IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
SFX ENTERTAINMENT, INC., *et al.*,[1]	Case No. 16-10238 (MFW)
Debtors.	(Joint Administration Requested)

DECLARATION OF MICHAEL KATZENSTEIN IN SUPPORT OF THE DEBTORS' CHAPTER 11 PETITIONS AND REQUESTS FOR FIRST DAY RELIEF

I, MICHAEL KATZENSTEIN, hereby declare, under penalty of perjury, as follows:

1. I am the Chief Restructuring Officer ("**CRO**") of SFX Entertainment, Inc. ("**SFXE**" together with the above-captioned debtors and debtors-in-possession, the "**Debtors**" and collectively with the non-Debtor affiliates, the "**Company**" or "**SFX**"). I was appointed as the CRO on January 3, 2016. I submit this declaration (the "**Declaration**") in support of the Debtors' chapter 11 petitions and requests for relief contained in certain "first day" applications and motions (the "**First Day Motions**") filed on or shortly after the date hereof (the "**Petition Date**").

[1] The Debtors in these Chapter 11 Cases, along with the last four (4) digits of each Debtor's federal tax identification number, if applicable, are: 430R Acquisition LLC (7350); Beatport, LLC (1024); Core Productions LLC (3613); EZ Festivals, LLC (2693); Flavorus, Inc. (7119); ID&T/SFX Mysteryland LLC (6459); ID&T/SFX North America LLC (5154); ID&T/SFX Q-Dance LLC (6298); ID&T/SFX Sensation LLC (6460); ID&T/SFX TomorrowWorld LLC (7238); LETMA Acquisition LLC (0452); Made Event, LLC (1127); Michigan JJ Holdings LLC (n/a); SFX Acquisition, LLC (1063); SFX Brazil LLC (0047); SFX Canada Inc. (7070); SFX Development LLC (2102); SFX EDM Holdings Corporation (2460); SFX Entertainment, Inc. (0047); SFX Entertainment International, Inc. (2987); SFX Entertainment International II, Inc. (1998); SFX Intermediate Holdco II LLC (5954); SFX Managing Member Inc. (2428); SFX Marketing LLC (7734); SFX Platform & Sponsorship LLC (9234); SFX Technology Services, Inc. (0402); SFX/AB Live Event Canada, Inc. (6422); SFX/AB Live Event Intermediate Holdco LLC (8004); SFX/AB Live Event LLC (9703); SFX-94 LLC (5884); SFX-Disco Intermediate Holdco LLC (5441); SFX-Disco Operating LLC (5441); SFXE IP LLC (0047); SFX-EMC, Inc. (7765); SFX-Hudson LLC (0047); SFX-IDT N.A. Holding II LLC (4860); SFX-LIC Operating LLC (0950); SFX-IDT N.A. Holding LLC (2428); SFX-Nightlife Operating LLC (4673); SFX-Perryscope LLC (4724); SFX-React Operating LLC (0584); Spring Awakening, LLC (6390); SFXE Netherlands Holdings Coöperatief U.A. (6812); SFXE Netherlands Holdings B.V. (6898). The Debtors' business address is 902 Broadway, 15th Floor, New York, NY 10010.

2. I am a senior managing director with FTI Consulting, Inc. ("**FTI**"), a leading global business advisory firm with over 50 offices worldwide and over 3,000 professionals. FTI was retained on January 3, 2016 as the Debtors' crisis and turnaround manager.

3. As CRO, I am authorized to submit this Declaration on behalf of the Debtors. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my discussions with other members of the Debtors' management team and the Debtors' advisors, my review of relevant documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives, or my opinions based upon my experience and knowledge. If I were called to testify as a witness in this matter, I could and would competently testify to each of the facts set forth herein.

4. Part I of this Declaration provides a brief overview of the Debtors and a summary of these Chapter 11 Cases (as defined below). Part II of this Declaration describes in more detail the Debtors' business, the developments which led to the Debtors' chapter 11 filings and their goals in these Chapter 11 Cases. Part III sets forth the relevant details of the various First Day Motions.

I. INTRODUCTION

5. SFX is a leading producer of live events and digital entertainment content focused exclusively on electronic music culture and world-class festivals. The Company commenced material operations in 2012 with the intent of acquiring and operating companies within the electronic dance music ("**EDM**") industry, specifically those engaged in the promotion and production of live music events, festivals and digital offerings attractive to EDM fans in the United States and abroad. Over the next three years, the Company acquired a number of leading

EDM brands, such as TomorrowWorld, Beatport, Mysteryland, Sensation and Electric Zoo, and expanded its operations worldwide.

6. Today, the Company is actively engaged in the production and promotion of EDM festivals and events both domestically and abroad. In addition, the Company manages large, event-driven nightclubs that serve as venues for performances by key electronic music talent. The Company also offers an online platform for EDM DJs, artists and fans to purchase, share and stream music components and to connect with each other.

7. The Debtors and SFXE's 120 non-debtor subsidiaries operate a business that spans the globe, with operations in over 34 countries. The Debtors are substantially all of the domestic companies comprising SFX as well as select foreign holding companies. SFX's foreign operating subsidiaries and affiliates are not debtors in these cases. The Debtors have more than 325 employees and, together with the non-Debtor entities, have more than 625 employees.

8. The Company's strategy has been to take advantage of the heightened interest in EDM and the associated attractive demographic by building the largest integrated EDM business in the world. The Company's growth strategy was successful in building a platform that is unmatched in the EDM business. The growth strategy, however, resulted in high acquisition-related costs and the Company's operating costs also remain high as the Company has not yet completed the integration of the acquired companies. In addition, certain of the acquisitions did not add the expected level of value to the Company's platform.

9. The Debtors' capital structure is highly levered, as discussed in more detail in Part II. The Debtors began to face significant liquidity issues in 2015. These liquidity issues have reached a crescendo in recent months. Currently, the Company has an interest payment on

its Notes (as defined below) due on February 1, 2016 that it lacks the funds to pay. Further, the Company is without the liquidity to make critical payments absent DIP financing.

10. The Debtors filed these Chapter 11 Cases in order to restructure the balance sheet of the Company and effect necessary operational changes. The Debtors believe that a chapter 11 process is the only way to achieve these goals and maximize the value of the Company. The Debtors' goal is to exit bankruptcy expeditiously while preserving relationships with key customers and business partners including sponsors, production vendors, music talent and management, and the EDM community as a whole.

11. The Debtors have obtained DIP financing from certain members of an Ad Hoc Group (as defined below) of holders of its Notes. The DIP financing, more fully described below, will provide the Debtors with $115 million of committed DIP financing, with an uncommitted additional $10 million tranche. The Debtors and the Ad Hoc Group have also executed a Restructuring Support Agreement (as defined below) that will form the basis for the plan of reorganization that the Debtors intend to file in these Chapter 11 Cases.

12. Because the Debtors intend to operate their business in the ordinary course during the pendency of these Chapter 11 Cases, and in order to minimize the adverse effects of the commencement of these Chapter 11 Cases on their business, the Debtors request various forms of relief in the First Day Motions. The First Day Motions are described in greater detail in Part III below, but generally seek, among other things, the Bankruptcy Court's authority to: (a) continue the Debtors' operations with as little disruption as possible; (b) maintain the confidence and loyalty of the Debtors' customers and employees; (c) obtain authority to obtain DIP financing; and (d) utilize certain of the DIP financing proceeds to make immediate payments that are critical to maintaining the Debtors' business enterprise. Maintaining the support of the

Debtors' key constituencies, as well as operating the Debtors' day-to-day business with minimal disruption and erosion, is crucial to the success of the Debtors' efforts to maximize the value of the Debtors' estates and to ensure an expeditious resolution of these Chapter 11 Cases.

II. BACKGROUND

A. <u>The Debtors' Business</u>

i. <u>The Debtors</u>

13. The organizational structure of the Debtors and the non-Debtor affiliates is depicted on the chart annexed hereto as **<u>Exhibit A</u>**.

14. SFXE was incorporated in the State of Delaware on June 5, 2012.[2] The Company sought to consolidate and acquire independent promoters and businesses in the growing EDM industry, an industry characterized by a high degree of ownership fragmentation. The Company's senior management team has extensive global experience in entertainment, consumer Internet and music-related businesses, including experience working with creative talent, producing and promoting live events, and acquiring and integrating companies.

15. On October 15, 2013, SFXE completed its initial public offering ("**IPO**") and became a publicly traded company on NASDAQ. The Company trades under the ticker symbol "SFXE".

16. The Company has two operating segments: (i) "**Live Events**," which is the production and promotion of the live EDM events, and includes revenue from ticket sales, concessions of food, beverages and merchandise, ticketing fees and commissions, promoter and management fees, event-specific sponsorships and advertising; and (ii) "**Platform**," which is the

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[2] SFXE started its business on July 7, 2011 as SFX EDM Holdings Corporation (f/k/a SFX Entertainment Inc.), which is now a wholly-owned subsidiary of SFXE. Between June 5, 2012 and February 13, 2013, SFXE operations were conducted under SFX Holding Corporation. SFXE was incorporated on June 5, 2012.

Company's 365-day per year engagement with the Company's fans outside of live events, and includes the sale of audio files, merchandise and certain marketing and digital activities.

ii. The Debtors' Business and Strategy

17. In recent years, the popularity of EDM has soared among the Millennial demographic. What began as a niche category of music in the 1980s has broadened dramatically and grown in mainstream appeal. EDM is now integrated into hip-hop and contemporary music, and is being recognized and accepted by a broadening audience. A growing number of EDM artists are in high demand and attract huge audiences, in both the physical and online worlds through festivals and digital content, respectively. EDM fans are passionate about the genre and culture, and repeat festival attendance is the norm, as the fan base continues to grow. Until very recently, however, EDM festivals and the related business community have generally operated as disparate and far-flung independent businesses.

18. Since its incorporation and IPO, the Company's strategy has been to aggregate and integrate these fragmented EDM festivals and related businesses. Through consolidation, the Company sought to take advantage of scale including the ability to: (i) share services and corporate overhead; (ii) sell across platforms (e.g., live and online); (iii) increase purchasing power; (iv) establish common branding; (v) create a touring infrastructure to mitigate event costs; (vi) engage the best EDM talent; and (vii) attract large sponsors.

19. The Company's strategy also sought to take advantage of its platform to enhance revenue by attracting sponsors for their festivals and other activities. The vast majority of the over 3 million tickets the Debtors sold in 2015 are attributable to the 18- to 34-year old demographic. This age bracket is highly desirable to marketers, and presents the Debtors with the opportunity to enter into lucrative corporate sponsorships.

20. The Company acquired rights to host festivals under trusted brands that attract millions of EDM fans worldwide. The Company made a number of acquisitions to expand its global reach, in Europe, Australia and South America. Some of these acquisitions involved the purchase of entire businesses. In other instances the Company purchased a non-controlling interest, such as in connection with the acquisitions of the Rock in Rio festival and Alda Holding B.V., an artist touring and concept development company. As the EDM industry grew, the Company intended to expand the use of its world-class brands to new regions of the world to attract new audiences.

21. SFXE and its subsidiaries operate TomorrowLand festivals around the world under a partnership with M&M Management Vennootschap BVBA ("**M&M**"). M&M operates and has the exclusive rights to the TomorrowLand festival in Belgium. TomorrowLand was voted best festival in the world for the last 4 years in a row, and therefore has a significant impact on every level in SFX's industry. The relationship between M&M and SFX, including the rights to the intellectual property relating to the TomorrowLand festivals, is subject to and defined in a Binding Term Sheet, dated June 20, 2014 by and between M&M and SFX Entertainment, Inc. (the "**TL Agreement**"). In the early days of these Chapter 11 Cases, the Debtors expect to take steps to assure the continuation of this extremely important and valuable partnership consistent with their ongoing practices.

22. The Company's business also includes control of a portion of its ticketing function. In 2013 and 2014, the Company purchased Flavorus and Paylogic, companies engaged in the business of event ticketing both domestically and abroad. These companies support ticket sales of SFX's and third party's events, and provide customer service, on-site operations and marketing.

23. The Company also provides online platforms that enable EDM fans and professionals access to music, news, ticketing, social networks and events. The Company acquired Beatport in 2013, a principal online resource and destination for EDM DJs, artists and fans. Beatport provides a download store for the purchase of professional-quality audio files, coverage of EDM news and music charts and, beginning in 2015, a streaming service that enables users to stream DJ sets, music clips and components. The Company further acquired Fame House, a global digital marketing agency that produces online marketing campaigns for high-profile artists and many of the Company's core brands.

24. As SFX acquired new companies, the management team expanded to include a new generation of promoters, producers and executives who are innovators and leaders in the EDM community. These team members are generally managers or former owners of the acquired companies who received equity in the Company and other consideration, some of which is payable over time.

25. The Company's acquisition strategy included the acquisition of foreign subsidiaries that house much of the Company's creative talent and intellectual property. Mainly, these entities are cash-flow positive and should not require funding during the course of these Chapter 11 Cases. As set forth below, however, in respect of the Cash Management motion, the Debtors may need to advance certain funds to foreign entities in order to protect their enterprises, which advances will be properly documented and tracked.

26. As a result of the Company's roll-up strategy, SFX companies owned or operated more than 106 festivals and produced over 1,134 other events across the world in 2015, all in the vibrant and growing EDM community. The Company's streaming and ticketing operations complement their EDM operations and provide another revenue stream.

27. These attributes translate into a distinct competitive advantage for the Company. The Company owns EDM brands with world-wide fame and cachet. Their customer base is loyal and growing. The EDM music, lifestyle and community are going "mainstream." And no other EDM company has the market share, the experience or the reputation to convert that competitive advantage into a successful and profitable operation.

iii. <u>Challenges to the Business Model</u>

28. As set forth below, a confluence of factors has resulted in costs and liabilities that are significantly out of step with revenues, and the Debtors do not have the borrowing or revenue capacity to bridge that gap outside of a chapter 11 process.

Festivals.

29. The Debtors have faced numerous issues in connection with their acquisition and production of festivals. Certain North American festivals, including international brands brought to new domestic locations, have underperformed from the Debtors' projections at the time of acquisition. And the Debtors' purchasing strategy – paying earn-outs to previous owners who would continue to manage the festival under the Debtors' umbrella – did not function as expected because management incentives were not properly aligned to drive revenue profit and growth, and the significant decline in SFXE's share price eliminated a major part of an incentive plan.

