

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

CHANIN KIRKLAND MESSINA, LLC
Financial Advisor to the Official Committee
of Unsecured Creditors

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In re: : Chapter 11
: :
ALLIANCE ENTERTAINMENT : Case No. 97 B 44673 (BRL)
CORP., et al., : :
: :
Debtor. : (Jointly Administered)
: :
: :
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Hearing Date: October 28, 1998
10:00 a.m.

Application Period
5/1/98-8/20/98

Interim Fees Sought	\$275,000.00
Interim Expenses Sought	\$12,541.70
Avg. Hourly Rate for Interim Fee Application	\$320.51
Total Fees Sought	\$955,000.00
Total Expenses Sought	\$47,083.97
Total Interim Fees Paid	\$544,000.00
Total Interim Expenses Paid	\$34,542.27
Total Interim Fees Approved But Held Back (20%)	\$136,000.00
Total Interim Expenses Disallowed	\$420.38

ALL MATTERS

<u>Name of Professionals</u>	<u>Years at Position</u>	<u>Hours</u>
Russell Belinsky ¹	8.0	144.30
Thane Carlston ¹	5.0	50.00
Randall Lambert ¹	5.0	205.10
John Garcia, CFA ²	1.5	59.50
Brendan O'Leary ²	2.0	399.10
TOTAL		<u>858.00</u>

1. Managing Director
2. Associate

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Chapter 11
Case No. 97 B 44673 (BRL)
(Jointly Administered)

**FINAL APPLICATION OF CHANIN KIRKLAND MESSINA, LLC, FINANCIAL
ADVISOR TO THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS
OF ALLIANCE ENTERTAINMENT CORP. ET AL., FOR COMPENSATION
AND REIMBURSEMENT OF EXPENSES**

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

Chanin Kirkland Messina, LLC ("Chanin"), financial advisor to the Official Committee of Unsecured Creditors (the "Committee") of the Alliance Entertainment Corp. ("Alliance") and its thirteen direct and indirect subsidiaries (collectively with Alliance, the "Debtors") in the above-captioned chapter 11 cases, submits this final application (the "Final Application") for the allowance and award of compensation and reimbursement of actual and necessary expenses from the estate of the Debtors for professional services rendered, in the amount of \$275,000.00, together with actual and necessary expenses in the amount of \$12,541.70 for the period commencing May 1, 1998 through August 20, 1998 (the "Final Application Period"). In further support of the Final Application, Chanin respectfully states as follows:

INTRODUCTION

1. On July 30, 1998, this Court confirmed the Debtors' Third Amended Joint Plan of Reorganization (the "Plan"). In the weeks leading up to that event, Chanin prepared

several different analyses and performed services relating to issues of critical importance to the interests of the Committee and general unsecured creditors of these estates, including (i) review and analysis of the valuation analysis of reorganized Alliance prepared by The Blackstone Group, L.P. ("Blackstone") in connection with confirmation of the Plan and preparation of an independent valuation analysis, (ii) preparation of a recovery analysis to inform the Committee of the recoveries to be afforded to general unsecured creditors of these estates relative to other creditor constituencies, (iii) participation in extensive negotiations among the Debtors, the Chase Manhattan Bank ("Chase"), as agent bank for the Debtors' prepetition lenders (the "Prepetition Lenders"), and the Committee in connection with improving such recoveries, (iv) preparation of a warrant valuation analysis and an equity valuation analysis for purposes of determining the worth of the securities allocated to general unsecured creditors pursuant to the Plan, and revision of Chanin's recovery analysis based on the results thereof, (v) review and revision of the warrant agreement governing the terms of the warrants to be distributed to general unsecured creditors of these estates, including incorporation of a "change of control" put right designed to maximize value to warrant holders in the event of a sale of reorganized Alliance by the Prepetition Lenders and a valuation formula related thereto, (vi) preparation of an extensive preference analysis to be used in connection with confirmation of the Plan, (vii) evaluating the divestiture process as to non-core assets, including the sale of Castle Communications plc ("Castle"), (viii) preparation of weekly financial updates relating to the sales and overall financial performance of the Debtors, (ix) attendance at the fee application hearing for all professionals retained in these cases, the auction and sale hearing relating to Castle, and the confirmation hearing in connection with the Plan, and (x) attention to other post-confirmation issues, such as implementation of a trust (the "Alliance Recovery Trust") through which consideration allocated to general unsecured creditors

under the Plan will be distributed, and selection of a trustee to administer the Alliance Recovery Trust. In short, the work performed by Chanin facilitated the Committee's ability to take economically desirable positions regarding the treatment proposed by the Debtors in connection with confirmation of the Plan.

