

Hearing Date: October 29, 1997  
at 10:00 a.m.

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

APPLICATION OF DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION FOR FINAL ALLOWANCE OF  
COMPENSATION AND REIMBURSEMENT OF EXPENSES

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
Investment Banker to  
the Debtors  
277 Park Avenue  
New York, NY 10172  
(212) 892-3000

Dated: New York, New York  
October 1, 1997

"B", "B", "T0

UNITED STATES BANKRUPTCY COURT  
 SOUTHERN DISTRICT OF NEW YORK  
 Securities Corporation

Fees Previously Requested: \$0.00  
 Fees Previously Awarded: \$0.00

NAME OF APPLICANT:  
 Donaldson, Lufkin, & Jenrette

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 :  
 In re :  
 in-Possession :  
 : CHAPTER 11  
 ALLIANCE ENTERTAINMENT :  
 CORP., et al., : Case No. 97 B 44673 (BRL)  
 \$350,000 :  
 Debtors. : Jointly Administered  
 \$25,217.09 :  
 :  
 -----x

Expenses Previously Requested: \$0.00  
 Expenses Previously Awarded: \$0.00  
 Pre-Petition Retainer Received: \$0.00

ROLE IN THE CASE:  
 Investment Banker for Debtors-  
 CURRENT APPLICATION  
 Fees Requested:  
 Expenses Requested:

<u>Name</u>	<u>Department</u>	<u>Year Admitted</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>	<u>Fee(s) Charged for Similar Work in Nonbankruptcy Matters and Percentage Received</u>	<u>Time Records Submitted</u>
J. Halisey Kennedy	Senior Vice President, Investment Banking Division, DLJ	N/A	155.30	N/A	N/A	100%	Yes
Scott McLallen	Associate, Leveraged Finance Group, DLJ	N/A	31.25	N/A	N/A	100%	Yes
Danielle DeMaio	Summer Associate, DLJ	N/A	39.50	N/A	N/A	100%	Yes
Mitchell Howell	Analyst; Restructuring Group, DLJ	N/A	52.75 278.80	N/A	N/A	100%	Yes
Carlene J. Gattling	Counsel, Skadden Arps	1983	43.70	\$340	14,858	100%	Yes
Shmuel Vasser	Associate, Skadden Arps	1991	6.20 49.9	\$280	\$1,736	100%	Yes

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et al., : (Jointly Administered)  
: Debtors.  
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APPLICATION OF DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION FOR FINAL ALLOWANCE OF  
COMPENSATION AND REIMBURSEMENT OF EXPENSES

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

Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), as investment banker to Alliance Entertainment Corp. ("Alliance") one of the above-captioned debtors and debtors in possession (the "Debtors"), submits this application (the "Application") seeking final allowance of compensation and reimbursement of disbursements pursuant to 11 U.S.C. §§ 327 and 328 and Rules 2014 and 2016 of the Federal Rules of Bankruptcy Procedure for final allowance of compensation and reimbursement of ex-

penses, and in support of the Application sets forth and represents as follows:

#### Background

1. On July 14, 1997 (the "Filing Date"), Alliance Entertainment Corp. ("Alliance") and fourteen of its direct and indirect subsidiaries (collectively with Alliance, the "Debtors") filed with this Court voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtors' cases were procedurally consolidated for administrative purposes only.

2. Subsequent to the Filing Date, the Debtors sought an order authorizing the retention of DLJ pursuant to the terms of a letter agreement dated June 30, 1997, as their exclusive investment banker in connection with the marketing and sale of Red Ant LLC and its affiliates. Red Ant LLC is owned 50% by Red Ant Box, Inc. and 50% by Red Ant Holdings, Inc. Red Ant Holdings, Inc. wholly owns Black Ant Music, Inc., Army Ant Music, Inc. and Velvet Ant Music, Inc. (Red Ant LLC and its affiliates are collectively referred to as "Red Ant"). Subsequently, the parties entered into a revised Schedule I to the letter agreement (together, the "Letter Agreement"). A copy of the Letter Agreement is annexed hereto as Exhibit A.

