

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re:) Chapter 11
)
ALLIANCE ENTERTAINMENT) Case No. 97 B 44673 (BRL)
CORP., et al.,)
)
Debtors.) (Jointly Administered)

**FOURTH AND FINAL APPLICATION
FOR COMPENSATION AND REIMBURSEMENT
OF EXPENSES PURSUANT TO SECTIONS 330 AND 331 OF
THE BANKRUPTCY CODE**

Name of Applicant: The Blackstone Group L.P.

Authorized to Provide Professional Services to: Alliance Entertainment Corp., et al.

Date of Retention: January 1, 1998

Period for which compensation and reimbursement is sought: January 1, 1998 through August 20, 1998

Amount of Compensation sought as actual, reasonable, and necessary: \$ 1,120,766.20

Amount of Expense Reimbursement sought as actual, reasonable, and necessary: \$ 94,763.40

This is a(n): _____ interim X final application.

The total time expended for the preparation of this application is approximately 20 hours and the corresponding compensation requested is \$0.00.

TO THE HONORABLE BURTON R. LIFLAND
UNITED STATES BANKRUPTCY JUDGE:

The Blackstone Group L.P. ("Blackstone"), financial advisor to Alliance Entertainment Corp. and its subsidiaries, each a debtor and debtor-in-possession (collectively, the "Debtors"), respectfully represents:

1. Pursuant to the Order of the Court dated February 4, 1998 (the "Retention Order"), Blackstone was retained, effective January 1, 1998, to provide financial advisory services to the Debtors as per that certain agreement between Blackstone and the Debtors (the "Engagement Letter") dated as of December 22, 1997 and attached hereto as Appendix A.
2. This is the fourth and final application of Blackstone for (i) allowance of compensation for services rendered in the amount of \$764,516.20, (ii) allowance of the merger success fee related to the sale of Castle Communications PLC ("Castle") in the amount of \$356,250.00, and (iii) reimbursement of expenses in the amount of \$94,763.40 under Sections 330 and 331 of the Bankruptcy Code, for the periods January 1, 1998 through January 31, 1998 (the "First Compensation Period"), February 1, 1998 through April 30, 1998 (the "Second Compensation Period"), May 1, 1998 through July 31, 1998 (the "Third Compensation Period") and August 1, 1998 through August 20, 1998 (the "Fourth Compensation Period"), together the

"Engagement Period". The aggregate fees and expenses for which Blackstone seeks formal approval and full payment are summarized in the table below.¹

	<u>Amount Sought</u>	<u>Amount Previously Approved by the Court</u>	<u>Court Authorized Hold Back</u>	<u>Amount Not Yet Approved</u>
Fees				
First Compensation Period	100,000.00	80,000.00	20,000.00	-
Second Compensation Period	300,000.00	240,000.00	60,000.00	-
Third Compensation Period	656,250.00	-	-	656,250.00
Fourth Compensation Period	64,516.20	-	-	64,516.20
	<u>1,120,766.20</u>	<u>320,000.00</u>	<u>80,000.00</u>	<u>720,766.20</u>
Expenses				
First Compensation Period	4,327.72	4,327.72	-	-
Second Compensation Period	46,822.66	46,822.66	-	-
Third Compensation Period	38,778.97	-	-	38,778.97
Fourth Compensation Period ²	4,834.05	-	-	4,834.05
	<u>94,763.40</u>	<u>51,150.38</u>	<u>-</u>	<u>43,613.02</u>
Total Unpaid Fees and Expenses				<u>844,379.42</u>

¹ Blackstone filed its First Interim Application covering the First Compensation Period for (i) allowance of compensation of services in the amount of \$100,000.00 and (ii) reimbursement of expenses in the amount of \$4,372.72. Pursuant to an order of this Court, Blackstone received payment of \$84,327.72 representing 80% of the fees and 100% of the expenses. Blackstone filed its Second Interim Application covering the Second Compensation Period for (i) allowance of compensation of services in the amount of \$300,000.00 and (ii) reimbursement of expenses in the amount of \$46,822.66. Pursuant to an order of this Court, Blackstone received payment of \$286,822.66 representing 80% of the fees and 100% of the expenses. Blackstone filed its Third Interim Application covering the Third Compensation Period for (i) allowance of compensation of services in the amount of \$300,000, (ii) allowance of the merger success fee related to the sale of Castle in the amount of \$356,250.00 and (iii) reimbursement of expenses in the amount of \$38,778.97. Blackstone has not received any payment for fees or expenses during the Third Compensation Period.