2. By this Final Application, Chanin seeks a final allowance of \$1,002,083.97, consisting of (i) \$275,000.00 as compensation for services Chanin rendered during the Final Application Period, (ii) \$680,000.00 as compensation for services Chanin rendered from July 23, 1997 through April 30, 1998 (the "Interim Application Period"), (iii) \$12,541.70 as reimbursement of actual and necessary expenses incurred during the Final Application Period, and (iv) \$34,542.27 as reimbursement of actual and necessary expenses incurred during the Interim Application Period. To date, Chanin has been paid eighty percent (80%) of its allowed fees (i.e., \$544,000) and one hundred percent (100%) of its allowed expenses (i.e., \$34,542.27) in connection with services rendered by Chanin during the Interim Application Period.

3. Chanin requests final allowance of all prior compensation for financial advisory services rendered and reimbursement of expenses incurred on behalf of the Committee during the pendency of these cases, as well as the allowance of the remaining twenty percent (20%) of Chanin's fees during the Interim Application Period which have been held back pursuant to this Court's orders granting earlier interim fee applications. Chanin respectfully submits that payment and reimbursement of these amounts, and final approval therefor, is fully warranted given the actual and necessary services rendered to the Committee by Chanin as described in this Final Application.

CHANIN AND ITS BILLING PRACTICES

4. The professionals of Chanin who have rendered professional services on behalf of the Committee are Russell Belinsky, Thane Carlston, Randall Lambert, John Garcia, and Brendan O'Leary.

a. Russell Belinsky is a Managing Director at Chanin and Company. Mr. Belinsky is a Managing Director and principal of Chanin. Prior to co-founding Chanin in 1990, Mr. Belinsky was associated with Skadden, Arps, Slate, Meagher & Flom, specializing in corporate finance, mergers and acquisitions, and restructuring transactions.

b. Thane Carlston was a Managing Director at Chanin. Mr. Carlston joined Chanin in 1992 upon completing a Masters Degree in Business Administration at UCLA.

c. Randall Lambert is a Managing Director at Chanin. Mr. Lambert joined Chanin in 1998. Prior to that time, Mr. Lambert was employed at BDS Securities Corp.

d. John Garcia was an associate at Chanin. Mr. Garcia joined Chanin in 1996. Prior to that time, Mr. Garcia was in the Los Angeles office of KPMG Peat Marwick's Corporate Transactions Group.

e. Brendan O'Leary is an associate at Chanin. Mr. O'Leary joined Chanin in 1998. Prior to joining Chanin, Mr. O'Leary worked at BDS Securities Corp.

5. By this Court's order dated October 1, 1997, this Court authorized Chanin's retention as financial advisor to the Committee. Pursuant to this Court's order, Chanin has maintained time records in this case. Annexed hereto as Exhibit A, and incorporated herein by reference, are the time records (the "Time Records") of Chanin personnel showing a day-by-day entry of all time spent by Chanin's professionals in connection with advising the Committee

during the Final Application Period. The Time Records provide a chronological, daily explanation of the services rendered by Chanin.

6. The services for which compensation is being sought by Chanin were rendered for and on behalf of the Committee and not on behalf of the Debtors, or any other interested party in these bankruptcy cases. Chanin has received no other payments or promises of payment from any other source for services rendered in any capacity whatsoever in this case. There is no outstanding agreement or understanding between Chanin and any other person, other than principals of Chanin, for the sharing of compensation.

7. Pursuant to this Court's order, dated as of December 23, 1997, this Court approved payment of \$230,000.00 as compensation for services rendered to the Committee and \$15,193.32 for reimbursement of expenses during the first application period. Pursuant to this Court's order, dated as of April 6, 1998, this Court approved payment of \$225,000.00 as compensation for services rendered to the Committee and \$14,722.73 for reimbursement of expenses during the second application period. Finally, pursuant to this Court's order, dated as of July 6, 1998, this Court approved payment of \$225,000 as compensation for services rendered to the Committee and \$4,626.22 for reimbursement of expenses during the third application period. Of the compensation requested by Chanin, \$136,000.00 in compensation has thus far been withheld until the end of these cases. Accordingly, as of the date of this Final Application, Chanin has received payment of \$544,000.00 in compensation and \$34,542.27 in reimbursed expenses for services rendered during the Interim Application Period.