30. Further, the Debtors faced unexpected shifts in cost structure. Costs of production were not exactingly managed to budget, and the Debtors have not been able to integrate their various live events to obtain economies of scale as quickly as anticipated. As EDM is a developing market and genre, other unexpected challenges arising from regulation and isolated negative incidents have affected the EDM market generally. And as with any business involving

congregations of people, ongoing global events have heightened production costs such as security.

31. Several other factors have exacerbated the Company's festival-related issues. Many nascent artists sponsored and nurtured by the Company have gained fame and popularity among the EDM community, which in turn increases the Company's costs in engaging such talent. As to foreign performances, many of the artists are paid in U.S. dollars while underlying ticket sales are pegged to the local currency. Unexpected fluctuations in exchange rates have increased the relative cost of foreign performances. Finally, like any outdoor performance, festivals and corresponding revenue are subject to seasonality and also affected by weather.

Platform.

32. In their efforts to broaden their reach beyond live festivals, the Debtors embarked on a number of acquisitions relating to social media initiatives and digital music component streaming and distribution. Many of these acquired companies failed to flourish or otherwise proved not to be complimentary to the Debtors' operations or strategy. In addition, the Debtors' Beatport purchase, while successful on many levels, proved more costly than anticipated as the Debtors converted Beatport from a music component download store to a more fulsome streaming and digital content platform. The Debtors have yet to realize the significant anticipated benefits of that expanded platform.

33. In addition, the Debtors purchased a number of digital, creative and marketing agencies and contracted with creative talent in anticipation of digital business opportunities that failed to materialize, and the Debtors were otherwise unable to integrate many of those personnel into their larger operations. As a result, the Debtors experienced significant turnover and related

expenses. Further, the Debtors have not yet fully integrated their digital platforms into their live events.

Sponsorships.

34. After consummating numerous acquisitions, rather than engage in one off event sponsorships, the Debtors sought to enter into global sponsorship transactions that could scale across the Debtors' businesses – granting sponsors in several key verticals broad access to all of the Debtors' business activities. The Debtors have successfully created long term relationships with several high-quality international sponsors. These relationships and the Debtors' overall sponsorship vision are extremely important to the Debtors' future. However, execution and phasing took longer than expected, and unexpected costs arose. In connection with these agreements, the Debtors hired personnel, created programs for the sponsors and otherwise expended significant cash and effort.

Corporate Overhead and Acquisition Costs.

35. As a result of their numerous acquisitions, the Company's corporate overhead grew significantly as a result of personnel retained from acquired businesses and aspirational hiring for potential business opportunities. While at this point many of the redundancies have been cleared from the system, the overhead cash drain over the course of the last several years was significant. Further, the Company incurs significant reporting and administrative costs as a result of being a public company with international business operations.

36. In addition, the Debtors have experienced turnover in their management ranks, which has also increased costs.

37. Meanwhile, in August of 2015, the Debtors' bond debt was downgraded. This downgrade, coupled with the other business issues set forth above, resulted in a snowball effect

with vendors, talent and trade partners demanding tighter credit terms and conditions. This further taxed the Debtors' already strained liquidity – particularly in light of the Company's significant debt obligations, as described below.

B. <u>Prepetition Capital Structure</u>

38. To fund its roll-up strategy, the Company raised significant capital. As of the Petition Date, the Debtors had outstanding debt obligations in the aggregate principal amount of over $345 million, consisting mainly of their obligations under the first-lien Credit Agreement, Foreign Loan and second-lien Notes. Further, the Company raised $45 million in preferred stock issuances in September 2015, and an additional $7.5 million thereafter in November and December 2015.

i. <u>The Credit Agreement and Foreign Loan</u>

39. On February 7, 2014, the Company entered into a credit agreement (as amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**") with the lenders party thereto and Barclays Bank PLC, as administrative agent and collateral agent (in such capacities, together with its successors and permitted assigns, the "**Administrative Agent**"), which provided the Company with a $30 million revolving credit facility (the "**Revolving Credit Facility**").

40. The Credit Agreement is fully and unconditionally guaranteed by the Company's present and future wholly-owned domestic subsidiaries (collectively, the "**Guarantors**"). The Revolving Credit Facility is secured by a first-priority lien on substantially all of the present and future assets of SFXE and the Guarantors, subject to certain exceptions and permitted liens.

41. On March 16, 2015, the Company entered into Amendment No. 2 to the Credit Agreement (the "**Second Amendment**") and a commitment letter with Sillerman Investment Company III LLC ("**SIC**"), an entity controlled by Mr. Sillerman. Among other things, the

Second Amendment modified the Credit Agreement, as previously amended, by removing certain financial covenants, eliminating the incurrence tests to which certain exceptions to the negative covenants were subject and modifying the applicable margin of the borrowings under the Credit Agreement. Further, SIC agreed to cash collateralize any credit extension under the Credit Agreement, in the aggregate amount of $31.5 million, and deposit a maximum of such amount into a deposit account that was subject to a first-priority lien in favor of the Administrative Agent.

42. On September 17, 2015, SFXE and certain of its subsidiaries entered into that Amendment and Restatement Agreement (the "**Revolver Restatement**") with the Administrative Agent, and the lenders party thereto. Among other things, the Revolver Restatement modified the Credit Agreement by (i) reinstating a maximum total leverage ratio and a minimum interest coverage ratio financial covenant; (ii) increasing the applicable margins for base rate loans and Eurodollar loans to 9.00% per annum and 10.00% per annum, respectively, and instituting a 1.00% LIBOR floor; (iii) eliminating or restricting certain exceptions to the negative covenants; and (iv) extending the maturity date of the Credit Agreement from February 7, 2017 to September 17, 2017. In connection with the Revolver Restatement, SIC's cash collateral was released and SIC agreed to purchase $30 million of Series A Preferred Stock.

43. On November 2, 2015 the Company delivered notice to SIC that SIC did not timely purchase the entire amount of the Series A Preferred Stock. SIC notified the Board that the failure to purchase the Series A Preferred Stock was due to an asserted failure by the Company to fulfill certain alleged obligations to Mr. Sillerman. SIC purchased an additional $7.5MM of Series A Preferred Stock in November and December of 2015.

44. Catalyst Fund Limited Partnership V ("**Catalyst**") expressed interest in purchasing the entire first-lien Credit Agreement position from GoldenTree Asset Management LP ("**GoldenTree**"). Prior to the purchase, Catalyst discussed with the Company the terms and conditions on which they would forbear on the default caused by the non-funding of the Series A Preferred Stock and extend additional credit. On December 31, 2015, GoldenTree assigned all its rights as a lender under the Credit Agreement to Catalyst. Concurrently therewith, SFXE and certain of its subsidiaries and Catalyst entered into that Forbearance Agreement and First Amendment to Credit Agreement (the "**Forbearance and Amendment Agreement**"). Among other things, the Forbearance and Amendment Agreement modified the Credit Agreement by (i) providing for a forbearance period through the earlier to occur of January 28, 2016 or the occurrence of an event of default under the Credit Agreement, during which Catalyst agreed not to exercise its rights with respect to certain existing and identified defaults by the Company under the Credit Agreement; (ii) appointing Catalyst as the Administrative Agent under the Credit Agreement in replacement of Barclays Bank PLC; (iii) increasing the applicable interest rates for loans under the Credit Agreement to 20.00% per annum; (iv) providing for interest payments to be due on the last day of each calendar month; (v) providing for an early termination payment of $1.5 million in the event the Company pre-pays the loans under the Credit Agreement; (vi) requiring the Company to engage a Chief Restructuring Officer reasonably acceptable to Catalyst; and (vii) restricting and limiting certain commercial and dividend payments and asset sales by the Company during the term of the Credit Agreement.

45. In addition, the Forbearance and Amendment Agreement contemplated Catalyst providing $20 million in credit to a material European subsidiary of the Company to be guaranteed on a first lien basis by select non-domestic subsidiaries of the Company (the

"**Foreign Loan**"), which Foreign Loan shall be used to support the operations of the Company and its European operations.

46. The Foreign Loan closed and was funded on January 14, 2016 and matures in January 2017. Under the terms of the Forbearance and Amendment Agreement, the Company paid a $1 million forbearance fee to Catalyst simultaneous with the closing of the Foreign Loan. The Foreign Loan provides for an early termination fee of $1.5 million.

47. The transactions with Catalyst were undoubtedly expensive from an interest rate and fee perspective. However, the funds provided by Catalyst allowed the Debtors to maintain their operations, to bridge to a larger restructuring in connection with these Chapter 11 Cases and avoid a potential cross default on the Debtors' Notes.

48. As of the Petition Date, the Borrower under the Foreign Loan – SFXE Netherlands Holdings Coöperatief U.A., a Debtor in these cases, has drawn a total of $20 million, some of which was utilized by the domestic Debtors prior to the Petition Date pursuant to intercompany loans memorialized by intercompany notes. The Foreign Loan is currently guaranteed by one foreign Debtor and certain non-Debtor foreign subsidiaries.[3]

ii. ***<u>9.625% Notes due 2019</u>***

49. On February 4, 2014, the Company issued $220 million aggregate principal amount of 9.625% second lien senior secured notes due 2019 (the "**Notes**", and the holders thereof, the "**Noteholders**"). In connection with the issuance of the Notes, SFXE and certain subsidiaries and U.S. Bank National Association, as trustee (in such capacity, the "**Indenture**

[3] These guarantors are: SFXE Netherlands Holdings B.V. (a Debtor in these cases); SFX Europe B.V.; ID&T Holding B.V.; Monumental Productions B.V.; Paylogic Holding B.V.; ID&Q Licenties B.V.; Q-Licenties V.O.F.; ID & T Trademark B.V.; Q-Dance Licenties B.V.; DTW Holding B.V.; i-Motion GmbH Events & Communication; B2S Licenties B.V.; B2S Management B.V.; and SFXE International Holdings C.V.

Trustee") and collateral agent, entered into an indenture, which governs the Notes (the "**Indenture**").

50. On September 24, 2014, the Company issued $75 million aggregate principal amount of the Notes in private offerings, including $10 million that was issued in a private placement to SIC.[4] The Company used the net proceeds from the offering for working capital and general corporate purposes. The Notes issued in September 2014 have the same terms as the Notes issued in February 2014 and are governed by the Indenture.

51. The Notes are second-priority lien senior secured obligations of the Company and are fully and unconditionally guaranteed by the Guarantors. The Notes and the guarantees thereof are secured by a second-priority lien on substantially all of the present and future assets of SFXE and the Guarantors, subject to certain exceptions and permitted liens.

52. The Notes will mature on February 1, 2019 and accrue interest at a rate of 9.625% per annum, which is payable semi-annually in arrears on February 1 and August 1 of each year.

iii. Intercreditor Agreement

53. SFXE, the Guarantors, the Administrative Agent and the Indenture Trustee entered into that certain First Lien/Second Lien Intercreditor Agreement, dated February 7, 2014 (the "**Intercreditor Agreement**"). The Intercreditor Agreement governs certain of the respective rights and interests of the Lenders under the Credit Agreement and the Noteholders.

iv. Equity Interests

a. *Series A Preferred Stock*

54. On September 17, 2015, in connection with the Revolver Restatement and the release of the cash in the collateral account, the Company entered into a subscription agreement

[4] SIC subsequently sold these Notes.

with SIC, pursuant to which SIC agreed to purchase a total of $30 million in Series A Preferred Stock in a series of transactions. SIC purchased $15 million of Series A Preferred Stock that day. SIC agreed to purchase the remaining $15 million in six (6) subsequent closings (for $2.5 million each) to be held every fifth day after the initial closing (i.e., 30 days) (the "**Additional Sillerman Investment**").

55. As of the Petition Date, SIC funded $7.5 million of the Additional Sillerman Investment – $5 million on November 23, 2015 and $2.5 million on December 17, 2015.

b. *Series B Convertible Preferred Stock*

56. On September 17, 2015, SFX entered into a Securities Purchase Agreement with funds managed by Allianz Global Investors U.S. LLC ("**Allianz**"), whereby Allianz purchased $30 million of Series B Convertible Preferred Stock. Allianz is an institutional investor that owns a significant portion of the Notes.

57. The shares of Series B Convertible Preferred Stock are senior to Series A Preferred Stock and common stock. At any time after issuance, holders of Series B Convertible Preferred Stock could convert the shares to common stock. Additionally, Series B Convertible Preferred Stock would automatically convert to common stock on a rolling basis, beginning 36 months after the Series B stock was issued.

c. *Common Stock*

58. The Company went public in October 2013 at $13 per share. As of December 31, 2015 a total of 98,805,935 shares of common stock were outstanding. Mr. Sillerman, and entities controlled by Mr. Sillerman, own approximately 40.3% of the outstanding common stock.

59. For the past two months the Company's stock traded below $1 and was at risk of being delisted from NASDAQ. In the days leading up to the Petition Date, the stock was trading in the vicinity of $0.10 per share.

C. <u>Events Leading up to these Chapter 11 Cases</u>

60. A summary of the key events in 2015 leading up to these Chapter 11 Cases is provided below.

i. ***<u>Merger Bid, September 2015 Financing, and Credit Agreement Default</u>***

61. On February 24, 2015, Mr. Sillerman approached the Board of Directors with an offer to acquire all the common stock of SFXE (the "**Merger**"). The Board of Directors appointed a committee of independent board members (the "**Special Committee**") to review the proposed Merger. The Special Committee retained Steptoe & Johnson LLP and Moelis & Company ("**Moelis**") as its counsel and financial advisors, respectively.

62. On May 26, 2015, SFX entered into an agreement and plan of merger (the "**Merger Agreement**") with SIC affiliates SFXE Acquisition LLC (the "**Purchaser**") and SFXE Merger Sub, Inc. (the "**Merger Sub**"), a Delaware Corporation and wholly-owned subsidiary of the Purchaser. During a following go-shop period, Moelis marketed the Company and discussed a potential sale with numerous parties. There was, however, ultimately no interest that resulted in a higher valuation than as proposed under the Merger Agreement.

63. The go-shop period expired, and the Purchaser parties did not provide the required financing commitments. Accordingly, on or about August 17, 2015, the Company terminated the Merger Agreement.

