

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	Chapter 11
)	
SOURCE INTERLINK COMPANIES, INC., <u>et al.</u> , ¹)	Case No. 09-11424 (___)
)	
Debtors.)	Joint Administration Requested
)	

**DECLARATION OF DOUGLAS J. BATES,
IN SUPPORT OF FIRST DAY MOTIONS**

I, Douglas J. Bates, hereby declare under penalty of perjury:

1. I am the Chief Legal Officer, Senior Vice President and Secretary of Source Interlink Companies, Inc., a corporation organized under the laws of the State of Delaware and one of the above-captioned debtors and debtors in possession (collectively, the “Debtors”). In these capacities, I am generally familiar with the Debtors’ day-to-day operations, business and financial affairs, and books and records. I have been employed by the Debtors since 2003. I am over the age of 18 and am competent to testify.

2. On the date hereof (the “Petition Date”), Source Interlink Companies, Inc. and 17 of its affiliates each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. § § 101, *et seq.* (the “Bankruptcy Code”). The Debtors continue to

¹ The Debtors, together with the last four digits of each Debtor’s federal tax identification number, are: Source Interlink Companies, Inc. (8299); AEC Direct, LLC (1003); Automotive.com, LLC (2610); Canoe & Kayak, Inc. (5510); Directtou, Inc. (4741); Enthusiast Media Subscription Company, Inc. (1137); Motor Trend Auto Shows, LLC (5888); RDS Logistics, LLC (0305); Source-Chestnut Display Systems, Inc. (6446); Source Home Entertainment, Inc. (8517); Source Interlink Distribution, LLC (3387); Source Interlink International, Inc. (1428); Source Interlink Magazines, LLC (3601); Source Interlink Manufacturing, LLC (7123); Source Interlink Media, LLC (4935); Source Interlink Retail Services, LLC (6967); Source Mid Atlantic News, LLC (7108); The Interlink Companies, Inc. (2991). The location of the Debtors’ corporate headquarters and the service address for all Debtors is: 27500 Riverview Center Boulevard, Suite 400, Bonita Springs, Florida 34134.

operate their businesses and manage their properties as debtors in possession pursuant to Bankruptcy Code § § 1107(a) and 1108. Concurrently herewith, the Debtors filed a motion seeking joint administration of these chapter 11 cases (the “Chapter 11 Cases”) pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

3. I submit this declaration (this “Declaration”) to provide an overview of the Debtors and their non-debtor affiliate (collectively, the “Company”) and the Chapter 11 Cases and to support the Debtors’ chapter 11 petitions and “first day” motions and applications (each, a “First Day Motion,” and collectively, the “First Day Motions”). Except as otherwise indicated herein, all facts set forth in this Declaration are based upon my personal knowledge of the Company’s operations and finances, information learned from my review of relevant documents, information supplied to me by other members of the Company’s management and the Company’s advisors, or my opinion based on my experience, knowledge, and information concerning the Company’s operations and financial condition. I am authorized to submit this Declaration on behalf of the Debtors, and, if called upon to testify, I could and would testify competently to the facts set forth herein.

Preliminary Statement

4. The Company is one of the leading publishers and wholesalers of magazines and home entertainment products in North America with annual revenues in the fiscal year ended January 31, 2009 of approximately \$2.4 billion. Founded in 1995, the Company undertook a strategy of significantly increasing its scale and enhancing its ability to provide full media distribution services through a series of mergers and acquisitions, culminating in the 2007 acquisition of Primedia Enthusiast Media, Inc. (“Primedia”). The 2007 acquisition of Primedia enhanced the Company’s market presence and created a platform for the Company’s expansion into content ownership, but also significantly increased its debt load. In connection with the

Primedia acquisition, the Company incurred over \$1.3 billion in debt, repayment of which was projected to originate primarily in revenues derived from the acquired Primedia business. As a result of the recent economic downturn and related decrease in advertising purchased in the Debtors' publications, particularly by automotive manufacturers, the Company's cash flows failed to meet expectations by a significant margin. As a result, the Company experienced a strained liquidity position and is unlikely to meet the financial ratio covenants contained in its credit agreements.

5. Despite implementation of cost reduction initiatives, which resulted in annualized savings of more than \$50 million, the Company recognizes that it will not be able to service funded debt over the long-term. Thus, the Company, with the assistance of its advisors, has spent the last several weeks working with its secured bank lenders to negotiate and implement a balance sheet restructuring. After extensive, good-faith negotiations, the Company reached an agreement with its lenders regarding the terms of a consensual and comprehensive debt restructuring that contemplates a significant deleveraging of the Debtors' balance sheet and a full recovery for the Debtors' general unsecured creditors other than the Debtors' senior noteholders. (As part of the Plan, the senior noteholders have agreed not to receive any distribution on account of their claims.) To implement the terms of the agreement with their secured bank lenders, the Debtors have filed a prepackaged chapter 11 plan (the "Plan") and accompanying disclosure statement (the "Disclosure Statement") contemporaneously herewith.

6. As stated, the Debtors commenced the Chapter 11 Cases to effectuate the consensual balance sheet restructuring proposed under the Plan, to enhance liquidity, reduce related interest expense and improve long-term growth prospects and operating performance. Importantly, because they already have reached a deal with their secured bank lenders, the

Debtors expect the Chapter 11 Cases to move swiftly, which should mitigate any adverse impacts of the bankruptcy filing on their businesses. Moreover, by deleveraging their capital structure through a pre-packaged bankruptcy, the Company intends to emerge from chapter 11 better situated to weather the current economic storm and well-positioned to take advantage of any recovery in the publication and home entertainment sectors.

7. To familiarize the Court with the Debtors and the relief they will seek on the first day of these cases, this Declaration is organized as follows: Part I describes the Company's businesses, history and organizational and capital structure. Part II describes the events leading to the commencement of the Chapter 11 Cases and the Debtors' proposed reorganization. Part III sets forth the relevant facts in support of each First Day Motion.

I. THE COMPANY'S CORPORATE HISTORY, BUSINESS OPERATIONS AND CAPITAL STRUCTURE

A. Corporate History

8. The Company was founded in 1995 as The Source Company to address the growing importance of the checkout counter to the retail industry. In 1997, the Company changed its name to The Source Information Management Company, conducted its first public offering and became admitted for trading on the NASDAQ Stock Market (symbol: SORC). In 1998, the Company positioned itself as a leader of direct magazine distribution, an information repository and the preeminent front-end checkout management provider for major retail chains by acquiring ten magazine retail display companies. Following its acquisition of The Interlink Companies, Inc., a leading direct distributor of magazines, the Company changed its name to its current name in 2002. In 2003, the Company moved its corporate headquarters to Bonita Springs, Florida. The Company's rapidly growing international business, which includes the import and export of some 1,500 publications, led to the creation of a new London-based

subsidiary, Source Interlink International. In September 2004, the Company acquired Empire State News Corp. of Buffalo, NY and Empire News Inc. of Jamestown, NY, both privately held magazine wholesale distributors.

9. On February 28, 2005, the Company sought to expand its scale and scope through its merger with Alliance Entertainment Corp. Alliance Entertainment Corp. provided full-service distribution of home entertainment products, product and commerce solutions to “brick-and-mortar” and e-commerce retailers and trading relationships with major manufacturers in the home entertainment industry. The Company consummated this acquisition to further its objective of become a leading provider of information, supply chain management and logistics services to retailers and producers of home entertainment content products.

10. In addition, on May 10, 2005 the Company acquired Chas Levy Circulating Co., a principal magazine wholesaler in the United States. On March 30, 2006, the Company acquired magazine and book distribution markets in Washington D.C./Baltimore and in Los Angeles/Southern California in transactions with Anderson News Company.

11. On August 1, 2007, the Company sought to develop its ownership of proprietary content through the acquisition of Primedia. Primedia is one of the largest providers of print and digital content to the enthusiast community in the United States. Primedia’s business comprised 80 publications, 94 websites and over 100 events, television and radio programs, and about 400 branded products. Primedia’s print titles include brands such as *Motor Trend*, *Automobile*, *Power & Motoryacht*, *Hot Rod*, *Snowboarder*, *Stereophile*, *Surfer*, *Soap Opera Weekly* and *Soap Opera Digest*.

12. A chart showing a summary of the Company's current organizational and capital structure is attached to this Declaration as Exhibit A. The Company's subsidiary, The Source-Canada Corp., is the only Company entity that is not a Debtor.

B. The Company's Business Operations

13. As a leading provider of home entertainment products, the Company produces and distributes magazines, DVDs, music CDs, books and related items, to over 100,000 retail locations throughout North America. These retailers typically include leading mass merchandise retailers, grocery stores, bookstore chains, music stores, drug stores and other specialty retailers, as well as e-commerce retailers. In addition, the Company produces print and digital content for consumers in North America through its enthusiast media division. In total, the Company is capable of offering its customers an array of services including content authoring and value-added services which include enthusiast media publications and web-based content, category management, product procurement and fulfillment services, rebate and claims filing services, information services and design and manufacture of in-store product display fixtures.

14. As of the Petition Date, the Company has approximately 7,300 employees, of whom approximately 3,300 are full-time employees. Approximately 630 of the Company's employees are covered by ten collective bargaining agreements that expire at various times through October 31, 2013.

1. Business Segments

15. The Company conducts its operations through two primary business segments: Source Interlink Media and Source Interlink Distribution.

a. Source Interlink Media ("SIM")

16. The Company's SIM business segment is one of the largest providers of enthusiast print and digital content in North America. Enthusiast periodicals are characterized by

their focus on a specific niche or avocation enjoyed by a particular set of readers. Through the SIM business segment, the Company produces approximately 80 publications, manages 94 websites and organizes over 100 events.

17. In particular, SIM produces periodicals with titles including *Motor Trend*, *Hot Rod*, *Lowrider*, *Power & Motoryacht*, *Surfer*, *Home Theater*, *Motorcyclist*, *4 Wheel & Offroad*, *Practical Horseman* and *Soap Opera Digest*, and distributes approximately 19.5 million copies of these periodicals on a monthly basis. In addition, SIM's web properties, which include *automotive.com*, *motortrend.com* and *equine.com*, reach a total of over 18.3 million unique users generating over 120 million page views per month. The Company estimates that it reaches a total audience of over 75 million consumers each month.

