

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF GEORGIA
AUGUSTA DIVISION**

In re:

MORRIS PUBLISHING GROUP, LLC, et al.,¹

Debtors.

Chapter 11

Case No. 10-_____

Joint Administration Requested

**DEBTORS' MOTION FOR INTERIM AND FINAL ORDERS
(I) AUTHORIZING THE USE OF CASH COLLATERAL, (II) GRANTING
ADEQUATE PROTECTION TO CERTAIN PREPETITION SECURED PARTIES,
(III) GRANTING RELATED RELIEF, AND (IV) SCHEDULING
A FINAL HEARING PURSUANT TO BANKRUPTCY RULE 4001**

The above-captioned debtors and debtors in possession (each a "Debtor" and collectively, the "Debtors"), by and through their undersigned counsel, move this Court for the entry of two orders (interim and final) that, among other things, (i) authorize and allow the use of cash collateral, (ii) grant adequate protection to certain prepetition secured parties, (iii) grant related relief, and (iv) schedule a final hearing pursuant to Bankruptcy Rule 4001. In further support of this Motion, the Debtors respectfully state as follows:

STATUS OF THE CASE AND JURISDICTION

1. On the date hereof (the "Petition Date"), the Debtors each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are: Morris Publishing Group, LLC (9462); Athens Newspapers, LLC ("Athens") (3084); Broadcaster Press, Inc. (3275); Homer News, LLC ("Homer") (8613); Log Cabin Democrat, LLC ("Log Cabin") (5012); Morris Publishing Finance Co. (3044); MPG Allegan Property, LLC (5060); MPG Holland Property, LLC (5060); Southeastern Newspapers Company, LLC (5156); Southwestern Newspapers Company, L.P. (1328); The Oak Ridger, LLC (5060); The Sun Times, LLC ("Sun Times") (2529); Yankton Printing Company (8120); Stauffer Communications, Inc. (0047); and Florida Publishing Company (8216). Athens's address is One Press Place, Athens, Georgia 30603. Homer's address is 3482 Landings Street, Homer, Alaska 99603. Log Cabin's address is 1058 Front Street, Conway, Arkansas 72033. Sun Times's address is 104 S. Railroad Street, Ridgeland, South Carolina 29936. All other Debtors maintain an address at 725 Broad Street, Augusta, Georgia 30901.



Code”). On the Petition Date, the Debtors also jointly filed motions or applications seeking certain typical “first day” relief.

2. The Debtors are continuing in possession of their respective properties and are continuing to operate and maintain their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. No request has been made for the appointment of a trustee or examiner and no official committee has yet been established in these cases.

4. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

BACKGROUND OF THE DEBTORS

5. Debtor Morris Publishing Group, LLC (“Morris Publishing”) is part of a private media business that has been owned and operated by the William S. Morris III family for three generations. Morris Publishing was formed in 2001 to assume the newspaper operations of its former parent, Morris Communications Company, LLC. The Debtors own and operate 13 daily newspapers and more than three dozen nondaily newspapers in the Southeast, Midwest, Southwest and Alaska, as well as city magazines and free community publications.

6. Newspapers form the Debtors’ core business unit. Their daily and nondaily newspapers have a total combined circulation of more than 450,000. The Debtors have a concentrated presence in the Southeast, with four signature holdings, including the *Florida Times-Union (Jacksonville)*, the *Savannah Morning News*, the *Athens Banner-Herald* and the *Augusta Chronicle*, their original and flagship newspaper. The Debtors’ daily newspapers have online sister publications as an additional service for readers and advertisers alike. Both print and online editions consistently win industry awards for content, photography and design. In all

its news products, the Debtors are committed to local news coverage and to the highest standards of journalism. As of the Petition Date, the Debtors' newspapers employed approximately 1,847 full-time employees and approximately 335 part-time employees.

7. The Debtors' city magazines, located in Athens, Augusta and Savannah, cover the people, issues and events of their respective communities. In addition, many of the Debtors' daily newspapers produce additional magazines that regularly serve their respective communities with high quality local features. Publications such as *Coastal Antiques and Art*, *Coastal Senior* and *Savannah Coastal Parent* are produced through the Morris daily newspaper the *Savannah Morning News*. *Skirt!* is a free monthly magazine with circulation in 14 markets across the country that features content on issues important to women.

8. Free community papers are dedicated advertising vehicles designed to provide customers with reliable, no-frills opportunities for sales and purchases, along with practical community news and information. Both readers and advertisers look to these publications, popularly known as "shoppers," for quick contact, quick information and quick results. The Debtors' shoppers are published in eight states and have a total circulation of approximately 230,000.

9. Morris Publishing maintains its headquarters in Augusta, Georgia. The Debtors' operations have been adversely affected by the general deterioration in the publishing and newspaper industries, particularly through the continuing severe decline in advertising revenue in this recession and the permanent loss to other media within various categories. The current state of these industries is reflected in the chapter 11 filings of numerous other publishers and newspapers in recent months.

10. In fiscal year 2008, the Debtors recorded revenues of approximately \$321.8 million, resulting in a net loss of approximately \$140.7 million. During this time, advertising and circulation accounted for approximately 78.2% and 18.9% of the Debtors' revenue, respectively. In fiscal year 2008, advertising revenue had declined to approximately \$251.7 million (from approximately \$306.7 million in 2007), and circulation revenue had increased to approximately \$60.9 million (from approximately \$57.6 million in 2007).

11. More recently, for the nine month period ending September 30, 2009, the Debtors recorded revenues of \$190.0 million (down from \$243.1 million for the same period in 2008), resulting in a net loss of \$13.2 million (compared to a net loss of \$155.6 million for the same period in 2008). During this time, advertising revenue declined by 28.6%, while circulation revenue increased by 5.6%. At September 30, 2009, the Debtors' consolidated financial statements reported total assets and liabilities of approximately \$175.5 million and \$482.4 million, respectively.