64. On September 17, 2015, the Company entered into a series of transactions designed to secure capital, including (i) the assignment of its existing $30 million Credit

Agreement to affiliates of GoldenTree and the entry into certain amendments to the related Credit Agreement; (ii) the sale of $30 million of new Series A Preferred Stock to SIC; and (iii) the issuance of $30 million of new Series B Convertible Preferred Stock to Allianz. The Debtors used the proceeds from the Series B Convertible Preferred Stock to fund operating expenses, finance new initiatives and mitigate short-term liquidity concerns.

65. The Company, with Moelis' assistance, continued to pursue a potential sale of its assets, including a sale of the entire company or for non-core assets. A number of parties received access to datarooms and engaged in diligence calls with Company management with the assistance of Moelis. By October 22, 2015, the Company had received preliminary indications of interest from 12 parties interested in acquiring the Company or parts thereof, including an offer from Mr. Sillerman. However, none of the offers ultimately materialized into a definitive agreement.

66. On November 17, 2015, the Company delivered notice to the parties to the Credit Agreement disclosing the event of default as a result of the non-funding of the Series A Preferred Stock.

ii. Further Efforts to Restructure

67. In late November, Moelis and Company management and directors opened up discussions with parties that previously expressed interest during the Sillerman takeover bids, and other parties that Moelis and the Company identified as being potentially interested in discrete and non-core assets of the Company. None of these discussions resulted in a definitive agreement to purchase any of the Company's assets.

68. At this time, the Debtors' already strained liquidity became more critical. The confluence of factors mentioned above came to a head, with vendors and counterparties

demanding payments and tighter trade terms. With these cash demands rising, finding additional funding for the business was crucial to ensure continued operations.

69. In its efforts to source this funding, the Company began discussions with an ad hoc group of Noteholders (the "**Ad Hoc Group**") as to a potential capital raise and the potential restructuring of the Notes and recapitalization of the Company. As of the Petition Date, the Debtors are informed that the Ad Hoc Group holds over 70% of the Notes.

70. In addition, the Debtors entered into discussions with Catalyst, who expressed interest in purchasing GoldenTree's position, forbear on the default and extend working capital to the Debtors. Catalyst further expressed interest in providing DIP financing to the Debtors in the event that the Company filed for bankruptcy.

71. Both Catalyst and the Ad Hoc Group provided funding proposals to the Debtors. After careful consideration, the Debtors determined to proceed with the Catalyst proposal, which presented a clear path to obtain and quickly effectuate the financing critical to the Debtors' operations in a manner consistent with the terms of the Debtors' other obligations, including the Notes. After substantial negotiations, on December 31, 2015, the Company entered into the Forbearance and Amendment Agreement. On January 3, 2016, FTI was retained and I was appointed as the CRO. Shortly after, on January 14, 2016, the parties executed the Foreign Loan documents, which provided $20 million in operating capital, some of which was utilized by the domestic Debtors pursuant to intercompany loans.

72. While the Foreign Loan provided the Debtors with badly needed liquidity, the Company still does not have sufficient funds to make the February 1 cash interest payment on the Notes and to cover its operating expenses. The Debtors are currently critically low on cash, and their budget projects negative cash flows from operations. Further, as more fully discussed

below in connection with the Critical Vendor motion, the Company must make certain payments immediately or it will risk serious damage to the viability of its ongoing businesses. The Company has neither the funds nor the access to the capital required to make such payments – other than in connection with DIP financing provided in a bankruptcy case.

73. The Debtors thus entered into discussions with Catalyst over the terms of a potential DIP financing for a chapter 11 case. The Debtors were also approached by the Ad Hoc Group, who made a proposal that includes both DIP financing and a Restructuring Support Agreement ("**Restructuring Support Agreement**") which presents a clear path to an exit from this case.

74. After careful consideration of the two proposals, the Debtors determined that the proposal by the Ad Hoc Group was economically superior to the Catalyst proposal. Further, execution of the Catalyst proposal undoubtedly would have been complicated by costly litigation with the Ad Hoc Group with respect to priming, intercreditor and other issues.

75. On January 31, 2016, the Company, the Consenting Noteholders, and Sillerman (each as defined in the Restructuring Support Agreement) entered into the Restructuring Support Agreement to provide for a roadmap for these Chapter 11 Cases that focuses on the Debtors' ultimate goal—the expedient and efficient emergence from chapter 11. The Restructuring Support Agreement provides for a comprehensive restructuring to accomplish a necessary balance sheet deleveraging that will maximize the value of the Debtors' enterprise for the benefit of the Debtors' estates, creditors, and other parties in interest. The Debtors also accepted a DIP proposal from the members of the Ad Hoc Group, which is further described in Section III(K) below.

76. On January 31, 2016, the Board of SFXE appointed a special committee of the Board comprised of independent members (the "**Restructuring Committee**"). The Board delegated to the Restructuring Committee the power and authority to manage and oversee the financial restructuring of the business, assets, liabilities, and interests of the Company and its subsidiaries after the filing of these Chapter 11 Cases, including but not limited to operational issues and implementation of the transactions contemplated by and other terms and conditions of the Restructuring Support Agreement. From and after the Petition Date the CRO and ACRO shall report directly to the Restructuring Committee.

D. Debtors' Goals in These Chapter 11 Cases

77. The Debtors have three major goals in these cases. Initially, the Debtors seek to obtain DIP financing to stabilize their business and re-establish their business partners' confidence in SFX.

78. Second, utilizing the liquidity provided by the DIP financing, the Debtors seek to make certain immediate payments that are critical to the company's ongoing viability. These payments are more fully described below in respect of the Critical Vendor motion.

79. Third, the Debtors intend to propose a plan to restructure their balance sheet consistent with the RSA and the cost restrictions of the DIP facility.

80. The Debtors will not benefit from a long stay in chapter 11, and they intend to move with all due speed to successfully emerge from these cases as a strong business partner to our sponsors, production vendors, music talent, customers and the EDM community as a whole.

III. FIRST DAY MOTIONS

81. Concurrently with and shortly after the filing of these cases (the "**Chapter 11 Cases**"), the Debtors will be filing a number of First Day Motions.[5] The Debtors anticipate that the Bankruptcy Court will conduct a hearing within a business day or two after the commencement of the Chapter 11 Cases (the "**First Day Hearing**"), during which the Bankruptcy Court will entertain the arguments of counsel with respect to the relief sought in each of the First Day Motions.

82. Generally, the First Day Motions have been designed to meet the immediate goals of (i) establishing procedures for the efficient administration of these Chapter 11 Cases; (ii) continuing the Debtors' operations during these Chapter 11 Cases with as little disruption and loss of productivity as possible; and (iii) maintaining the confidence and support of the Debtors' key constituencies. I have reviewed each of the First Day Motions, including the exhibits, attached thereto, and believe that the relief sought in each of the First Day Motions is narrowly tailored to meet the goals described above and, ultimately, will be critical to the Debtors' ability to achieve success in these Chapter 11 Cases.

83. The First Day Motions are summarized below:

A. Motion of the Debtors for Entry of an Order Authorizing and Directing the Joint Administration of the Debtors' Chapter 11 Cases for Procedural Purposes Only

84. By this motion, the Debtors request the joint administration of the Chapter 11 Cases for procedural purposes only. Specifically, the Debtors request that the Court maintain one file and one docket for the Chapter 11 Cases under the SFX Entertainment, Inc. case and also request that the caption of each of the Chapter 11 Cases be modified to reflect the joint

[5] Capitalized terms used in Part III but not otherwise defined in this Declaration shall have the meanings ascribed to them in the relevant First Day Motion.

administration of the Chapter 11 Cases. Additionally, the Debtors request that the Court authorize the Debtors to use a combined service list for the jointly administered Chapter 11 Cases for purposes of noticing creditors of the Debtors' estates.

85. 430R Acquisition LLC; Beatport, LLC; Core Productions LLC; EZ Festivals, LLC; Flavorus, Inc.; ID&T/SFX Mysteryland LLC; ID&T/SFX North America LLC; ID&T/SFX Q-Dance LLC; ID&T/SFX Sensation LLC; ID&T/SFX TomorrowWorld LLC; LETMA Acquisition LLC; Made Event, LLC; Michigan JJ Holdings LLC; SFX Acquisition, LLC; SFX Brazil LLC; SFX Canada Inc.; SFX Development LLC; SFX EDM Holdings Corporation; SFX Entertainment International, Inc.; SFX Entertainment International II, Inc.; SFX Intermediate Holdco II LLC; SFX Managing Member Inc.; SFX Marketing LLC; SFX Platform & Sponsorship LLC; SFX Technology Services, Inc.; SFX/AB Live Event Canada, Inc.; SFX/AB Live Event Intermediate Holdco LLC; SFX/AB Live Event LLC; SFX-94 LLC; SFX-Disco Intermediate Holdco LLC; SFX-Disco Operating LLC; SFXE IP LLC; SFX-EMC, Inc.; SFX-Hudson LLC; SFX-IDT N.A. Holding II LLC; SFX-LIC Operating LLC; SFX-IDT N.A. Holding LLC; SFX-Nightlife Operating LLC; SFX-Perryscope LLC; SFX-React Operating LLC; Spring Awakening, LLC; SFXE Netherlands Holdings Coöperatief U.A. and SFXE Netherlands Holdings B.V. are direct or indirect subsidiaries of SFX Entertainment, Inc., such that the Debtors constitute "affiliates" of one another within the meaning of section 101(2) of the Bankruptcy Code. Joint administration of the Chapter 11 Cases will avoid the unnecessary administrative burden on the Court and parties-in-interest in these Chapter 11 Cases.

86. Joint administration will permit the Clerk to use a single general docket for the Debtors' Chapter 11 Cases and to combine notices to creditors and other parties-in-interest of the Debtors' respective estates. Joint administration will protect parties-in-interest by ensuring that

such parties-in-interest in each of the Debtors' respective Chapter 11 Cases will be apprised of the various matters before the Court in each of the Chapter 11 Cases.

87. I understand that if the Court approves joint administration of the Debtors' Chapter 11 Cases, the Debtors will be able to reduce fees and costs resulting from the administration of these Chapter 11 Cases and ease the onerous administrative burden of having to file multiple documents. I have also been advised that joint administration will ease the administrative burden for the Court and all parties to the Chapter 11 Cases and obviate the need for duplicative notices, motions, applications and orders, thereby saving time and expense for the Debtors and their estates.

88. Based on the foregoing, the Debtors believe that joint administration of the Chapter 11 Cases is in the best interests of the Debtors, their estates and all parties-in-interest, and should be granted in all respects.

B. Motion of the Debtors for Entry of Interim and Final Orders (A) Authorizing the Maintenance of Bank Accounts and Continued Use of Existing Business Forms and Checks, (B) Authorizing the Continued Use of Cash Management System, (C) Waiving Certain Investment and Deposit Guidelines and (D) Granting Administrative Expense Status to Postpetition Intercompany Claims

89. By this motion, the Debtors seek an order: (a) authorizing the maintenance of Bank Accounts and continued use of existing Business Forms; (b) authorizing, but not directing, continued use of existing Cash Management System; (c) waiving certain of the investment and deposit Guidelines set forth by the Office of the United States Trustee for the District of Delaware; (d) granting administrative expense status to postpetition intercompany claims; and (e) providing any additional relief required in order to effectuate the foregoing.

i. Cash Management System

90. Prior to the commencement of these Chapter 11 Cases, and in the ordinary course of business, the Debtors maintained approximately 75 Bank Accounts. SFX, with the help of its restructuring advisors, is in the midst of streamlining the Cash Management System to ensure the Debtors' ability to monitor and control efficiently their cash position. This process is expected to be completed within 45 days.

91. At SFX's inception, the Debtors' Cash Management System was maintained on the Private Wealth platform of Deutsche Bank ("**DB**"). SFX also started a separate banking relationship with JPMorgan Chase ("**JPM**") in March 2013 and has expanded its banking relationship with JPM since then.

92. In April 2015, SFX transitioned from the Private Wealth platform of DB to DB's Corporate platform. In December 2015, and continuing through the filing of these Chapter 11 Cases, the Debtors closed certain DB Bank Accounts and are in the process of transitioning their Cash Management System to JPM.

93. In addition, the Debtors maintain accounts with First Hawaiian Bank ("**FHB**"), Bank of America ("**BoA**"), Royal Bank of Canada ("**RBC**") and Citi Private Bank ("**Citi**").

94. Due to the recent transition to JPM, the explanation of the Cash Management System below provides the Debtors' anticipated use of their Bank Accounts. The Debtors, with the help of their professionals, are reviewing whether or not certain Bank Accounts are necessary for the continuing operation of the Company.

95. During these Chapter 11 Cases, the Debtors anticipate that certain Bank Accounts, including all DB Bank Accounts, will be closed to promote efficiency and to preserve value for the estates.

96. The Debtors are implementing the Cash Management System summarized below:

a. Operating Accounts: The Debtors will primarily maintain Operating Accounts with JPM, which will fund all of the Debtors' operations. The Debtors plan to implement a Cash Management System whereby the third tier Bank Accounts are swept daily into second tier Bank Accounts, which then the second tier Bank Accounts fund disbursements as needed. One of the Debtors, Beatport, LLC, already utilizes such a Cash Management System between itself and the various accounts set up for its online music store and streaming service. In addition, when necessary to pay for certain expenses, the Operating Accounts will remit wire payments and automated clearinghouse transfers. SFX Entertainment will also periodically sweep its subsidiaries' accounts to fund its operations.

b. Other Accounts: The Debtors maintain six accounts at RBC, FHB, BOA and Citi and a PayPal Account to process miscellaneous ticket and merchandise sales. The FHB, BOA and one of the RBC Bank Accounts are used by the Debtors' ticketing company, Flavorus, in connection with processing online ticket sales, including in Hawaii and Canada as required by local law. Finally, the Citi Bank Account is used as an escrow account. The Citi escrow account contains approximately $850,000 and is held jointly with an executive of the Debtors to whom the Debtors may owe certain tax-related reimbursements. This reimbursement obligation arose from the purchase of non-Debtor foreign subsidiaries in which that executive had an interest.

c. Money Market Account: Beatport, LLC maintains a money market account with JPM. The money market account maintains approximately $70,000 which is used as collateral to cover VAT payments to Switzerland.

d. Foreign Accounts: The domestic Debtors maintain twelve Bank Accounts used in connection with paying vendors and funding foreign operations, including the RBC Bank Account discussed above. Additionally, the two foreign Debtors each maintain a Bank Account with DB.