18. Further, SIM is the largest provider of content to enthusiast communities interested in automotive, action sports, marine, equine and home technology. Notably, SIM has the largest portfolio of magazines in the automotive category, including six of the top ten titles by paid circulation. These print publications are supplemented by branded websites, consumer events, and licensed products. In particular, *automotive.com* has proven expertise in car sales lead generation, search engine marketing and search engine optimization. This expertise, coupled with a technology platform that increases internet traffic, can be monetized through advertising and lead generation. Indeed, as automakers divert marketing dollars to the Internet and as auto dealers seek increased car sale leads, the combination of *automotive.com* and the Company's portfolio of branded Internet sites should provide a platform for strong growth in online advertising and lead generation revenues.

19. SIM is an important source of information for readers on their particular avocations. SIM's readers tend to spend a significant amount of time and money on their

avocations, which results in titles that are less reliant on rate base guarantees (minimum circulation guarantees made to advertisers) than general interest publications. Indeed, only six of SIM's titles have rate base guarantees. Significantly, SIM's over 15,000 advertisers rely on its titles as virtual storefronts to directly connect with buyers and generate sales. Accordingly, these sources comprise approximately 85% of SIM's print advertising revenue.

20. SIM, sells its publications through newsstands and subscription. Additionally, SIM sells print advertising space in its publications and generates additional revenue from online advertising and lead generation services, and sponsorships of certain events. In fiscal year 2009, SIM earned revenues of approximately \$450 million, which represents approximately 20% of the Company's overall revenues.

b. Source Interlink Distribution ("SID")

21. In addition to producing enthusiast publications, the Company through its SID business segment distributes magazines and home entertainment products. The Company's SID business segment is comprised of two fulfillment operating divisions—Periodical Fulfillment Services and CD/DVD Distribution—through which the Company distributes periodicals, CDs, DVDs, video games and related accessories to thousands of retail locations each year. In fiscal year 2009, SID earned revenues of approximately \$2.0 billion, comprising approximately 80% of the Company's overall revenues.

22. *Periodical Fulfillment Services.* The Periodical Fulfillment Services division provides value-added services, which include category management, product procurement, fulfillment and returns processing services, to approximately 18,600 mainstream retail locations and 3,100 specialty retail locations. Its customers include most of the nation's leading magazine retailers, including Barnes & Noble, Borders, Wal-Mart, Target, Kroger, Safeway, Costco, Walgreens and Rite Aid, many of which have been customers for over 10 years. This division

maintains an approximately 30% to 35% share of the single-copy (*i.e.*, non-subscription) magazine distribution market and is the leading distributor in five of the nation's top ten advertising markets. On average, the Company circulates over 60 million copies of periodicals each month in the United States.

23. In addition, the Periodical Fulfillment Services division imports and exports periodicals in more than 100 markets worldwide. Approximately 6.1% of the Company's total revenues from magazine distribution for the fiscal year 2009 were derived from the export of U.S. publications, primarily to the United Kingdom and Australia. Approximately 4.7% of the Company's gross U.S. distribution of magazines for that same period consisted of distribution of foreign publications in the United States. The Company imports over 1,500 magazine titles, which the Debtors estimate accounts for more than 90% of imported magazine sales nationwide.

24. As part of its Periodical Fulfillment Services division, the Company offers certain in-store services, including designing and implementing display fixture programs, managing rebates and other incentive payments and accumulating data from more than 100,000 retail locations. These services are critical to mainstream and specialty retailers alike as such retailers use these services to make more informed and revenue enhancing decisions regarding product placement and marketing strategies.

25. ***DVD/CD Distribution.*** SID also distributes over 8 million CDs, DVDs, video games and accessories to retailers worldwide each month. The DVD/CD Distribution division is the leading independent distributor of DVDs and music CDs in the home entertainment products marketplace and offers the largest selection of products in the United States. The division provides category management (vendor managed inventory), procurement, fulfillment and e-commerce services to large and well-known DVD and music CD retailers, including Barnes &

Noble, Amazon.com, Meijer, K Mart, Toys “R” Us, and Walgreens. The DVD/CD Distribution operating segment has available approximately 360,000 music CD titles and approximately 100,000 DVD titles, approximately two-thirds of which are physically in stock at the Company’s warehouses, as well as video games and other related products. Through their DVD/CD distribution business, the Company also provides product fulfillment to most domestic e-commerce sites that sell music or videos.

2. The Company’s Distribution Network and Supply Chain

26. In light of the substantial volume of product that is distributed by the Company each day, the Company’s distribution network and supply chain are critical to the Company maintaining competitive operations. The Company’s distribution centers, located throughout the United States, are a central element in the Company’s distribution network. The distribution centers practice just-in-time replenishment and provide the capability to deliver product, particularly magazines published on a weekly basis, overnight to virtually any location within the United States and Puerto Rico.

27. The Company’s operating divisions rely heavily on third party freight carriers and service providers for distribution of its products to its distribution centers and the over 100,000 retail locations where its products are sold in addition to the countless individual consumers who buy products distributed by the Company’s e-commerce retailers. The Company’s SID business segment depends on third-party freight carriers (primarily UPS ground service, UPS and FedEx express delivery) and other freight carriers to deliver the majority of its products to their destinations. Payments to these carriers represent approximately 1.9% of the Company’s revenue or an average of approximately \$98 million annually. To minimize these expenses, the Company has entered into global pricing and services agreements to obtain the most competitive freight prices. Notably, the Company’s international distribution network uses a series of

domestic and international freight forwarding vendors to import and export the Company's products, clear customs and pay applicable taxes and tariffs.

28. The Company's SIM business segment relies on third-party service providers including a variety of printers to print and transport the periodicals produced by SIM to wholesalers and/or retailers. Although SIM does not print its own periodicals, SIM does purchase and own various supplies and raw materials, such as paper stock, used in the printing and manufacturing process. Such materials are typically purchased from a variety of manufacturers, suppliers, and third party vendors. The nature of the Company's business requires significant volumes of such materials in the ordinary course of business.

3. Customers and Suppliers

29. The success of the Company's businesses is largely dependent upon its customers' goodwill. The Debtors' retail customers include Internet and store-based retailers. The Company's retail sales base is dominated by a small number large national retailers. In particular, Barnes & Noble, Inc., accounted for 24.1%, 21.6% and 19.6% of the Company's total revenues in the fiscal years ended January 31, 2009, 2008 and 2007 respectively. In the aggregate, for the first quarter of fiscal year 2009, the Company's top three customers accounted for approximately 50% of its total revenues. Additionally, the Debtors derive a substantial portion of their print advertising revenues from advertising sales to major automotive manufacturers, including General Motors, Ford, Toyota and Chrysler.

30. In addition to its customers, the Company relies on goods and services provided by its suppliers to maintain competitive operations. As part of their SIM business, the Debtors do not actually print their titles themselves. Instead, the Debtors rely on services provided by certain printers, subscription database providers and related service providers to, among other things, print the periodicals and transport these titles to wholesalers and retailers.

31. As part of its SID operations, the Company obtains the vast majority of its magazine distribution supply (including those publications that the Company owns) from one of four national distributors, Comag Marketing Group, LLC, Curtis Circulation Company LLC, Kable Distribution Services, Inc. or Time/Warner Retail Sales & Marketing, Inc. Similarly, a substantial portion of the DVD and music CD titles that are distributed by the Company are sourced from five motion picture studios and four record labels, respectively.

4. Competition

32. The Company's media content and fulfillment operating segments face significant competition. The principal competitive factors affecting these divisions are price, the Company's financial stability, breadth of products, services offered and reputation. The SIM segment competes for advertising on the basis of circulation in the niche markets that are served by its publications. Each of the Company's enthusiast publications faces competition in its subject area from a variety of publishers and competes for readers by providing targeted editorial content, which is provided by in-house company and freelance writers. Specifically, in the high-end and new car markets, the Company's publications compete primarily against *Car and Driver* and *Road and Track*, both owned by Hachette Filipacchi Media U.S. Inc. The Company also competes in individual enthusiast markets with a number of smaller, privately-owned or regionally-based magazine publishers.

33. The fulfillment groups distribute home entertainment products in competition with a number of national and regional companies, including Hudson News Company, The News Group, Ingram Book Group, Inc., Ingram Entertainment, Inc. and Baker & Taylor, Inc. In addition, major record labels and motion picture studios compete with the Company by establishing direct trading relationships with the larger retail chains.

C. The Company's Capital Structure

34. The Company's principal capital structure consists of secured revolving and term loans, subordinated secured trade debt, senior unsecured notes and equity. As of the Petition Date, the Company's total consolidated funded debt was approximately \$1.5 billion, consisting of a secured term loan of approximately \$866.8 million, a secured revolver drawn in the amount of approximately \$159.6 million, subordinated secured trade debt of approximately \$70.4 million, approximately \$19.0 million of other secured debt and \$465 million in principal amount of senior unsecured notes.

1. Prepetition Revolver Loan

35. Source Interlink Companies, Inc., as borrower, and each of the other Debtors, as guarantors, Citicorp North America, Inc., as administrative agent (the "Prepetition Revolver Agent"), and the lenders party thereto (together with the Prepetition Revolver Agent, the "Prepetition Revolver Lenders") are parties to that certain Revolver Credit Agreement (as amended, the "Prepetition Revolver Credit Agreement"), dated as of August 1, 2007. The Prepetition Revolver Credit Agreement provides for a \$300 million revolving credit facility (of which approximately \$159.6 million has been drawn as of the Petition Date) (the "Prepetition Revolver Loan"). Outstanding borrowings on the Prepetition Revolver Loan accrue interest at a variable annual rate equal to the prime rate, as announced by the Prepetition Revolver Agent, plus a margin of 0.50%. The Prepetition Revolver Loan matures on August 1, 2013 and, as described below, is secured by substantially all of the Debtors' assets.

36. On April 1, 2009, the Prepetition Revolver Credit Agreement was amended to extend the time for the Debtors to submit a financial plan until May 1, 2009. In addition, under the amendment, the Debtors incurred certain financial reporting obligations and were required to maintain certain reserves with respect to their accounts receivable and inventory. As

consideration for the amendment, the Debtors provided the Prepetition Revolver Lenders with a non-refundable waiver fee of 0.125% of the Prepetition Revolver Lenders' existing commitment under the Prepetition Revolver Credit Agreement.

