion of the Auction or the date the premises for each such location is turned back to the Debtors following the conclusion of the store closing sales at such premises; and (ii) any year-end adjustment payments required under the lease(s) for which a bid is submitted, without recourse to the Debtors or their estates for such adjustment amounts.
- Bids for the Leases may be received by written bid prior to or at the Auction (as defined below), provided that only Qualified Bidders will be permitted to participate at the Auction.
- All offers must be for cash (to be paid by bank check or wire transfer in U.S. dollars) and not subject to any financing contingencies.
- Leases may be withdrawn by the Debtor prior to, during, or after the conclusion of the Auction for any reason, including a private sale, which sale shall be subject to Court approval.
- Bids must be on terms that are not materially more burdensome or conditional than the terms of the proposed (or “Stalking Horse”) Assumption and Assignment Agreement (or in the case of a Landlord, a Lease Termination Agreement).
- All bids shall remain open until the completion of the Auction, and thereafter, the bids of the two (2) highest bidders (as shall be identified at the conclusion of the Auction) for any individual location or package of locations, shall remain open for a period of five (5) days;
- By submitting a bid, bidders will be agreeing to be bound by all terms and conditions set forth in these Bidding Procedures;

- Bids shall not be conditioned on obtaining financing or the outcome of any due diligence by the bidder;
- Bidders shall not be entitled to any break-up fee, expense reimbursement or similar type of payment unless agreed to by the Debtors in writing;
- In the event Debtors receive multiple Qualified Bids for a particular Lease, or group of Leases, such Lease or group of Leases, unless previously sold or otherwise disposed of or withdrawn, may be offered for sale at the Auction, either in bulk or separately;
- All sales and assumptions and assignments shall be of all of the Debtor's right title and interest and shall be free and clear of liens, claims and encumbrances and security interests, with any such liens, claims, encumbrances and security interests to attach to the net proceeds (net of lease cure and other payments necessary to be able to assume and assign the subject Lease) received by the Debtors as a result of such sale and assignment and rejection, with the same force and effect they had as of the commencement of the Chapter 11 Cases of the Debtors, subject to any subsequent orders of this Bankruptcy Court.
- All assets sold shall be "AS IS – WHERE IS" with no representations, warranties or indemnities by Debtors unless otherwise agreed to in writing by the Debtors in an approved Assumption and Assignment Agreement, Lease Termination Agreement, or Designation Rights Agreement; and
- All Assumptions and Assignments and Sale Agreements and Lease Termination Agreements shall be subject to the approval of the Bankruptcy Court.

A bid received from a Qualified Bidder that meets the requirements set forth above will be considered a "Qualified Bid" if Debtors believe, in their discretion, that such bid would be consummated if selected as the Successful Bid (as defined below).

4. Auction. An auction (the "Auction") is presently scheduled to commence on March 14, 2006, at 10 a.m. EST at the offices of Kirkland & Ellis LLP, 153 E. 53rd Street, 50th Floor, New York, New York, 10022.

Only a Qualified Bidder who has submitted a Qualified Bid will be eligible to participate at the Auction. Unless otherwise consented to by the Debtors, as defined below, only the authorized representatives of each of the Qualified Bidders, the Agent to the Debtors' post-petition secured lenders, Secured Trade Creditors, Unsecured Creditors Committee and Debtors (and their representatives) shall be permitted to attend the Auction. At the Auction, Qualified Bidders will be permitted to increase their bids. The bidding at the Auction shall start at the purchase price stated in the highest or otherwise best Qualified Bid as disclosed to all Qualified Bidders prior to commencement of the Auction, and continue in increments as Debtors may designate at or prior to the Auction. The highest or otherwise best Qualified Bid shall be determined by the Debtors in their discretion.

Any Stalking Horse Bidder (as defined below) selected by Debtors prior to or at the Auction shall be entitled, in its sole and absolute discretion, to make further offers following such highest or otherwise best Qualified Bid.