97. Additionally, Flavorus and Clubtix (which is part of SFX-React Operating LLC), the ticketing arms of the Debtors' domestic operations, hold in their respective Bank Accounts money on account of ticket sales for third-party clients that produce other events. In the ordinary course, Flavorus and Clubtix remit ticket sales proceeds to these third parties.

98. The Debtors reconcile cash receipts periodically, and perform a reconciliation of all of the deposits and debits in the Cash Management System once a month. The Debtors'

transition into chapter 11 will be significantly less disruptive if the Bank Accounts are maintained following the commencement of the Chapter 11 Cases with the same account numbers and, where applicable, automated relationship.

99. The Debtors' Cash Management System constitutes a customary and essential business practice that was created and implemented by the management of the Debtors in the exercise of their business judgment. The Cash Management System is a practical mechanism that allows the Debtors to transfer their revenues to the payment of their obligations, which decreases the burdens on the Debtors, and that provides several important benefits, including the ability to: (a) control and monitor corporate funds; (b) ensure cash availability and (c) reduce administrative expenses by facilitating the movement of funds and the development of timely and accurate balance and presentment information. All of these benefits will assist the Debtors in their efforts to maintain their operations pending the confirmation of a chapter 11 plan or other disposition of their assets.

100. The Debtors conduct numerous financial transactions utilizing these Bank Accounts. The Debtors estimate that on a monthly basis they have over 600 deposits. It would cause an enormous amount of disruption to force the Debtors to open new bank accounts and close the existing Bank Accounts, particularly when the Debtors have just undertaken that process to implement the efficient Cash Management System for the Debtors to use going forward. Such disruption would provide no benefit to the Debtors' estates and would likely result in havoc for the Debtors' Cash Management System.

101. Further, the Debtors believe that tax obligations can be paid most efficiently out of the existing Bank Accounts, that the United States Trustee can adequately monitor the flow of

funds into, among and out of the Bank Accounts, and that the creation of new debtor-in-possession accounts designated solely for tax obligations would be unnecessary and inefficient.

102. If the relief requested therein is granted, the Debtors will be able to continue to comply with some essential operational contracts and avoid the possible disruptions and distractions that could otherwise divert their attention from more pressing matters during the initial days of these Chapter 11 Cases.

ii. Existing Business Forms and Checks

103. In the ordinary course of business, the Debtors use pre-printed check stock with the relevant Debtor's name printed thereon. In addition, the Debtors maintain pre-printed correspondence and business forms, including, but not limited to, letterhead, envelopes, promotional materials and other business forms (collectively, along with the Debtors' checks, the "**Business Forms**").

104. As of the Petition Date, the Debtors have stock of Business Forms that they use in the ordinary course of business. Reprinting their Business Forms to indicate that the Debtors are "Debtors-in-Possession" would impose an unnecessary burden and expense on the Debtors. There is little doubt that the parties with whom the Debtors do business shortly will become aware that they are chapter 11 debtors-in-possession.

105. I understand that the Debtors will be able to minimize administrative expense and delay if they could continue to use their Business Forms substantially in the forms existing immediately prior to the Petition Date, without reference to the Debtors' "Debtor-in-Possession" status.

iii. Intercompany Transactions and Funding of Foreign Non-Debtor Operations

106. The Debtors and their non-Debtor subsidiaries maintain business relationships amongst each other that give rise to intercompany claims (the "**Intercompany Transactions**"). The Intercompany Transactions include cash sweeps and intercompany loans among the various SFX entities. Generally, the Intercompany Transactions arise on an as-needed basis to ensure adequate funding of upcoming events and festivals or payments to fund payroll or obligations to critical creditors.

107. SFX currently conducts international operations through their non-Debtor affiliates outside of the United States in Australia, Brazil, Canada, Germany, Luxembourg, Mexico, Netherlands and the United Kingdom (each, a "**Foreign Subsidiary**" and collectively, the "**Foreign Subsidiaries**"), which focus primarily on producing EDM and hosting festivals in their respective territories. The Debtors have various Intercompany Transactions with such Foreign Subsidiaries to provide for working capital, also on as-needed basis. The Debtors and the Foreign Subsidiaries pay vendors in their respective locales on behalf of each other to avoid any cross-border contractual issues. Additionally, the Debtors provide corporate overhead services for the Foreign Subsidiaries.

108. The Foreign Subsidiaries are essential to the Company's enterprise value. SFX is a worldwide brand, with almost half of its value derived from the Foreign Subsidiaries' business. Further, the Debtors plan to reorganize under a single corporate umbrella. Any negative impact that these Chapter 11 Cases will have on the Foreign Subsidiaries therefore will be at the expense of the Debtors' stakeholders, among others.

109. The Debtors seek to minimize any impact these Chapter 11 Cases have on the Foreign Subsidiaries' operations, and require the ability to enter into Intercompany Transactions with the Foreign Subsidiaries in the ordinary course of business.

110. The Foreign Subsidiaries operating in Europe are particularly critical to the Company's business. Those entities are the driving creative force behind the Debtors' live events and festivals and are generally cash flow positive. To the extent that the Debtors need to fund the European Foreign Subsidiaries during these Chapter 11 Cases, such funding will inure to the benefit of the Company; although the Debtors do not currently anticipate that they will need to provide significant funding to the European Foreign Subsidiaries during these Chapter 11 Cases.

111. Likewise, the Debtors may need to advance funds to Foreign Subsidiaries operating in Australia and Brazil. The Debtors believe that these Intercompany Transactions may be necessary to protect the brands SFX operates in those countries, which would benefit the enterprise as a whole.

112. Overall, the Intercompany Transactions allow the Debtors, among other things, to meet the needs of their customers and vendors efficiently in a cost-effective manner through the centralization of key administrative functions. If these Intercompany Transactions are discontinued, the Debtors' cash management process would be disrupted causing irreparable harm to the Debtors. In particular, it is imperative that the Debtors maintain the ability, as debtors-in-possession, to make transfers between Debtors and the non-Debtor affiliates in order to ensure that payments are not disrupted and any planned festival or event proceeds as planned. Accordingly, the Debtors believe that the continuation of Intercompany Transactions in the

ordinary course of the Debtors' businesses is in the best interest of the Debtors' estates and their creditors.

113. The Debtors maintain records of the Intercompany Transactions, both with the Foreign Subsidiaries and amongst themselves. The Debtors can thus ascertain, trace and account for the Intercompany Transactions. The Debtors reconcile all Intercompany Transactions on a quarterly basis. The Debtors will continue to maintain records and appropriately reconcile all Intercompany Transactions postpetition.

C. Motion of the Debtors for Entry of an Order (A) Authorizing Debtors to Pay (i) All Prepetition Employee Obligations, and (ii) Prepetition Withholding Obligations, and (B) Directing Banks to Honor Related Transfers

114. In order to enable the Debtors to maintain morale during this critical time, retain their current Employees and Independent Service Providers and minimize the personal hardship such Employees and Independent Service Providers may suffer if prepetition employee-related obligations are not paid when due or honored as expected, the Debtors, by this motion, seek authority, in their discretion, to pay and honor, as the case may be, (a) all prepetition claims of Employees, including, but not limited to, claims for Wages, PTO, as applicable, and certain costs and disbursements related to the foregoing, up to the statutory priority amount of $12,475 per Employee, (b) any claims or payments pursuant to the Employee Benefit Plans, (c) all Benefits Withholding Obligations (collectively, the "**Employee Obligations**") and (d) any prepetition claims for Independent Service Providers, up to the statutory amount.

i. Employees

115. The Debtors have a total of approximately 326 employees (the "**Employees**"). Of the Employees, approximately 21 are part-time workers and 305 are full-time workers. In addition, approximately 266 of the Employees are salaried employees and 60 are hourly

employees. None of the Employees are unionized. The Employees are all co-employed by TriNet Group, Inc. ("**TriNet**").

ii. TriNet

116. The Debtors engaged TriNet, a professional employer organization, to administer human resources functions for the Debtors. TriNet provides a broad range of human resources and benefits administration services through a co-employment model whereby the Debtors and TriNet share employer responsibilities. In the co-employment arrangement, the Debtors maintain day-to-day control over, dictate the roles and responsibilities of and manage the Employees while TriNet handles human resources management and benefits administration responsibilities. For example, TriNet provides the Debtors with payroll, tax and employee benefits administration and helps ensure that the Debtors are compliant with employment-related regulatory and legal requirements.

117. The Debtors advance funds to TriNet approximately 2-3 days prior to the Debtors' regularly scheduled payroll, and TriNet, on behalf of the Debtors, makes payments to (i) the Employees in connection with Wages and Commissions, as applicable (ii) the Taxing Authorities in connection with the Payroll Taxes and (iii) the providers of the Employee Benefit Plans.

118. In connection with the co-employment arrangement, the Debtors pay TriNet approximately $35,000 per month (the "**TriNet Service Fee**"). Payment of the TriNet Service Fee is essential to the Debtors' seamless entry into chapter 11 as it will ensure that there is no disruption in payment of the Wages or Payroll Taxes or the administration of the Employee Benefit Plans.

iii. Wages, Commissions and Payroll Obligations

a. *Wages*

119. All Employees are paid wages or salary (collectively, the "**Wages**") semi-monthly in arrears (i) on or about the 15th day of the month for the period from the 1st day of the month through the 15th day of the month and (ii) on the last business day of each month for the period from the 16th day of the month through the last day of the month.

120. Payroll averages approximately $3.1 million per month in the aggregate, including the Debtors' portion of the Payroll Taxes. Nearly all of the Employees are paid through electronic fund transfers, i.e. direct deposit.

121. The Debtors' last regular payroll date was January 29, 2016 for the semi-monthly period ending January 31, 2016; the next payroll is scheduled for February 12, 2016. The Debtors estimate that, as of the Petition Date, there are no accrued and unpaid Wages owed to the Employees in excess of the statutory priority amount.

b. *Commissions*

122. In addition to the Wages, certain of the Employees and Independent Service Providers are eligible to receive commissions (the "**Commissions**"). The amount of Commissions payable to each eligible Employee varies depending on either the respective Employee's sales performance and/or the financial performance of the respective event or function for which the Employee is responsible. Commissions constitute a significant portion of such Employee's total earnings. The Debtors estimate that, as of the Petition Date, approximately $520,000 in Commissions have accrued and are owed to certain of the Employees and to at least one Independent Service Provider.

123. The Debtors request the authority to pay eligible Employees and Independent Service Providers up to $520,000 on account of the Commissions earned prior to the Petition Date. However, because certain of these amounts may exceed the statutory priority amount for prepetition wage claims, the Debtors do not seek approval of the payment of the Commissions as a part of the first-day relief requested by the balance of this Motion. Rather, the Debtors seek entry of a separate order approving payment of the Commissions on the next hearing date following the first-day hearings.

c. *Payroll Obligations*

124. The Debtors, as employers, are required by law to withhold federal, state and local taxes from Wages for remittance to appropriate tax authorities (the "**Employee Taxes**"). In addition to the Employee Taxes, the Debtors are required to pay, from their own funds, social security and Medicare taxes and pay, based on a percentage of gross payroll and subject to state-imposed limits, additional amounts for state and federal unemployment insurance (together with the Employee Taxes, the "**Payroll Taxes**") and remit the same to the appropriate authorities (collectively, the "**Taxing Authorities**").

125. TriNet pays the Payroll Taxes to the various Taxing Authorities, on behalf of the Debtors, in accordance with the Internal Revenue Code and applicable state law. The Debtors' average semi-monthly obligation for Payroll Taxes is approximately $135,000. As of the Petition Date, the Debtors have funded the Payroll Taxes to TriNet through January 31, 2016.

iv. Vacation Time and Sick/Personal Days

126. The Debtors provide eligible Employees with 20 days of paid time off ("**PTO**") each year to use for any reason, such as for vacation, personal time, or observance of religious

holidays, personal illness, personal injury or the illness or injury of dependents or family members.

127. Employees accrue PTO at the rate of 1.5 days per month. PTO accrued but unused within the year may not be carried over to the following year, except where required by applicable law. With respect to employee departures, and subject to certain state laws, the Debtors do not pay for accrued but unused PTO.

v. Employee Benefit Plans

128. TriNet, through their co-employment relationship with the Debtors, has established certain benefit plans and policies for eligible Employees that provide, among other benefits, medical, dental and vision plans, workers' compensation insurance, life insurance, disability insurance, a 401(k) plan and other benefits which are described in more detail below (collectively, the "**Employee Benefit Plans**"). A brief description of the Employee Benefit Plans is provided below:

a. *Medical/Dental/Vision Plans*

129. The Employees are offered over 200 health benefit plans with various insurance providers, depending on which region an Employee is located and what plan the Employee chooses (collectively, the "**Employee Health Plans**"). The Employee Health Plans are partly funded by the Debtors and partly funded by the Employees. The premiums for the Employee Health Plans are paid each month for the upcoming month.

130. The Employees are also offered dental plans with Aetna, Delta, MetLife and Guardian (collectively, the "**Dental Plans**"). The Dental Plans are partly funded by participating Employees and partly funded by the Debtors. Participating Employees pay a monthly premium,

which the Debtors deduct from the participating Employees' paychecks. Nearly all of the Employees participate in the Dental Plans.

131. In addition, the Employees are offered vision plans with Aetna and VSP (collectively, the "**Vision Plans**"). The Vision Plans are partly funded by participating Employees and partly funded by the Debtors. Participating Employees pay a monthly premium, which the Debtors deduct from the participating Employees' paychecks. Nearly all Employees participate in the Vision Plans.

132. On account of the Employee Health Plans, Dental Plans and Vision Plans, the Debtors incur an average monthly cost of $125,000, $20,000 and $2,500, respectively. As of the Petition Date, the Debtors believe that there are no accrued and unpaid monthly premiums in connection with the Employee Health Plans, Dental Plans and Vision Plans.

b. *Other Insurance Plans*

133. The Employees are offered disability insurance, including short-term disability insurance covering Employees at 60% of weekly earnings up to $2,308 per week after a seven (7) calendar day waiting period, and long-term disability insurance covering 60% of monthly earnings up to $10,000 per month, after 26 weeks, inclusive of the 7-day waiting period (the "**Disability Insurance**").