2. Prepetition Term Loan

37. Source Interlink Companies, Inc., as borrower, and each of the other Debtors, as guarantors, Citicorp North America, Inc., as administrative agent (the "Prepetition Term Agent"), and the lenders party thereto (together with the Prepetition Term Agent, the "Prepetition Term Lenders") are parties to that certain term credit agreement (the "Prepetition Term Credit Agreement"), dated as of August 1, 2007. The Prepetition Term Credit Agreement provides for an \$880 million term loan (of which approximately \$866.8 million is currently outstanding) (the "Prepetition Term Loan," and together with the Prepetition Revolver Loan, the "Prepetition Loans"). The Company made principal payments on the Prepetition Term Loan totaling \$8.8 million during fiscal year 2009 and, to date, has not made any principal payments during the current fiscal year, which ends on January 31, 2010. Outstanding borrowings on the Prepetition Term Loan accrue interest at a variable annual rate equal to the prime rate, as announced by the Prepetition Term Agent, plus a margin of 2.25%. The Prepetition Term Loan matures on August 1, 2014 and, as described below, is secured by substantially all of the Debtors' assets.

38. In connection with the amendment to the Prepetition Revolver Credit Agreement, the Debtors also obtain an amendment to the Prepetition Term Credit Agreement on April 1, 2009. Similar to the Prepetition Revolver Credit Agreement amendment, the Prepetition Term Credit Agreement amendment extended the time for the Debtors to submit a financial plan until May 1, 2009. In addition, under the amendment, the Debtors incurred certain financial reporting obligations and provided each Prepetition Term Lender with a non-refundable waiver fee of

0.125% of such Prepetition Term Lender's existing pro rata share of the aggregate Term Loan exposure.

3. Pledged Collateral and Intercreditor Agreement

39. On August 1, 2007, in connection with entering into the Prepetition Revolving and Term Credit Agreements, the Company entered into the Revolving Credit Facility Pledge and Security Agreement and the Term Loan Pledge and Security Agreement (collectively, the "Loan Security Agreements") pursuant to which Source Interlink Companies, Inc., as borrower, and each of the other Debtors, as guarantors, pledged substantially all of their assets as collateral to secure the Prepetition Loans.² Also on August 1, 2007 the Company entered into an agreement between itself, the Prepetition Revolver Lenders and the Prepetition Term Lenders assigning priority to the parties secured by the Loan Security Agreements (the "Intercreditor Agreement"). The Intercreditor Agreement divided the collateral set forth in the Loan Security Agreements into two pools consisting generally of: (a) the Debtors': (i) stock; (ii) equipment; (iii) real estate assets and fixtures (subordinate to any mortgages on such real estate and fixtures); and (iv) general intangibles (relating to such stock, equipment and real estate assets and fixtures) (collectively, the "Fixed Asset Collateral"); and (b) all of the Debtors' other assets or property, whether real, personal or mixed (collectively, the "Current Asset Collateral").

40. The Intercreditor Agreement grants (a) the Prepetition Revolver Lenders a first lien on the Current Asset Collateral and a second lien on the Fixed Asset Collateral and (b) the Prepetition Term Lenders a first lien on the Fixed Asset Collateral and a second lien on the Revolver Collateral.

² The Debtors' only non-debtor subsidiary, The Source-Canada Corp., is not a borrower or guarantor under the Prepetition Revolving Loan Agreement or the Term Loan Agreement. However, 65% of the voting stock in The Source-Canada Corp. is pledged as collateral under the Loan Security Agreements.

4. Subordinated Secured Trade Debt

41. In addition to the Loan Security Agreements, the Debtors entered into security agreements (collectively, the “Trade Security Agreements”) with certain of their CD/DVD trade vendors (collectively, the “Secured Trade Vendors”). The Trade Security Agreements grant each Secured Trade Vendor a security interest in the inventory that the Secured Trade Vendor distributed or sold to the Company and (subject to certain limitations) the proceeds from such inventory (collectively, the “Shared Collateral”). The Shared Collateral is part of the Current Asset Collateral provided to the Prepetition Revolver and Term Lenders. The Secured Trade Vendors and the Prepetition Revolver and Term Agents entered into certain intercreditor and subordination agreements (collectively, the “Trade Intercreditor Agreements”) to subordinate the claims of the Secured Trade Vendors’ claims with respect to the Shared Collateral to those of the Prepetition Revolver and Term Lenders. As of the Petition Date, the Debtors had \$70.4 million of secured trade debt outstanding.

5. Other Secured Debt

42. In addition to the Prepetition Loans and the secured trade debt, the Debtors maintain approximately \$3.0 million in loans secured by certain of the Debtors’ equipment and a \$16 million mortgage loan with respect to their Coral Springs, Florida facility. Proceeds from the sale of any equipment subject to the equipment loans are first attributed to these loans and then to the Prepetition Term Loan. Any proceeds from the sale of the Coral Springs facility would be used to pay the mortgage loan prior to being distributed to the Prepetition Revolver or Term Lenders.

6. Senior Notes

43. Source Interlink Companies, Inc., as issuer, and each of the Debtors, as guarantors,³ and HSBC Bank USA, National Association, as indenture trustee, are parties to that certain indenture (the “Senior Notes Indenture”), dated as of June 23, 2008. Under the Senior Notes Indenture, the Company issued \$465 million in 11.25% senior unsecured notes (the “Senior Notes”). The Senior Notes were issued to the lenders under the \$465 million Senior Subordinated Bridge Facility that the Company had entered into to finance its 2007 acquisition of Primedia. The bridge facility lenders exchanged their claims dollar-for-dollar for Senior Notes. Interest on the Senior Notes is paid each January 15 and July 15. The Company paid approximately \$26.2 million in interest on January 15, 2009. The Senior Notes mature on July 15, 2015.

7. Equity

44. While the Company is publicly traded on the NASDAQ, it is a closely held company. There only are approximately 125 holders of record of the Company’s common stock. Notably, five shareholders hold over 70% of the common stock. The Company’s largest stockholder, AEC Associates, L.L.C., an affiliate of The Yucaipa Companies, LLC, beneficially owns approximately 48.4% of the Company’s outstanding common stock. The Company does not maintain any preferred stock.

II. EVENTS LEADING TO THE CHAPTER 11 CASES AND PROPOSED REORGANIZATION

45. In recent months, a series of events placed significant strain on the Debtors’ liquidity and ability to satisfy financial ratio covenants contained in their credit agreements,

³ The Debtors’ non-debtor subsidiary, The Source-Canada Corp., is not a guarantor of the Senior Notes.

ultimately leading to the filing of the Chapter 11 Cases. Those events included: (a) the decline in revenues caused primarily by deteriorating market for advertising and car sale leads; (b) the increase in costs of raw materials, including paper, ink, and fuel; and (c) difficulty complying with tightened financial ratios mandated by the Debtors' credit agreements.

A. Declining Advertising Revenues and Car Sale Leads

46. Sales of advertising in the Debtors' publications are a principal source of revenue for the Debtors' SIM business segment. Advertising sales comprise approximately 50% of SIM's annual revenues. The recent economic recession and dislocation of credit markets has caused an unprecedented and severe decline in the Debtors' print advertising revenue. According to published industry sources, the print advertising market decline hit 20% in the fourth quarter for 2008, with six major companies reporting fourth quarter declines in print advertising revenue between 18% to 22%.

47. The severe decline in advertising sales has significantly strained the Debtors' revenues. For the fiscal quarters ending October 31, 2008 and January 31, 2009, the Debtors' print advertising revenues were \$56.3 million and \$44.0 million respectively, which represented a respective decrease of 16.6% and 20.5% from the prior-year quarterly periods.

48. Additionally, in light of the continuing economic downturn, the Debtors' expect further decline in their advertising revenues this year. As economic conditions deteriorate, many of the companies that advertise in the Debtors' magazines have continued to purchase less advertising in the Debtors' publications. In particular, eight of SIM's top ten customers (including its top four customers) are automotive manufacturers, which are experiencing significant and well-known strain to their operations and cash flow. These customers have cut-back substantially on their advertising purchases. As a result, in the last year, the Debtors' advertising revenues dropped from \$267 million in fiscal year 2008 to \$221 million in fiscal year

2009, a decline of more than 17% from the prior year's advertising revenues. In this year, the Debtors project only earning approximately \$174 million in revenues from advertising sales, a decline of approximately 35% from 2008 revenues.

B. Increase in Costs of Raw Materials

49. As described above, the Debtors' publish approximately 19.5 million periodicals each month and distribute these periodicals and home entertainment products to over 100,000 retail locations each year. In connection with the production and distribution of this substantial volume of products, the Debtors incur certain raw material costs, including for fuel, paper and ink.

50. As part of their SID business segment, the Debtors distribute magazines and home entertainment products through company-leased trucks and third-party freight carriers. In recent years, rising oil and gas prices have significantly increased the Debtors' fuel costs. The Debtors' fuel costs with respect to the magazines and other products the Debtors distribute through company-leased trucks increased by over 10% from fiscal year 2008 to fiscal year 2009. Additionally, the fuel surcharge the Debtors pay to third-party freight carriers also has increased.

51. In addition to rising fuel costs, the costs of paper and ink (two integral components in the production of the Debtors' magazines) has increased. In fiscal year 2008, the Debtors paid approximately \$61 million on account of paper and ink. In fiscal year 2009, sales of magazines has decreased in light of recent economic weakness. In particular, sales of single copy magazines declined by approximately 9% from December 2007 to December 2008. Faced with declining magazine sales, the Debtors have published fewer copies of their magazines. However, despite publishing fewer magazines, the Debtors paid approximately \$58.7 million in paper and ink costs in fiscal year 2009, nearly the same amount as in fiscal year 2008 when they published a greater number of magazines and earned higher magazine sales revenue. Due, in

part, to declining magazine sales and increasing raw material costs, the Debtors incurred an annual operating loss in the fiscal year ending on January 31, 2009.

C. Difficulty Complying with the Financial Covenants in Credit Agreements

52. The overall decrease in the Debtors' revenues and earnings has made it more difficult for the Debtors to comply with certain financial covenants contained in their credit agreements. In particular, under the Prepetition Term Credit Agreement, the Debtors must maintain certain mandated consolidated total debt to consolidated adjusted earnings before interest, taxes, depreciation and amortization ratios, which are measured at the end of each fiscal quarter based on the Debtors' financials for twelve months prior to the end of the quarter. The current debt to earnings ratio the Debtors must maintain is 5.5 to 1. This debt to earnings ratio is scheduled to tighten to 5.25 to 1 on July 31, 2009 and 5 to 1 on January 31, 2010. In light of the Debtors' strained liquidity position, the Debtors believe that they likely would not satisfy these tightened financial ratios.

