**UNITED STATES BANKRUPTCY COURT**
**SOUTHERN DISTRICT OF NEW YORK**

| | | |
|---|---|---|
| In re: | ) | Chapter 11 |
| THE READER'S DIGEST ASSOCIATION, INC., *et al.*, | ) | Case No. 09-23539 (RDD) |
| Debtors. | ) | Jointly Administered |

## LIQUIDATION ANALYSIS

The Reader's Digest Association, Inc. ("***Reader's Digest***") and certain of its affiliates (collectively, the "***Debtors***"') each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "***Bankruptcy Code***") in the Bankruptcy Court for the Southern District of New York on August 24, 2009 (the "***Commencement Date***").

The Debtors are soliciting votes with respect to the *Proposed Joint Chapter 11 Plan of Reorganization of The Reader's Digest Association, Inc. and Its Debtor Affiliates* (as may be amended from time to time, the "***Plan***") as set forth in the Disclosure Statement for the Plan (as may be amended from time to time, the "***Disclosure Statement***"). All capitalized terms used by not defined in this liquidation analysis have the meanings set forth in the Disclosure Statement.

A chapter 11 plan cannot be confirmed unless the bankruptcy court determines that the plan is in the "best interests" of all holders of claims and interests that are impaired by the plan and that have not accepted the plan. The "best interests" test requires a bankruptcy court to find either that (i) all members of an impaired class of claims or interests have accepted the plan or (ii) the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under chapter 7 of the Bankruptcy Code on such date. Accordingly, with the assistance of their restructuring advisors, AlixPartners, LLP ("***AlixPartners***"), the Debtors prepared this hypothetical liquidation analysis in connection with filing their Disclosure Statement and Plan to assist the Court make the findings required under section 1129(a)(7) of the Bankruptcy Code to confirm their Plan.

This liquidation analysis indicates the estimated values that may be obtained from a disposition of the Debtors' assets under chapter 7 of the Bankruptcy Code as an alternative to the continued operation of the Debtors' businesses as contemplated by the Plan. Accordingly, the asset values discussed herein may be different than amounts set forth in the Plan.

**Neither the Debtors nor their advisors make any representation or warranty that the actual results of a liquidation of the Debtors' assets would or would not approximate the assumptions represented herein, and actual results could vary, in some cases materially.**

## General Assumptions

The determination of the costs of, and proceeds generated from, a hypothetical chapter 7 liquidation of the Debtors' assets is an uncertain process involving the extensive use of estimates and the assumptions described herein and in the Disclosure Statement (including exhibits, where applicable) which, although considered reasonable by the Debtors and their advisors, are inherently subject to business, economic and competitive uncertainties and contingencies beyond their control. Inevitably, certain assumptions set forth herein would not materialize in an actual chapter 7 liquidation scenario, and certain unanticipated events and circumstances could materialize, both of which would affect the ultimate results in an actual chapter 7 liquidation. *In light of the foregoing, it is important to read and understand these "General Assumptions" and the "Specific Assumptions and Notes" set forth below.*

This analysis is based on management's good faith assumptions believed to be reasonable in light of the circumstances under which they are based. This analysis has not been examined or reviewed by independent accountants in accordance with standards promulgated by the American Institute of Certified Public Accountants. The estimates and assumptions, although considered reasonable by management, are inherently subject to significant uncertainties and contingencies beyond management's control. Accordingly, there can be no assurance that the results shown would be realized if the Debtors were liquidated, and actual results in such case could vary materially from those presented.

1. **Liquidation Period**. This liquidation analysis is predicated on the assumption that the Debtors would commence chapter 7 liquidation on December 31, 2009 (the "***Liquidation Date***"). Except as otherwise set forth herein, this analysis assumes that substantially all of the Debtors' U.S. and foreign assets will be liquidated over a 12-month period by a chapter 7 trustee (the "***Chapter 7 Trustee***") appointed on the Liquidation Date. This analysis assumes the orderly sale of certain foreign assets as going concerns and the shut-down and liquidation of the remaining foreign entities. With respect to the US businesses, this analysis contemplates the immediate shut down of the Debtors' U.S. operations on the Liquidation Date and a distressed liquidation sale of tangible and intangible assets over a 30 to 60 day period for several reasons:

- Because the Debtors' editorial, marketing and advertising work force consists of highly trained specialized employees with unique skills that are coveted by the Debtors' competitors, these employees could migrate to other employers.

- Over 35% of the Debtors' revenue in the United States is derived from the subscription sales, which would cease immediately in liquidation. Existing customers could demand refunds for their remaining magazine subscriptions. These circumstances could have an immediate and devastating impact to the Debtors' cash flow.

- Over 42% of the Debtors' revenue in the United States is based on products sold directly to end-user consumers. These are typically small dollar transactions which require solicitation for payment after merchandise has been delivered. Although historical collection rates for these revenue sources are high, in liquidation it could be prohibitively expensive to maintain the personnel to continue efforts to collect the amounts outstanding from each customer.

- A significant portion of the Debtors' assets are intangible, being comprised of trademarks, customer lists, brand names and goodwill. The value of these assets could diminish rapidly in a situation in which the assets are no longer functioning as going concerns.

- Because most (if not all) of the Debtors share various advertising, marketing, information technology, administrative and financial services, it would be difficult to sell individual businesses as a going concern.