134. In addition, the Employees are offered a basic life insurance benefit (the "**Basic Life Insurance**") for eligible full-time Employees, which includes an Accidental Death and Dismemberment benefit. The Employees are also offered voluntary life insurance and dependent life insurance in addition to the Basic Life Insurance (the "**Voluntary Life Insurance**" and together with the Disability Insurance and the Basic Life Insurance, the "**Life Insurance Plans**"), and Employees bear the premium costs.

135. On average, the Debtors incur a monthly cost of approximately $15,000 in connection with the Life Insurance Plans. As of the Petition Date, the Debtors believe that there are no accrued and unpaid monthly premiums in connection with the Life Insurance Plans.

c. *Workers Compensation Insurance*

136. Under the applicable law, the Debtors are required to provide their Employees with workers' compensation insurance coverage for claims arising from or related to their employment with the Debtors and to satisfy the Debtors' obligations arising under or related to these programs (collectively, the "**Workers' Compensation Programs**"). The Workers' Compensation Programs cover all Employees and coverage is provided through a workers' compensation insurance policy with New York Marine & General. The Debtors pay an aggregate annual premium of approximately $100,369. Pursuant to the co-employment arrangement with the Debtors, TriNet maintains a separate workers' compensation insurance policy covering the Employees.

137. Failure to maintain this insurance in the various states in which the Debtors do business could result in the institution of administrative or legal proceedings against the Debtors and their officers and directors and an inability of the Debtors to continue as a going concern.

d. *Retirement Plan*

138. Employees are eligible to enroll in a 401(k) plan with Fidelity Investments (the "**Retirement Plan**"). Employees may contribute to the Retirement Plan each year through salary deferrals up to the IRS limit. The Debtors do not match Employee contributions. The Debtors incur approximately $3,000 per quarter in administrative costs on account of the Retirement Plan. Employees are always 100% vested in their contributions and cannot forfeit the

contributions. Approximately 69 Employees currently participate and contribute to the Retirement Plan.

e. *Flexible Spending*

139. The Debtors offer their Employees the ability to contribute a portion of their compensation into flexible spending accounts for health and dependent care and commuter reimbursement (the "**Flexible Spending Program**"). A fraction of the Employees participate in the Flexible Spending Program. As of the Petition Date, the Debtors believe that there are no accrued and unpaid costs associated with the Flexible Spending Program.

f. *Health Savings Account*

140. The Debtors offer certain of their Employees with high deductible insurance plans the ability to contribute a portion of their compensation, which amounts are generally deducted automatically from each participating Employee's paycheck, into a health savings account (the "**Health Savings Accounts**"). A fraction of the Employees maintain Health Savings Accounts. As of the Petition Date, the Debtors believe that there are no accrued and unpaid costs associated with the Health Savings Accounts.

vi. Business Expenses

141. A substantial number of the Employees are issued corporate credit cards with American Express to incur various expenses in connection with their employment duties, such as travel, meal and other business expenses (collectively, the "**Business Expenses**"). Such expenses incurred in the course of employment and in furtherance of the Debtors' business are generally charged to an Employee's corporate credit card. Employees submit expense reports detailing the Business Expenses incurred, and the expense reports are channeled through a series

of reviews for approval. The Debtors' respective accounts payable departments make payments to American Express for approved Business Expenses approximately two times per week.

142. The Debtors anticipate that many Employees will have not yet submitted their expense reports for accrued and unpaid Business Expenses. Therefore, as of the Petition Date, the Debtors estimate that approximately $100,000 in Business Expenses have been incurred but remain unpaid. The Employees are independently liable for the charges incurred on the corporate credit cards. Therefore, should the Debtors not be permitted to pay the Business Expenses, the individual Employees will be liable for the charges incurred; such a drastic change in operations may adversely affect the Employees' morale and jeopardize the Debtors' reorganization efforts.

vii. Benefits Withholding Obligations

143. As part of the relief requested, the Debtors seek authorization to pay the Payroll Taxes and all other withholdings such as contributions to savings, retirement or pension plans, insurance contributions and charitable contributions, if any (collectively, the "**Benefits Withholding Obligations**").

144. The Debtors routinely withhold from Employee paychecks the Benefits Withholding Obligations, and are required to transmit these amounts to third parties. The Debtors believe that such withheld funds, to the extent that they remain in the Debtors' possession, constitute moneys held in trust and therefore, are not property of the Debtors' estates. Thus, whether or not such funds are prepetition amounts, the Debtors believe that directing such funds to the appropriate parties does not require Court approval. Nevertheless, out of an abundance of caution, the Debtors seek authority to pay any outstanding amounts owed for

Benefits Withholding Obligations, in the ordinary course of business, including those incurred prior to the Petition Date.

viii. Independent Service Providers

145. In addition to the Employees, independent contractors (the "**Independent Service Providers**") provide the Debtors with services that are essential to the Debtors' ongoing business operations. These services include general corporate and administrative functions such as finance and accounting support, marketing, public relations, and IT and technical support, such as website and app development. In addition, the Debtors rely on Independent Service Providers to support their live events and club operations on an ongoing basis, including local and regional promoters, event technicians, production managers, department managers, talent managers, and security, medical and crowd control service providers, among other personnel. The Debtors further engage Independent Service Providers in connection with certain digital and platform efforts, such as social media and digital marketing specialists, graphic designers, photographers and videographers, content producers and designers, and other creative services. These Independent Service Providers are critical to the Debtors' operations, and they rely – in some instances exclusively – on the Debtors for their individual income.

146. None of the amounts the Debtors seek to pay to an Individual Service Provider exceed the priority wage amount. The Independent Service Providers are not eligible to receive any of the benefits administered through TriNet. Similarly, the Independent Service Providers are paid through the Debtors' respective accounts payable and not through the Debtors' payroll. Nonetheless, if the Debtors are unable to pay the Independent Service Providers, the Debtors will lose the services, continuity and institutional knowledge of the Independent Service Providers, and the Debtors' business operations will be severely and irreparably compromised.

147. The Employees and Independent Service Providers are essential to the continued operation of the Debtors' business, and the Employees' and Independent Service Providers' morale directly affects their effectiveness and productivity. As a service business that relies heavily on its Employees and Independent Service Providers, a failure to continue to satisfy the Employee Obligations without disruption is essential. Consequently, it is critical that the Debtors continue, in the ordinary course, those personnel policies, programs and procedures that were in effect prior to the Petition Date. The Debtors also seek authority to pay all Withholding Obligations. The failure to make such payments may also subject the Debtors and their officers to federal or state liability, and the Employees may face legal action due to the Debtors' failure to submit these payments. The relief requested in this Motion is necessary for the viability of the Debtors' business and maximization of the value of the Debtors' assets.

D. Motion of the Debtors for Entry of Interim and Final Orders Authorizing (A) The Debtors to Pay (i) All or A Portion of the Prepetition Claims of Certain Critical Vendors and Foreign Vendors and (ii) Certain Prepetition Mechanics' Liens and Shipping and Warehousing Charges in the Ordinary Course of Business, and (B) Financial Institutions to Honor and Process Related Checks and Transfers

148. By this motion, the Debtors seek (a) authority to pay (i) all or a portion of the prepetition claims of certain Critical Vendors and Foreign Vendors and (ii) certain prepetition Mechanics' Liens and Shipping and Warehousing Charges in the ordinary course of business; (b) authorizing financial institutions to honor and process related checks and transfers and (c) providing any additional relief.

149. The Debtors operate in a highly competitive environment, where customer satisfaction and customer loyalty are of critical importance. Retaining current and attracting new customers to EDM events, products and services related thereto is vital to the Debtors' business and their efforts to reorganize successfully. As a result, the Debtors cannot risk an interruption of services at their events and festivals.

150. In order to assure the Debtors' festivals and related products continue without disruption, the Debtors are dependent on certain domestic and foreign suppliers and/or providers of services, including high-profile artists and DJs. In many cases, it would not be possible replace those vendors on an expedited time frame. In addition, the Debtors rely on many vendors located outside the United States supporting the Debtors' global operations.

151. The relief sought therein is immediately necessary in light of the nature of the Debtors' operations. If the requested relief is not granted and certain critical vendors refuse to perform at the Debtors' festivals or to continue to supply goods and/or services to the Debtors postpetition, the Debtors will be unable to continue their operations, keep their customers satisfied, or maintain important relationships with sponsors and other business partners. The occurrence of any of these outcomes will endanger the Debtors' successful reorganization.

i. The Debtors' Vendors and Service Providers

152. The vendors fall into two general categories: (i) sole source and limited suppliers that the Debtors identify as critical to the Debtors' operations (the "**Critical Vendors**"); and (ii) service or good providers located outside the United States (the "**Foreign Vendors**").

a. **Critical Vendors**

153. The Debtors operate in two segments: (i) producing live events and festivals and (ii) a digital platform that provides year-round coverage and access to electronic music via an online streaming service and music store. The Debtors and their professionals analyzed the importance of vendors in each segment to ensure that they are in fact critical. As a result, the Debtors have identified non-exhaustive categories that contain Critical Vendors:

1. **Creative Talent, Artists and Agencies**

154. The Debtors' festivals are famous for their elaborate stage designs and themes. Most festivals are multi-day events, attracting hundreds of thousands of fans. The Debtors partner with creative talent to conceive of fairytale themes for the festivals, and work with performers to implement that theme through stages and scenery.

155. The Debtors rely on a select class of vendors and creative artists (including the artists' agencies and labels) that conceive of themes that compliment EDM and are involved in critical stages of the production. These EDM mavens are limited and highly sought after and critical to the Debtors' operations.

156. Additionally, the Debtors require the ability to sign top talent for their festivals. A festival's profitability hinges in significant part on these headliners. The pool of artists that can reliably attract large numbers of fans is extremely limited. During the timeframe leading up to the bankruptcy filings, some artists have already demanded more stringent payments terms—asking for upfront payments. Word of any delay in payment to artists will ripple among the small, tight-knit EDM community and dissuade artists and DJs from contracting with the Debtors in the future. These musicians are vital to a successful reorganization as there is a limited talent pool and number of top artists that are able to attract millions of fans to SFX's events.

157. The artists are generally represented by one of three agencies. A disruption with one talent agency will not only hamper the Debtors' ability to negotiate with that agency going forward but will likely be known among all of the vital talent agencies in the music industry. The Debtors do not have a long-term arrangement with any of these agencies; normally artists are booked on a one-off basis. If the agencies are not paid, they may not steer artists to the

Debtors; instead steering them to the Debtors' competitors. As a result, through this Motion, the Debtors seek to pay amounts due to the creative talent, which is critical to the Debtors' operations.

2. **Production Crews and Critical Service Providers**

158. SFX's festivals showcase the most advanced stages that incorporate state-of-the-art-technology such as pyrotechnics, lasers, waterfalls, mobile elements and LED screens that are deployed in tandem with the beats of the music to submerge festivalgoers in a parallel world. Surrounding some of these stages are themed viewing platforms decked with bars, pools and VIP clubs.

159. TomorrowWorld, for instance, provides up to nine stages, amusement rides, and experience-triggering activations scattered throughout a massive hilled venue that fans can discover over the course of days. Each of TomorrowWorld's stages informs the chapters of a narrative capturing the festival's theme.

160. In order to implement and produce such creative sets, the Debtors outsource the production to third parties. Many of these vendors have institutional knowledge of the Debtors' festivals and the safety needs associated with producing sets and stages. These include, but are not limited to, companies in charge of creating furniture, décor and other props that enhance the fans' experiences at the events; construction and transportation crews that assemble, disassemble and transport the stages worldwide; and the graphic design teams. The Debtors conduct business with many of these vendors pursuant to short term purchase orders without a long-term agreement.

161. For these live events, in many instances, the Debtors' vendors are extremely limited in nature. Some of these vendors are "sole-source" suppliers that maintain an effective

monopoly on the goods necessary to run certain of the Debtors' festivals. In other instances, it is simply too difficult and costly, both in terms of time and pricing, for the Debtors to find another vendor who would supply comparable goods or services.

162. By way of example, one of the Debtors' premier stage-makers is Stageco Belgium NV ("**Stageco**"), which works with the Debtors to create and produce some of the Debtors' largest tours, such as TomorrowLand. Stageco incorporates elements such as water, fire and moving parts onto elaborate stages and sets. The Debtors are then able to transport the actual stages and sets internationally to the United States and Brazil to capitalize further on the Debtors' brands. The Debtors do not have a long-term agreement with Stageco. Delaying payment to Stageco and similar vendors creates significant risk to the Debtors' enterprise value.

163. Additionally, the Debtors rely on regional and smaller companies in connection with an upcoming event or festival who in many instances rely completely on the Debtors for their revenue. Some of these vendors are entities that provide essential products or services to the Debtors; these entities may not survive if the Debtors stop making payments for such products or services. Keeping these small yet essential vendors afloat is also important for the Debtors' success in these Chapter 11 Cases and the Debtors' long-term viability.

3. **Venue Owners**

164. The Debtors scour various locations to ensure that the setting is appropriate for the specific planned event. Venues that can accommodate SFX events are limited—SFX requires massive lawn areas, some with camping grounds, to accommodate the thousands of fans that attend a festival. The Debtors need to ensure that these venues will be available for upcoming performances, and certain of these venues do not have a long-term obligation to the Debtors. If these entities are not paid, these venues may be unavailable to the Debtors in the

future, and may also negatively affect the Debtors' ability to contract with other venues. Accordingly, the Debtors seek authority to pay the amount owed to such venues.

4. **Beatport Royalties and Service Fees**

165. Beatport offers EDM fans and DJs an online music store to purchase high quality audio files and a music and audiovisual streaming service. As part of its operations and to ensure exclusive and engaging content remains in its online store and available for streaming, Beatport has obligations to pay certain rightsholders of copyrighted works, including copyright owners of: (i) the sound recordings or masters that Beatport streams and sells and (ii) the underlying musical compositions embodied in those recordings. To secure these rights, Beatport entered into agreements with thousands of record labels, either directly or through distribution agents. To acquire the rights to the musical compositions, Beatport entered into agreements with music publishers, either directly or through agencies that collect royalties for mechanical rights, or performance rights organizations (known as PROs) that collect royalties for public performance of said musical compositions throughout the world (e.g., ASCAP (US), PRS (Europe)).