12. In early 2009, the Debtors entered into discussions with certain of their prepetition creditors to reduce the Debtors' substantial debt load and address liquidity concerns threatening the long-term viability of the company. In September 2009, the Debtors reached agreement with an ad hoc committee (the "Ad Hoc Committee") of holders of the 7% Senior Subordinated Notes due 2013 (the "Old Notes") on the general terms of a comprehensive balance sheet restructuring of the Debtors' debt structure (the "Restructuring"). Pursuant to an October 30, 2009 Restructuring Support Agreement (as amended, the "Restructuring Support Agreement"), the Restructuring was to occur either through (a) an out-of-court offer (the "Exchange Offer") to acquire all \$278.5 million in principal amount of outstanding Old Notes for \$100 million aggregate principal amount of Floating Rate Secured Notes due 2014

(collectively, the “New Notes”) or (b) alternatively, through cases filed under chapter 11 of the Bankruptcy Code and confirmation of a prepackaged chapter 11 plan (the “Plan”). The closing of the Exchange Offer was conditioned upon, among other things, at least 99% of the aggregate principal amount of Old Notes being validly tendered and not withdrawn.

13. On December 14, 2009, the Debtors launched the Exchange Offer and also began soliciting votes to accept or reject the Plan, which contemplates a full recovery for all allowed claims other than those held by holders of Old Notes. Because less than 99% of the aggregate principal amount of Old Notes were validly tendered and not withdrawn, a condition to closing the Exchange Offer was not satisfied. Nonetheless, the Plan has been accepted overwhelmingly by the only class of creditors entitled to vote on the Plan. Accordingly, contemporaneously herewith, the Debtors have filed with the Bankruptcy Court the Plan and its accompanying disclosure statement, along with a motion seeking approval of the adequacy of the disclosure statement, approval of the solicitation procedures and confirmation of the Plan. The Debtors believe that the Plan, once confirmed, will rationalize their balance sheet in a way that allows them to service their debt, fund future operations and support their long-term business plans.

PREPETITION SECURED FACILITIES

14. Another component of the Restructuring Support Agreement, called for the Debtors to restructure their secured debt. On October 15, 2009, Morris Publishing refinanced its senior debt pursuant to a transaction in which third parties and affiliated entities acquired its then existing \$136.5 million senior secured credit facility indebtedness and amended the credit agreement governing such indebtedness thereby entering into the Amended and Restated Credit Agreement (“Credit Agreement”). The parties to the Credit Agreement are Morris Publishing, as borrower (the “Borrower”), Morris Communications and the lenders signatory thereto from time to time including Tranche Holdings, LLC, MPG Revolver Holdings, LLC and Morris

Communications Company, LLC (referred to as the “Lenders”), and Tranche Manager, LLC, as Administrative Agent (“Agent”).

15. The Credit Agreement amends and restates the provisions of the Credit Agreement dated December 14, 2005 between Borrower and Guarantors and the lender parties thereto with JP Morgan Chase Bank, N.A., as the administrative agent. The Credit Agreement converted all existing loans under the 2005 Credit Agreement into the following three tranches of term loans: a Tranche A term loan in an aggregate principal amount of \$19.7 million, a Tranche B term loan in an aggregate principal amount of \$6.8 million plus accrued PIK interest and a Tranche C term loan in an aggregate principal amount of \$110 million plus accrued PIK interest. The Tranche A term loan is held by an affiliate of ACON Investment LLC named Tranche Holdings, LLC. All of the Tranche B term loan was acquired by a Morris affiliate, MPG Revolver Holdings, LLC and all of the Tranche C term loan was acquired by Morris Communications. All tranches of loans under the Credit Agreement mature in two years with two six month extension options. Further, all principal payments on the senior debt will be applied first to the Tranche A term loan until paid in full.

16. The loans under the Credit Agreement continued to be guaranteed by all subsidiaries of Morris Publishing, as well as Morris Communications and all of its wholly-owned domestic subsidiaries and secured by substantially all of the assets of such guarantors and Morris Publishing (“Pre-Petition Security Interests”).

SUMMARY OF RELIEF REQUESTED

17. By this Motion, the Debtors request, pursuant to sections 105, 361 and 363 of the Bankruptcy Code, entry of an interim order (the “Interim Order”) and a final order (the “Final Order”), among other things: (a) authorizing use of cash collateral (as defined in section 363(a) of the Bankruptcy Code, “Cash Collateral”), (b) granting adequate protection to

certain prepetition secured parties, (c) granting related relief, and (d) scheduling a final hearing (the “Final Hearing”) thereon. The Interim Order is attached hereto as Exhibit A and Debtors request that it be entered as part of the First Day relief.

18. In accordance with Bankruptcy Rule 4001, below is a concise statement of the relief requested:²

- i) Parties with Interest in Cash Collateral. The parties with interest in Cash Collateral are the Agent and the Lenders (each as defined below).
- ii) Purposes for the Use of Cash Collateral. The Debtors shall be permitted to use Cash Collateral to pay the expenses of the operation of their businesses in accordance with a cash collateral budget provided to the Agent (the “Interim Budget”). Interim Order ¶ D.
- iii) Termination Date. Unless extended by consent or Court order, the use of Cash Collateral authorized herein shall terminate at the conclusion of the Final Hearing (the “Termination Date”). Interim Order ¶ B. The Agent may extend the Termination Date on behalf of itself and the other Lenders at any time without further order of the Court.
- iv) Adequate Protection. Adequate protection shall be granted as follows:

As security for and solely to the extent of any net postpetition diminution in the value (each such diminution, a “Diminution in Value”) of the Security Interests (as defined below), the Agent is hereby granted for its benefit and the benefit of the Lenders, (i) a first-priority security interest in and lien on the prepetition and postpetition property of the Debtors to the extent held by the Prepetition Lenders prior to the Petition Date other than the Excluded Assets (as defined below) (the “Adequate Protection Lien”), subject and subordinate only to (A) any valid, enforceable, perfected and unavoidable liens on the Debtors’ assets and property in existence as of the Petition Date or duly perfected after the Petition Date to the extent permitted by section 546(b) of the Bankruptcy Code (other than the Security Interests) and (B) the Interim Carve-Out (as defined below), and (ii) an administrative claim (the “Superpriority Claim”) as provided for in section 507(b) of the Bankruptcy Code. The Superpriority Claim shall have recourse to all prepetition and postpetition property of the Debtors other than the Excluded Assets (as defined below), and (iii) adequate protection payments of current interest at the non-default rate and at the times provided for in the Prepetition Loan Documents. Interim Order ¶ F.