53. Additionally, under the Prepetition Term and Revolver Credit Agreements, the Debtors were required by April 1, 2009 to provide the Prepetition Term and Revolver Lenders with a financial plan demonstrating the Debtors' adequate liquidity through the maturity dates of each Prepetition Loan. Due to the Debtors' declining cash flows, the Debtors were unlikely to have satisfied this requirement and, accordingly, requested, and received, from the Prepetition Term and Revolver Lenders an extension to satisfy this condition until May 1, 2009. As a result of their continuing liquidity strain, the Debtors likely would not be able to provide the Prepetition Term and Revolver Lenders with a financial plan demonstrating adequate liquidity by May 1, 2009.

D. The Proposed Reorganization of the Debtors

54. *Operational Restructuring Initiatives.* To address their declining earnings and liquidity, the Debtors engaged in certain restructuring initiatives prior to the Petition Date. These initiatives consisted of reductions in the Debtors' workforce and the relocation and consolidation of certain of the Debtors' distribution facilities. Additionally, the Debtors' re-aligned certain distribution routes to achieve certain cost-savings. The Debtors also consolidated their certain administrative and marketing functions. However, despite these initiatives, the Debtors were unable to stabilize their cash position.

55. As general economic conditions and, particularly, advertising spending continued to deteriorate in early 2009, the Debtors' continued to experience declining earnings and cash flows. The overall effect of these recent events made it more difficult for the Debtors to service their debt, including the interest payments due on the Term Loan in May 2009 and the Senior Notes in July 2009. In light of these circumstances, the Debtors engaged in discussions with the Prepetition Term and Revolver Lenders to reduce their debt obligations.

56. *Prepetition Negotiations with the Prepetition Term and Revolver Lenders.* In April 2009, after weeks of negotiations, the Debtors reached agreement with Prepetition Term and Revolver Lenders on the terms of a comprehensive balance sheet restructuring through the Plan. The Plan contemplates a significant de-leveraging and a full recovery for the allowed claims of the Debtors' unsecured creditors other than the Debtors' senior noteholders.⁴ Further, the Prepetition Term and Revolver Lenders have agreed to provide the Debtors with debtor in possession and exit financing.

⁴ As noted above, the Debtors' senior noteholders have agreed not to receive any distribution on account of their claims.

57. ***Solicitation of the Plan.*** On or about April 25, 2009, the Debtors caused a copy of the Plan, the Disclosure Statement and the appropriate ballots to be delivered to the Prepetition Term Lenders (classified as holders of Class 4 Term Loan Claims), the only impaired class of creditors entitled to vote on the Plan. The Debtors established April 27, 2009 at 5:00 p.m. (prevailing Eastern Time), as the deadline for the receipt of votes to accept or reject the Plan. During the solicitation period, the Debtors and the Prepetition Term and Revolver Lenders continued to negotiate the terms of the Debtors' proposed debtor in possession financing and the treatment of the Prepetition Term Lenders' claims. The Debtors extended the voting deadline until April 27, 2009 at 8:15 p.m. (prevailing Eastern Time) to finalize these negotiations. Prior to conclusion of the solicitation period, the Debtors and the Prepetition Term and Revolver Lenders reached agreement on the terms of the proposed debtor in possession financing and treatment of the Prepetition Term Lenders' claims, as indicated in the supplement to the Plan and Disclosure Statement, filed contemporaneously with this Declaration, and distributed to the creditors entitled to vote on the Plan within the solicitation period.

58. The Plan has received the necessary support from, and been accepted by, the class of creditors entitled to vote on the Plan. Contemporaneously herewith, along with the Plan and the Disclosure Statement, the Debtors have filed a motion seeking approval of the adequacy of the Disclosure Statement, approval of the solicitation package and confirmation of the Plan.

59. ***Summary of the Plan.***⁵ The Debtors have determined that prolonged chapter 11 cases would damage severely their ongoing business operations and threaten their viability as a going concern. The prepackaged nature of the Plan allows the Debtors to exit chapter 11 quickly

⁵ This summary is qualified by reference to the provisions of the Plan. To the extent there is any inconsistency between this summary and the Plan, the terms of the Plan shall control.

while the provisions of the Plan allow the Debtors to meet their working capital needs and de-lever their balance sheet. Specifically, under the Plan, upon emergence from chapter 11, the Debtors' debt structure will consist of a:

- \$300 million senior secured revolving credit facility;
- \$85 million senior secured term loan A; and
- \$400 million in senior secured term loan B debt.

60. Additionally, apart from the Debtors' post-emergence debt, a \$200 million senior unsecured term loan will be maintained at a holding company ("HoldCo") that will be created on or about the effective date of the Plan and that will hold 100 % of the stock of the reorganized Source Interlink Companies, Inc. This holding company debt is structurally subordinated to all debt at the Debtor entity level, and only legally and contractually authorized dividends would be used to service the HoldCo debt. Accordingly, the Plan contemplates eliminating a significant portion of the Debtors' current debt, thereby ensuring the Debtors' maintain de-levered and competitive operations going forward.

61. In terms of the treatment of the classes under the Plan, claims of the Debtors' Prepetition Revolver Lenders (classified as Class 3 Revolving Credit Facility Claims in the Plan) that are not rolled up as part of the Debtors' proposed debtor in possession revolving loan facility, will be unimpaired, and repaid in cash through the proposed exit facility. Each Prepetition Term Lender is a holder of a Class 4 Term Loan Claim under the Plan and, on account of its claims, will receive (a) its pro rata share of 100% of HoldCo equity, (b) its pro rata share of HoldCo's obligations under the \$200 million HoldCo loan, (c) its pro rata share of \$315 million of the Debtors' obligations under the post-emergence term loan B debt and (d) for those Prepetition Term Lenders who fund the debtor in possession term loan, a dollar-for-dollar basis in the new term B debt for each dollar committed by such lender under the debtor in possession

term loan. Notably, claims of the Debtors' general unsecured creditors (other than the senior noteholders) will be unimpaired and paid in the ordinary course of business.⁶

III. FIRST DAY MOTIONS

62. In this section, I will describe the relief the Debtors intend to request at the outset of the Chapter 11 Cases through the First Day Motions. Although the Debtors are requesting immediate relief with respect to a number of motions, the Debtors also have determined that other motions be heard at a later hearing date to be scheduled by the Court. The Debtors will file these motions in the first few days of the case.

63. As discussed above, the Plan contemplates that all of the Debtors' prepetition creditors will be paid in the ordinary course of business. Therefore, payment of creditors' prepetition claims would only affect the timing of payments to such creditors and will not affect or impair the rights of other creditors. Due to the prepackaged nature of the Plan, and the Debtors' anticipation that they will emerge from chapter 11 within a short time period, payment of prepetition claims will allow the Debtors to do so with minimal disruption to their business. Moreover, the Debtors do not seek to pay all prepetition claims immediately, but only to pay such claims as they come due in the ordinary course of business during the Chapter 11 Cases.⁷

Administrative Motions

A. Debtors' Motion for Entry of Order Directing Joint Administration of Their Related Chapter 11 Cases (the "Joint Administration Motion")

64. The Debtors request entry of an order directing joint administration of the Chapter 11 Cases for procedural purposes only pursuant to Bankruptcy Rule 1015(b). Specifically, the

⁶ As noted above, as part of the Plan, the Debtors' senior noteholders have agreed not to receive any distribution on account of their claims.

⁷ All capitalized term used but not defined herein shall have the meanings ascribed to them in the relevant First Day Motion.

Debtors request that the Court maintain one file and one docket for all of the Chapter 11 Cases under the case of Source Interlink Companies, Inc. and also request that an entry be made on the docket of each of the Debtors' chapter 11 cases, other than Source Interlink Companies, Inc., to reflect the joint administration of the Chapter 11 Cases.

65. Many of the motions, hearings, and orders that will arise in the Chapter 11 Cases will jointly affect each and every Debtor. I believe entry of an order directing joint administration of these cases will permit the Debtors to reduce fees and costs in connection with the administration of these cases by avoiding the duplication of effort associated with, for example, filing multiple duplicative documents in the Debtors' various individual cases, monitoring each of the Debtors' individual dockets and maintaining individual case files for each of the Debtors that will largely duplicate one another. In addition, it is my understanding that the ability of parties in interest to monitor these cases will be facilitated by having all pleadings grouped together on one docket. I believe that joint administration also will relieve the Court of the burden of entering duplicative orders and maintaining duplicative files. Finally, supervision of the administrative aspects of the Chapter 11 Cases by the Office of the United States Trustee for the District of Delaware will be simplified.

66. I believe the joint administration of the Chapter 11 Cases will not adversely affect the Debtors' respective creditors because the Debtors request only administrative, and not substantive, consolidation of the estates. For example, any creditor may still file a claim against a particular Debtor or its estate (or against multiple Debtors and their respective estates), intercompany claims among the Debtors will be preserved, and the Debtors will maintain separate records of assets and liabilities. Thus, individual creditors' rights will not be harmed by

the relief requested; rather, the constituents will benefit from the cost reductions associated with the joint administration of these cases.

67. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

Accordingly, on behalf of the Debtors, I respectfully submit that the Joint Administration Motion should be approved.

B. Debtors' Motion for Entry of Order (A) Scheduling an Objection Deadline and Combined Hearing on Their Disclosure Statement and Plan Confirmation, (B) Approving Form and Notice of Confirmation Hearing, (C) Establishing Procedures For Objections to Their Plan And Disclosure Statement, (D) Approving Solicitation Procedures and (E) Granting Related Relief (the "Scheduling Motion")

68. The Debtors request entry of an order: (a) scheduling an objection deadline and combined hearing on the adequacy of the Disclosure Statement and confirmation of the Plan; (b) approving the form and manner of notice of the Confirmation Hearing; (c) establishing procedures for objections to the Plan and Disclosure Statement; (d) approving the Solicitation Procedures used to solicit acceptances and rejections of the Plan; and (e) granting related relief.

69. I believe that a prolonged bankruptcy would severely impair the Debtors' ongoing operations and threaten their viability as a going concern. Accordingly, the Debtors have determined to restructure through the prepackaged Chapter 11 Cases with the support—in value and in number—of their prepetition lenders through a plan that will pay the overwhelming majority of all of the Debtors' creditors in full.

70. Prior to the Petition Date, the Debtors solicited votes on the Plan from Holders of Term Loan Claims classified in Class 4 under the Plan (the "Voting Class"). Through their advisors, the Debtors caused the Disclosure Statement to be prepared that described, among

other things, the proposed reorganization and its effects on holders of claims against and interests in the Debtors. On April 25, 2009, the Debtors caused copies of the Disclosure Statement, the Plan and appropriate ballots (the “Ballots”) to be transmitted to holders of claims in the Voting Class.