8. Chanin has also maintained records of all actual and necessary expenses incurred in advising the Committee. Annexed hereto as Exhibit B are copies of Chanin's records enumerating all expenses incurred during the Final Application Period for which reimbursement is

sought. With respect to such expenses, Chanin charges \$.20 per page for photocopying. Chanin charges for out-going facsimiles at a rate of \$.50 per page, but does not charge for incoming facsimiles.

SUMMARY OF FINANCIAL ADVISORY SERVICES RENDERED

9. In connection with the issues presented in these chapter 11 cases, Chanin has played an important role in providing financial advisory services to the Committee and assisting in negotiations with key creditor constituencies.

10. Chanin's engagement agreement outlines the specific services to be provided to the Committee. This agreement provides that such services include (i) analysis of the Debtors' operations, business strategy, concept implementation, marketing plan, and competition in each relevant market, (ii) analysis of the Debtors' financial condition, business plans, operating forecasts, management, and the prospects for its future viability and performance, in whole or in part, in chapter 11 and thereafter, (iii) financial valuation of the assets and ongoing operations of the Debtors, (iv) assisting the Committee in developing, evaluating, structuring, and negotiating the terms and conditions of the plan of reorganization proposed by the Debtors, including the value of the securities, if any, that may be issued to the Committee under the proposed plan, (v) advising the Committee regarding strategic options available with respect to the Debtors' operations and businesses, (vi) advising the Committee regarding any analyses or other matter that may be the subject of review by the financial advisors of the Debtors, (vii) analyzing the financial and economic rights and interests in relation to intercreditor issues and to the rights of other constituencies in connection with the proposed plan of reorganization (as well as asset dispositions in connection therewith), (viii) working cooperatively with other Committee professionals to represent the interests of the Committee in negotiating with the Debtors and

other parties-in-interest, and (ix) providing the Committee with other and further financial advisory services, including valuation and general restructuring advice with respect to financial, business and economic issues (including disposition of assets and/or divisions) as may arise during the course of these cases as requested by the Committee.

11. During the Final Application Period, Chanin's professionals expended a total of 858.00 hours advising the Committee in these cases, as set forth in the following chart and described in further detail below.

ALL MATTERS

<u>Name of Professional</u>	<u>Position</u>	<u>Years at Position</u>	<u>Hours</u>
Russell Belinsky	Managing Director	8.0	144.30
Thane Carlston	Managing Director	5.0	50.00
Randall Lambert	Managing Director	5.0	205.10
John Garcia, CFA	Associate	1.5	59.50
Brendan O'Leary	Associate	2.0	399.10
TOTAL			<u>858.00</u>

I. General Services Rendered

12. During the Final Application Period, the Committee requested that Chanin perform numerous and extensive tasks relating to analysis and evaluation of the value of the Debtors' reorganized businesses. Chanin communicated the results of these analyses through periodic written and oral presentations at meetings of the Committee, conference calls with the

Committee, and telephone conversations and meetings with the individual Committee members and other Committee professionals.

II. Financial Due Diligence

13. Chanin continues to evaluate financial information obtained by it from the Debtors and its professionals and conduct due diligence for purposes of monitoring the operational and financial condition of the core businesses of the Debtors. This process requires continuous review and analysis of recent historical and projected financial information. Chanin's efforts during the Final Application Period formed the basis for a detailed valuation analysis of the core businesses for purposes of confirmation of the Plan, including review of Blackstone's calculations of the Debtors' reorganized enterprise value, and an independent valuation thereof performed by Chanin.

14. In addition, Chanin also conducted due diligence regarding the weekly packages sent by the Debtors. On a weekly basis, Chanin reviewed the Debtors' financial update package, discussed the Debtors' financial and operational performance with the Debtors' advisors, and prepared a summary report that is sent to the Committee to keep its members current with the Debtors' financial and operational performance.

III. Financial Analysis

15. During the Final Application Period, Chanin analyzed the Debtors' monthly operating reports, which includes a summary of sources and uses of funds, balance sheets, and income statement data. Chanin provided analysis of this data to the Committee in order to keep its members current on the Debtors' performance.