² To the extent anything in this summary is inconsistent with the proposed Interim Order, annexed hereto, the proposed Interim Order shall control.

- v) Interim Carve Out. The Debtors are authorized to use Cash Collateral to pay the following costs, fees and expenses (collectively, the “Interim Carve-Out”): (a) all fees required to be paid to the Clerk of the Bankruptcy Court or to the U.S. Trustee pursuant to section 1930(a) of title 28 of the United States Code and (b) all reasonable fees and expenses incurred by professionals retained pursuant to an Order of Court in an amount not exceeding \$3,000,000 in the aggregate. Interim Order ¶ I. The Superpriority Claim is junior to the Interim Carve-Out. Interim Order ¶ F.
- vi) Excluded Assets. The “Excluded Assets” are (i) all claims and causes of action and all products and proceeds thereof, arising under or permitted by sections 502(d), 506(c), 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code and any other avoidance claims and avoidance causes of action arising under or permitted by state or federal law (collectively, “Avoidance Actions”), and (ii) any asset that the Debtors are prohibited by law or contract from encumbering. Interim Order ¶ F.

THE PROPOSED USE OF CASH COLLATERAL

19. The Debtors require the use of the cash generated in the ordinary course of their businesses. To the extent that any cash generated by the Debtors’ businesses constitutes the Cash Collateral of any of the Lenders, the Debtors submit that such Lenders are adequately protected against diminution by (i) the Adequate Protection Liens, (ii) the allowance of any Superpriority Claims and (iii) the avoidance of the immediate and near-total destruction in the value of the Pre-Petition Security Interests that would occur should the Debtors be denied the use of the cash generated by their businesses.

20. The Agent, on behalf of the Lenders, has reviewed and commented upon the Debtors’ proposed use of Cash Collateral in accordance with the Interim Budget through the Termination Date. A copy of the Interim Budget is annexed to Exhibit A as Exhibit 1 and is incorporated herein by reference. Agent and Debtors have agreed that without use of Cash Collateral, the Debtors will be unable to continue to operate their businesses.

21. The Debtors do not have any currently available sources of funds to carry on the operation of their businesses other than the Cash Collateral. The Debtors require working capital

to continue their operations. The Debtors are key news media providers, and any interruption in the Debtors' ability to provide service to their customers could have a devastating impact upon the Debtors' businesses. The uncertainty concerning the Debtors' financial condition could also greatly reduce their ability to procure goods and services from vendors critical to the successful operation of their businesses and to attract and retain advertisers.

22. If the Debtors are unable to access sufficient operating liquidity to meet their postpetition obligations on a timely basis, there will be immediate and irreparable harm to their businesses and their estates (including to the Lenders themselves). In light of the foregoing, the Debtors have determined, in the exercise of their sound business judgment, that they require the use of Cash Collateral for the maintenance and preservation of their property, the operation of their businesses, the payment of expenses attendant thereto and the costs and expenses of administering these chapter 11 cases. The Debtors hereby request authority to use the Cash Collateral to make such essential and necessary payments, including, but not limited to, employee salaries, payroll, taxes, ordinary course vendor payments and to pay the costs and expenses of administering these chapter 11 cases, all in compliance with the Interim Budget.

23. The material terms of the use of Cash Collateral are summarized in paragraph 18 of this Motion.

THE PROPOSED USE OF CASH COLLATERAL SHOULD BE APPROVED

24. Pursuant to section 363(c)(2) of the Bankruptcy Code, a debtor may not use cash collateral unless "(A) each entity that has an interest in such cash collateral consents; or (B) the court, after notice and a hearing, authorizes such use, sale, or lease in accordance with the provisions of this section." 11 U.S.C. § 363(c)(2). Pursuant to section 363(e) of the Bankruptcy Code, a party that has an interest in property to be used by a debtor is entitled to adequate protection of such interest. See 11 U.S.C. § 363(e).

25. The proposed use of Cash Collateral is appropriate because the Lenders have consented to such use and also are adequately protected. The Bankruptcy Code does not define “adequate protection” but, rather, sets forth three nonexclusive examples:

When adequate protection is required under section 362, 363, or 364 of this title of an interest of an entity in property, such adequate protection may be provided by —

- (1) requiring the trustee to make a cash payment or periodic cash payments to such entity, to the extent that the stay under section 362 of this title, use, sale, or lease under section 363 of this title, or any grant of a lien under section 364 of this title results in a decrease in the value of such entity’s interest in such property;
- (2) providing to such entity an additional or replacement lien to the extent that such stay, use, sale, lease, or grant results in a decrease in the value of such entity’s interest in such property; or
- (3) granting such other relief, other than entitling such entity to compensation allowable under section 503(b)(1) of this title as an administrative expense, as will result in the realization by such entity of the indubitable equivalent of such entity’s interest in such property.

11 U.S.C. § 361(1)-(3).

26. Adequate protection is determined on a case-by-case basis. See In re George Ruggiere Chrysler-Plymouth, Inc., 727 F.2d 1017, 1019 (11th Cir. 1984); In re Shockley Forest Indus., Inc., 5 B.R. 160, 162 (Bankr. N.D. Ga. 1980). The critical purpose of adequate protection is to guard against the diminution of a secured creditor’s interest in its collateral during the period when such collateral is being used by the debtor in possession. In re Suncruz Casinos, LLC, 298 B.R. 833, 844 (Bankr. M.D. Fla. 2003); see also 495 Cent. Park, 136 B.R. 626, 631 (Bankr. S.D.N.Y. 1992) (“The goal of adequate protection is to safeguard the secured creditor from diminution in the value of its interest [during the chapter 11 reorganization].”). Here, for a number of reasons, it is clear that the Lenders are adequately protected.