3. By order dated August 4, 1997, the Court authorized the Debtors to retain DLJ as their investment banker to perform the services set forth in paragraph 8 of the Letter Agreement (the "Retention Order"). A copy of the Retention Order is annexed hereto as Exhibit B.

4. By order dated August 15, 1997, the Court approved the sale of Red Ant to Cypress Ventures, Inc., an affiliate of Wasserstein Perella Group, Inc., for \$1,050,000 and a commitment by the purchaser to fund Red Ant's future operations up to \$11.375 million. The Debtors retained 10% equity interest in Red Ant. The sale closed on August 19, 1997.

5. Pursuant to the Letter Agreement and the Retention Order, DLJ was retained as financial advisor to perform the following professional services:

- (A) identify prospective buyers of Red Ant;
- (B) collect and distribute to prospective buyers due diligence materials regarding the business and operations of Red Ant;
- (C) assist the Debtors in review and analysis of offers regarding Red Ant, including valuing the consideration offered by prospective purchasers of Red Ant;
- (D) assist the Debtors in negotiating and consummating a sale of Red Ant;
- (E) provide testimony, if necessary, in the bankruptcy court on behalf of the Debtors re-

garding matters as to which DLJ has rendered services in these Chapter 11 cases; and

(F) perform any other services as the Debtors or Debtors' counsel may reasonably request from time to time with respect to the sale of Red Ant (collectively, the "Financial Services").

6. Pursuant to the Letter Agreement and the Retention Order and in consideration of the foregoing services, the Debtors agreed to pay DLJ the following amounts:

(a) a \$100,000 fee payable upon the signing of a letter of intent, definitive agreement or similar documentation with respect to a sale of Red Ant or a Transaction, as the term is defined in the Letter Agreement;

(b) a \$250,000 fee payable upon the closing of a Transaction; and

(c) reimburse DLJ for out-of-pocket expenses, including the reasonable fees and expenses of DLJ's counsel, incurred by DLJ in connection with its engagement pursuant to the Letter Agreement.

7. To date, DLJ has received no payments on account of the professional services rendered to the Debtors pursuant to the Letter Agreement.

### Relief Requested

8. By this Application, DLJ requests (a) a final allowance of compensation in the amount of \$350,000, (b) a final allowance of the disbursements incurred during its engagement in the amount of \$7,801.42, and \$17,409.67 of legal fees and expenses incurred by it as a result of its engagement.

9. DLJ maintained contemporaneous monthly time records to reflect the services rendered to the Debtors. Copies of the time records maintained by DLJ in this case are annexed hereto as Exhibit C. A summary of time devoted by DLJ to this case is annexed as Exhibit D. A detailed summary of disbursements actually and necessarily incurred by DLJ is annexed hereto as Exhibit E.

### Description of Services Rendered

10. It is impossible to describe completely the work performed by DLJ as part of its engagement by the Debtors. At times, the demands on DLJ were rigorous, as DLJ was required to render services to the Debtors on a near daily basis. From time to time, the DLJ professionals working on this case were required to devote all of their daily time to this case, often to the exclusion of other clients and matters. It is accordingly not possible to describe in detail the many conferences, telephone

conversations, negotiations, drafting sessions, meetings of the Board of Directors and other matters that occupied DLJ's time on a regular basis. The following description of the firm's services, therefore, is merely a summary of the matters that occupied the most substantial amounts of DLJ's time. Additional matters on which DLJ worked are described in the time records annexed to this Application as part of Exhibit C.

11. The subjects upon which DLJ rendered advice and the general areas in which DLJ rendered professional services during the case may be broadly characterized as follows:

- A. due diligence services;
- B. preparation of cash flow analyses;
- C. preparation of confidential information memorandum;
- D. solicitation of buyer interest;
- E. valuation analyses;
- F. proposal evaluation; and
- G. negotiations with potential buyers.

A. Due Diligence

DLJ team members, as a group and in subgroups, had several meetings with management of the Debtors and Red Ant in which the current operations and prospects of



Red Ant were reviewed. It was necessary for DLJ to develop a fundamental understanding of Red Ant's business and financial prospects in order to convey those prospects to potential buyers.