166. Beatport pays royalties to record labels, distributors, PROs and mechanical agencies on a monthly and/or quarterly basis, depending on the agreement with the specific entity. Any delay in payment to these vendors would adversely impact Beatport's repertoire available for sale and streaming, which creates a risk that future artists, labels and rightsholders may refuse to do business with the Debtors. These entities may cease to provide Debtors with new and/or exclusive content or may outright refuse to permit the Debtors to stream the music. Furthermore, these entities may not survive if the Debtors stop making payments for such products or services.

167. In August 2015, Beatport delayed its payment to independent record labels. SFX issued an apology and paid the rightsholders, but the resulting negative publicity damaged Beatport's reputation in the marketplace. SFX has worked hard and believes it restored confidence in Beatport, and it would be extremely difficult or potentially impossible, to re-establish that recently re-established goodwill if the Debtors do not timely pay these obligations to the rights holders. Another disruption of Beatport's payment to vendors may weaken the Debtors' reputation and standing in the EDM community and endanger its ongoing business, not only with respect to the Beatport brand, but also to the SFX brand worldwide.

168. The Debtors and their advisors have carefully examined whether the agreement to pay some or all of certain vendors' unsecured claims, on an expedited basis, would reduce the immediate and irreparable harm to the Debtors' business operations that would result from the nonpayment of any such claims. Specifically, the Debtors have undertaken a thorough review of their accounts payable and their list of prepetition vendors to identify those vendors who are uniquely critical to the Debtors' operations.

169. In this regard, the Debtors have and continue to consult with the appropriate members of their management team to identify those vendors that are in fact critical to the Debtors' operations, using the following criteria: (a) whether the vendor in question is a "sole-source" or "limited source" provider; (b) whether the Debtors receive advantageous pricing or other terms from a vendor such that replacing the vendor postpetition would result in significantly higher costs to the Debtors; (c) the overall impact on the Debtors' operations if the vendor ceased or delayed shipments; and/or (d) whether the vendor might be able to obtain (or has obtained) mechanics' liens, possessory liens, shippers' liens or similar state law trade liens on property necessary to the Debtors' ongoing operations. Applying these criteria, the Debtors

have designated, in their discretion, certain vendors who appropriately satisfy the above criteria as vendors critical to their operations.

170. The Critical Vendors are absolutely essential to the Debtors' ability to operate their business. The Debtors believe, in the exercise of their sound business judgment, that the failure to satisfy the Critical Vendors' unsecured claims, in whole or in part, would result in the Critical Vendors refusing to provide critical goods, services and supplies to the Debtors during the postpetition period. This outcome would have an immediate and devastating effect on the Debtors' ability to operate their business. Moreover, any delay attendant to a change from a Critical Vendor to another vendor of similar products or services (assuming one could be located) would likely delay the Debtors' operations and shake the confidence of the Debtors' sponsors and business partners.

b. Foreign Vendors

171. In the ordinary course of business, the Debtors obtain certain critical goods and services from Foreign Vendors, including vendors who provide supplies needed for producing and promoting live events abroad. The Debtors rely on vendors in foreign countries to promote, market and organize the logistics of events. While in some instances, a local non-Debtor affiliate is responsible to pay vendors, the Debtors may be directly liable for these obligations.

172. If Foreign Vendors are not paid, they may withhold goods from the Debtors (or the non-Debtor affiliates), terminate service contracts and cause other potential interruptions, for which the Debtors may not have effective recourse. The resulting service interruptions could have disastrous consequences for the Debtors' business operations due to the lack of alternative service providers or the amount of time needed to locate an alternative service providers.

173. Additionally, some of the Foreign Vendors may lack the sufficient minimum contacts with the United States to subject them to the jurisdiction of this Court or provisions of the Bankruptcy Code. Some Foreign Vendors may sue one of the Debtors (or a non-Debtor affiliate) in a foreign court to recover prepetition amounts owed to them. If successful, the Foreign Vendors may exercise post-judgment remedies that could include withholding vital supplies from the Debtors.

174. Since the Debtors would have limited, if any, effective and timely recourse, their business could be irreparably harmed by any such action to the detriment of their estates and their creditors. Accordingly, the Debtors seek authorization to pay certain claims held by Foreign Vendors to enable the Debtors to continue to receive the services of and eliminate the risk of potential collection attempts.

ii. Request to Pay Vendors

175. The Debtors seek the authority to pay, in their sole discretion and business judgment, all or a portion of the Vendor Claims, up to the Vendor Claims Cap. The Vendor Claims Cap represents the Debtors' best estimate as to how much must be paid to such creditors to continue an uninterrupted supply of critical goods and services. The Debtors may pay less than the requested amount.

176. Payment of some or all of the Vendor Claims is necessary to preserve operations so as to afford the Debtors the ability to reorganize their business. The need for the flexibility to pay such claims is particularly acute in the period immediately following the Petition Date. During this period, while the Debtors are working to stabilize the business, negotiating case strategies and other long-term planning, Critical Vendors and Foreign Vendors may attempt to assert their considerable leverage by denying the provision of goods and services going forward.

177. Furthermore, Critical Vendors and Foreign Vendors may have no incentive to continue to finance the Debtors on beneficial trade terms and may insist that the Debtors pay for their goods on accelerated payment terms, cash in advance or a cash-on-delivery basis. Any further expansion of these activities by other Critical Vendors and Foreign Vendors would be detrimental to the Debtors, their estates and their creditors.

178. The Debtors also believe that a portion of the Vendor Claims arise from goods received by the Debtors in the ordinary course of business within the twenty (20) days immediately preceding the Petition Date. I understand that under section 503 of the Bankruptcy Code, such claims may be entitled to priority treatment.

179. The continued availability of trade credit, in amounts and on terms consistent with those the Debtors were able to obtain over the years, is clearly advantageous to the Debtors. It allows the Debtors to maintain and enhance necessary liquidity and focus on maximizing the value of their estates in these Chapter 11 Cases. Preserving working capital through the retention or reinstatement of their normally advantageous trade credit terms will enable the Debtors to stabilize business operations at this critical time, to maintain their competitiveness and to maximize the value of their business for the benefit of all interested parties. Conversely, any deterioration of trade credit or disruption or cancellation of deliveries of goods or provision of essential services could be severely detrimental for the Debtors' restructuring or sale efforts.

180. Maintaining the products and services provided by the Critical Vendors and Foreign Vendors is vital to the Debtors' continuing business operations and the success of these Chapter 11 Cases. As such, the Debtors submit that the amount of the Vendor Claims Cap pales

in comparison to the likely damage to the Debtors' business should the relief requested herein not be granted, resulting in an impediment to a successful reorganization.

iii. **Mechanics' Liens and Shipper and Warehousing Charges**

181. As part of their business operations, the Debtors rely on a variety of service providers, production crews, common carriers, shippers, truckers and a network of warehouse facilities (collectively, the "**Shippers and Warehousemen**"). The Debtors use extravagant and costly sets, lightshows and pyrotechnics to enhance the customers' experiences at electronic music festivals. Many of these sets are built by third-party providers, are in transit between different venues or are stored for future use both by the Debtors and third-party licensees. It is essential to the Debtors' business that the Debtors may transport and use these sets and accessories without interruption.

182. The services provided by the Shippers and Warehousemen, including the timely, reliable delivery of goods for the Debtors, and the storage of such goods for later use, is an absolute necessity to the Debtors' ability to conduct business in an efficient manner. The Debtors' inability to access their materials in preparation for events would be detrimental to their business and deteriorate the value of their estates.

183. It is essential for the Debtors' continuing business viability, as well as to the value of their estates, that they receive certain critical services and maintain a reliable distribution of their sets worldwide. Because the Debtors are in many cases dependent on third parties to carry out various distribution and storage functions, it is essential that the filing of these Chapter 11 Cases not provide an excuse for any third party to cease performing timely services. At the very least, the Debtors will likely suffer a significant loss of credibility and customer goodwill, thereby causing substantial harm to the Debtors' business.

184. Further, I understand that under the laws of some states, a service provider, such as the carrier or a warehouseman, may have a lien on the goods in its possession that secures the prompt satisfaction of charges or expenses incurred in connection with the repair, transportation or storage of the goods. In addition, I understand that pursuant to section 363(e) of the Bankruptcy Code, a carrier or a warehouseman, as a bailee, may be entitled to adequate protection of a valid possessory lien. As a result, the Shippers and Warehousemen may argue that they are entitled to possessory liens for repairs, transportation and storage, as applicable, of the goods in their possession as of the Petition Date and may refuse to deliver or release such goods before their claims have been satisfied and their liens redeemed.

185. The Debtors expect that, as of the Petition Date, certain of the Shippers and Warehousemen will have outstanding invoices and/or potential liens for services performed and/or goods that were delivered to the Debtors prior to the Petition Date (collectively with any possessory liens, the "**Mechanics' Liens and Shipping and Warehousing Charges**"). If the Debtors do not pay the Mechanics' Liens and Shipping and Warehousing Charges, certain of the Shippers and Warehousemen may abruptly discontinue services, withhold shipment of essential goods and may even refuse to release essential goods.

186. It is necessary and essential to the value of their estates that the Debtors are permitted to make payments on account of certain Mechanics' Liens and Shipping and Warehousing Charges. Such payments are not expected to exceed approximately $200,000. The Debtors submit that the total amount to be paid to the Shippers and Warehousemen if the requested relief is granted is minimal compared to the importance and necessity of the Shippers and Warehousemen and the losses the Debtors may suffer if their operations are disrupted.

Moreover, the Debtors do not believe there are viable timely alternatives to the Shippers and Warehousemen that they have used prior to the Petition Date.

187. The continuation of the Debtors' positive relationship with the Shippers and Warehouseman is imperative to their continued operation and chances to maximize value, and that the payment of the prepetition Mechanics' Liens and Shipping and Warehousing Charges is essential to assure the maintenance of the value of their estates.

188. Ultimately, any shutdown of the Debtors' operations could cost the Debtors' estates substantial amounts in lost revenues, and furthermore, could adversely impact the Debtors' ongoing operations. The harm and economic disadvantage that would stem from the failure to pay the Critical Vendors, Foreign Vendors, Shippers and Warehousemen is grossly disproportionate to the amount of the prepetition claims that would have to be paid in order to ensure ongoing business with the Debtors, ensure the continued supply of critical goods and services to the Debtors and facilitate the Debtors' continued business operations and reorganization efforts. Finally, the Debtors have examined other options short of payment of the Vendor Claims and the Mechanics' Liens and Shipping and Warehousing Charges and have determined that to avoid significant disruption of the Debtors' business operations, there exists no practical available alternative to payment of such claims.

E. Motion of the Debtors for Entry of an Order Authorizing the Debtors to (A) Maintain Existing Insurance Policies, Pay All Policy Premiums and Consultant Fees Arising Thereunder and Renew or Enter Into New Policies, and (B) Continue Insurance Premium Financing Programs, Pay Insurance Premium Financing Obligations Arising In Connection Therewith and Renew or Enter Into New Premium Financing Arrangements

189. In the ordinary course of business, the Debtors maintain numerous insurance policies with various insurance companies (collectively, the "**Insurance Companies**") providing

coverage for, *inter alia,* commercial general liability, umbrella liability, TULIP, automobiles, property, foreign liability and workers' compensation (collectively, the "**Policies**").

190. The Policies are essential to continue to operate the Debtors' business. Any other alternative would likely require considerable additional cash expenditures and would be detrimental to the Debtors' efforts to preserve and maximize the value of their estates. Moreover, the Operating and Reporting Guidelines Issued for Debtor in Possession and Trustees by the Office of the United States Trustee for the District of Delaware (the "**U.S. Trustee Operating Guidelines**") require the Debtors to maintain insurance coverage through the pendency of their Chapter 11 Cases. Because the Debtors are required to maintain insurance coverage during these Chapter 11 Cases, the cancellation of these policies would have material consequences to their business and the bankruptcy process.

191. The Debtors have determined in their business judgment that it is economically advantageous to finance the payment of premiums for certain of their Policies. Accordingly, in the ordinary course of the Debtors' business, the Debtors finance the premiums on certain of the Policies pursuant to two (2) premium financing agreements (each a "**PFA**") with Aon Premium Finance, LLC ("**Aon**") and FIRST Insurance Funding Corp. ("**FIRST**"). Pursuant to the PFAs, the Debtors' obligations to Aon and FIRST are collateralized by a security interest in all insurance policies financed through the respective PFAs.

192. Pursuant to the PFAs, upon an event of default, the Debtors appoint the respective PFA insurer as the Debtors' Attorney-in-Fact and grant such PFA insurer the authority to cancel the insurance policies covered by such PFA. As potentially secured creditors, Aon and FIRST may be entitled to seek relief from the automatic stay, either to cancel certain of the Policies or to seek adequate protection of their respective investments. Even if Aon and/or FIRST did not

immediately cancel the insurance coverage upon the Debtors' default, the Debtors' failure to pay monthly premium obligations may result in a depletion of any unearned premium, thereby reducing Aon's and/or FIRST's respective equity cushion.

193. The Debtors do not have any dedicated, in-house insurance professionals and rely on the services of the insurance consultant to assist the Debtors with obtaining and maintaining the Policies. The Debtors' insurance consultant, Stockbridge Risk Management, Inc. (the "**Consultant**"), has unique knowledge of the Debtors' business and insurance needs that would be difficult to replace in the event that the Consultant no longer agreed to serve as the Debtors' insurance consultant.

194. By this motion, the Debtors request authorization to pay all policy premiums and consultant fees arising thereunder, whether prepetition or postpetition, and renew or enter into new policies as needed and to continue insurance premium financing under the Debtors' premium financing agreements, pay insurance premium financing obligations arising thereunder or in connection therewith and renew or enter into new premium financing agreements as needed when the existing arrangements expire, without further order of the Court.