27. First and foremost, the Adequate Protection Liens, as well as making periodic cash payments specifically qualify as appropriate forms of adequate protection under Section 361 of the Bankruptcy Code.

28. Moreover, the proposed adequate protection will preserve and enhance the Lenders' collateral. Indeed, courts have considered the preservation and enhancement of collateral to be a critical component of adequate protection. In re Shockley Forest Indus., Inc., 5 B.R. at 163 (finding creditor's interest adequately protected, in part, because of the increased value of the collateral); see also Confederation Life Ins. Co. v. Beau Rivage, Ltd., 126 B.R. 632, 639 (N.D. Ga. 1991) (interest was adequately protected because use of cash collateral increased value of property); In re Wrecclesham Grange, Inc., 221 B.R. 978, 981 (Bankr. M.D. Fla. 1997) (same). Because the use of the Cash Collateral will enhance the Lenders' collateral, the Lenders are adequately protected. See 495 Cent. Park, 136 B.R. at 631 (priming loan approved because "there is no question that the [collateral] would be improved by the proposed [expenditures] and that an increase in value will result. In effect, a substitution occurs in that the money spent will be transferred into value. This value will serve as adequate protection."); see also In re Ski Valley, Inc., 100 B.R. 107, 114 (Bankr. N.D. Ga. 1988) ("an increase in the value of the collateral . . . resulting from superpriority financing could result in adequate protection.") (citation omitted), aff'd, 99 B.R. 117 (N.D. Ga. 1989); In re Ledgemere Land Corp., 125 B.R. 58, 62 (Bankr. D. Mass. 1991) (priming loan approved when "the chance of a decline in the value of the property is more than offset by the likelihood of enhancement in value due to the Debtor's construction and marketing plans."). This Court has recently entered relief similar to the terms and conditions requested herein. See, e.g., In re TitleMax Holdings, LLC, Case

No. 09-40805 (LWD) (Bankr. S.D. Ga April 23, 2009) (Interim Order); April 28, 2009 (Second Interim Order).

29. As set forth above, the Debtors' ability to maintain business relationships with their customers and vendors and to meet payroll and other critical operating expenses is essential to the value of the Debtors' businesses. Absent use of the Cash Collateral, the Debtors' businesses will be brought to an immediate halt, with disastrous consequences for the Debtors and their estates and creditors. Use of the Cash Collateral is therefore of the utmost importance to the preservation and maintenance of the value of the Debtors.

INTERIM APPROVAL SHOULD BE GRANTED

30. Bankruptcy Rule 4001(b) provides that a final hearing on a motion to use cash collateral may not be commenced earlier than 14 days after the service of such motion. Upon request however, the Court is empowered to conduct a preliminary expedited hearing on the motion and authorize the use of cash collateral to the extent necessary to avoid immediate and irreparable harm to a debtor's estate pending a final hearing.

31. Pursuant to Bankruptcy Rule 4001(b), the Debtors request that the Court conduct an expedited preliminary hearing on the Motion and (a) authorize the Debtors to use the Cash Collateral in order to (i) maintain and finance the ongoing operations of the Debtors and (ii) avoid immediate and irreparable harm and prejudice to the Debtors' estates and all parties in interest, and (b) schedule a Final Hearing on the relief requested herein to coincide with the hearing on confirmation of the Plan.

32. Absent authorization from the Court to use Cash Collateral on an interim basis pending a Final Hearing, the Debtors will be immediately and irreparably harmed. As set forth above, the Debtors' ability to use Cash Collateral is critical to the orderly resolution of these chapter 11 cases. Without immediate liquidity provided by the use of Cash Collateral, the

Debtors will be simply unable to conduct normal business operations, and their estates, creditors, and equity holders will be immediately and irreparably harmed.

33. Promptly upon the entry of the Interim Order, the Debtors will serve a copy of the Interim Order and this Motion on (i) the Office of the United States Trustee for the Southern District of Georgia (the “U.S. Trustee”), (ii) counsel to the Agent for the Lenders, (iii) those creditors holding the 20 largest unsecured claims against the Debtors’ estates on a consolidated basis, (iv) the Internal Revenue Service, (v) the Securities and Exchange Commission, and (vi) counsel to the Ad Hoc Committee (collectively, the “Notice Parties”) and (vii) any parties that have requested notice pursuant to Rule 2002 of the Federal Rules of Bankruptcy Procedure.

34. The deadline to file an objection (“Objection”) to the Motion in advance of the Final Hearing shall be 1:00 p.m. (prevailing Eastern Time) on the date that is three (3) business days prior to the Final Hearing (the “Objection Deadline”). An Objection shall be considered only if, on or before the Objection Deadline, it is (a) filed with the Court and (b) served upon and actually received by (i) the U.S. Trustee, 222 West Oglethorpe Ave., Room 302, Savannah, Georgia 31401, Attn: Matthew E. Mills, (ii) attorneys for the Debtors, Neal, Gerber & Eisenberg LLP, Two North LaSalle Street, Suite 1700, Chicago, Illinois 60602, Attn: Mark A. Berkoff and Nicholas M. Miller , as well as local counsel for Debtors, James T. Wilson, Jr., P.C., 945 Broad Street, Suite 420, Augusta, Georgia 30901, Attn: James T. Wilson and (iii) attorneys to the Agent for the Lenders, Hogan & Hartson L.L.P., 555 Thirteenth Street, N.W., Washington, D.C. 20004, Attn: Gordon C. Wilson and Edward C. Dolan.

NOTICE

35. Notice of this Motion has been provided to: (i) the Office of the United States Trustee; (ii) the United States Securities and Exchange Commission; (iii) the Office of the United States Attorney for the Southern District of Georgia; (iv) the Internal Revenue Service;

(v) the Debtors' twenty (20) largest unsecured creditors on a consolidated basis; (vi) counsel to the administrative agent for the Debtors' prepetition secured lenders; (vii) the indenture trustee with respect to the Debtors' Old Notes; and (viii) counsel to the Ad Hoc Committee. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is necessary.