B. Cash Flow Analyses

DLJ constructed a multi-year monthly cash flow model for Red Ant's business and revised this analysis on multiple occasions to update the information to accurately portray the latest business developments. As part of this analysis, DLJ (i) reviewed recent financial statements prepared by Red Ant and made available to potential buyers; (ii) reviewed certain financial projections prepared by Red Ant's management for the period through fiscal year 1998; and (iii) conducted other such analyses and examinations as DLJ deemed necessary and appropriate. The cash flow model and related projections were provided to interested parties in order to facilitate their evaluation of Red Ant.

C. Confidential Information Memorandum

DLJ prepared a confidential information memorandum regarding Red Ant's business (the "Memorandum") to disseminate to potential buyers of Red Ant. DLJ spent significant time drafting the Memorandum to properly reflect Red Ant's business, operations, financial perfor-

mance and prospects in order to solicit the interest of buyers. The Memorandum included (i) a detailed description of Red Ant, (ii) a discussion of its business strategy, (iii) projected financial results, (iv) an artist roster, and (v) a release schedule. DLJ drafted the Memorandum, drawing heavily on its past experience and discussions with management to generate interest on the part of potential buyers with the necessary information to commence an investigation of Red Ant.

D. Solicitation of Buyer Interest

DLJ identified and contacted various interested parties that had expressed prior interest or were considered potential buyers. DLJ contacted 28 parties to solicit interest in Red Ant of which 18 expressed interest in receiving the Confidential Information Memorandum. DLJ followed up with all of the interested parties to answer questions and provide additional information. DLJ assisted Red Ant's management in meeting with interested parties and followed up on information requests. DLJ also established data rooms in its New York and Los Angeles offices to allow interested parties to review contracts and more detailed financial information. Seven parties requested and received the bidding instructions and a draft purchase agreement of which three made proposals.

E. Valuation Analyses

DLJ prepared various valuation analyses in order to evaluate proposals for Red Ant. These analyses provided a benchmark for valuing the equity and aggregate value of Red Ant and in determining the valuation of residual interest proposed by certain bidders. Companies used as comparables were chosen after careful deliberation, including conversations with DLJ's entertainment industry experts. DLJ considered the market values of publicly traded comparable companies, as well as multiples paid in recent acquisitions of entertainment companies of similar size. The valuation analyses assisted DLJ in analyzing the estimated value of Red Ant, and estimating the value of the company's retained interest in Red Ant, if any.

F. Proposal Evaluation

Following receipt of the three proposals, DLJ had discussions with each of the parties to confirm and clarify proposals. DLJ prepared for the Board of Directors an analysis of the proposals which assessed the form of consideration, funding commitments and conditions. This required a thorough comparison of the three proposals, valuation of any retained equity interests, and an assessment of the other material terms and commitments. In addition, DLJ worked to verify and confirm the financ-

ing commitments required to consummate each bid. DLJ also discussed its view of the proposals and the status of the bidding with the various creditor groups.

G. Negotiation with Potential Buyers

Upon receipt of the proposals, DLJ began negotiating with the parties to improve their offers. All three of the proposals had been improved by the time the Board of Directors met to consider the proposals. At the direction of the Board, DLJ continued to negotiate with the parties until an acceptable proposal was obtained by the Board after which Alliance submitted to the court a motion to sell Red Ant. DLJ continued discussions with interested parties leading up to the hearing scheduled to approve the sale. DLJ also assisted in negotiating certain provisions of the purchase agreement. These negotiations resulted in a significant improvement in the final proposal from the original bid.

Allowance of Compensation

13. Several DLJ professionals devoted substantial time and energy to this case. During the course of DLJ's engagement, J. Halisey Kennedy, a Senior Vice President and the project manager for the engagement, spent 155.30 hours working on the engagement, representing over half of his time for the relevant period. Mr. Kennedy's

significant devotion of time to the Debtors' case often prevented him from pursuing other assignments.

14. In addition to Mr. Kennedy, several other DLJ professionals dedicated significant time to the Debtors' case. Other DLJ professionals who worked extensively on the case include Scott McLallen, an associate in DLJ's leveraged finance group, Mitchell E. Howell, an analyst in DLJ's restructuring group, and Danielle DeMaio, a summer associate. The biographies of the DLJ professionals who provided services to the Debtors are annexed hereto as Exhibit F. These professionals devoted a total of 278.80 hours to this case. See Exhibit D.