F. Motion of the Debtors for Entry of Interim and Final Orders Authorizing (A) the Debtors to Pay Prepetition Sales, Franchise and Similar Taxes in the Ordinary Course of Business, and (B) Banks and Financial Institutions to Honor and Process Checks and Transfers Related Thereto

195. In connection with the normal operations of their business, the Debtors pay an assortment of sales, franchise and other taxes (collectively, the "**Taxes**") to various federal, state and local taxing authorities (collectively, the "**Taxing Authorities**"). These Taxes include, without limitation, the following:

a. In the normal course of their business, certain of the Debtors incur state and local sales taxes in connection with the sale of various products and services to their customers ("**Sales Taxes**") and remit Sales Taxes to the applicable

Taxing Authorities. The Sales Taxes may also include amounts paid by checks sent prior to the Petition Date that have not cleared the Debtors' bank accounts on the Petition Date. The Debtors estimate that they owe approximately $115,000 in incurred and unpaid Sales Taxes as of the Petition Date.

b. Certain of the Debtors pay franchise taxes (the "**Franchise Taxes**") to various Taxing Authorities to maintain the right to operate their business in the applicable taxing jurisdiction. Franchise Taxes vary by jurisdiction and may be based on a flat fee, net operating income, gross receipts or capital employed. Certain states impose personal liability on officers of entities that fail to pay Franchise Taxes. The Debtors estimate that they owe approximately $264,000 in incurred and unpaid Franchise Taxes as of the Petition Date.

c. One Debtor, Flavorus, Inc., is subject to a business tax for the City of Los Angeles. The Debtors estimate that Flavorus owes approximately $50,000 for this tax as of the Petition Date.

d. For real property leased in New York, certain of the Debtors are subject to local commercial rent tax (the "**Commercial Rent Tax**"). The Commercial Rent Tax is billed directly to certain of the Debtors on a quarterly basis; the Debtors remit payment directly to the relevant government authority. The Debtors estimate that they owe approximately $18,000 in incurred and unpaid Commercial Rent Tax as of the Petition Date.

e. Certain of the Debtors engage the services of nonresident aliens. Sections 1441, 1442 and 1443 of the Internal Revenue Code, require the Debtors to withhold 30% on a payment of U.S. source income to nonresident aliens (the "**NRA Withholding Tax**"). The Debtors estimate that they owe approximately $75,000 in incurred and unpaid NRA Withholding Tax as of the Petition Date.

f. One Debtor, SFX Canada Inc., is liable with a non-Debtor subsidiary for approximately $470,000 that is owed to Canada Revenue Agency.

196. By this motion, the Debtors request authority to pay prepetition Taxes owed to the Taxing Authorities, provided that the aggregate amount of such payment shall not exceed $1,000,000. The Debtors also seek authorization to honor all checks that remain uncashed prior to the Petition Date or that are otherwise returned by a Taxing Authority, as well as those Taxes subsequently determined upon audit to be owed for periods prior to the Petition Date.

Nonpayment of these obligations may cause Taxing Authorities to take precipitous action, which could include filing liens, interfering with or withdrawing concessions, preventing the Debtors from conducting business in applicable jurisdictions and seeking to lift the automatic stay, all of which could disrupt the Debtors' day-to-day operations and impose significant costs on the Debtors' estates and destroy the going concern value of the Debtors' business.

197. Certain of the Taxes may constitute so-called "trust fund" taxes to be collected from third parties and held in trust for payment to the Taxing Authorities. The Debtors do not have any equitable interest in these Taxes, and therefore, such "trust fund" taxes are not property of the Debtors' estates. It is also likely that some, if not all, of the Taxes are entitled to priority payment status. Authorizing the Debtors to pay, in their discretion, the prepetition Taxes will help the Debtors avoid serious disruption to their operations that would result from the nonpayment of such Taxes, including the distraction and adverse effect on morale that could result from liability for nonpayment imposed upon the Debtors' directors and officers.

G. Motion of the Debtors for Entry of Interim and Final Orders Pursuant to Sections 105(a) and 366 of the Bankruptcy Code (A) Prohibiting Utilities From Altering, Refusing or Discontinuing Service, (B) Deeming Utilities Adequately Assured of Future Performance, and (C) Establishing Procedures for Determining Adequate Assurance of Payment

198. In connection with the operation of their business and management of their estates, the Debtors obtain electricity, gas, waste management, internet, cable, telephone, security and other similar services (collectively, the "**Utility Services**") from a number of utility companies (collectively, the "**Utility Providers**").

199. In the ordinary course of business, the Debtors regularly incur utility expenses for Utility Services provided by various Utility Providers. The Debtors have a long and established

payment history with these Utility Providers. The Debtors' aggregate average monthly cost for utility services is approximately $126,000.

200. Uninterrupted utility services are essential to the preservation of the Debtors' estates and assets, and therefore, to the success of these Chapter 11 Cases. A lack of electricity, telephone or internet services would render the Debtors' websites inoperable, effectively shutting down a large portion of the Debtors' business operations (e.g., Beatport operates a music streaming service that is dependent upon electricity and internet service to connect with performers and disc jockeys). Indeed, any interruption of the Utility Services would disrupt the Debtors' ability to operate and maintain their business and would thereby negatively affect the Debtors' customer relationships, revenues and profits. Such a result could seriously jeopardize the Debtors' reorganization efforts and, ultimately, their value and constituent recoveries. Based on the Debtors' significant reliance on the Utility Services to maintain their business operations, the Debtors have a powerful incentive to stay current on their utility obligations.

201. The Debtors intend to pay all postpetition obligations and expect that revenues generated from their business operations and/or funds from their DIP financing facility will be sufficient to pay all undisputed postpetition obligations owed to the Utility Providers in a timely manner. To provide adequate assurance of payment for future services to the Utility Providers the Debtors propose to deposit an initial sum equal to the Debtors' estimated average cost for two (2) weeks of Utility Services (the "**Adequate Assurance Deposit**"), into a segregated account (the "**Adequate Assurance Account**"). Because the Debtors' average spending on Utility Services is approximately $126,000, the Debtors propose that the Adequate Assurance Deposit should be approximately $63,000.

202. By this motion, the Debtors request a determination that their Utility Providers have been provided with adequate assurance of future payment and that the Debtors are not required to provide any additional adequate assurance. Additionally, the Debtors request the Court approve the Debtors' proposed adequate assurance procedures. Lastly, the Debtors request the Court prohibit the Utility Providers from altering, refusing or discontinuing the provision of Utility Services due to outstanding prepetition amounts.

H. Motion of the Debtors for Entry of an Order Authorizing the Debtors to Honor Certain Prepetition Ticket Obligations to Customers and to Otherwise Continue Certain Prepetition Customer Practices in the Ordinary Course of Business

203. By this motion, the Debtors seek to honor certain prepetition obligations to customers and to otherwise continue certain prepetition customer practices offered in the ordinary course of their prepetition operations.

204. The viability of the Debtors' business and the Debtors' ability to maximize the value for stakeholders in these Chapter 11 Cases are dependent in large part upon the patronage and loyalty of their customers. Before the Petition Date, the Debtors, in the ordinary course of business, engaged in certain customer practices to develop and sustain patronage among fans of EDM (collectively, the "**Customer Programs**").

205. The Customer Programs are fundamental to the continued success of the Debtors' business because, by design, the Customer Programs encourage repeat business and ensure customer satisfaction, thereby retaining current customers, attracting new customers and ultimately increasing the Debtors' revenue.

206. In the Debtors' industries, customer loyalty is of critical importance. Accordingly it is vital that the Debtors not alienate their customer base following the commencement of these Chapter 11 Cases. These Chapter 11 Cases will cause potential future customers to have

concerns about entering into a relationship with the Debtors and purchasing tickets to events and festivals. The Debtors desire to assuage any such fears by minimizing the effects of these Chapter 11 Cases. These efforts would be thwarted if the relief requested therein is not granted. For these reasons, permitting the Debtors to continue to honor the Customer Programs is justified and essential to the Debtors' continued operations.

207. Failure to continue the Customer Programs would severely and irreparably impair the Debtors' customer relations. Indeed, if the Debtors were unable to offer the Customer Programs, they would be at a significant disadvantage compared to their competitors. Discontinuance of these Customer Programs would likely undermine customer satisfaction, jeopardize customer loyalty to the Debtors and would negatively affect the decisions of future customers and therefore would have an adverse impact on the Debtors' revenues. Therefore, the ability to continue to provide the Customer Programs is vital to the Debtors' ongoing relationship with their current and future customers, and their ability to emerge from chapter 11 protection with a strong market share and customer base.

208. The Debtors' creditors also will benefit from the relief sought therein. If the Debtors are prohibited from honoring and maintaining the Customer Programs consistent with their past business practices, then the customers' lost confidence in the Debtors will damage the Debtors' business to an extent that far exceeds the cost associated with honoring and continuing such practices. Approval of the Customer Programs will protect the Debtors' goodwill and going concern value during the chapter 11 process.

209. The Debtors estimate that in connection with the Customer Programs, the Debtors pay approximately $35,000 per month to third-party vendors.

210. Prior to the Petition Date, in the ordinary course of their business and as is customary in the industry in which the Debtors operate, the Debtors implemented certain Customer Programs, including but not limited to the following:

i. Ticketing

211. The Debtors organize and host hundreds of events each year and issue tickets for entry to such events. Prior to the Petition Date and consistent with industry practice, the Debtors issued and sold tickets for events and festivals that are scheduled to occur in 2016. Additionally, the Debtors may have provided complimentary tickets to venues, co-promoters or sponsors as part of a contract. The Debtors seek the authority to honor all tickets for events and festivals that were issued prepetition, whether purchased, provided promotionally or otherwise, but which have not yet been used (collectively, the "**Ticketholder Claims**").

212. In addition, certain Debtors are in the business of providing ticketing services to non-Debtor parties. In the ordinary course of business, the Debtors process and remit ticketing proceeds to third parties (the "**Ticketing Receipts**") on account of third-party events.

213. The Debtors require the authority to honor the Ticketholder Claims, as the inability to honor such claims following the commencement of these Chapter 11 Cases would be ruinous to the Debtors' reorganization effort. Customer confidence and goodwill will be severely undermined if the Debtors are prevented from honoring the Ticketholder Claims. Additionally, the Debtors require the authority to continue processing Ticketing Receipts on behalf of third parties.

ii. Contest Program

214. In connection with promoting live events, festivals and performances, the Debtors maintain a contest program for fans of EDM (the "**Contest Program**"). Pursuant to the Contest

Program, fans are eligible to receive prizes (the "**Contest Claims**") for participating in Debtor-sponsored contests. The Debtors hold dozens of contests throughout the country, such as DJ battles; giveaways to fans via social media; and competitions of fan-submitted photos, videos or music recordings.

215. The Contest Claims are non-cash rewards, such as tickets to upcoming shows, upgrades to already-purchased tickets, discounts on purchases on the Debtors' digital platform or opportunities to meet artists; although some Contest Claims require the Debtors to pay third parties (e.g., paying a winner's airfare to attend a festival). For the most part, I am informed that the value of each Contest Claim is an amount that would not trigger any tax liability to the holders.

216. Due to the nature of the Contest Program, the Debtors are unable to estimate the total amount of prizes owed by the Debtors on account of each program as of the Petition Date. However, out of an abundance of caution, the Debtors seek authority to provide qualifying customers with any benefits owed as of the Petition Date on account of the Contest Claims.

217. The Contest Program is designed to generate goodwill between the Debtors and fans of electronic music. The program is essential for both maintaining customer relationships and maximizing the value of the Debtors' estates.

iii. Refund Program

218. Consistent with industry practice, the Debtors offer refunds (the "**Refund Program**") to customers when a scheduled event or festival is cancelled in whole or in part or to resolve customer disputes. The refunds may be in the form of a credit on the customers' credit cards or tickets to another event. In an effort to ensure customer satisfaction, and in accordance with the Debtors' prepetition practices, the Debtors seek authority to issue refunds to customers

in the form of replacement tickets to shows and events that are scheduled to take place postpetition.

219. Customer confidence in the Debtors during the Chapter 11 Cases will be maintained by permitting the Debtors to continue the Refund Program. Due to the infrequent nature of applicable incidents, it is difficult to estimate at any one time the total amounts that may have accrued under the Refund Program.

220. The Customer Programs allow the Debtors to meet competitive pressures, ensure customer satisfaction, and generate goodwill with customers, thereby retaining current customers, attracting new ones, and ultimately enhancing revenue and profitability. Maintaining these benefits throughout these Chapter 11 Cases is essential to the continued viability of the Debtors' business and the maximization of the estates' value for all parties-in-interest.

221. Additionally, the Debtors seek the authority, in their sole discretion, to continue to honor their obligations with respect to the Customer Programs. The Debtors further request that the Court enter an order directing all banks to honor the Debtors' prepetition checks or electronic transfers for payment of the foregoing, and prohibiting banks from placing any holds on, or attempting to reverse, any automatic transfers on account of the foregoing.

I. Motion of the Debtors For Entry of Interim and Final Orders Establishing (I) Notification, Objection and Hearing Procedures for Transfers of Equity Securities and (II) Establishing a Record Date for Notice and Sell-Down Procedures for Trading in Claims Against the Debtors' Estates

222. By this motion, the Debtors seek to establish notice, objection and hearing procedures regarding transfers of beneficial interests in equity securities of SFXE and to establish a record date (the "**Record Date**") for notice and potential sell-down procedures for trading in claims against the Debtors (the "**Claims**").

223. I understand that the Debtors estimate that, as of the Petition Date, they have incurred consolidated net operating loss ("**NOL**") of approximately $178 million and the aggregate tax basis of the Debtors' assets substantially exceeds the aggregate value of such assets, resulting in a substantial net "built-in" loss. I further understand that the Debtors' consolidated NOL carryforwards are valuable assets of the Debtors' estates.

224. I understand that the relief requested in the NOL Motion and procedures set forth are necessary to preserve NOL and preserve this valuable asset of the Debtors' estates.

J. Debtors' Application for Entry of an Order Authorizing Debtors to Employ and Retain Kurtzman Carson Consultants LLC as Claims and Noticing Agent *Nunc Pro Tunc* to the Petition Date Pursuant to 28 U.S.C. § 156(c), 11 U.S.C. § 105(a) and LBR 2002-1(f)

225. By this motion, the Debtors seek entry of an order authorizing the employment and retention of Kurtzman Carson Consultants LLC ("**KCC**") as the Claims and Noticing Agent. I understand that the Debtors and their advisors obtained and reviewed engagement proposals from three court-approved claims and noticing agents to ensure selection through a competitive process.