NO PRIOR REQUEST

36. No previous request for the relief sought herein has been made to this Court or to any other court.

WHEREFORE, the Debtors respectfully request that the Court grant the relief requested herein and such other and further relief as the Court deems just and proper.

Dated: Augusta, Georgia
January 19, 2010

Respectfully submitted,

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-and-

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PROPOSED ATTORNEYS FOR DEBTORS
AND DEBTORS IN POSSESSION

EXHIBIT A

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF GEORGIA
AUGUSTA DIVISION

In re:

MORRIS PUBLISHING GROUP, LLC, et al.,

Debtors.

Chapter 11

Case No. 10-_____

Joint Administration Requested

**INTERIM ORDER (I) AUTHORIZING THE USE OF CASH COLLATERAL
PURSUANT TO SECTION 363 OF THE BANKRUPTCY CODE, (II) GRANTING
ADEQUATE PROTECTION TO CERTAIN PREPETITION SECURED PARTIES
PURSUANT TO SECTIONS 361, 362, AND 363 OF THE BANKRUPTCY CODE, AND
(III) SCHEDULING A FINAL HEARING PURSUANT TO BANKRUPTCY RULE 4001**

Upon the motion (the "Motion"), dated January 19, 2010, of the above-captioned debtors and debtors in possession (collectively, the "Debtors") for the entry of (a) this order (the "Order") (i) authorizing the Debtors to use cash collateral (as defined in section 363 of title 11 of the United States Code (the "Bankruptcy Code") "Cash Collateral") hereinafter defined) on an interim basis pending a final hearing on the Motion (the "Final Hearing"), (ii) granting adequate protection to the Agent¹ for its benefit and for the benefit of the prepetition secured Lenders pursuant to Bankruptcy Code sections 361, 362, and 363 with respect to, *inter alia*, such use of Cash Collateral and any diminution in the value of the Prepetition Collateral (as hereinafter defined) granted under the prepetition Loan Documents, and (iii) in accordance with Rule 4001(c)(2) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"),

¹ Capitalized terms used in this Order shall have the meanings ascribed to them in the Motion unless otherwise indicated.

requesting that this Court schedule the Final Hearing and approve notice with respect thereto and (b) an order granting the relief requested in the Motion on a final basis (the “Final Order”); and the Court having considered the Motion and the exhibits attached thereto, including, without limitation, the Budget (as hereinafter defined); and a hearing to consider approval of the Motion on an interim basis having been held and concluded on January 19, 2010 (the “Interim Hearing”); and upon all of the pleadings filed with the Court and all of the proceedings held before the Court; and after due deliberation and consideration and good and sufficient cause appearing therefor,

THE COURT HEREBY FINDS:

1. On January 19, 2010 (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. Each Debtor is continuing in the management and possession of its business and properties as a debtor in possession pursuant to Bankruptcy Code sections 1107 and 1108.

2. As of the date hereof, no request has been made for the appointment of a trustee or examiner, and no statutory committee of unsecured creditors (the “Committee”) has been appointed in these chapter 11 cases (the “Chapter 11 Cases”).

3. Jurisdiction and Venue. Consideration of this Motion constitutes a “core proceeding” as defined in 28 U.S.C. § 157(b)(2)(M). This Court has core jurisdiction over the Chapter 11 Cases, this proceeding, and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157 and 1334. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

4. Notice. Notice of the relief sought by the Motion and the hearing with respect thereto was delivered on January 19, 2010 via electronic mail or facsimile transmission to the

following parties in interest: (i) the Office of the United States Trustee; (ii) the United States Securities and Exchange Commission; (iii) the Office of the United States Attorney for the Southern District of Georgia; (iv) the Internal Revenue Service; (v) the Debtors' twenty (20) largest unsecured creditors on a consolidated basis; (vi) counsel to the Agent for the Debtors' prepetition secured Lenders; (vii) the indenture trustee with respect to the Debtors' Old Notes; and (viii) counsel to the Ad Hoc Committee (collectively, the "Interim Notice Parties"). Given the nature of the relief sought in the Motion, such notice constitutes sufficient and adequate notice of the Motion, the relief requested therein and this Order pursuant to Bankruptcy Rules 2002, 4001(c) and (d) and 9014 and Bankruptcy Code section 102(1), as required by Bankruptcy Code section 363(b), and no further notice of the Motion or this Order is necessary or required.

5. Cash Collateral. For purposes of this Order, Cash Collateral includes all proceeds thereof.

6. Findings Regarding the Use of Cash Collateral. Good cause has been shown for the entry of this Interim Order. The Debtors have an immediate and critical need to use Cash Collateral in order to continue to operate their businesses and effectuate a reorganization of their businesses. The Debtors' use of Cash Collateral has been deemed sufficient to meet the Debtors' immediate postpetition liquidity needs, subject to the terms of this Order and all other agreements, documents, notes, or instruments delivered pursuant hereto or thereto or in connection herewith or therewith, including, without limitation, the budget, attached as Exhibit 1 hereto (as such budget may be extended, varied, supplemented, or otherwise modified in accordance with the provisions of this Order or the Final Order, the "Budget"). Further, as of the Petition Date, Debtors have represented that they are not in default under the Amended and Restated Credit Agreement or other loan documents entered into between the parties (the

“Prepetition Loan Documents”) and the Lenders are not aware of any defaults. Debtors acknowledge that the Agent and Lenders have a first priority security interest in substantially all of the Debtors’ assets as provided for in the Prepetition Loan Documents.