15. The services provided by DLJ to the Debtors played a major role in the Debtors' successful sale of Red Ant for favorable terms, including (i) a \$1,050,000 purchase price, (ii) the buyer's commitment to fund Red Ant's future operations up to \$11.375 million, and (iii) retention of a 10% equity interest in Red Ant. In fact, as a result of DLJ's services the successful purchaser of Red Ant paid approximately \$1 million more than the original bid. The sale proceeds will no doubt assist the Debtors in meeting their business and financial goals, and maximize recovery for all of the Debtors' constituencies.

16. In addition, DLJ's financial analysis, rigorous financial modeling and negotiation skills contributed significantly to the price obtained for Red Ant.

17. Because of the benefits realized by the Debtors, the nature of this case, the qualifications of the DLJ professionals who rendered services to the Debtors, the amount of work done, the time consumed, the skill required, and the contingent nature of the compensation, DLJ requests that it be granted a final allowance of \$375,217.09, representing \$350,000 in fees and \$25,217.09 in reimbursement of expenses, inclusive of \$17,409.67 in legal fees and expenses.

18. The retainer arrangements entered into by DLJ and other national investment banking firms are different from the retainer arrangements of other types of professional advisory firms. Unlike legal and accounting firms, which are set up for billing on an hourly basis, DLJ does not have the mechanisms in place to bill on an hourly basis or to charge a client based on specific activities performed. While DLJ has maintained time records for the services provided by it in this case, it does not bill on an hourly basis, and does not maintain a fee schedule for its various employees.

19. In the normal course of DLJ's business, and as is customary for all national investment banking firms, DLJ advises its clients on transactions similar to the sale of Red Ant and is typically compensated on a flat fee basis. The flat fee contained in the Letter Agreement is normal and customary for transactions of this type.

Legal Fees and Expenses

20. Skadden, Arps, Slate, Meagher & Flom, LLP ("Skadden") served as DLJ's legal counsel in respect of its retention by the Debtors pursuant to the Letter Agreement. In the normal course of DLJ's representation, Skadden has provided DLJ with legal services aggregating \$16,594 and expenses of \$815.67. Detailed time records maintained by Skadden for this representation are annexed hereto as Exhibit G. A detailed summary of the disbursements actually and necessarily incurred by Skadden is annexed hereto as Exhibit H.

21. The Letter Agreement specifically provides that the Debtors will reimburse DLJ for its reasonable legal fees and disbursements. See Letter Agreement at 1.

22. DLJ submits that given the size, complexity, and highly successful nature of the sale, the allowance requested is reasonable compensation for the extensive services provided to the Debtors in this case.

23. DLJ certifies that, to the best of its knowledge, no compensation is sought in this Application for any services that were also performed by other professionals retained by the Debtors in this case.

24. Finally, I hereby certify on behalf of DLJ that no agreement or understanding exists between DLJ and any other persons for the sharing of compensation received or to be received for professional services rendered in or in connection with this case, except as permitted by section 504(b)(1) of the Bankruptcy Code.

WHEREFORE, DLJ respectfully requests that the Court grant it (a) a final allowance of (i) \$350,000, for professional services rendered, and (ii) \$25,217.09 in reimbursement of disbursements, and (b) such other and further relief as is just.

Dated: New York, New York  
October \_\_, 1997

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
Investment Banker to the Debtors

By: /s J Halisey Kennedy  
J. Halisey Kennedy  
Senior Vice President  
277 Park Avenue  
New York, New York 10172  
(212) 892-3000



Hearing Date: October 29, 1997  
at 10:00 a.m.