16. In connection with confirmation of the Plan, Chanin performed an in-depth financial analysis related to potential preference actions and other avoidance actions assertable on

behalf of these estates. Chanin's efforts with respect to these activities are ongoing in that the trustee of the Alliance Recovery Trust may determine that some or all of such causes of action should be pursued on behalf of these estates.

IV. M&A Process

17. Chanin monitored the M&A processes in connection with the sale of Castle. Chanin arranged and attended numerous meetings with Blackstone and senior management of the Debtors in connection with the M&A process for the purposes of discussing potential bidders, sales prices, terms, and timing. Chanin provided informational updates to the Committee via teleconferences, meetings and written memoranda. Chanin also assisted the Debtors in referring potential bidders to Blackstone for inclusion in both the Castle bidding process. Finally, Chanin reviewed the terms, conditions and bidding procedures associated with the Debtors' proposed auction sale of Castle, and assisted the Committee in taking a position on such sale.

V. Complex Negotiations and Analyses Relating to the Plan

18. Chanin had lengthy discussions with the Committee, counsel to the Committee, the Debtors, and Chase regarding issues relating to earlier versions of the Plan, including the treatment of classes of claims thereunder and presentation of data relating to valuation of recoveries to be had by unsecured creditors in these cases. Chanin actively participated in difficult negotiations held for the purpose of improving the treatment of general unsecured creditors pursuant to the Plan. As a result of the successful conclusion of these negotiations, Chanin then performed a quantitative analysis of the value of the new common stock of Alliance and the warrants to be issued to unsecured creditors of certain of these estates. In connection with the valuation of these securities and its review of the agreement governing

issuance of the warrants, Chanin successfully implemented a "change of control" put right which permits the holders of the warrants to require Alliance to repurchase such warrants using a predetermined formula in the event Alliance is sold to a third party prior to expiration of the term of the warrants. The practical effect of this provision is to maximize the value of the warrants, even though Alliance will remain privately held for the foreseeable future, for the benefit of general unsecured creditors who are entitled to receive such warrants pursuant to the Plan. Finally, Chanin also helped select a trustee for the Alliance Recovery Trust, and took steps to set up and begin administering the Alliance Recovery Trust.

VI. Other Tasks

19. In addition to the assignments and tasks set forth above, at the request of the Committee, Chanin (i) participated in various conference calls and meetings with Committee members and other constituents, (ii) reviewed and analyzed certain other financial information (as requested by the Committee), and (iii) provided other financial analysis to assist counsel for the Committee (as requested by the Committee's counsel). All of Chanin's activities were conducted with the goal of producing efficient and effective services for the benefit of the Committee, general unsecured creditors, and these estates.

REIMBURSEMENT OF EXPENSES

20. Exhibit B sets forth, among other things, a list of actual and necessary expenses incurred by Chanin during the Final Application Period on behalf of the Committee, including airfare, courier service expenses, delivery service charges, hotel and meal expenses, parking and transportation expenses, photocopying and telecopier expenses, research expenses, subscriptions, and long distance telephone charges. The total amount of expenses for which

approval for reimbursement is sought in this Final Application is \$12,541.70, none of which has been billed or received.

CONCLUSION

21. The services rendered by Chanin to the Committee were necessary and appropriate to the discharge of the Committee's fiduciary duties. The amount of compensation sought by Chanin is consistent with the factors enumerated in 11 U.S.C. § 330, in that the amount sought is reasonable compensation for actual, necessary services rendered by Chanin, taking into account all relevant factors, including time spent on such services, the complexity, importance and nature of the problem, the issue or task addressed, and the customary compensation charged by comparably skilled practitioners in cases other than those under title 11 of the United States Code. Moreover, the terms and conditions under which Chanin was retained do not appear to be improvident in light of the development of these cases thus far.

WHEREFORE, Chanin requests that this Court enter an appropriate order (i) granting this Final Application for compensation and reimbursement of actual and necessary expenses in the aggregate amount of \$1,002,083.97, consisting of (a) \$275,000.00 as compensation for financial advisory services rendered to the Committee during the Final Application Period, (b) \$680,000.00 as compensation for services rendered during the Interim Application Period, (c) \$12,541.70 as reimbursement for actual and necessary expenses incurred during the Final Application Period, and (d) \$34,542.27 as reimbursement for actual and necessary expenses incurred during the Interim Application Period, and (ii) granting Chanin any such other and further relief as is just and proper.

Dated: New York, New York
October 5, 1998

CHANIN KIRKLAND MESSINA, LLC

By: /s/ Russell Belinsky
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