Based on the record presented to the Court at the Interim Hearing, good, adequate and sufficient cause has been shown to justify the immediate grant of the relief requested in the Motion to avoid irreparable harm to the Debtors’ estates pending the Final Hearing. The terms of the Debtors’ use of Cash Collateral, as more fully set forth herein, are (a) fair and reasonable, (b) reflect the Debtors’ prudent exercise of business judgment consistent with their fiduciary duties, (c) constitute reasonably equivalent value, and (d) are essential and appropriate for the continued operation and management of the Debtors’ businesses and the preservation of their assets and properties. Entry of this Order is in the best interests of the Debtors’ estates and all parties in interest in these Chapter 11 Cases.

NOW, THEREFORE, IT IS HEREBY ORDERED:

A. The Motion is GRANTED. Any objections to the relief sought in the Motion that have not been previously resolved or withdrawn are hereby overruled pending the Final Hearing. This Order shall constitute findings of fact and conclusions of law, and shall become effective immediately upon its entry.

B. Subject to the terms and conditions set forth in this Order, including, without limitation, the Adequate Protection Obligations provided herein, upon entry of this Order, the Debtors are authorized, pursuant to Bankruptcy Code section 363(c)(2)(B), to use Cash Collateral for the period of time from the Petition Date until the earlier of the conclusion of the Final Hearing or the expiration of any notice and cure period following any default by the Debtors hereunder or under the Prepetition Loan Documents.

C. The Debtors may use Cash Collateral solely as provided in this Order (including the Budget) and provided further, that the Debtors may exceed any line item in the Budget in any week, so long as the aggregate amount of the variance from the Budget from any week on a cumulative basis does not exceed the gross amount allowed in the Budget for the elapsed time in the 13 week period by more than ten percent (10%). For example, if in week 1 the budgeted amount for "Operations" is \$2,000,000 but Debtors only need the use of \$1,600,000, the unused amount, \$400,000, can carry-over to the next week. Therefore, in week 2, the Debtors have the ability, to use the unspent budgeted amount from week 1, plus up to 10% over the cumulative amount budgeted for the two weeks elapsed, but in no event can they exceed the aggregate budgeted amount for the 13 week period by more than 10%.

D. Except as expressly provided in this Order, the Debtors shall be enjoined and prohibited from (a) using Cash Collateral except pursuant to the terms and conditions of this Order or the Budget, (b) using Cash Collateral during the existence of a default or event of default under the Prepetition Loan Documents (save and except only for a default or event of default arising solely from the filing of these Chapter 11 Cases), or (c) applying to any court for an order authorizing the use of Cash Collateral except on the terms of this Order or the Budget. In the event of a default under this Order, Agent or the Lenders shall provide written notice to the Debtors of the default and allow the Debtors a cure period of two (2) business days in the event of a payment default and a cure period of five (5) calendar days in the event of any other default.

E. The Agent and the Lenders are entitled, under Bankruptcy Code sections 363(e) and 364(d)(1)(B), to adequate protection of their interest in the Prepetition Collateral, including Cash Collateral. The Debtors will provide the Agent and the Lenders with (i) current cash

payment of non-default rate interest, and reimbursement of reasonable prepetition and postpetition professional fees and expenses; (ii) superpriority administrative claims; and (iii) additional and replacement security interests and liens in and upon any prepetition and postpetition assets and properties (collectively, the “Adequate Protection Obligations”). The Debtors shall each be jointly and severally liable for the Adequate Protection Obligations.

F. Accordingly, the Agent and the Lenders are hereby provided with the following forms of adequate protection, which constitute part of the Debtors’ Adequate Protection Obligations:

1. **Adequate Protection Liens.** As security for and solely to the extent of any net postpetition diminution in the value of the security interests of the Agent and Lenders and to secure their Adequate Protection Obligations, the Agent, for its benefit and the benefit of the Lenders, is hereby granted, subject to the Interim Carve Out (as such term is defined below), effective and perfected as of the Petition Date and without the necessity of the execution by the Debtors of security agreements, pledge agreements, financing statements, or other agreements, a valid, binding, enforceable and automatically perfected replacement first priority security interest in, and lien on, the Collateral (the “Adequate Protection Liens”), which Adequate Protection Liens shall be senior to any prepetition liens. For purposes of this Order, the term “Collateral” shall include, without limitation, all prepetition assets and properties (tangible, intangible, real, personal, and mixed) of each of the Debtors of any kind or nature, and wherever located, including, without limitation, all Cash Collateral, all postpetition generated accounts, accounts receivable, inventory, goods, contract rights, instruments, documents, chattel paper, patents, trademarks, copyrights and licenses therefor, intellectual property, general intangibles, payment intangibles, letters of credit, letter-of-credit rights, supporting obligations, machinery and

equipment, fixtures, leases, money, deposit accounts, securities accounts, books and records, all commercial tort claims and all other causes of action (other than all claims and causes of action arising under or permitted by sections 502(d), 506(c), 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code (“Avoidance Actions”) or other, similar avoidance actions or avoidance claims arising under or permitted by state or federal law except to the extent that the proceeds of Collateral or Adequate Protection Liens are used to pursue or prosecute Avoidance Actions or other, similar actions or claims), all Cash Collateral, and all cash and non-cash proceeds, rents, products, substitutions, accessions and profits of all of the foregoing.

2. **Superpriority Claim.** In addition to and not in lieu of the Adequate Protection Liens, the Agent for its benefit and the Lenders is hereby granted in each of the Debtors’ Chapter 11 Cases, subject to the Interim Carve Out (as such term is defined below), an allowed, superpriority administrative expense claim (the “Superpriority Claim”) under Bankruptcy Code section 507(b) with respect to all Adequate Protection Obligations. The Superpriority Claim and the Adequate Protection Obligations shall have priority over all administrative expenses of the kind specified in, or ordered pursuant to, any provision of the Bankruptcy Code, including, without limitation, those specified in, or ordered pursuant to, Bankruptcy Code sections 105, 326, 328, 330, 503(b), 506(c), 507(a), 507(b), 546(c), 726, and 1114, or otherwise (whether incurred in any of the Chapter 11 Cases or any conversion thereof to a case under chapter 7 of the Bankruptcy Code or any other proceeding related hereto or thereto), which Adequate Protection Obligations and Superpriority Claims shall be payable from and have recourse to all prepetition and postpetition property of the Debtors and all proceeds thereof. The Superpriority Claim is junior to the Interim Carve-Out as hereinafter defined.