71. By the Scheduling Motion, the Debtors also seek approval of the form and manner of notice of the Confirmation Hearing and for publication of the Confirmation Hearing Notice and the deadline for filing objections to the Plan or the Disclosure Statement. I believe that publication of the Confirmation Hearing Notice will provide sufficient notice of the approval of the Disclosure Statement, the Confirmation Hearing, and the Objection Deadline to entities who will not otherwise receive notice by mail as provided therein and through the Solicitation Procedures.

72. I also believe that each holder of a claim entitled to vote to accept or reject the Plan (*i.e.*, holders of Class 4 Term Loan Claims) had adequate time to consider the Plan and Disclosure Statement. Although the solicitation period may have been brief, the Plan and Disclosure Statement was subject to extensive review and comment by Holders of Class 4 Term Loan Claims (and their counsel) during the course of arduous, arm’s length negotiations with the Debtors. Indeed, it is my understanding that the entirety of Class 4 Claims are held by a concentrated group of approximately eight lenders (through approximately 30 affiliates) under the Debtors’ prepetition term loan, all of whom had the opportunity to review and provide input on the terms of the Debtors’ proposed restructuring either directly, through their advisors or through the Term Loan Administrative Agent and its advisors.

73. And, to ensure sufficient time to review the Plan and Disclosure Statement, it is my understanding that holders of claims in the Voting Class were also entitled to return their

Ballots to the Voting Agent by email or facsimile. In addition, it is my understanding that the solicitation materials (including Ballots) were posted to IntraLinks, the secure website maintained for the Prepetition Term Lenders, at the outset of the solicitation period. Therefore, it is my opinion that the voting period provided by the Solicitation Procedures was reasonable and sufficient under the facts and circumstances of the Chapter 11 Cases and should be approved.

74. I believe that the relief requested in the Scheduling Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Scheduling Motion should be approved.

C. Debtors' Motion for Entry of Order (A) Granting Additional Time to File Schedules and Statements of Financial Affairs and (B) Directing the United States Trustee Not to Convene a Meeting of Creditors or Equity Security Holders (the "Schedules and Statements Motion")

75. The Debtors request entry of an order granting additional time to file their schedules and statements of financial affairs (collectively, the "Schedules and Statements"). The Debtors have more than 50,000 creditors and serve approximately 100,000 retail stores throughout North America. The breadth of the Debtors' business operations require the Debtors to maintain voluminous books and records and complex accounting systems. Given the size, complexity, and geographic diversity of their business operations, the number of creditors, and the fact that certain prepetition invoices have not yet been received or entered into the Debtors' financial accounting system, I submit that the large amount of information that must be assembled to prepare the Schedules and Statements and the hundreds of employee hours required to complete the Schedules would be unnecessarily burdensome to the Debtors, particularly as certain of the information contained in Schedules and Statements is available in the Disclosure Statement accompanying the Plan.

76. Additionally, the notice and scheduling requirements associated with convening a meeting of creditors or equity security holders during the Chapter 11 Cases could cause an unwarranted and costly time delay in the Debtors' ability to emerge from chapter 11 expeditiously.

77. I believe that the relief requested in the Schedules and Statements Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Schedules and Statements Motion should be approved.

Retention Related Application

D. Application for Entry of Order Authorizing Employment and Retention of Kirkland & Ellis LLP as Attorneys for Debtors and Debtors in Possession Nunc Pro Tunc to Petition Date (the "K&E Retention Application")

78. The Debtors seek to retain Kirkland & Ellis LLP ("K&E") as their restructuring attorneys. K&E has extensive experience and knowledge in and an excellent reputation for providing high quality legal services in the field of debtor protections, creditor rights and business reorganizations under chapter 11 of the Bankruptcy Code. In preparing for the Chapter 11 Cases, K&E has become familiar with the Debtors' business and the legal issues that may arise in these cases. I believe that K&E is well qualified and uniquely able to represent the Debtors in the Chapter 11 Cases and respectfully submit that their application should be approved.

E. Application for Entry of Order Authorizing Employment and Retention of Moelis & Company LLC as Financial Advisor to Debtors and Debtors in Possession Nunc Pro Tunc to Petition Date, and Modifying Time Keeping Requirements under the Local Rules Pursuant to Local Rule 2016-2(G) (the “Moelis Retention Application”)

79. The Debtors seek to retain and employ Moelis & Company LLC (“Moelis”) as their financial advisor and investment banker based upon, among other things, (a) the Debtors’ need to retain a financial advisory firm to provide advice with respect to the Debtors’ restructuring efforts and (b) Moelis’ extensive experience and excellent reputation in providing financial advisory and investment banking services in complex restructurings. Moelis has been providing the Debtors’ with restructuring advisory services since December 2008 and has led negotiations with the Debtors’ key creditor constituencies in preparation for the Chapter 11 Cases. I believe that Moelis is uniquely qualified to address the complex financial issues that the Debtors are likely to confront during the Chapter 11 Cases and respectfully submit that their application should be approved.

F. Application of the Debtors’ for Entry of Order Authorizing the Debtors to Employ and Retain Kurtzman Carson Consultants LLC as Notice, Claims and Balloting Agent (the “KCC Retention Application”)

80. The Debtors seek to retain Kurtzman Carson Consultants LLC (“KCC”) as notice, claims and balloting agent. I believe that by retaining KCC in the Chapter 11 Cases, the Debtors’ estates, and particularly their creditors, will benefit from KCC’s service. KCC has developed efficient and cost-effective methods in its area of expertise. I am of the opinion that KCC is fully equipped to handle the volume of mailing involved in properly sending the required notices to creditors and other interested parties in the Chapter 11 Cases and, therefore, respectfully submit that their application should be approved.

G. Debtors' Motion For Entry of Order Authorizing The Retention And Compensation Of Certain Professionals Utilized In the Ordinary Course Of Business ("the Ordinary Course Professionals Motion")

81. The Debtors request authority to retain and compensate professionals used in the ordinary course of their business. The Debtors retain various attorneys, accountants, and other professionals in the ordinary course of their business (each, an "OCP," and collectively, the "OCPs"). The OCPs provide services for the Debtors in a variety of matters unrelated to the Chapter 11 Cases, including, but not limited to, legal services with regard to specialized areas of the law, accounting services, auditing and tax services, and certain other services.

82. Due to the number of OCPs that are regularly retained by the Debtors, I believe it would be unwieldy and burdensome to both the Debtors and this Court to request each such OCP to apply separately for approval of its employment and compensation. While I believe that some OCPs may wish to continue to represent the Debtors on an ongoing basis, others may be unwilling to do so if the Debtors cannot pay them on a regular basis. Without the background knowledge, expertise, and familiarity that the OCPs have relative to the Debtors and their operations, the Debtors undoubtedly would incur additional and unnecessary expenses in educating replacement professionals about the Debtors' business and financial operations. Moreover, I believe that the Debtors' estates and their creditors are best served by avoiding any disruption in the professional services that are required for the day-to-day operation of the Debtors' business. I respectfully submit that the continued retention and compensation of the OCPs is in the best interests of the Debtors' estates, creditors, and other parties-in-interest and that the Ordinary Course Professionals Motion should be approved.

H. Debtors' Motion for Entry of Order Establishing Procedures For Interim Compensation And Reimbursement Of Expenses For Professionals and Members of Official Committees (the "Interim Compensation Procedures Motion")

83. The Debtors request authority to establish procedures for the interim compensation and reimbursement of expenses for professionals and members of official committees. I believe that establishing orderly procedures for addressing issues related to payment of Professionals and Committee Members will streamline the administration of the Chapter 11 Cases and otherwise promote efficiency for the Court, the Office of the United States Trustee for the District of Delaware and all parties in interest. I also believe that the Interim Compensation Procedures will permit the Debtors to manage efficiently payments to the Professionals and will allow all parties to monitor appropriately the cost of administration of the Chapter 11 Cases. Accordingly, I believe the approval of the Interim Compensation Procedures is in the best interests of the Debtors' estates, creditors, and other parties-in-interest and submit that the Interim Compensation Procedures Motion should be approved.

Operational Motions

I. Debtors' Motion for Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (A) Approving Postpetition Financing, (B) Authorizing Use of Cash Collateral, (C) Granting Priming and Other Liens and Providing Superpriority Administrative Expense Status, (E) Modifying the Automatic Stay and (F) Scheduling a Final Hearing (the "DIP Financing Motion")

84. The Debtors have negotiated and reached an agreement to enter into, subject to approval of the Court, a (a) \$300.0 million super-priority senior secured revolving credit facility (the "DIP Revolver Facility") with the Prepetition Revolver Lenders party thereto; and (b) \$85.0 million super-priority secured multiple-draw term loan facility (the "DIP Term Loan Facility," and together with the DIP Revolver Facility, the "DIP Facilities") with the Prepetition Term Lenders party thereto. In effect, the Debtors' proposed DIP Facilities seek to extend their

prepetition secured facilities into the Chapter 11 Cases, subject to certain the modifications described in the DIP Financing Motion and term sheet attached thereto. The Debtors are also seeking authorization to use cash collateral, which together with the DIP Facilities will be used to, among other things, support the working capital and general corporate purposes of the Debtors.

85. The recent overall decrease in the Debtors' revenues and earnings made it difficult for the Debtors to comply with certain liquidity and leverage ratios required by the Prepetition Revolving Credit Agreement and Prepetition Term Credit Agreement and, pursuant to amendments executed on April 1, 2009, the Debtors were obliged to submit a financial plan demonstrating adequate liquidity through the maturity dates of each Prepetition Loan by May 1, 2009.

86. In light of their urgent liquidity need, the Debtors' began arduous, arm's-length negotiations with the Prepetition Revolver and Term Lenders regarding a proposal for debtor in possession financing, through which the Debtors ultimately obtained the financing described herein. In addition, in April 2009, the Debtors, with the assistance of their financial advisor, Moelis, began contacting a universe of institutions, hedge funds, and traditional DIP lenders on a "no-names" basis to gauge their interest in providing debtor in possession financing to the Debtors. Specifically, I am aware that Moelis solicited these parties' interest in providing funding on either a priming or junior basis to the Prepetition Loans.