2. **Asset Value**. Unless otherwise noted, this liquidation analysis is based on the balance sheet of the Debtors as projected at the Liquidation Date, which is consistent with the Debtors Business Plan.

3. **Claims Estimates**. Much of the information regarding the Debtors' liabilities was derived from the Statements of Financial Affairs and Schedules filed with the Court on September 25, 2009 (the ***"Schedules***"). In preparing this liquidation analysis, the Debtors have estimated an amount of allowed claims for each class based upon a review of the Debtors' Schedules. Additional claims were estimated to include certain post-petition obligations. The estimate of all allowed claims in this liquidation analysis is based on the book value of those claims. No order or finding has been entered or made by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of allowed claims set forth in this liquidation analysis. The estimate of the amount of allowed claims set forth in this liquidation analysis should not be relied upon for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of allowed claims under the Plan. The actual amount of allowed claims could be materially different from the amount of claims estimated in this liquidation analysis.

4. **Liquidation Costs**. Conversion of these Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code likely would result in additional costs to the estates, including, among other things, compensation of the Chapter 7 Trustee and retained counsel and professionals, asset disposition expenses, litigations expenses and unpaid administrative expenses incurred during the Chapter 11 Cases that are allowed in the chapter 7 cases. Except as otherwise stated, recoveries set forth herein are net of necessary liquidation expenses. If actual results were lower than those shown, or if the assumptions used in formulating this analysis were not realized, distribution to each member of each class of claims could be affected adversely.

5. **Non-Debtor Foreign Subsidiaries**. This analysis assumes that certain foreign subsidiaries will continue operating as going concerns, therefore limiting the exposure to chapter 7 and other liquidation expenses. If these subsidiaries were forced to file for insolvency

protection, the value of the recovery to the estates would be diminished. This analysis further assumes that certain foreign entities will continue operating as going concerns and would be sold in an orderly process. The value of these entities is detailed in Note 7 under the heading "Specific Assumptions and Notes" below. With the exception of these entities, all other foreign subsidiaries' assets are liquidated, with proceeds being returned to the foreign creditors.

6. **Certain Exclusions and Assumptions**. This liquidation analysis does not include estimates for the tax consequences that may be triggered upon the liquidation and sale events of assets in the manner described above. Such tax consequences may be material. In addition, this liquidation analysis does not include recoveries resulting from any potential preference, fraudulent transfer or other litigation or avoidance actions.

**Reader's Digest Association, Inc.**
**Liquidation Analysis - Exhibit E**
($ in 000s)

***I. CALCULATION OF NET ESTIMATED PROCEEDS AVAILABLE FOR ALLOCATION***

| | Value @ 12/31/2009 (a) | Estimated Recovery Rate Range | | | Estimated Recovery on Collateral | | | See Note |
|---|---|---|---|---|---|---|---|---|
| | | Low | Medium | High | Low | Medium | High | |
| A. STATEMENT OF ASSETS | | | | | | | | |
| **Cash and Equivalents** | **$ 160,731** | **100%** | **100%** | **100%** | **$ 160,731** | **$ 160,731** | **$ 160,731** | **1** |
| Net Product A/R | 63,167 | 65% | 70% | 75% | 41,059 | 44,217 | 47,375 | 2 |
| Net Subscription A/R | 15,895 | 0% | 0% | 0% | - | - | - | 2 |
| Net Newsstand A/R | 1,067 | 75% | 83% | 90% | 800 | 880 | 960 | 2 |
| Net Advertising A/R | 24,483 | 75% | 83% | 90% | 18,362 | 20,198 | 22,035 | 2 |
| Net List Rental A/R | 2,560 | 65% | 70% | 75% | 1,664 | 1,792 | 1,920 | 2 |
| Net Other A/R | 7,564 | 5% | 8% | 11% | 378 | 605 | 832 | 2 |
| **Accounts Receivable** | **114,736** | **54%** | **59%** | **64%** | **62,263** | **67,692** | **73,122** | |
| Net Raw Materials | 9,393 | 6% | 11% | 16% | 555 | 1,025 | 1,495 | 3 |
| Net WIP | 1,501 | 0% | 0% | 0% | - | - | - | 3 |
| Net Finished Goods | 37,662 | 9% | 21% | 33% | 3,485 | 8,004 | 12,524 | 3 |
| **Inventory** | **48,556** | **8%** | **19%** | **29%** | **4,040** | **9,030** | **14,019** | |
| Prepaid Promotion Expense | 8,869 | 0% | 0% | 0% | - | - | - | 4 |
| Expense of Subsequent Issues | 10,586 | 0% | 0% | 0% | - | - | - | 4 |
| Prepaid Agent Commissions | 34,777 | 0% | 0% | 0% | - | - | - | 4 |
| Royalty Advances | 5,743 | 0% | 0% | 0% | - | - | - | 4 |
| Other Prepaid/Current Assets | 25,583 | 0% | 3% | 5% | - | 640 | 1,279 | 4 |
| **Prepaid Assets** | **85,558** | **0%** | **1%** | **1%** | **0** | **640** | **1,279** | |
| Deferred Tax Assets | 84,929 | 0% | 0% | 0% | - | - | - | 5 |
| Tax Receivables | 2,096 | 3% | 51% | 100% | 60 | 1,078 | 2,096 | |
| **Tax Assets** | **87,025** | **0%** | **1%** | **2%** | **60** | **1,078** | **2,096** | |
| Real Property | 7,562 | 70% | 82% | 94% | 5,310 | 6,195 | 7,080 | 6 |
| Personal Property | 31,963 | 1% | 2% | 3% | 472 | 793 | 1,113 | 6 |
| **Fixed Assets** | **39,526** | **15%** | **18%** | **21%** | **5,782** | **6,987** | **8,193** | |
| Germany/Canada | | | | | 16,700 | 25,700 | 34,700 | 7 |
| Other International | | | | | 25,000 | 26,500 | 28,000 | 7 |
| **Investment In Foreign Subsidiaries(b)** | **1,711,838** | **2%** | **3%** | **4%** | **41,700** | **52,200** | **62,700** | |
| **Goodwill and Intangibles** | **956,337** | **13%** | **14%** | **16%** | **119,975** | **136,475** | **152,975** | **8** |
| **Total Assets** | **$ 3,204,306** | **12%** | **12%** | **15%** | **$ 394,551** | **$ 434,833** | **$ 475,114** | |
| B. RECOVERIES FROM EXERCISE OF AVOIDING POWERS | | | | | - | - | - | |
| **C. GROSS PROCEEDS** | | | | | **394,551** | **434,833** | **475,114** | |
| D. CREDITOR RECOVERY EXPENSES (POST-PETITION) | | | | | | | | |
| Chapter 7 Trustee Fees (3% of Gross Proceeds) | | | | | (11,837) | (13,045) | (14,253) | 9 |
| Other G&A | | | | | (1,754) | (1,322) | (891) | 9 |
| Severance | | | | | (5,595) | (5,595) | (5,595) | 9 |
| Payroll | | | | | (1,667) | (1,333) | (1,000) | 9 |
| Professional Fees | | | | | (10,500) | (9,750) | (9,000) | 9 |
| Real Estate Broker Fees (5% of sale of real property) | | | | | (265) | (310) | (354) | 9 |
| Investment Banker Fees (2% of proceeds from sale of Europe, CALA & US) | | | | | (5,460) | (6,000) | (6,540) | 9 |
| **Total Post-Petition Administrative Expenses** | | | | | **(37,077)** | **(37,355)** | **(37,633)** | |
| **Net Estimated Proceeds Available for Allocation** | | | | | **$ 357,475** | **$ 397,478** | **$ 437,481** | |
| **Proceeds Available For Distribution to Secured Claims** | | | | | **$ 345,069** | **$ 381,615** | **$ 418,132** | 10 |
| **Proceeds Available For Distribution to Priority and Unsecured Claims** | | | | | **$ 12,406** | **$ 15,863** | **$ 19,349** | 10 |