3. **Adequate Protection Payments.** The Debtors shall pay to the Agent, for its benefit and the benefit of the Lenders, on an ongoing basis, the current cash payment of interest at the non-default rates, plus fees and expenses of the Agent, at the times provided for in the Prepetition Loan Documents (whether or not such interest payments are included in the Budget). Such fees and expenses shall not be subject to the Interim Carve-Out as hereinafter defined.

G. To the extent required, the Debtors shall prepare and furnish to the Agent, a monthly report of receipts, disbursements, and a reconciliation of actual expenditures and disbursements with those set forth in the Budget, on a line-by-line basis showing any variance to the proposed corresponding line item of the Budget (the "Budget Reconciliation"). Such Budget Reconciliation shall be provided to the Agent so as actually to be received within five (5) Business Days following the end of each prior month.

H. Under the circumstances and given that the adequate protection described in this Order is consistent with the Bankruptcy Code, including section 506(b), the Court finds that the adequate protection provided herein is reasonable and sufficient to protect the interests of the Agent and the Lenders.

I. To the extent unencumbered funds are not available to pay administrative expenses in full, the Adequate Protection Obligations granted hereunder to the Agent and the Lenders shall be subject only to payment of the Interim Carve-Out. As used in this Order, the "Interim Carve-Out" means (a) the unpaid fees of the Clerk of the Bankruptcy Court and the U.S. Trustee pursuant to 28 U.S.C. § 1930(a) and (b) all reasonable fees and expenses incurred by professional persons retained pursuant to an order of the Court by the Debtors and any Committee, not to exceed an aggregate of \$3,000,000.

J. (1) This Order and the Budget shall constitute valid and binding obligations and rights of the Debtors, enforceable by and against the Debtors in accordance with these terms. No obligation, payment, transfer, or grant of security under this Order shall be stayed, restrained, voidable, or recoverable under the Bankruptcy Code or any applicable nonbankruptcy law, or subject to any defense, reduction, setoff, recoupment, or counterclaim.

(2) The provisions of this Order shall be binding upon and inure to the benefit of each of the Agent and the Lenders and the Debtors and their respective successors and assigns (including any estate representative, chapter 7 trustee, or other trustee or fiduciary hereafter appointed as a legal representative of the Debtors or with respect to the property of the estates of the Debtors).

(3) The Adequate Protection Liens shall not be (i) subject or junior to any lien that is avoided and preserved for the benefit of the Debtors' estates under Bankruptcy Code section 551, or (ii) subordinated to or made pari passu with any other lien, whether under Bankruptcy Code section 364(d) or otherwise. Subject to the Interim Carve Out, no claim or lien having a priority superior to or pari passu with those granted by this Order with respect to the Adequate Protection Obligations shall be granted or allowed until the indefeasible payment in full in cash and satisfaction in the manner provided in this Order of the Adequate Protection Obligations.

K. Pursuant to this Order, the Adequate Protection Liens are, and are deemed to be, valid, binding, enforceable, and automatically perfected liens and security interests, effective as of the Petition Date, and (notwithstanding any provisions of any agreement, instrument, document, the Uniform Commercial Code, or any other relevant law or regulation of any jurisdiction) no further notice, filing, possession, control, or other act shall be required to effect

such perfection, and all liens on any deposit accounts or securities accounts shall, pursuant to this Order be, and they hereby are, deemed to confer “control” for purposes of sections 8-106.9-101, and 9-106 of the Uniform Commercial Code in effect in those jurisdictions where the Debtors maintain deposit accounts as in effect as of the date hereof in favor of the Agent and the Lenders. Each and every federal, state, and local government agency or department may accept the entry by this Court of this Order as evidence of the validity, enforceability, and perfection on the Petition Date of the Adequate Protection Liens granted herein to or for the benefit of the Agent and the Lenders.

L. Based on the findings set forth in this Order and in accordance with Bankruptcy Code section 364(e), which is applicable to the use of Cash Collateral contemplated by this Order, in the event that any or all of the provisions of this Order, are hereafter modified, amended, or vacated by a subsequent order of this or any other Court, no such modification, amendment, or vacation shall affect the validity, enforceability, or priority of any lien or claim authorized or created hereby or thereby or any Adequate Protection Obligations incurred hereunder or thereunder. Notwithstanding any such modification, amendment, or vacation, any Adequate Protection Obligations incurred and any claim or lien granted to the Agent and the Lenders hereunder arising prior to the effective date of such modification, amendment, or vacation shall be governed in all respects by the original provisions of this Order, and the Agent and the Lenders shall be entitled to all of the rights, remedies, privileges, and benefits, including the Adequate Protection Liens and priorities granted herein and therein, with respect to any such Adequate Protection Obligations.

M. The Debtors are authorized and directed to do and perform all acts, to make, execute, and deliver all instruments and documents (including, without limitation, the execution

of additional security agreements, pledge agreements, control agreements, mortgages, and financing statements), and shall pay all fees and expenses provided for herein or that may be required or necessary for the Debtors' performance under this Order.

N. (1) The obligations of the Debtors in respect of the Adequate Protection Obligations, the Superpriority Claim and Adequate Protection Liens granted to or for the benefit of the Agent and the Lenders pursuant to this Order shall not be discharged by the entry of an order converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code.

(2) If an order dismissing any of the Chapter 11 Cases under Bankruptcy Code section 1112 or otherwise is at any time entered, such order shall provide (in accordance with Bankruptcy Code sections 105 and 349(b)) that (i) the claims and Adequate Protection Liens granted pursuant to this Order and any subsequent order to or for the benefit of the Agent and the Lenders shall continue in full force and effect and shall maintain their perfection and priorities as provided in this Order and subsequent orders until all obligations in respect thereof shall have been indefeasibly paid in full in cash and satisfied in the manner provided in this Order (and that such claims and Adequate Protection liens shall, notwithstanding such dismissal, remain binding on all parties in interest) and (ii) to the extent permitted by applicable law, this Court shall retain jurisdiction, notwithstanding such dismissal, for the purposes of enforcing such claims and Adequate Protection Liens.