226. Following that review, and in consideration of the number of anticipated notice parties, the nature of the Debtors' business, and KCC's competitive and reasonable rates given their quality of services and expertise, the Debtors selected KCC to act as the Debtors' Claims and Noticing Agent. I believe that the retention of KCC as Claims and Noticing Agent is necessary and in the best interest of the estates. KCC will relieve the burdens associated with claims and noticing services, allowing the Debtors to devote their attention and resources to maximize value for their stakeholders and facilitate the orderly administration of these Chapter 11 Cases.

227. The Debtors and their advisors reviewed KCC's engagement letter and description of services that KCC will render in these Chapter 11 Cases, KCC's compensations and other terms of the engagement. Based on that review, the Debtors believe that all parties in interest will benefit as a result of KCC's experience and cost-effective methods.

K. Motion of the Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Senior Secured Priming Superpriority Postpetition Financing, (II) Authorizing Use of Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief

228. By this motion, the Debtors seek entry of an order approving the DIP facility (the "**DIP Facility**") the Debtors have entered into with certain members of the Ad Hoc Group as lenders thereunder.

229. The proposed DIP Facility is a multiple-draw superpriority senior secured priming debtor-in-possession term loan facility, consisting of new money term loans in an aggregate principal amount not to exceed $115.0 million, which consists of tranche A term loans in an aggregate principal amount not to exceed $30.0 million and tranche B term loans in an aggregate principal amount not to exceed $85.0 million. The Debtors also have the right to seek up to $10.0 million of additional Tranche B Loans from existing Trance B Lenders on a pro rata basis. Existing Tranche B Lenders have the option to participate or decline to participate in funding such loans. Subject to the Carve-Out, all obligations of the Debtors under the proposed DIP Facility are to be afforded superpriority allowed administrative expense claim status and such obligations shall be secured by, among other things, a first priority lien on all of the Debtors' unencumbered assets. Interest accrues on the Tranche A DIP Loans at the rate of 12% per annum and on the Tranche B DIP Loans at the rate of 10% per annum.

230. The Debtors' need to use Cash Collateral on an interim basis and to obtain credit pursuant to the DIP Facility on an interim basis is urgent and necessary to avoid immediate and irreparable harm to the Debtors, their estates, their creditors and other parties-in-interest, and to enable the Debtors to continue operations and to administer and preserve the value of their estates. The ability of the Debtors to finance their operations, maintain business relationships with their vendors, suppliers and customers, pay their employees and otherwise finance their operations requires the availability of working capital from the DIP Facility and the use of Cash Collateral. Without the ability to access the Interim Financing and the DIP Facility and the authority to use Cash Collateral, the Debtors, their estates and their creditors would suffer immediate and irreparable harm. The Debtors do not have sufficient available sources of working capital and financing to operate their businesses or maintain their properties in the ordinary course of business without the DIP Facility and authorized use of Cash Collateral.

231. Given their current financial condition, financing arrangements and capital structure, the Debtors are unable to obtain financing from sources other than the DIP Lenders on terms more favorable than those provided under the DIP Facility and the DIP Loan Documents. The Debtors have been unable to obtain unsecured credit. The Debtors also have been unable to obtain sufficient credit (a) having priority over administrative expenses, (b) secured by a lien on property of the Debtors and their estates that is not otherwise subject to a lien, or (c) secured solely by a junior lien on property of the Debtors and their estates that is subject to a lien. Postpetition financing is not otherwise available without granting the DIP Agent, for the benefit of itself and the DIP Lenders: (1) perfected priming security interests in and liens on all of the Debtors' existing and after-acquired assets with the priorities set forth in the proposed order approving the DIP Facility; (2) superpriority claims and liens; and (3) the other protections set

forth in the proposed order approving the DIP Facility. After considering all alternatives, the Debtors have concluded, in the exercise of their sound business judgment, that the DIP Facility represents the best financing available to them at this time, and is in the best interests of all of their stakeholders.

232. Prior to the Petition Date, Moelis and FTI contacted seven third parties whom Moelis identified as having the financial wherewithal and potential appetite to provide competing DIP financing, including parties who had engaged in due diligence with the Debtors in the past. These parties were chosen based on their financial wherewithal, experience and reputation for providing similar financing, and/or familiarity with the Company and its business. Of the seven parties contacted, all declined to participate in moving forward with such a financing.

233. As a result of the attendant litigation costs and the Debtors' view of the relative merits of a priming fight with their senior and junior lenders, any DIP financing would have to provide a minimum of $100 million junior to the claims of the Noteholders. Alternatively, the competing DIP financing would have to satisfy the claims of the Noteholders in addition to paying off the Credit Agreement and Foreign Loan, as well as provide additional capital for ongoing business operations. In either scenario, the alternative DIP proposal would have to be on interest and fee terms better than the proposal for, the Ad Hoc Group. No party expressed any interest in providing DIP financing to the Debtors on these terms.

234. The Debtors have determined in the exercise of their business judgment that a DIP financing transaction with certain members of the Ad Hoc Group together with the Restructuring Support Agreement presents the best, least expensive and most expeditious option to finance the Debtors through what they intend to be a speedy chapter 11 process.

IV. CONCLUSION

235. For the reasons described herein and in the First Day Motions, I believe that the prospect for achieving these objectives for the benefit of creditors and other stakeholders will be substantially enhanced if this Bankruptcy Court grants the relief requested in each of the First Day Motions and respectfully request the Bankruptcy Court to do so.

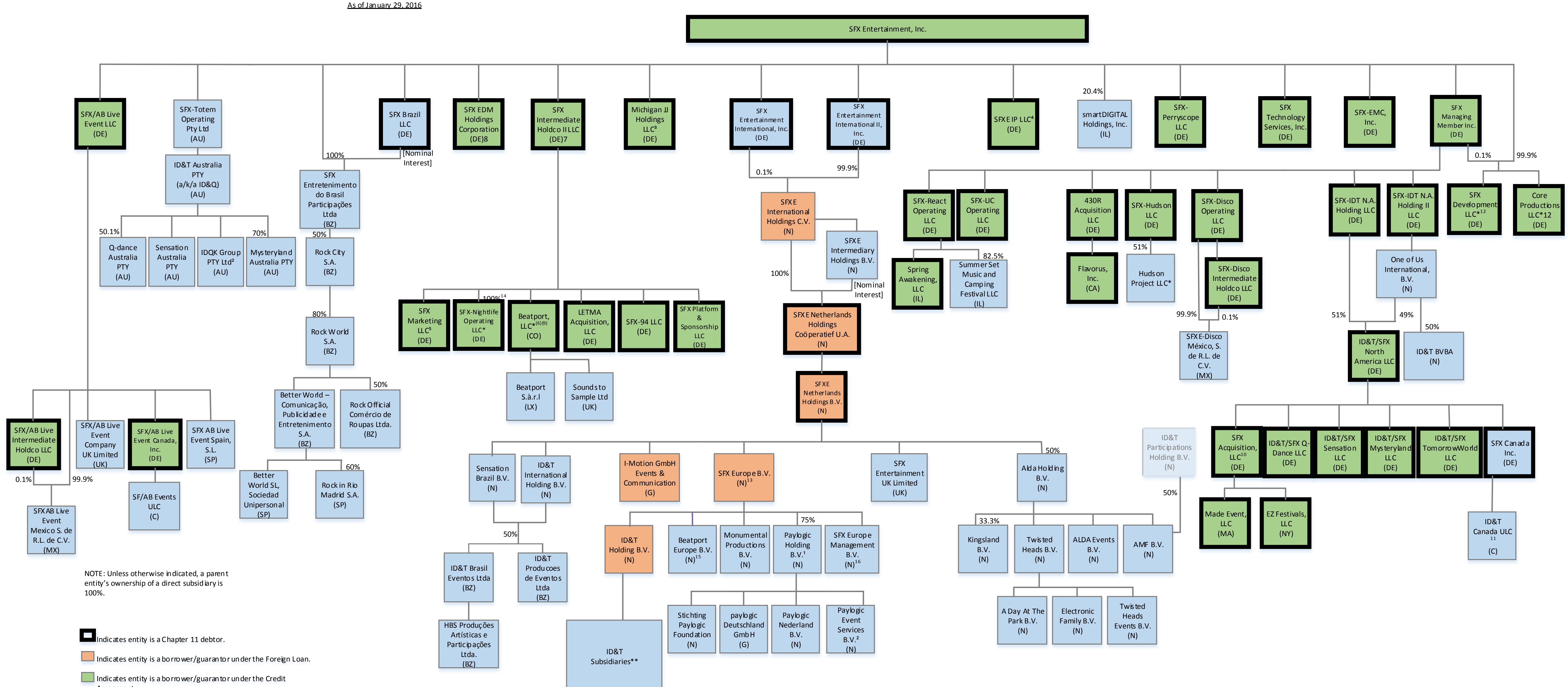
I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Dated: February 1, 2016

/s/ Michael Katzenstein
Michael Katzenstein
Chief Restructuring Officer

EXHIBIT A

As of January 29, 2016



* Indicates entity is manager-managed.

** See page two for detail.

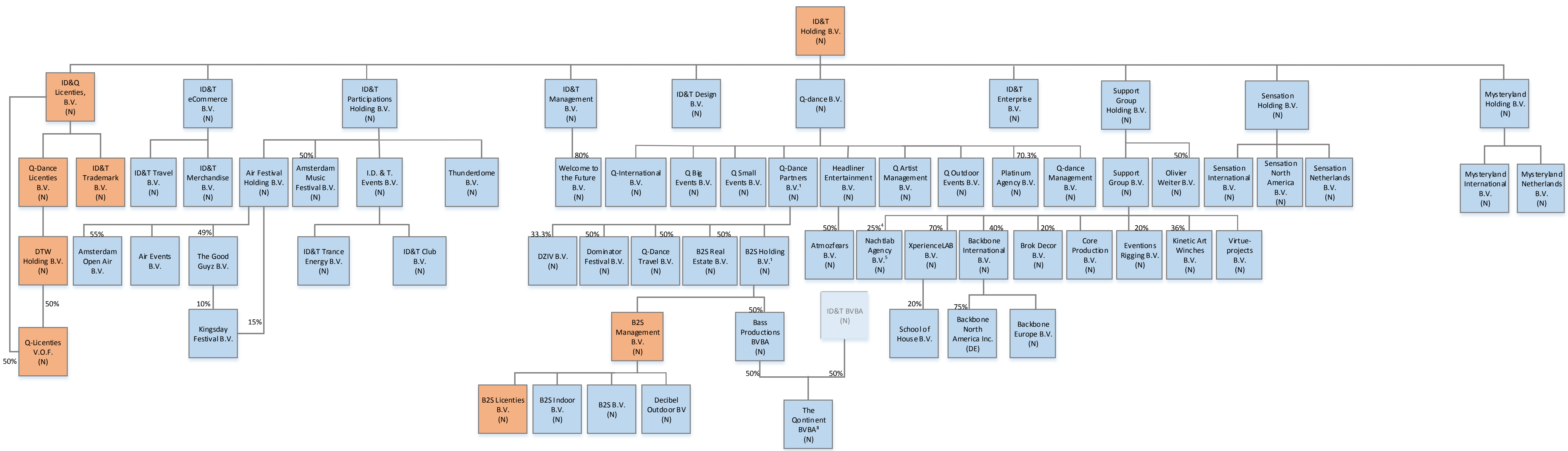
(AU) indicates jurisdiction in Australia
(BZ) indicates jurisdiction in Brazil
(C) indicates jurisdiction in Canada
(CO) indicates jurisdiction in Colorado
(DE) indicates jurisdiction in Delaware
(G) indicates jurisdiction in Germany
(IL) indicates jurisdiction in Illinois
(LX) indicates jurisdiction in Luxembourg
(MA) indicates jurisdiction in Massachusetts
(MX) indicates jurisdiction in Mexico
(N) indicates jurisdiction in The Netherlands
(NY) indicates jurisdiction in New York
(SP) indicates jurisdiction in Spain
(UK) indicates jurisdiction in the United Kingdom

1 Formerly known as "Accepté Holding B.V."
2 Formerly known as "Getlogic Nederland B.V."

In December 2014, the following mergers of wholly owned SFX subsidiaries were effected:

3 Michigan JJ LLC with and into Michigan JJ Holdings LLC as surviving entity
4 Stereosonic US IP LLC, SFX EX IP LLC, SFX Made IP LLC, and SFX IP LLC with and into SFXE IP LLC as surviving entity
5 SFX Experience LLC, SFX Nightlife Television LLC, and PITA III LLC with and into SFX Marketing LLC as surviving entity
6 Beatport Japan LLC with and into Beatport LLC as surviving entity
7 PITA I LLC and ID&T USA LLC with and into SFX Intermediate Holdco II LLC as surviving entity
8 SFX International, Inc. with and into SFX EDM Holdings Corporation as surviving entity
9 430 Acquisition LLC with and into Beatport LLC as surviving entity

10 On December 31, 2014, SFX Acquisition, LLC was contributed to ID&T/SFX North America LLC
11 In February 2015, this entity's name was changed from 0995096 B.C. ULC to ID&T Canada ULC
12 These entities are managed and 0.1% owned by SFX Managing Member, Inc. and 99.9% owned by SFX Entertainment, Inc.
13 Formerly known as "SFX Entertainment B.V."
14 Formerly 80% owned by SFX Intermediate Holdco II LLC. Per payment made 9/2/2015, the entity is 100% owned by SFX Intermediate Holdco II LLC.
15 Deed of incorporation dated October 1, 2015.
16 Formerly known as "Awakenings Events B.V."



NOTE: Unless otherwise indicated, a parent entity's ownership of a direct subsidiary is 100%.

[1] Each of Q-Dance Partners B.V. and B2S Holding B.V. held a 25% interest in Toffler B.V., which ownership interest was sold in or around May 2014.

[2] Previously owned 1% by Q-dance Australia PTY and 99% by ID&T Australia PTY.

[3] Previously owned 50% by Bass Productions BVBA and 25% by each of Q-Dance Partners B.V. and ID&T BVBA.

[4] Previously owned 40% by Support Group B.V.

[5] Formerly Nachtlab B.V.