(a) Asset Values as of 12/31/09 unless otherwise noted. All Liabilities as of the 8/24/09 unless otherwise noted.
(b) Analysis of foreign subsidiary value performed as of 12/31/09.

**Reader's Digest Association, Inc.**
**Liquidation Analysis - Exhibit E**
($ in 000s)

***II. ALLOCATION OF NET ESTIMATED PROCEEDS TO SECURED CLAIMS***

| | Estimated Allowable Claims | | | Estimated Recovery on Administrative and Priority Claims | | | Estimated Recovery Range | | | See Note |
|---|---|---|---|---|---|---|---|---|---|---|
| | Low | Medium | High | Low | Medium | High | Low | Medium | High | |
| **Proceeds Available For Distribution to Secured Claims** | | | | **$ 345,069** | **$ 381,615** | **$ 418,132** | | | | |
| DIP Lender Facility (a) | 150,000 | 150,000 | 150,000 | 150,000 | 150,000 | 150,000 | 100.0% | 100.0% | 100.0% | 11 |
| DIP Facility Fees And Interest | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 100.0% | 100.0% | 100.0% | 11 |
| **Net Estimated Proceeds After DIP Lender Claims** | | | | **$ 193,569** | **$ 230,115** | **$ 266,632** | | | | |
| Add: Proceeds From The Sale of Foreign Subsidiaries | | | | 105,300 | 105,300 | 105,300 | | | | 12 |
| **Net Estimated Proceeds Available For Distribution to Secured Claims** | | | | **$ 298,869** | **$ 335,415** | **$ 371,932** | | | | |
| **Pre-Petition Secured Liabilities** | | - | - | | | | | | | |
| Senior Secured Revolving Credit Facility (b) | 350,344 | 350,344 | 350,344 | 44,041 | 52,356 | 60,664 | 12.6% | 14.9% | 17.3% | 12 |
| Euro Term Loan(c) | 105,300 | 105,300 | 105,300 | 105,300 | 105,300 | 105,300 | 100.0% | 100.0% | 100.0% | 12 |
| Secured Term Loan (b) | 1,189,500 | 1,189,500 | 1,189,500 | 149,528 | 177,759 | 205,968 | 12.6% | 14.9% | 17.3% | 12 |
| **Net Secured Distributions** | **1,645,144** | **1,645,144** | **1,645,144** | **298,869** | **335,415** | **371,932** | 18.2% | 20.4% | 22.6% | |
| **Net Estimated Proceeds After Secured Claims** | | | | **$ -** | **$ -** | **$ -** | | | | |
| **Secured Lender Deficiency Claim (General Unsecured Claim)** | | | | **1,346,275** | **1,309,729** | **1,273,212** | | | | |