87. The Debtors fully considered the financing proposals received from the Prepetition Term and Revolver Lenders and the Debtors' primary shareholder and, in light of this analysis, determined that the proposal from the Prepetition Term and Revolver Lenders provided the most advantageous terms to the Debtors and their estates—particularly since the Lenders'

proposal is a key element of their prepackaged Plan under which the overwhelming majority of their creditors are paid in full. Accepting the financing proposal from the Prepetition Term and Revolver Lenders allows the Debtors to avoid the costs and risks to business operations associated with any attempt to prime existing indebtedness of the Prepetition Term and Revolver Lenders' potential objection. Moreover, under the Prepetition Term and Revolver Lenders' proposal, the DIP Facilities convert to exit financing for the Debtors, which is crucial given the ongoing turmoil in the credit markets and the difficulty many debtors have had in obtaining exit financing on any basis—let alone through a reorganization that provides complete recoveries to almost every unsecured creditor.

88. The continued viability of the Debtors' businesses and the success of the Debtors' reorganization efforts hinge upon obtaining immediate access to financing under the DIP Facilities. In particular, the Debtors require immediate access to the DIP Facilities to satisfy approximately \$55 million of vendor payables due by April 30, 2009. Absent an immediate infusion of capital or access to financing, the Debtors likely could not fully satisfy these payables. Failure to make these payments would be disruptive to the Debtors' vendor relationships and could cause severe disruptions to the Debtors' operations to the material detriment of creditors and employees. Therefore, at this time, I believe that to fully satisfy the Debtors' liquidity needs and satisfy its ordinary course obligations, the Debtors require authority to borrow immediately under the proposed DIP Facilities on an interim basis, and use such proceeds to fund their operations. Further, approval of the DIP Facilities on an immediate interim basis, and ultimately on a final basis, will allow the Debtors to demonstrate to their customers, suppliers and vendors that they have sufficient capital to ensure ongoing operations in the ordinary course and to implement the Plan. Accordingly, I believe that obtaining immediate

access to financing is crucial to the success of the Debtors' reorganization efforts and going forward operations.

89. I believe that the terms and conditions of the DIP Facilities (including the fees and charges required thereunder) are fair and reasonable and were negotiated by the parties in good faith and at arm's length after the Debtors concluded a good faith effort to obtain the most advantageous financing and after the Debtors concluded marketing efforts. As a result, the Debtors have determined, in their reasonable business judgment, that the DIP Facilities are the best financing option available under the present circumstances, and that the Court should approve the DIP Financing Motion.

J. Debtors' Motion For the Entry of an Order Authorizing, but Not Directing, the Debtors to Pay Unimpaired Claims in the Ordinary Course Of Business and Granting Related Relief (the "Unimpaired Claims Motion")

90. The Debtors request the entry of an order authorizing, but not directing, them to pay unimpaired claims of general unsecured creditors in the ordinary course of their business and granting related relief. The Debtors have filed the Chapter 11 Cases to swiftly implement a balance sheet restructuring through their Plan. The overall purpose of the Chapter 11 Cases is to provide the Debtors with a capital structure geared appropriately to their operational needs. I believe that the Debtors' immediate ability to maintain operational continuity and the continued support of their customers and vendors during the Chapter 11 Cases is critical. Any disruption to the Debtors' ordinary course of business, including the Debtors' payment cycle, could significantly impede the Debtors' restructuring. Given the "just-in-time" nature of the Debtors' media- and distribution-focused operations, I believe that many, if not all, of the Debtors' vendors, printers and transportation service providers are critical to their ongoing operations. I also believe that any disruption to the Debtors' careful coordination between their customers, suppliers, vendors and service providers could cause substantial disruption to the Debtors'

operations. And, in order to reflect the substantial value of the Debtors' businesses, and preserve such value for all creditors, the Plan provides that the Debtors' general unsecured claims will be paid in full. Based on past practice over the preceding three months, the Debtors disburse approximately \$195.4 million per month on account of such claims to operate their business in the ordinary course.

91. I believe that the Debtors engage in business with certain prepetition vendors who, if not paid, could take actions, such as refusing to provide needed publications and raw materials for the Debtors' operations or failing to deliver the Debtors' products to their customers, that could have materially adverse effects upon the Debtors' estates. Consequently, the continued willingness and ability of the prepetition vendors to provide goods and services to the Debtors is essential to the Debtors' reorganization efforts. Although the Debtors request authority to pay all of the prepetition vendors in full in the ordinary course of business, it is my belief that the following represent the significant categories of the Debtor's unimpaired claims (the "Unimpaired Claims") that play a significant role in the Debtors' distribution and supply chain: (a) key suppliers; (b) shippers; (c) potential lien holders; and (d) foreign vendors.

92. I believe that given that the Unimpaired Claims are paid in full as part of the proposed Plan, granting the requested relief merely affects the timing of such payments and not the ultimate recovery of any creditors. The requested relief will inure to the benefit of the Debtors, their estates and creditors.

1. Key Suppliers

93. The Debtors' SIM and SID businesses are time-sensitive. The Debtors' SID business requires the Debtors to, among other things, facilitate the real-time distribution of millions of individual periodicals, DVDs and CDs required by the Debtors' retail customers and, ultimately, individual consumers. The Debtors' SIM business requires the Debtors to produce

and deliver a steady stream of new content to their readers in order to maintain their circulation base, and attract ongoing advertising dollars.

a. SIM Suppliers

94. The Debtors are one of the largest producers of “enthusiast” periodical content in North America. The Debtors, however, outsource publishing needs to certain printers, subscription database providers, and related service providers (collectively, the “Printers”) including, among other things, printing the physical periodicals and transporting them to wholesalers and retailers. The Debtors generally do not have long-term contracts with their Printers. At most, the Debtors will typically enter into short term contracts with a particular Printer based on the Debtors’ immediate printing requirements.

95. Although the Debtors do not actually print the physical magazines or periodicals, the Debtors purchase and own paper stock and other supplies and raw materials (collectively, the “Printing Supplies”) used in the printing and manufacturing process. The Printing Supplies are typically purchased from certain manufacturers, suppliers, and third party vendors (collectively, the “Printing Suppliers”).

96. The Debtors require significant volumes of paper stock in the ordinary course of business. I believe that only a select group of Printing Suppliers are able to provide the Debtors with the quality and quantity of paper stock required by the Debtors’ operations. And, as with Printers, the Debtors typically do not hold long-term contracts with their Printing Suppliers. Instead, the Debtors purchase Printing Supplies, such as paper stock, on an as-needed basis. Significantly, the Debtors do not retain physical control over many of the Printing Supplies. Printing Supplies such as paper stock are generally stored on-site with Printers for use on an as-needed basis.

97. I believe that failure to pay Printers and Printing Suppliers in the ordinary course could significantly impair the Debtors' ability to ensure production and delivery of their titles to retail customers. I further believe that many Printers may delay production or refuse to deliver printed magazines absent payment of their prepetition claims. The Debtors cannot manufacture magazines at their own facilities, and the time required to locate alternative Printers or Printing Suppliers likely would delay the Debtors' ability to bring titles to market in a timely fashion, and substantially impair their ability to maintain readership and attract advertising revenue. It is my understanding that, as of the Petition Date, approximately \$4.0 million is payable to the Printers and Printing Suppliers that will come due during the course of the Chapter 11 Cases.

b. SID Suppliers

98. As noted above, SID provides CD, DVD, and periodical fulfillment and distribution services to approximately 2,300 "brick and mortar" and Internet retailers across tens of thousands of different store locations. I believe that to conduct its SID operations, the Debtors require the ongoing support and seamless performance from a highly concentrated base of distributors, music and movie studios and other parties to fulfill their own customer obligations.

99. *CD/DVD Fulfillment.* Generally, the Debtors purchase CDs, DVDs and other home entertainment goods from a select group of movie studios, music and recording studios, video game developers and other media content suppliers (collectively, the "Studios"). The Debtors' fulfillment operations require the Debtors to maintain a broad array of CD and DVD titles on hand at all times and to replenish these titles on an ongoing basis. As a result, the Debtors typically carry an in-stock catalog totaling approximately 70,000 DVDs and 265,000 CDs at all times, although inventory turnover for individual titles may be high. I believe the Debtors are able to attract and retain customer support because the Debtors have an established reputation for satisfying their customers' fulfillment requirements in a timely fashion.

100. The Debtors do not typically hold long-term supply contracts with the Studios, although the Debtors generally enjoy favorable trade terms. The Debtors rely on these trade terms for a significant portion of their working capital. I believe that the Debtors' failure to pay the prepetition claims held by the Studios could, among other things, trigger the contraction or total elimination of these trade terms—further exacerbating the Debtors' strained liquidity position. It is my understanding that, as of the Petition Date, the accrued obligations payable to the Studios at present or during the pendency of the Chapter 11 Cases will be approximately \$106.9 million.

101. *Periodical Fulfillment.* The Debtors operate as a wholesale supplier of hundreds of periodical titles and a smaller volume of book titles to tens of thousands of retail locations across the United States. The domestic periodical distribution industry is highly concentrated. Four national Distributors, in particular, control the domestic distribution of most national periodical titles. The Debtors also rely heavily on one supplier for their inventory of books. These Distributors supply the overwhelming majority of the Debtors' inventory of periodicals and books. It is my understanding that many customers require the Debtors to supply their retail locations with all or most of their periodical needs. A typical supply contract may require the Debtors to supply more than 90 percent of approximately 500 titles identified by that retailer on a bi-weekly basis (or more frequently in certain cases). Many of these titles will be smaller, enthusiast or niche publications.

102. I believe that the Debtors' relationships with both the Distributors and Publishers have become significantly strained and highly contentious in recent months. Historically, the Debtors have not held long-term supply contracts with either Distributors or Publishers. In January 2009, certain of the Debtors' leading Publishers and Distributors cut the Debtors off

from their supply of periodicals leading to the Debtors seeking to enjoin this conduct as part of a federal antitrust action, filed on February 2, 2009, currently pending before the United States District Court for the Southern District of New York, captioned under *Source Interlink Distribution, L.L.C. et. al v. American Media, Inc. et. al*, Case No. 09 Civ. 1152 (S.D.N.Y). Significantly, the district court granted the Debtors' request for a temporary restraining order against the conduct in question. Although the Debtors have reached settlement agreements with certain Distributor/defendants (under which the Debtors executed multi-year supply agreement with the Distributors in question), I believe the Debtors' SID supply chain remains fragile. The Debtors do not have corresponding contractual arrangements with the Publishers, and the Debtors are still dependent on each Distributors' ability (or willingness) to obtain books and periodical titles from Publishers.

103. I believe that the failure to promptly pay prepetition obligations to the Distributors falling due in the ordinary course of business could materially impair the Debtors' survival as a going concern. It is my understanding that, as of the Petition Date, approximately \$191.7 million is currently payable to the Distributors or will become due during the pendency of the Chapter 11 Cases.