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

CERTIFICATION

J. Halisey Kennedy, a Senior Vice President of Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), certifies that:

1. I am a Senior vice-President at DLJ, which maintains offices at 277 Park Avenue, New York, New York 10172.

2. DLJ was retained as investment banker for the debtors-in-possession, pursuant to an order of the court dated August 4, 1997. The retention order, as well as the nature and scope of DLJ's services, are fully described in the accompanying application of DLJ, dated October 1, 1997, seeking allowance of final compensation and reimbursement of expenses (the "Application). This certification is made in support of the Application and in compliance with the Administrative Order of this court, dated June 20, 1991, as amended April 19, 1995, setting forth

guidelines for fees and disbursements for professionals in the Southern District of New York bankruptcy cases (the "Guidelines").

3. I have read the Application, and certify to the best of my knowledge, information and belief as follows:

A. The expenses requested by DLJ in the Application are reasonable and were necessary and incidental to the services performed for the Debtors.

B. To the best of my knowledge, information and belief formed after reasonable inquiry, the Application is in substantial compliance with the mandatory guidelines set forth in the Guidelines.

C. To the best of my knowledge, information and belief formed after reasonable inquiry, the fees and disbursements sought fall within the Guidelines except as specifically noted herein.

D. The fees and disbursements sought in the Application are billed at rates and in accordance with practices customarily employed by DLJ and generally accepted by DLJ's clients. DLJ's professionals' time is recorded and billed in increments of ten minutes.

E. DLJ's personnel make every effort to comply with paragraph B.3 of the Guidelines requiring that if a professional expends more than one hour on a particular activity,

the time record for that day must include, internally in the description of services for that day, the amount of time spent on each such activity. Each DLJ employee who rendered services to the Debtors during the course of this engagement was informed of the requirements of the Guidelines and was instructed on the correct procedures regarding preparation of time records.

F. On the date hereof, DLJ submitted the Application to the Debtors, and the Office of the United States Trustee.

G. Because of the nature of the fee arrangement contained in the Letter Agreement, DLJ did not submit to the Debtors, the Committee and the Office of the United States Trustee a monthly statement of fees and expenses.

H. The information regarding professionals, their respective billing rates, aggregate hours, a description of services, breakdown of disbursements and explanation of billing practices that would have been included in a monthly statement is included in the Application.

I. DLJ does not make a profit on those expenses for which it seeks reimbursement in the Application.

J. In charging for a particular service, DLJ does not include in the amount for which reimbursement is sought the amortization of the cost of any investment, equipment or capital outlay.

K. In seeking reimbursement for a service for which DLJ justifiably purchased or contracted from a third party, DLJ requests reimbursement only for the amount billed to DLJ by the third-party vendor and paid or to be paid by DLJ to such vendor.

Dated: New York, New York  
October 1, 1997

/s J Halisey Kennedy  
J. Halisey Kennedy

Hearing Date: October 29, 1997  
at 10:00 a.m.

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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

AFFIDAVIT UNDER FED. R. BANKR. P. 2016

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

J. Halisey Kennedy, being duly sworn, deposes and says:

1. I am a Senior Vice-President at Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), which maintains offices at 277 Park Avenue, New York, New York 10172.

2. DLJ has acted and rendered professional services in this case as investment banker for the debtors-in-possession in connection with the sale of Red Ant. I submit this affidavit in support of DLJ's application (the "Application") seeking final allowance of compensation and reimbursement of expenses under 11

U.S.C. §§ 328 and 330 for all fees and expenses due to DLJ under the Letter Agreement and the Retention Order.<sup>1</sup>

3. No agreement or understanding exists between DLJ and any other persons for the sharing of compensation received or to be received for professional services rendered in or in connection with DLJ's engagement, nor will any be made except as permitted under section 504(b)(1) of the Bankruptcy Code.

4. On the Petition Date, the Debtors were not indebted to DLJ.

5. To date, DLJ has received no payments in connection with the services rendered to the Debtors since the Petition Date.

6. No agreement or understanding prohibited by 18 U.S.C. § 155 has been or will be made by DLJ.

7. To the best of my knowledge, information and belief and except as previously disclosed in affidavits filed by DLJ, subsequent to the retention of the firm by the Debtors, no

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<sup>1</sup> All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Application.

employee of DLJ has acquired or transferred, for his or her own account, any beneficial interest in or claims against the Debtors.

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J. Halisey Kennedy

Sworn to and subscribed  
before me this \_\_\_\_th  
day of October 1997

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Notary Public