(a) $150 million balance of the DIP Facility assumed in cash and debt.
(b) Includes accrued interest, swap expense, and letters of credit.
(c) Euro Term Loan will recover from the proceeds of the sale of certain foreign subsidiaries

**Reader's Digest Association, Inc.**
**Liquidation Analysis - Exhibit E**
($ in 000s)

***III. ALLOCATION OF NET ESTIMATED PROCEEDS TO ADMINSTRATIVE, PRIORITY AND UNSECURED CLAIMS***

| | Estimated Allowable Claims | | | Estimated Recovery on Unsecured Claims | | | Estimated Recovery Range | | | See Note |
|---|---|---|---|---|---|---|---|---|---|---|
| | Low | Medium | High | Low | Medium | High | Low | Medium | High | |
| **Proceeds Available For Distribution to Administrative, Priority and Unsecured Claims** | | | | **$ 12,406** | **$ 15,863** | **$ 19,349** | | | | |
| **Less Admin Claims:** | | | | | | | | | | |
| 503(b)(9) Administrative Priority Claims | 9,759 | 7,807 | 5,855 | 946 | 1,081 | 1,119 | 9.7% | 13.8% | 19.1% | 13 |
| Post Petition Accounts Payable | 106,476 | 97,603 | 88,730 | 10,323 | 13,512 | 16,964 | 9.7% | 13.8% | 19.1% | 13 |
| Chapter 11 Professional Claims | 11,725 | 9,172 | 6,618 | 1,137 | 1,270 | 1,265 | 9.7% | 13.8% | 19.1% | 13 |
| Total Admin Claims Distributions | 127,960 | 114,582 | 101,204 | 12,406 | 15,863 | 19,349 | 9.7% | 13.8% | 19.1% | |
| **Net Estimated Proceeds After Admin Claims** | | | | **$ -** | **$ -** | **$ -** | | | | |
| **Less Priority Claims:** | | | | | | | | | | |
| Employee Priority Claims (a) | 1,700 | 1,650 | 1,600 | - | - | - | 0.0% | 0.0% | 0.0% | 14 |
| Consumer Deposits | 397,518 | 397,518 | 397,518 | - | - | - | 0.0% | 0.0% | 0.0% | 14 |
| Total Priority Claims Distributions | 399,218 | 399,168 | 399,118 | - | - | - | 0.0% | 0.0% | 0.0% | |
| **Net Estimated Proceeds After Priority Claims** | | | | **$ -** | **$ -** | **$ -** | | | | |
| Notes Payable | | | | | | | | | | |
| Senior Subordinated Notes(b) | 628,250 | 628,250 | 628,250 | - | - | - | 0.0% | 0.0% | 0.0% | 15 |
| Total Note Claims Distributions | 628,250 | 628,250 | 628,250 | - | - | - | 0.0% | 0.0% | 0.0% | |
| General Unsecured Claims: | | | | | | | | | | |
| Accounts Payable | 80,606 | 73,889 | 67,172 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Other Accrued Expenses | 27,606 | 25,305 | 23,005 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Accrued Royalties | 10,495 | 7,307 | 4,119 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Post Retirement and Other Employee Benefit Plans | 107,509 | 112,042 | 116,574 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Secured Lender Deficiency Claim | 1,346,275 | 1,309,729 | 1,273,212 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Real Estate Liquidated Damages | 15,280 | 15,280 | 15,280 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Unsecured Tax Liabilities | 15,000 | 11,250 | 7,500 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Other Notes Payable | 801 | 801 | 801 | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Sweepstakes Claims | 20,000 | 10,000 | - | - | - | - | 0.0% | 0.0% | 0.0% | 16 |
| Total General Unsecured Claims Distributions | 1,623,572 | 1,565,603 | 1,507,663 | - | - | - | 0.0% | 0.0% | 0.0% | |
| Total Notes and General Unsecured **Distributions** | **$ 2,251,822** | **$ 2,193,853** | **$ 2,135,913** | **$ -** | **$ -** | **$ -** | 0.0% | 0.0% | 0.0% | |

(a) Employee priority claims includes estimated amounts for pre-petition severance. Priorty amounts assume employees paid in arears with pre-petition claims are satisfied as part of the Chapter 11 cases.
(b) All recoveries of the Senior Subordinated Notes are turned over to the senior secured lenders per the contractual subordination in the agreement.

## Specific Assumptions and Notes

### 1. Note 1 – Cash

As of the Liquidation Date, the Debtors are expected to have a global cash balance of $252.5 million, of which $177.2 million is attributable to U.S. bank accounts. It is assumed in the analysis that cash in foreign bank accounts would be inaccessible in a liquidation. Additionally, it is estimated that as of the Liquidation Date the Debtor will have approximately $16.5 million of cash in the U.S for amounts relating to outstanding checks, payroll and cash collateralized sweepstakes which would be unavailable for distribution to the creditors of the estate.