104. *Custom Display Manufacturing.* The Debtors develop and produce custom front-end displays for their retail customers in conjunction with their CD/DVD and periodical fulfillment businesses. Given the importance of the front-end display area to retail sales, the Debtors' customers typically impose specific requirements on the contours and appearance of a particular display. Therefore, I believe that the Debtors' custom display manufacturing business is predicated on the their ability to obtain the specialty metals, plastics and other products necessary to tailor the front-end displays to their customer's exact specifications. These

materials are generally obtained from small or independent manufacturers on an order-by-order basis (collectively, the “Display Suppliers”). It is my understanding that, as of the Petition Date, approximately \$350,000.00 is owed to the Display Suppliers on account of claims arising prior to the Petition Date.

2. Shippers

105. SID distributes magazines, books, CDs and DVDs (collectively, the “Media Products”) nationwide to a variety of customers through third-party freight carriers, primarily UPS ground service, UPS and FedEx express delivery, and certain other freight carriers (collectively, the “Shippers”), and company-leased trucks. Payments to Shippers constitutes a large part of the Debtors’ expenses. To minimize this expense, the Debtors have entered into global pricing and services agreements with most of the Shippers to ensure the highest level of service at the most competitive prices.

106. It is my experience that timely delivery of goods to customers in the periodical and media fulfillment industry is essential to maintaining retailer and end-user loyalty. Significant competition and stringent customer requirements have forced the Debtors to develop and maintain a dependable supply chain for their distribution products. Any disruption in the distribution and delivery of Media Products to retailers could cause advertisers to pull their advertisements and devastate the Debtors’ profitability. In light of the foregoing, the Debtors’ business requires a strong and reliable national distribution network. Accordingly, I believe that any interruption in the distribution and delivery of the Debtors’ products to their customers would cause immediate and irreparable harm to the Debtors’ business. It is my understanding that, as of the Petition Date, the outstanding prepetition invoices of the Shippers total approximately \$4.0 million.

3. Lien Claimants

107. In addition to claims held by Shippers in physical possession of the Debtors' property, at any given time the Debtors or their various assets may be subject to a wide variety of other lien claims, including, but not limited to, mechanics, artisans and materialmans liens under the laws of the various jurisdictions in which the Debtors conduct business (collectively, the "Miscellaneous Lien Claims"). I believe that if the Debtors were unable to pay the Miscellaneous Lien Claims, the holders of such claims could assert a lien on the Debtors property which would severely disrupt their business. It is my understanding that payments on account of prepetition Miscellaneous Lien Claims will not exceed approximately \$9.1 million.

4. Foreign Vendors

108. The Debtors import over 1,000 magazine titles into the United States (collectively, the "Foreign Titles"), which account for more than 90% of imported magazine sales nationwide, from approximately 20 countries. For the most part, the Debtors purchase the Foreign Titles from international distributors and publishers directly. In the ordinary course of business, the Debtors use several foreign or domestic freight forwarding vendors to, among other things, import foreign publications into the United States, clear customs and pay relevant import/export tariffs and taxes (collectively, the "Freight Forwarders"). In conjunction with the Freight Forwarders, the Debtors rely in the ordinary course of business on numerous publishers located outside of the United States to provide the Foreign Titles for distribution to domestic customers (together with the Freight Forwarders, the "Foreign Vendors").

109. Accordingly, I believe the Foreign Vendors supply goods and services without which, the Debtors' businesses either could not operate or would operate at significantly reduced profitability. The Foreign Vendors provide the diverse services and products that are necessary for the Debtors to maintain critical relationships with many domestic customers. In a great

majority of instances, publications are proprietary and can only be purchased from a single Foreign Vendor. If any one of these Foreign Vendors refused to ship its product to the Debtors, the Debtors' could lose significant contracts with their domestic customers. It is my understanding that, as of the Petition Date, the Debtors owe approximately \$9.0 million on account of prepetition Foreign Vendor obligations.

110. It is my opinion that the relief requested in the Unimpaired Claims Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Unimpaired Claims Motion should be approved.

K. Debtors' Motion for Entry of Order (A) Authorizing, but Not Directing, the Debtors to Honor Certain Pre-Petition (I) Wages, Salaries, and Other Compensation, (II) Reimbursable Employee Expenses and (III) Employee Medical and Similar Benefits and (B) Authorizing and Directing Banks and Other Financial Institutions to Honor All Related Checks and Electronic Payment Requests (the "Wages and Benefits Motion")

111. The Debtors request the authority, in their sole discretion, to pay prepetition claims, honor obligations, and to continue programs, in the ordinary course of business and consistent with past practices, relating to the Employee Obligations.

112. It is my understanding that, as of the Petition Date, the Debtors employ approximately 7,300 employees in the U.S., Canada and the U.K., of which approximately 4,000 are Part-Time Employees and 630 are Union Employees. Although the Debtors have paid their wage, salary, and other Employee Obligations in accordance with their ordinary compensation schedule prior to the Petition Date, as of the date hereof, certain prepetition Employees Obligations may nevertheless be due and owing.

113. I believe that the majority of the Debtors' Employees rely exclusively on their compensation, benefits, employee programs and reimbursement of expenses provided by the Debtors to satisfy their daily living expenses. Consequently, these Employees will be exposed to significant financial difficulties if the Debtors are not permitted to honor obligations for unpaid compensation, benefits, and reimbursable expenses. Moreover, I also believe that if the Debtors are unable to satisfy such obligations, Employee morale and loyalty will be jeopardized at a time when Employee support is critical. In the absence of such payments, I believe the Debtors' Employees may seek alternative employment opportunities, perhaps with the Debtors' competitors, thereby hindering the Debtors' ability to meet their customer obligations, and likely diminishing creditor confidence in the Debtors. It is my opinion that the loss of valuable Employees and the recruiting efforts that would be required to replace such Employees would be a massive and costly distraction at a time when the Debtors must focus on stabilizing their operations.

114. I believe that the relief requested in the Wages and Benefits Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Wages and Benefits Motion should be approved.

L. Debtors' Motion for Entry of Order Authorizing the Debtors to Continue Use Existing Cash Management System (the "Cash Management Motion")

115. Under the Cash Management Motion, the Debtors request the authority to:

(a) continue to use, with the same account numbers, all of the Bank Accounts in their Cash Management System; (b) treat the Bank Accounts for all purposes as accounts of the Debtors as debtors in possession; (c) open new debtor in possession accounts, if needed; (d) use, in their

present form, all correspondence and business forms (including, without limitation, letterhead, purchase orders, and invoices) and other documents related to the Bank Accounts existing immediately before the Petition Date, without reference to their status as debtors in possession; and (e) continue performing Intercompany Transactions in the ordinary course of business.

116. In addition, the Debtors further request that the Court authorize the Banks to:

- (a) continue to maintain, service, and administer the Bank Accounts; (b) debit the Bank Accounts in the ordinary course of business on account of (i) checks drawn on the Bank Accounts that are presented for payment at the Banks or exchanged for cashier's checks prior to the Petition Date; (ii) checks or other items deposited in the Bank Accounts prior to the Petition Date that have been dishonored or returned unpaid for any reason (including associated fees and costs), to the same extent the Debtors were responsible for such items prior to the Petition Date; and
- (c) undisputed, outstanding service charges owed to the Banks as of the Petition Date on account of the maintenance of the Debtors' Cash Management System, if any.

117. In the ordinary course of business, the Debtors utilize an integrated, centralized cash management system to collect, transfer, and disburse funds generated by their operations and maintain current and accurate accounting records of all daily cash transactions. I believe that if the Debtors were required to comply with the guidelines of the United States Trustee, the burden of opening new accounts, revising cash management procedures, instructing customers to redirect payments, and the immediate ordering of new checks and business forms with a "Debtor in Possession" legend, would disrupt the Debtors' business at this critical time. It is my belief that parties in interest will not be harmed by the Debtors' maintenance of the existing Cash Management System, including their Bank Accounts, because, contemporaneously herewith, the Debtors are requesting the Court to authorize them to pay unimpaired claims under the Plan,

including prepetition unsecured claims, which would render the primary justification for disrupting the Cash Management System segregation of prepetition and postpetition expenses moot.

118. In addition, in the ordinary course of business, the Debtors maintain a system of Intercompany Transactions for, among other reasons, centralizing accounting and purchasing departments, and moving cash between entities, including to the Debtors' Canadian non-debtor affiliate. I believe that if the Intercompany Transactions are discontinued, a number of services provided by and to the Debtors would be disrupted and could impact the Debtors' ability to pay wages and benefits to their employees and make timely payments to vendors.

119. It is my opinion that the relief requested in the Cash Management Motion is vital to ensuring the Debtors' seamless transition into bankruptcy. Authorizing the Debtors to maintain their Cash Management System will avoid many of the possible disruptions and distractions that could divert their attention from more critical matters during the initial days of the Chapter 11 Cases.

120. I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Cash Management Motion should be approved.

M. Debtors' Motion for Entry of Order Authorizing, but Not Directing, the Debtors to Honor Certain Prepetition Obligations to Customers and to Otherwise Continue Certain Customer Programs in the Ordinary Course of Business (the "Customer Programs Motion")

121. The Debtors request the authority to maintain and administer their Customer Programs and honor prepetition obligations to customers related thereto in the ordinary course of business and in a manner consistent with past practice.

122. I believe that in order to maintain the loyalty, goodwill and support of their Customers, in the ordinary course of business, the Debtors must continue their Customer Programs to encourage new purchases of Debtors' products, to enhance customer satisfaction, to sustain goodwill, to ensure that the Debtors remain competitive and, ultimately, to increase revenue. The Debtors' Customer Programs include the following:

- a. ***Advertising Rate Guaranty.*** The Debtors guaranty those Customers that advertise in the Debtors' periodicals that the Debtors will circulate a minimum number of periodicals during a specific period. In the event the Debtors fail to circulate the minimum number of periodicals, the Debtors are required to reimburse a portion of the advertising fees paid by such Customers.
- b. ***Subscription Program.*** The Debtors also maintain a subscription program, whereby Customers pay a fee in advance to subscribe to a periodical published by the Debtors, and the Debtors are required to deliver the prepaid periodicals to such Customers.
- c. ***Return Program.*** As is customary in the Debtors' businesses, nearly all sales of products circulated by the Debtors' are made on a "sale or return" basis, which means that Customers may return products purchased by Customers from the Debtors at any time for a credit against the Customers' accounts for the price paid for the returned products. Upon receipt of the returned products, the Debtors return such products to the publisher or the media company from which the Debtors purchased the products initially, and receive a credit against the Debtors' accounts with the publisher and media company.
- d. ***Price Protection Program.*** From time to time, the media companies from which the Debtors purchase CDs and DVDs reduce the purchase price of the CDs and DVDs after the Debtors have purchased them. Consistent with industry standards, and in some cases according to contractual terms, the Debtors reduce the purchase price paid by certain of their Customers for unsold CDs and DVDs that remain at such Customers' stores, and credit the

Customers' accounts with the difference between the initial purchase price for the CDs and DVDs and the new purchase price.