Immediately prior to concluding the Auction, the Debtors shall (i) review each Qualified Bid on the basis of its financial and contractual terms and the factors relevant to the assumption and assignment process and the best interests of the Debtors' stakeholders, including, without limitation, those factors affecting the speed and certainty of consummating an assumption and assignment transaction and (ii) determine and identify the highest or best Qualified Bid (the "Successful Bid") and the next highest or otherwise best offer after the Successful Bid (the "Second Highest Bid"). The Debtors may alter this determination following the close of the Auction.

5. Stalking Horse Bids and Breakup Fees. At or prior to the Auction, the Debtors may, in their sole discretion, and without further notice, enter into, Assumption and Assignment Agreements, or Lease Termination Agreements, as the case may be (each a "Stalking Horse Bid") with prospective assignees, or Landlords (each a "Stalking Horse Bidder"), for one or more of the Leases. The Debtors may, in their sole discretion, and without further notice, agree that, in the event that the Bankruptcy Court should determine that any third party's competitive bid is a higher and better offer for the Debtors' interest subject to a Stalking Horse Bid, and the Debtors thereafter fully consummate an assignment of such interest, or lease termination, with such higher or better bidders based upon such higher or better bids, they will pay to the Stalking Horse Bidder a break-up fee that does not exceed (i) \$10,000.00 (for individual lease bids) or (ii) 3% of the cash amount of the Stalking Horse Bid (for "package" bids covering multiple leases or for bids for lease designation rights); provided, however, such break-up fee (the "Break-up Fee") shall be inclusive of any expense reimbursement amounts, and shall only be payable if (a) the Stalking Horse Bidder remains ready willing and able to close on its Stalking Horse Bid as of the date of the Auction and of any hearing on Court approval of its Stalking Horse Bid or of an accepted higher or better competing bid; and (b) the Debtors fail to consummate the transaction with the proposed Stalking Horse Bidder (regardless of whether such Stalking Horse Bidder submitted further higher or better bids, and only based upon its Stalking Horse Bid), but only if such failure to consummate the transaction is because the Debtors accept a higher or better offer from a competing bidder not affiliated with such Stalking Horse Bidder, and the Debtors thereafter close the sale with such competing bidder and receive the purchase price from such competing bidder. In the event the Debtors are unable to consummate a transaction with a Stalking Horse Bidder due to its inability to provide adequate assurance of future performance, no Break-up Fee will be payable to such Stalking Horse Bidder in the event the Debtors thereafter enter into a transaction for the disposition of the Lease or Leases with a third party or Landlord.

6. SG/SC Sale Hearing. At the SG/SC Sale Hearing, Debtors shall present to the Court for approval both the Successful Bid and the Second Highest Bid. Subject to Court approval, Debtors shall effect the assumption and assignment to the Successful Bidder. If, for any reason, the bid of the Successful Bidder is not approved by the Bankruptcy Court or the Successful Bidder fails to close the assumption and assignment (or lease termination, as the case may be) contemplated by its Successful Bid, then, without notice to any other party or further Court order, Debtors shall be authorized to close with the Qualified Bidder that submitted the Second Highest Bid.

7. Individual and Package Bids. At the Auction, Debtors will consider offers for individual leases and/or "package" bids and bids to acquire Debtors' "designation rights", provided

however, that any leases included in a package bid or in a bid to acquire Debtors' designation rights may be, in the Debtors' sole discretion, subject to individual bids at the Auction.

8. The Leases. Subject to the Debtors' right to withdraw the lease or leases prior to, during or after the conclusion of the Auction for any reason, including a private sale, which sales shall be subject to Court approval, the leases presently intended to be included in the Auction are those Leases identified on the list appended hereto and titled Exhibit A.

Debtors reserve the right to modify these Bid Procedures (or add additional terms and conditions) at any time, or extend any deadlines or the Auction without further notice, withdraw any assets from the sale, or reject any bids, in their discretion.