² As mentioned in the covering letter of the August Monthly Fee Invoice dated September 21, 1998, due to lags in receiving invoices from third party service firms certain expense incurred during the Engagement Period would be billed at a later date. For this reason, this figure includes \$2,857.11 of expenses (net of a credit of \$159.83 related to over billing in the Third Interim Application) incurred during the Engagement Period which were not previously billed.

3. Pursuant to the terms of the Engagement Letter, as approved by the Retention Order, Blackstone may receive a fee of up to \$100,000 per month for its advisory services on behalf of the Debtors. Blackstone requests allowance of \$764,516.20, which represents the monthly fee of \$100,000 for the months of January through July 1998 and \$64,516.20, the prorated monthly fee for August 1998. To date, Blackstone has received \$320,000.00 representing 80% of our monthly fee during the First and Second Compensation Periods.
4. Further, pursuant to the Engagement Letter, as approved by the Retention Order, Blackstone may receive a merger success fee related to the sale of Castle for advisory services on behalf of the Debtors. Blackstone requests allowance and payment of \$356,250.00, which represents the Court approved merger success fee percentage applied to the gross sale proceeds received from the sale of Castle approved by the Bankruptcy Court on June 25, 1998. To date, Blackstone has not received any payment for the merger success fee.
5. During the Engagement Period, Blackstone provided the following services to the Debtors:
 - performed continuing business due diligence at the Debtors' headquarters and held numerous meetings with the Debtors' management to discuss reorganization alternatives;
 - reviewed the Debtors' 1998 operating plan and related financial projections;
 - managed the equity sponsor process relating to Alliance, including:
 - identifying and approaching numerous strategic and financial parties to provide capital as part of the Debtors' development and implementation of a plan of reorganization;

- development of a data room to support the due diligence efforts of the prospective investors in Alliance;
- scheduling and participating in due diligence sessions with prospective investors and management; and
- evaluating and analyzing bids received from prospective investors;
- managed the sale process relating to Castle, including:
 - participation in numerous meetings with the Debtors' management, legal and accounting advisors and various creditors;
 - conducting business due diligence sessions in order to develop a supplement to the previously issued confidential memorandum to be used to assist in accelerating a sale process that would maximize value in the shortest time frame;
 - preparation of preliminary valuation and liquidation analyses of Castle;
 - reviewing all correspondence between the Debtors' advisors and potential acquirors;
 - participation in numerous discussions and negotiations with all prospective interested parties regarding deal terms and structure and financing issues;
 - updating and maintaining a data room in the U.K.;
 - coordination of due diligence visits and data room requests with prospective investors;
 - assisted in developing a model purchase agreement for distribution to all prospective buyers;
 - evaluating the litigation and tax issues relating to the sale of the equity of Castle;
 - assisted in drafting of the motion and bidding procedures for the auction of Castle held in this Court on May 21, 1998;
 - negotiation of the share purchase agreement with the ultimate buyer of Castle;
 - negotiation of the terms of sale with other interested parties; and
 - preparation of testimony in support of the sale of Castle.

- managed the sale process relating to Concord Records, Inc. (“Concord”), including:
 - holding numerous meetings with the Debtors’ management, legal and accounting advisors, prior investment banker and various creditors;
 - undertaking due diligence regarding the history, operations, and financial performance of Concord;
 - completing an offering memorandum to market Concord Records, Inc. to prospective interested parties;
 - identifying prospective bidders and creating a contact log;
 - holding preliminary discussions with prospective bidders and getting bidders to sign confidentiality agreements;
 - updating and maintaining a data room in New York;
 - coordination of due diligence visits and data room requests with prospective investors;
 - assistance in the negotiation of deal structure and definitive documentation with prospective investors; and
 - development of a model purchase agreement for distribution to all prospective buyers.
- assisted in the negotiation of the plan of reorganization with all stakeholders;
- developed a financial model used to evaluate various plan of reorganization alternatives;
- assisted in the drafting of the plan of reorganization and disclosure schedule documents; attended numerous meetings regarding the same;
- developed a financial model and related market analysis in order to develop a preliminary assessment of the value of the reorganized Debtor;
- attended meetings, participated in conference calls, and had numerous discussions with the Debtors’ creditors and their advisors, the Debtors’ counsel the Debtors’ Board of Directors and several other of the Debtors’ stakeholders; and