### 2. Note 2 – Accounts Receivable

The table below shows the composition and roll-forward of accounts receivable ("***A/R***") from July 31, 2009, to the estimated balance at the Liquidation Date:

| (US$ in millions) | 7/31/2009 | Change | 12/31/2009 |
|---|---|---|---|
| Net Product A/R | $ 37.8 | $ 25.4 | $ 63.2 |
| Net Subscription A/R | 5.6 | 10.3 | 15.9 |
| Net Newsstand A/R | (4.6) | 5.6 | 1.1 |
| Net Advertising A/R | 17.9 | 6.6 | 24.5 |
| Net List Rental A/R | 1.8 | 0.7 | 2.6 |
| Net Other A/R | 14.7 | (7.1) | 7.6 |
| Total A/R | $ 73.2 | $ 41.5 | $ 114.7 |

All amounts above are net of reserves for bad debt and returns. Additionally, newsstand receivables are net of retail display allowances, which would be deducted by the Debtors' national distributor prior to remitting funds to the Debtors.

The Debtors anticipate that a Chapter 7 Trustee would receive a different recovery rate for each type of receivable. It is estimated that the Debtors would be able to collect on 65%-75% of their product A/R due to an average cost of collection of approximately $3.50 per $20 of product as well as incremental customer bad debt. Subscription receivables would be uncollectible due to uncertainty surrounding the Debtors' ability to serve any future issues of the magazines. Newsstand A/R is anticipated to collect 75%-90% based on incremental charge backs from the Debtors' national distributor for promotional programs and distribution charges. Advertising A/R is anticipated to collect 75%-90% of the net receivable due to offsets by the advertisers for circulation shortfalls and other charges. List rental would collect at 60%-75% due to set offs from third-party publishers on outstanding payables. "Net Other A/R" primarily consists of contractual amounts due from certain vendors, which would be set off against outstanding amounts payable by the Debtors, resulting in a net collection rate of 5%-11% for these receivables.

## 3. Note 3 – Inventory

The table below shows the composition and roll-forward of inventory from July 31, 2009, to the estimated balance at the Liquidation Date:

| (US$ in millions) | 7/31/2009 | Change | 12/31/2009 |
|---|---|---|---|
| Raw Materials | $ 7.5 | $ 1.9 | $ 9.4 |
| Work In-Process | 3.6 | (2.1) | 1.5 |
| Finished Goods | 40.3 | (2.6) | 37.7 |
| Total Inventory | $ 51.4 | $ (2.8) | $ 48.6 |

All amounts above are net of reserves for obsolescence and damages.

The Debtors' raw materials are composed primarily of paper and other similar commodities. Based on the current market for these materials, the Debtors estimate that the gross recovery on these assets would be between 75%-85%. Additionally, there are $6.4 million of outstanding liabilities due to certain vendors which may have possessory lien rights to recover from the liquidation of the Debtors' raw materials. The estimated net recovery for raw materials is as follows:

| US$ in Millions | Low | Medium | High |
|---|---|---|---|
| Raw Materials | $ 9.4 | $ 9.4 | $ 9.4 |
| Range | 75% | 80% | 85% |
| Gross Recovery | 7.0 | 7.5 | 8.0 |
| | | | |
| Less - Possesory Lien | (6.5) | (6.5) | (6.5) |
| Net Recovery | $ 0.6 | $ 1.0 | $ 1.5 |

The Debtors' finished goods are comprised primarily of books, music and other entertainment products. Based on historical liquidations by the Debtors of excess inventory, finished goods are estimated to yield between 14%-38 of cost. Additionally, there are $1.8 million of outstanding liabilities due to certain vendors which may have possessory lien rights to recover from the liquidation of the Debtors' finished goods. The estimated recovery is as follows:

| US$ in Millions | Low | Medium | High |
|---|---|---|---|
| Finished Goods | $ 37.7 | $ 37.7 | $ 37.7 |
| Range | 14% | 26% | 38% |
| Gross Recovery | 5.3 | 9.8 | 14.3 |
| | | | |
| Less - Possesory Lien | (1.8) | (1.8) | (1.8) |
| Net Recovery | $ 3.5 | $ 8.0 | $ 12.5 |

"Work In-Progress" primarily represents magazines which are currently in production and have yet to be bound and completed and as such would likely yield no return in value.

## 4. Note 4 – Prepaid Assets

The table below shows the composition and roll-forward of prepaid assets from July 31, 2009, to the estimated balance at the Liquidation Date:

| (US$ in millions) | 7/31/2009 | Change | 12/31/2009 |
|---|---|---|---|
| Prepaid Promotion Expenses | $ 8.5 | $ 0.4 | $ 8.9 |
| Expenses of Subsequent Issues | 19.6 | (9.0) | 10.6 |
| Prepaid Agent Commissions | 28.5 | 6.3 | 34.8 |
| Royalty Advances | 7.4 | (1.7) | 5.7 |
| Other Prepaid/Current Assets | 28.6 | (3.0) | 25.6 |
| Total Prepaid | $ 92.7 | $ (7.1) | $ 85.6 |

Prepaid promotion expenses are amounts paid to produce insert cards and other branded marketing materials for the purposes of soliciting the purchase of books, entertainment product and magazine subscriptions. Expenses for subsequent issues relate to prepaid amounts for magazine production, including editorial freelancers and printing costs for certain printers. Prepaid agent commissions represents amounts prepaid to scriber agents for the solicitation of subscription copies from consumers. None of these costs would be recoverable in a liquidation as the services have already have been provided.

Royalty advances represent future payments against future sales of licensed books and other products. These payments represent minimum graduates paid to licensors in return for the right to sell product. These advances would likely be set-off against sales of product and as such would not be recoverable in liquidation.