- e. ***Profit Centers.*** In the ordinary course of business, and subject to contract, the Debtors manufacture and install shelving for their Customers on which the Customers display magazines, confectionary items and general merchandise. The Customers reimburse the Debtors for the manufacturing and installation of the shelving by assigning to the Debtors the right to collect a fixed fee owed by certain vendors to the Customers to place the vendors' products on the shelving units, subject to a fixed cap. Any collection over the cap, must be remitted by the Debtors to the Customers.
- f. ***Payment of Rebates.*** The Debtors offer certain of their Customers a volume rebate whereby the Debtors pay Customers a certain percentage of the sales proceeds for each of the Debtors' products sold by their Customers. In addition, the Debtors also offer certain of their Customers a fixed fee rebate whereby Debtors pay the Customers a fixed fee each month to retain a particular product display location.
- g. ***Collection of Rebates.*** The Debtors administer a rebate collection program whereby the Debtors assist Customers with the accurate monitoring, documenting, claiming and collecting of publisher rebates and other incentive payments. The Debtors typically retain a fixed amount or a percentage of the rebate collected by the Debtors on behalf of the Customers, and remit the remaining portion to the Customers.
- h. ***Advance Pay Program.*** The collection of the rebates from publishers can take as long as seven to eight months, and, therefore, to generate customer good-will and achieve additional earnings, the Debtors maintain a customer program by which the Debtors purchase at a discounted price the Customers' rights to obtain rebates from publishers. In these situations, the Debtors' retain the entire amount of the rebate check when collected from the publisher.
- i. ***Advertising Allowances.*** The Debtors receive from time to time market development funds from media companies to advertise and promote the sale of CDs and DVDs. The Debtors share, in some cases pursuant to contractual terms, a portion of these market development funds with certain Customers.
- j. ***Customer Contests and Sweepstakes.*** The Debtors routinely hold contests and sweepstakes to create interest and induce customers to purchase print editions of the Debtors' periodicals. The Debtors incur the obligation to pay certain winnings to customers which winnings may take the form of clothing, vehicles, cash, and various other prizes.

123. I believe that the Debtors' ability to honor their obligations under the Customer Programs in the ordinary course of business is necessary to retain their customer base and reputation for quality and reliability. I also believe that the relief requested herein will pay dividends with respect to the reorganization of their business, both in terms of profitability and the engendering of goodwill, especially at this critical time following the filing of the Chapter 11 Cases.

124. I believe that the relief requested in the Customer Programs Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Customer Programs Motion should be approved.

N. Debtors' Motion for Entry of Order (A) Authorizing, but Not Directing, the Debtors to Remit and Pay Certain Taxes and Fees and (B) Authorizing and Directing Bank and Other Financial Institutions to Honor Related Checks and Electronic Payment Requests (the "Taxes Motion")

125. The Debtors request authority to pay any Taxes and Fees that, in the ordinary course of business, accrued or arose before the Petition Date. In the ordinary course of business, the Debtors incur and/or collect certain Taxes and Fees and remit such Taxes and Fees to various Authorities. I believe that the Debtors must continue to pay the Taxes and Fees to continue operating in certain jurisdictions and to avoid costly distractions during the Chapter 11 Cases. Specifically, it is my understanding that the Debtors' failure to pay the Taxes and Fees could affect adversely the Debtors' business operations because the Authorities could suspend the Debtors' operations, file liens, or seek to lift the automatic stay. In addition, certain Authorities may take precipitous action against the Debtors' directors and officers for unpaid Taxes, which

undoubtedly would distract those key employees from their duties related to the Debtors' restructuring.

126. I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Taxes Motion should be approved.

O. Debtors' Motion for Entry of Interim and Final Orders Determining Adequate Assurance of Payment for Future Utility Services (the "Utilities Motion")

127. The Debtors request the entry of interim and final orders: (a) determining that the Utility Providers have been provided with adequate assurance of payment within the meaning of Bankruptcy Code §366; (b) approving the Debtors' proposed offer of adequate assurance and procedures governing the Utility Providers' requests for additional or different adequate assurance; (c) prohibiting the Utility Providers from altering, refusing, or discontinuing services on account of prepetition amounts outstanding and on account of any perceived inadequacy of the Debtors' proposed adequate assurance pending entry of the Final Order; (d) establishing procedures for the Utility Providers to object to the Debtors' proposed adequate assurance procedures; and (d) determining the Debtors are not required to provide any additional adequate assurance beyond what is proposed by the Utilities Motion, pending entry of the Final Order.

128. In the ordinary course of business, the Debtors incur expenses for gas, water, sewer, electric, telecommunications, and other similar utility services provided by approximately 86 utility providers. I believe that uninterrupted utility services are essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization. Indeed, any interruption of utility services, even for a brief period of time, would negatively affect the Debtors' operations, customer relationships, revenues, and profits, seriously jeopardizing the

Debtors' reorganization efforts and, ultimately, value and creditor recoveries. It is, therefore, critical that utility services continue uninterrupted during the Chapter 11 Cases.

129. I believe and am advised that the proposed procedures are necessary in the Chapter 11 Cases, because if such procedures are not approved, the Debtors could be forced to address numerous requests by the Utility Providers in a disorganized manner during the critical first weeks of the Chapter 11 Cases. Moreover, a Utility Provider could blindside the Debtors by unilaterally deciding—on or after the 30th day following the Petition Date—that it is not adequately protected and discontinuing service or making an exorbitant demand for payment to continue service. Discontinuation of utility service could essentially shut down operations, and any significant disruption of operations could put the Chapter 11 Cases in jeopardy.

130. I believe that the relief requested in the Utilities Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Utilities Motion should be approved.

P. Debtors' Motion for Entry of Order Authorizing, but Not Directing, the Debtors to (A) Continue Prepetition Insurance Coverage Practices and Surety Bonds and (B) Renew, Supplement or Purchase New Insurance Coverage (the "Insurance Motion")

131. The Debtors request the authority to (a) continue prepetition insurance coverage practices and surety bonds and (b) renew, supplement or purchase new insurance coverage as necessary. In the ordinary course of business, the Debtors maintain a number of insurance policies and surety bonds (collectively, the "Policies") that benefit, among others, the Debtors. I believe that the Policies are essential to the preservation of the value of the Debtors' businesses, properties, and assets. In many cases, insurance coverage such as that provided by the Policies is

required by the diverse regulations, laws and contracts that govern the Debtors' commercial activities.

132. As part of the effort to obtain comprehensive insurance coverage for the Debtors' operations in the most cost-effective manner, the Debtors' maintain brokerage agreements with a number of brokers who assist in procuring and negotiating Policies and premiums, evaluating benefit plan offerings and advising with regard to accounting and actuarial methodology. In addition, and as they deem appropriate, the Debtors also enlist the assistance of third party administrators to process and administer insurance claims and provide other services related to the Insurance Policies

133. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Insurance Motion should be approved.

Q. Debtors' Motion for Entry of Order Authorizing the Debtors to Reject Certain Unexpired Leases Nunc Pro Tunc to the Petition Date (the "Lease Rejection Motion")

134. To realize cost-savings that will benefit the Debtors' estates and creditors, the Debtors request the authority in the Lease Rejection Motion to reject certain Leases *nunc pro tunc* to the Petition Date.

135. As of the Petition Date, the Debtors have consolidated the business functions performed at the facilities subject to the Leases. As a result, the Debtors' no longer require the use of these facilities. The Debtors have no intention of utilizing the premises in the future. By rejecting the Leases, the Debtors will avoid substantial rental obligations that would otherwise result from their continued tenancy. Accordingly, I believe that the rejection of the Leases likely will reduce postpetition administrative costs and is in the best interests of the Debtors, their

estates and their creditors. Therefore, I respectfully submit that the Lease Rejection Motion should be approved.

R. Debtors' Motion for Entry of Interim and Final Orders Establishing Notification and Hearing Procedures for Transfers of Common Stock (the "Equity Trading Motion")

136. The Debtors request the entry of interim and final orders establishing notification and hearing procedures for transfers of common stock. The Debtors have incurred, and are currently incurring, significant net operating losses ("NOLs"). It is my understanding that, as of the Petition Date the Debtors had NOL carryforwards of approximately \$288 million. Such NOLs may be utilized by the Debtors to offset any taxable income generated by transactions completed during the Chapter 11 Cases at a combined federal and state tax rate of approximately 39.7%. Accordingly, the Debtors' NOLs could result in a future tax savings of approximately \$114 million.

137. By the Equity Trading Motion, the Debtors seek authorization to protect and preserve their valuable Tax Attributes by establishing notification and hearing procedures regarding the trading of Common Stock that must be complied with before trades or transfers of such securities become effective. I believe that if no restrictions on trading are imposed by the Court, such trading could severely limit or even eliminate the Debtors' ability to use their Tax Attributes (including their NOLs)—a valuable asset of the Debtors' estates—which could lead to significant negative consequences for the Debtors, their estates, and the overall reorganization process.

138. I believe the Debtors need to preserve to the fullest extent possible the flexibility to craft a chapter 11 plan that maximizes the use of their NOLs. The limited relief sought in the Equity Trading Motion will enable the Debtors to closely monitor certain transfers of Common

Stock so as to be in a position to act expeditiously to prevent such transfers or declarations, if necessary, to preserve the NOLs.

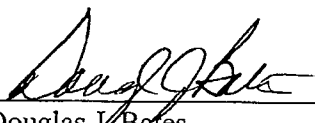
139. I believe that the relief requested in the Equity Trading Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their businesses in chapter 11 without disruption.

Accordingly, on behalf of the Debtors, I respectfully submit that the Equity Trading Motion should be approved.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: April 27, 2009

Respectfully submitted,



Douglas J. Bates
Chief Legal Officer, Senior Vice President and
Secretary of Source Interlink Companies, Inc.