- provided advisory services as to all financial matters concerning the Debtors' obligations under the Bankruptcy Code relative to the prosecution of the Debtors' chapter 11 cases.
6. The financial services set forth above were performed primarily by: Arthur Newman, Senior Managing Director; Timothy Coleman, Senior Managing Director; Paul Huffard, Vice President; Steve Zelin, Vice President; Hwan-yoon Chung, Associate; Michael Lahr, Associate; Brian O'Connor, Associate; Joseph Kaplan, Analyst; David Rosen, Analyst; and other professionals, as needed, of Blackstone. Details of the background and experience of the professionals are provided in Appendix B.
 7. Blackstone respectfully submits that the compensation requested for the Engagement Period for services rendered by Blackstone to the Debtors is fully justified and reasonable based upon (a) the time and labor required, (b) the complexity of the issues presented, (c) the skill necessary to perform the financial advisory services, (d) the preclusion of other employment, (e) time constraints required by the exigencies of the case and (f) the experience, reputation, and ability of the professionals rendering services.
 8. Blackstone respectfully submits that the services it has rendered to the Debtors have been necessary and in the best interest of the Debtors and the estate and have furthered the goals of all parties in interest. Blackstone respectfully submits that under all of the criteria normally examined in Chapter 11 reorganization cases, the compensation requested by Blackstone is reasonable in light of the work performed by Blackstone in these cases.

9. The amount of the fees and expenses sought in this application and Blackstone's billing processes are consistent with market practices in a bankruptcy context. Blackstone has never billed its clients based on the number of hours expended by its professionals. Accordingly, Blackstone does not have hourly rates for its professionals, and Blackstone's professionals generally do not maintain detailed time records of the work performed for its clients. In the Debtors' case, however, Blackstone has recorded time records in one-half hour increments, pursuant to the terms of the Engagement Letter and Retention Order. Time records of the 3,152.60 hours expended by Blackstone professionals in providing financial advisory and investment banking services to the Debtors from January 1, 1998 through August 1998 are provided in Appendix C.

Summarized below is the table of hours by professional on a monthly basis:

Professional	December	January	February	March	April	May	June	July	August	Total
Newman	-	5.0	-	-	-	-	-	-	-	5.0
Coleman	13.0	35.5	77.0	57.0	59.5	108.5	95.0	41.5	9.0	496.0
Huffard	11.0	42.0	80.0	67.5	59.0	42.0	35.0	19.5	6.0	362.0
Zelin	-	36.5	184.5	102.0	120.5	163.8	131.5	46.8	27.5	813.1
Chung	22.5	73.5	77.0	122.0	92.0	-	-	-	-	387.0
Lahr	-	-	-	-	-	-	65.5	20.5	14.5	100.5
O'Connor	-	-	-	-	-	-	116.0	-	-	116.0
Kaplan	-	80.0	129.0	177.5	136.5	187.5	153.0	-	-	863.5
Rosen	-	-	-	-	-	-	-	-	9.5	9.5
Total	46.5	272.5	547.5	526.0	467.5	501.8	596.0	128.3	66.5	3,152.6

10. Blackstone respectfully requests allowance of its out-of-pocket expenses incurred in connection with its performance of services for the Debtors during the Engagement Period in the aggregate amount of \$94,763.40³. To date, Blackstone has received payment of \$51,150.38 representing 100% of expenses incurred during the First and Second Compensation Periods. Blackstone has not received any reimbursement for expenses incurred or invoiced subsequent to the Second Compensation Period. Details of the out-of-pocket expenses incurred during the Engagement Period are provided in Appendix D.
11. Out-of-pocket expenses incurred by Blackstone are charged to a client if the expenses are incurred for the client or are otherwise necessary in connection with services rendered for such particular client. Blackstone does not factor general overhead expenses into disbursements charged to its clients in connection with Chapter 11 cases. Blackstone has followed its general internal policies with respect to out-of-pocket expenses billed to the Debtors as set forth below, with any exceptions specifically explained:
- (a) Blackstone's general policy permits its employees to bill lunch or dinner meals to a client if the employee is required to provide services to the client during such meal time due to extreme time constraints. Blackstone employees are permitted to order meals in the office if the employee is required to work after 8:00 p.m.

³ As mentioned in the covering letter of the August Monthly Fee Invoice dated September 21, 1998, due to lags in receiving invoices from third party service firms certain expense incurred during the Engagement Period would be billed at a later date. For this reason, this figure includes \$2,857.11 of expenses (net of a credit of \$159.83 related to over billing in the Third Interim Application) incurred during the Engagement Period which were not previously billed.