Other prepaid expenses include postage deposits, prepaid insurance, advances, prepaid rent and other miscellaneous assets. Most of this balance would be exhausted during the course of the liquidation or offset against other liabilities. The Debtors anticipate a recovery of 0%-5% against this asset.

## 5. Note 5 – Deferred Tax Assets and Tax Receivables

The table below shows the composition and roll-forward of deferred tax assets from July 31, 2009, to the estimated balance at the Liquidation Date:

| US$ in Millions | 7/31/2009 | Change | 12/31/2009 |
|---|---|---|---|
| Deffered Tax Asset- US Current | $ 5.0 | $ (1.7) | $ 3.3 |
| Deferred Tax Asset - US Longterm | 41.8 | 39.8 | 81.6 |
| | $ 46.8 | $ 38.1 | $ 84.9 |

Current deferred tax assets represent temporary differences between the treatment of revenues and expenses in a book versus tax methodology, including timing differences for depreciation, bad debt and revenue deferrals. Long-term deferred tax assets represent tax attributes such as net operating losses. In a liquidation scenario, the Debtors expect no recovery from these assets. The following table shows the estimated tax receivables projected at the Liquidation Date:

US$ in Thousands

| Liquidated Tax Refunds Due | | 12/31/2009 |
|---|---|---|
| FY08 State Income Tax Returns | $ | 60 |
| Federal Income Taxes | | 1,898 |
| Illinois Sales & Use Tax | | 137 |
| Total | $ | 2,096 |

These amounts represent the Debtors' best estimate of potential federal and local tax refunds and are projected to be collected in full in the high end of the recovery analysis.

## 6. Note 6 – Fixed Assets

The table below shows the composition and roll-forward of fixed assets from July 31, 2009, to the estimated balance at the Liquidation Date:

| (US$ in millions) | | 7/31/2009 | | Change | | 12/31/2009 |
|---|---|---|---|---|---|---|
| Land | $ | 1.3 | $ | 0.0 | $ | 1.3 |
| Building & Land Improvements | | 6.3 | | (0.1) | | 6.2 |
| Total Real Property | | 7.6 | | (0.0) | | 7.6 |
| | | | | | | |
| Computer Equipment | | 2.8 | | 0.6 | | 3.4 |
| Software | | 9.7 | | 1.4 | | 11.1 |
| Furntiure, Fixtures & Equipment | | 5.9 | | (0.7) | | 5.2 |
| Leasehold Improvements | | 12.2 | | (0.3) | | 11.9 |
| Construction In-Progress | | 0.3 | | - | | 0.3 |
| Total Personal Property | $ | 30.9 | $ | 1.0 | $ | 32.0 |

The above amounts represent the net book value of the various asset classes.

Real property consists of one building in the state of Wisconsin and three houses and one vacant lot in the state of New York. The tax assessed values of these assets are as follows:

| | |
|---|---|
| 5400 S 60th ST | $5,292,600 |
| 31 Roaring Brook Rd | $735,294 |
| 57 Roaring Brook Rd | $825,882 |
| 15 Roaring Brook Rd | $1,144,705 |
| 21 Roaring Brook Rd | $851,176 |

The Debtors anticipate a recovery value in liquidation between 60-80% of the tax assessed property value, based on the distressed nature of the market and the limited time to market these properties. This level of recovery would translate into 70%-93% of book values for these properties.

As of December 31, 2009, the net book value for personal property is projected to be $32.0 million. Of this amount, $9.7 million was software, $0.3 million was construction in-

progress and $12.2 million was leasehold improvements. Because of potential difficulty in liquidating these assets, the Debtors do not anticipate any recovery value for these assets. The remaining net book value for personal property was $2.8 million for computer equipment and $5.9 million for furniture and fixtures. The Debtors would project net proceeds from the sales of these fixed assets as follows:

*Computer Equipment*

- Servers – 10%-20%
- Computers – 5%-15%
- Monitors & Other Equipment – 0%-5%

*Furniture & Fixtures*

- Modular Furniture – 10%-20%
- Other Furniture – 5%-15%

The percentages above represent the expected recoveries as a percentage of net book asset value. Based on these values, the Debtors estimate that the overall recovery for personal property to be 2%-4%.

## 7. Note 7 – Investment in Foreign Subsidiaries

As of the Liquidation Date, the Debtors are assumed to have a net intercompany receivable balance of $20.8 million and a net investment in consolidated foreign subsidiaries of $1,691.0 million. The Debtors would anticipate recovering value from these assets through the sale of certain foreign subsidiaries as going concerns. The value of the foreign subsidiaries was determined using both a discounted cash flow analysis and a guideline company approach based on the Debtors' projections, by entity, from their 5-year business plan and using comparable public companies to determine market multiples and the weighted average cost of capital. Comparable company data was analyzed as of September 30, 2009.

The Debtors analyzed the impact of a U.S. chapter 7 liquidation on their base business plan for certain foreign subsidiaries and utilized these adjusted forecasts for their regional discounted cash flow analysis. The Debtors also applied certain discounts to the individual country values based on the estimated loss of promotional, editorial and marketing opportunities and cost sharing between entities. Additionally, the analysis assumes the continued use of the Reader's Digest brand by the international entities, with these entities paying a royalty for the continued use of this brand. All foreign entities not sold as going concerns were assumed to be liquidated with the proceeds used to pay down foreign debts.