(3) The provisions of this Order, including the grant of claims and Adequate Protection Liens to or for the benefit of the Agent and the Lenders, and any actions taken pursuant hereto shall survive the entry of any order converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code.

O. The Debtors or their designated agent shall, on or before January 21, 2010, serve by United States mail, first class postage prepaid, copies of the Motion, this Order, and a notice of the Final Hearing (the "Final Hearing Notice") to be held on February 17, 2010 at _____ a.m./p.m. to consider entry of the Final Order on the Interim Notice Parties. Copies of the Motion, this Order, and the Final Hearing Notice also shall be served upon all persons requesting service of papers in the Chapter 11 Cases pursuant to Bankruptcy Rule 2002 by United States mail, first class postage prepaid, one Business Day following the receipt of such request or by such other method of service approved by the Court. The Final Hearing Notice shall state that any party in interest objecting to the entry of the Final Order shall file written objections with the Court no later than 4:00 p.m. (prevailing Eastern Time) on February 11, 2010, which objections shall be served so that the same are received on or before such date and time by: (a) Neal, Gerber & Eisenberg LLP, Two North LaSalle Street, Suite 1700 Chicago IL 60602-3801; attn: Mark A. Berkoff and Nicholas M. Miller, (b) Hogan & Hartson L.L.P., 555 13th Street NW, Washington, D.C. 20004, attn: Edward C. Dolan and Gordon C. Wilson; (c) the Office of the United States Trustee, 222 West Oglethorpe Ave., Room 302, Savannah, Georgia 31401, attn: Matthew E. Mills and (d) Stroock & Stroock & Lavan LLP, 180 Maiden Lane, New York, New York 10038 attn: Kristopher M. Hansen and Jayme T. Goldstein.

P. The provisions of this Order, the Superpriority Claim, the Adequate Protection Obligations, and any and all rights, remedies, privileges, and benefits in favor of the Agent, the Lenders and the Debtors provided or acknowledged in this Order, and any actions taken pursuant thereto, shall be effective and enforceable immediately upon entry of this Order pursuant to Bankruptcy Rules 6004(g) and 7062, and the fourteen (14) day stay provisions of Bankruptcy Rule 6004(h), to the extent applicable, are waived and shall not apply to this Order.

Date: _____

United States Bankruptcy Judge

Prepared By:

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-and-

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PROPOSED ATTORNEYS FOR DEBTORS
AND DEBTORS IN POSSESSION

EXHIBIT 1

Morris Publishing Group, LLC
13 Week Cash Forecast
19-Jan-10

Period Beginning Date	1/18	1/25	2/1	2/8	2/15	2/22	3/1	3/8	3/15	3/22	3/29	4/5	4/12	Total
Total Receipts	5,261	5,875	5,538	4,645	5,528	5,510	4,495	3,893	4,178	4,020	3,883	4,738	4,893	62,454
Disbursements														
Operating	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(26,000)
Payroll	(50)	(3,000)	(50)	(3,350)	(50)	(3,000)	(50)	(3,350)	(50)	(3,000)	(50)	(3,350)	(50)	(19,400)
401K	-	(100)	-	(100)	-	(100)	-	(100)	-	(100)	-	(100)	-	(600)
Other	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(650)
ARLLC Rents	-	-	(203)	-	-	-	(203)	-	-	-	(203)	-	-	(609)
MCC Payments (Shared Services, Insurance etc.)	-	(1,633)	-	(1,633)	-	(1,633)	-	(1,633)	-	(1,633)	-	(1,633)	-	(9,798)
Professional/Debtor Fees	-	-	-	-	-	(224)	-	-	-	-	(224)	-	-	(448)
Total Cash Disbursements	(2,100)	(6,783)	(2,303)	(7,133)	(2,100)	(7,007)	(2,303)	(7,133)	(2,100)	(6,783)	(2,527)	(7,133)	(2,100)	(57,505)
Net Cash Flow	3,161	(908)	3,235	(2,488)	3,428	(1,497)	2,192	(3,240)	2,078	(2,763)	1,356	(2,395)	2,793	4,949
Maintenance Capital Expenditure	(125)	(125)	(125)	(125)	(125)	(125)	(100)	(100)	(100)	(100)	(100)	(125)	(125)	(1,500)
First Day Cash Needs (2)	(500)	-	-	-	-	-	-	-	-	-	-	-	-	(500)
Net Cash Flow (before Interest Expense)	2,536	(1,033)	3,110	(2,613)	3,303	(1,622)	2,092	(3,340)	1,978	(2,863)	1,256	(2,520)	2,668	2,949
Interest Expenses	-	(255)	-	-	-	(230)	-	-	-	-	(255)	-	-	(740)
Net Cash Flow (after Interest & Amort)	2,536	(1,288)	3,110	(2,613)	3,303	(1,853)	2,092	(3,340)	1,978	(2,863)	1,001	(2,520)	2,668	2,209
Cash Added (Reduced) from Cash Balance	2,536	(1,288)	3,110	(2,613)	3,303	(1,853)	2,092	(3,340)	1,978	(2,863)	1,001	(2,520)	2,668	2,209
Beginning Cash Balance	23,185	25,721	24,432	27,542	24,929	28,232	26,379	28,471	25,130	27,108	24,245	25,245	22,726	23,185
Source (Use) of Cash from Operations	2,536	(1,288)	3,110	(2,613)	3,303	(1,853)	2,092	(3,340)	1,978	(2,863)	1,001	(2,520)	2,668	2,209
Ending Cash Balance	25,721	24,432	27,542	24,929	28,232	26,379	28,471	25,130	27,108	24,245	25,245	22,726	25,394	25,394