- (b) Messengers and couriers are used by Blackstone to deliver hard copy documents relating to the client matter which require receipt on an expedited basis; otherwise, Blackstone uses the regular postal system. Any charges for messengers and couriers are billed to a client at cost.
- (c) All airfare charges billed to the Debtors are based on coach rates except for international travel which has been billed at business class rates as a majority of the international travel included overnight segments;
- (d) The Research/Other category of expenses includes charges from outside computer/electronic service companies that supply, for a fee, research and/or financial documents to Blackstone. The services provided by these companies primarily consist of the retrieval of financial documents from regulatory agencies and/or the retrieval of research that would not otherwise be available to Blackstone. The Research - In House category of expenses are the charges for time spent by Blackstone research staff, billed at a rate of \$100 per hour, in operating the computer/electronic terminals related to these computer/electronic service companies.
- (e) Blackstone bills photocopying charges at the rate of \$.20 per page.
- (f) With respect to local travel, Blackstone's general policy enables employees to travel by private car service, taxi or subway to and from meetings while rendering services to a client on a client related matter, for which the client is charged. Further, Blackstone employees are permitted to charge personal

commuting expenses to a client as long as the employee is traveling after 8:00 p.m., primarily due to safety reasons, or on the weekend.

- (g) Blackstone bills its clients for time spent by its support staff providing word processing services. The word processing system automatically allocates time to a client based upon the operator's log-in by a client-matter number. Blackstone clients are charged at the personnel cost of \$32.50 per hour for the actual amount of time spent by the operator while rendering word processing services to the client.
 - (h) Blackstone bills outgoing long-distance facsimile charges at a rate of \$1.25 per page. Blackstone does not bill local or incoming facsimile charges to clients.
12. Blackstone respectfully submits that the expenses for which it seeks allowance during the Engagement Period are necessary and reasonable both in scope and amount.
 13. Application for the relief requested herein, with the exception of the expenses invoiced subsequent to the Fourth Compensation Period, has been made in the form of the First Interim Fee Application, the Second Interim Fee Application, the Third Interim Fee Application and the August Monthly Invoice.
 14. All services for which compensation is requested by Blackstone were performed for and on behalf of the Debtors after the filing of this case and were not rendered on behalf of any other person.

15. There is no agreement or understanding between Blackstone and any other person for the sharing of compensation received or to be received for services rendered in connection with these proceedings.

16. **WHEREFORE**, Blackstone requests the Court to:

(a) Approve the allowance of Blackstone's fees, including the merger success fee related to the sale of Castle, in the amount of \$1,120,766.20 for the Engagement Period;

(b) Approve the allowance of Blackstone's expenses in the amount of \$94,763.40 for the Engagement Period;

(c) Approve the payment to Blackstone of \$844,379.22, representing the aggregate of (i) unpaid monthly fees of \$444,516.20, (ii) the merger success fee related to Castle of \$356,250.00 and (iii) unpaid expenses of \$43,613.02 as set out on the schedule on page 3; and

(d) Grant such other and further relief as this Court deems just and proper.

Dated: New York, New York
October 5, 1998

THE BLACKSTONE GROUP L.P.
Financial Advisor to the Debtors

By: 

Timothy R. Coleman
Senior Managing Director
345 Park Avenue
New York, NY 10154

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re:) Chapter 11
)
ALLIANCE ENTERTAINMENT) Case No. 97 B 44673 (BRL)
CORP., et al.,)
)
Debtors.) (Jointly Administered)

**AFFIDAVIT OF TIMOTHY R. COLEMAN IN SUPPORT OF FOURTH AND FINAL
APPLICATION FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES OF
THE BLACKSTONE GROUP L.P. PURSUANT TO SECTION 330 AND 331 OF THE
BANKRUPTCY CODE**

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

TIMOTHY R. COLEMAN, being duly sworn, deposes and says:

1. I am a Senior Managing Director of The Blackstone Group L.P. ("Blackstone"), which firm maintains offices for providing financial advisory services at 345 Park Avenue, New York, New York 10154. Blackstone has acted as financial advisor to and rendered professional services on behalf of Alliance Entertainment Corp. and its subsidiaries, each a debtor and debtor-in-possession (collectively, the "Debtors").
2. This affidavit is submitted pursuant to Bankruptcy Rule 2016 in connection with Blackstone's application (the "Application") for an allowance of final compensation

for services rendered to the Company for the period from January 1, 1998 through August 20, 1998 in the amount of \$764,516.20, the allowance the merger success fee related to the success successful sale of Castle Communications PLC in the amount of \$356,250.00, and the approval of reimbursement of out-of-pocket expenses incurred in connection therewith in the sum of \$94,763.40.

3. All of the services for which compensation is sought by Blackstone were performed for and on behalf of the Debtors and not on behalf of any other person.
4. No agreement or understanding exists between Blackstone and any other entity for the sharing of compensation received or to be received for services rendered in or in connection with these cases.



Timothy R. Coleman
Senior Managing Director

Sworn to before me this 5th day of October 1998

Holly B. Cohen
Notary Public

HOLLY B. COHEN
NOTARY PUBLIC, State of New York
No. 01CO6003607
Qualified in Bronx County
Commission Expires March 9, 2000