The valuation for the international entities assumes that the Euro Term Loan will be repaid by the proceeds from the sale of the assets that secured that loan prior to any value being returned to the Debtors. The Debtors anticipate the net recovery for the assets secured by the loan to be as follows:

| US$ in Millions | Low | | Medium | | High | |
|---|---|---|---|---|---|---|
| Value Of Assets Secured By Euro Loan | $ | 122.0 | $ | 131.0 | $ | 140.0 |
| Amount Of Euro Loan | | (105.3) | | (105.3) | | (105.3) |
| Net Recovery To Debtor | $ | 16.7 | $ | 25.7 | $ | 34.7 |

Only 65% of the equity in the foreign subsidiaries is pledged as collateral for the secured revolver and term loan facilities in the United States. The following is the breakdown of the benefit to the Debtors' secured, priority and unsecured creditors:

| US$ in Millions | | Low | | Medium | | High | |
|---|---|---|---|---|---|---|---|
| Value Of Assets Secrued By Euro Loan | | $ | 16.7 | $ | 25.7 | $ | 34.7 |
| Value Of Other Assets | | | 25.0 | | 26.5 | | 28.0 |
| Total International Value | | | 41.7 | | 52.2 | | 62.7 |
| Value To Secured | 65% | | 27.1 | | 33.9 | | 40.8 |
| Value To Priority And Unsecured | 35% | | 14.6 | | 18.3 | | 21.9 |
| Total Value | 100% | $ | 41.7 | $ | 52.2 | $ | 62.7 |

## 8. Note 8 – Goodwill and Intangible Assets

As of the Liquidation Date, the Debtors had a net goodwill balance of $517.3 million and a net intangible asset balance of $451.9 million. The Debtors assume that the Chapter 7 Trustee would terminate the operations of these assets and sell the trademarks and customer lists to maximize value for the estates.

The U.S. trade names were valued under a forced liquidation scenario and the Debtors considered both a market and income approach in estimating the value of the Debtors' U.S. trade names. The value of the Reader's Digest trade name associated with overseas going concern entities was determined using a standard relief from royalty discounted cash flow analysis which reflected the royalty previously discussed in Note 7 and a higher discount rate than the overseas enterprise valuations due to the increased risk and associated required return of acquiring this asset.

The Debtors' U.S. customer list was valued using a market approach which contemplated actual transactions for Reader's Digest customer names and similar customer lists adjusted for a final sale premise as well as the effects of the U.S. liquidation. In some instances, certain values were reflected assuming vendors have a possessory lien on the Debtors' customer lists and could recover on a secured basis to the extent of such vendor's outstanding prepetition claim.

The net value of the intangible assets is as follows:

| US$ in Millions | Low | | Medium | | high | |
|---|---|---|---|---|---|---|
| Value Of Customer List | $ | 7.6 | $ | 8.9 | $ | 10.2 |
| Possesory Lien | | (6.0) | | (6.0) | | (6.0) |
| Net Customer List | $ | 1.5 | $ | 2.8 | $ | 4.1 |
| Other Intangibles | | 118.4 | | 133.6 | | 148.8 |
| Total Intangibles | $ | 120.0 | $ | 136.5 | $ | 153.0 |

## 9. Note 9 – Liquidation Costs

Conversion of these Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code likely would result in additional costs to the estates, including, without limitation:

- Chapter 7 Trustee Fees – Liquidation expenses include Chapter 7 Trustee fees of 3% of total liquidation proceeds, net of cash on hand, and wind down costs.

- Wind-Down Expenses – For purposes of this liquidation analysis, wind-down costs include expenses relating to the corporate headquarters, including utility, phone, supplies and estimated costs for 20 employees who would assist the Chapter 7 Trustee with the wind down of the estates (250 Sq. ft. per employee plus 1800 Sq ft for the Debtors' data room at $15.5 per Sq ft.). At the high-end the Debtors assume six months at the above rate plus $15,000 of administrative costs and continuation of current lease and utilities for 30 days. At the low-end the Debtors assume ten months at the above rate plus $30,000 of administrative costs and the assumed continuation 60 days of current leases and utilities.

- Severance – Assumes a monthly cost of $9.4 million per month with an estimated 60 days of severance for each employee. This analysis assumes that severance for certain employees would be covered by excess assets in the Debtors qualified pension plan to the extent that they are members of the plan.

| US$ in Millions | Low-High | |
|---|---|---|
| Total Severance | $ | 18.7 |
| Amount Covered/Pension | | (13.2) |
| Net Severance | $ | 5.6 |

- Payroll – Estimated cost for 20 employees to assist with the collection of receivables, the liquidation of inventory and general finance functions. High end of the range assumes six months at an average cost of $8,333 per employee. Low end of the range assumes ten months.

- Professional Fees – Estimated costs for financial and legal advisors to the Chapter 7 Trustee. High end of the range assumes six months at a cost of $1.0 million per month and six months at a cost of $0.5 million per month. Low range assumes an additional $1.5 million of cost during the first three months.

- Real Estate Broker Fees – Real estate brokers will be required to liquidate the Debtors' properties in New York and Wisconsin. Estimated to be 5% of the net proceeds from the sale of Real Property.

- Investment Banker Fees – A media investment banker will be required to sell the Debtors' subscriber list and trademarks in the United States and the going-concern entities in Europe and Canada and Latin America. Cost estimated to be 2% of the net proceeds from these asset sales.

## 10. Note 10 – Unencumbered Assets

Certain of the amounts recovered for the liquidation of the Debtors' assets have not been 100% pledged as collateral to either the DIP Lenders or the Prepetition Lenders. The values of such unencumbered assets, detailed in Note 7, would be reduced by their pro rata share of certain administrative expenses.

## 11. Note 11 – DIP Facility

The Debtors obtained a $150 million debtor-in-possession facility (the "***DIP Facility***") from JP Morgan Chase Bank, N.A., as agent, and certain lenders party from time to time party thereto (collectively, the "***DIP Lenders***"). The DIP Facility is secured by a senior, first priority priming lien on substantially all of the Debtors' assets. The DIP Facility is estimated to be fully drawn and has first priority for payment from the liquidation of the Debtors' assets. The DIP Facility is assumed to be fully repaid on the Liquidation Date.

## 12. Note 12 – Prepetition Secured Debt Obligations

As of the Commencement Date, the Debtors had outstanding secured debt obligations of $1,645,700,000 under their senior secured credit facility (including swap termination obligations and accrued and unpaid interest). The outstanding amount of the secured debt by category, including swaps and accrued interest, is as follows:

| (US$ in millions) | Revolver (inc. Swaps) | Term Loan | Euro Loan | Total |
|---|---|---|---|---|
| Principal | $ 293.6 | $ 1,182.8 | $ 103.9 | $ 1,580.3 |
| Swaps/Other | 54.3 | - | 2.0 | 56.3 |
| Accrued Interest | 2.4 | 6.7 | - | 9.1 |
| Balance As Of Petition | $ 350.3 | $ 1,189.5 | $ 105.9 | $ 1,645.7 |

This analysis assumes that the Euro Term Loan will recover from the sale of the Debtors' pledged international operations and from the pledged U.S. assets in the event that the value of the international entities is insufficient. Additionally, it is assumed that $0.6 million of principal of the Euro Term Loan will be paid prior to the Liquidation Date.

## 13. Note 13 – Administrative Claims

This analysis assumes that as of the Liquidation Date, the Debtors would have approximately $6.6 million to $11.7 million of unpaid chapter 11 professional fees and $88.7 million to $106.5 million of post petition accounts payable as a result of the conversion to chapter 7 cases. Additionally, as of the Commencement Date the Debtors had $5.9 million to $9.8 million of 503(b)(9) claims. This amount represents the Debtors' estimate of vendors who would be granted administrative expense priority for goods received by the Debtors within 20 days of the Commencement Date, net of any payments made to vendors in connection with trade agreements entered into during these Chapter 11 Cases.

## 14. Note 14 – Priority Claims

As of the Commencement Date, the Debtors had approximately $1.6 million to $1.7 million of unpaid prepetition severance amounts to employees that would qualify as priority claims up to the $10,950 limit. These amounts are not being covered by the Debtors' over funded pension plan.

The Debtors also have deferred subscription liabilities for future issues of the Debtors magazines and other prepaid products and services, which would be treated as consumer deposits under section 507(a)(7) of the Bankruptcy Code. The estimated value of this liability as of the Liquidation Date, is $397.5 million.

## 15. Note 15 – Senior Subordinated Notes

As of the Commencement Date, the Debtors had outstanding unsecured debt obligations in the aggregate principal and interest amounts of approximately $628.3 million in Senior Subordinated Notes governed by the Senior Subordinated Notes Indenture. Amounts outstanding are as follows:

| (US$ in millions) | Senior Sub Notes | |
|---|---|---|
| Principal | $ | 600.0 |
| Accrued Interest | | 28.3 |
| Balance As Of Petition | $ | 628.3 |

## 16. Note 16 – Unsecured Claims

The following amounts represent unsecured claims that are subject to compromise:

- Accounts Payable – Trade payables due to the Debtors' vendors. Low and High end of the range excludes amounts in which the vendor has a possessory lien or a priority claim under section 503(b)(9) of the Bankruptcy Code.
- Accrued Expenses – Estimated expense which the Debtors expect to receive an invoice for or expenses incurred which do not flow through payables as well as refunds to customers who have requested refunds for subscriptions.

- Accrued Royalties – Amount due to third parties for licensed products.

- Post Retirement and Other Employee Benefit Plans – Accrued amounts for the Debtors' Non-Qualified Retirement Plans and retiree medical plan. The Debtors have not contributed any assets towards these plans.

- Prepetition Secured Lender Deficiency Claim – Deficiency claim for insufficient assets to pay Prepetition lender secured claim.

- Real Property Lease Rejections and Rejected Executory Contracts – Estimated amount of lease rejection claims at the greater of 1 year or 15%.

- Unsecured Tax Liabilities – Contingent tax liabilities at the federal, state and international level. These amounts represent GAAP reserves for potential claims against tax positions.

- Promissory Note – As of the Commencement Date, the Debtors had approximately $0.8 million outstanding on a promissory note.

- Sweepstakes Claims – Claims for previously awarded sweepstakes winners which would require funding in a chapter 7 conversion.

In the event of liquidation, the aggregate amount of general unsecured claims will likely increase significantly (as reflected in the higher range estimate). For example, employees likely will file claims for wages, pensions and other benefits, some of which will be entitled to priority. Landlords may file large claims for both unsecured and priority amounts. The resulting increase in both general unsecured and priority claims will decrease percentage recoveries to holders of general unsecured claims.