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

In re

BORDERS GROUP, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 11-_____ (___)

(Joint Administration Pending)

**DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105(a), 362(d), 363(b),
AND 503(b) AND FED. R. BANKR. P. 4001, 6003, AND 6004 FOR
(I) AUTHORITY TO (A) CONTINUE THE DEBTORS' INSURANCE
POLICIES AND (B) PAY ALL OBLIGATIONS IN RESPECT THEREOF,
AND (II) TO DIRECT FINANCIAL INSTITUTIONS TO HONOR AND PROCESS
CHECKS AND TRANSFERS RELATED TO SUCH INSURANCE OBLIGATIONS**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Borders Group, Inc. ("BGI") and its debtor subsidiaries, including Borders, Inc., as debtors and debtors in possession (collectively, the "Debtors"), submit this motion (the "Motion") and respectfully represent as follows:

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Borders Group, Inc. (4588); Borders International Services, Inc. (5075); Borders, Inc. (4285); Borders Direct, LLC (0084); Borders Properties, Inc. (7978); Borders Online, Inc. (8425); Borders Online, LLC (8996); and BGP (UK) Limited.

BACKGROUND

1. On the date hereof (the “Commencement Date”), each of the Debtors commenced a voluntary case under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). The Debtors are authorized to operate their business and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. Contemporaneously herewith, the Debtors filed a motion seeking joint administration of their chapter 11 cases pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

DEBTORS’ BUSINESS

A. Operations

2. The Debtors are a leading operator of book, music and movie superstores and mall-based bookstores. At January 29, 2011, the Debtors operated 642 stores, under the Borders, Waldenbooks, Borders Express and Borders Outlet names, as well as Borders-branded airport stores in the United States, of which 639 stores are located in the United States and 3 in Puerto Rico. Two of Borders’ flagship stores (along with other less prominent stores) are located in Manhattan. In addition, the Debtors operate a proprietary e-commerce web site, www.Borders.com, launched in May 2008, which includes both in-store and online e-commerce components.

3. As of February 11, 2011, the Debtors employed a total of approximately 6,100 full-time employees, approximately 11,400 part-time employees, and approximately 600 contingent employees (who are required to work one shift per month, and usually do so at special events), all of whom are located in the United States and Puerto Rico. The Debtors’ employees are not subject to any collective bargaining agreements.

B. Financials

4. For the fiscal year ended January 29, 2011, the Debtors recorded net sales of approximately \$2.3 billion. As of December 25, 2010, the Debtors had incurred net year-to-date losses of approximately \$168.2 million.

5. Additional information regarding the Debtors' business, capital structure, and the circumstances leading to these chapter 11 cases is contained in the *Declaration of Scott Henry Pursuant to Local Bankruptcy Rule 1007-2 in Support of First Day Motions* (the "First Day Declaration") filed contemporaneously herewith.

JURISDICTION

6. The Court has subject matter jurisdiction to consider and determine this matter pursuant to 28 U.S.C. § 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

RELIEF REQUESTED

7. In the ordinary course of their business, the Debtors maintain numerous insurance policies that provide coverage for, among other things, general liability, automobile liability, property damage, earthquake damage, director and officer liability, commercial crime, fiduciary liability, media liability and cyber liability (the "Insurance Policies"). The Insurance Policies are essential for the preservation of the Debtors' business, and are, in some cases, required by various laws, regulations or contracts that govern the Debtors' business. The Debtors maintain the Insurance Policies through several different insurance carriers (the "Insurance Carriers"). The names of the Insurance Policies, the Insurance Carriers, the term of the current policy,

applicable deductible amounts, if any, and the Insurance Policies' annual premiums are set forth on Exhibit A annexed hereto.²

8. By this Motion, the Debtors request, pursuant to sections 105(a), 362(d), 363(b), and 503(b) of the Bankruptcy Code and Bankruptcy Rules 4001, 6003, and 6004, authorization to (i) continue their Insurance Policies on an uninterrupted basis in accordance with the same practices and procedures in effect prior to the Commencement Date, and to renew their Insurance Policies or obtain replacement coverage, as needed in the ordinary course of business, without further Court approval, and (ii) pay, in their sole discretion, all undisputed premiums, claims, deductibles, administrative fees, broker fees, and other obligations relating to the Insurance Policies, as applicable, that were or are due and payable, and relate to the period before or after the Commencement Date (collectively, the "Insurance Obligations").³ A proposed form of order approving the relief requested herein on an interim basis is annexed hereto as Exhibit B (the "Interim Order") and, pending a final hearing (the "Final Hearing") on the Motion, on a final basis as Exhibit C (the "Final Order").

9. In furtherance of the foregoing, the Debtors request that the Court authorize and direct the banks and other financial institutions at which the Debtors maintain disbursement accounts, including, but not limited to, those listed on Exhibit D annexed hereto (the "Banks"), to receive, honor, process, and pay, to the extent of funds on deposit, any and all checks drawn or electronic fund transfers requested or to be requested by the Debtors relating to the Insurance Policies or the Insurance Obligations.

² In addition to the Insurance Policies listed on Exhibit A, the Debtors maintain other insurance policies and programs with respect to employee benefits including health, dental, disability, and life insurance. These programs and policies are addressed in a separate motion filed contemporaneously herewith pertaining to the Debtors' employee wage policies and benefit programs.

³ The Debtors' Insurance Policies run on an annual cycle beginning and ending on February 1 of each calendar year. Exhibit A represents a list of Insurance Policies for the 2011/2012 cycle, and may be supplemented as the Debtors finalize their Insurance Policies and payment arrangements for the 2011/2012 cycle.

THE INSURANCE POLICIES

A. General Information on the Insurance Policies

10. The Insurance Policies are necessary and essential to preserve the value of the Debtors' business, property and assets. Maintaining the Insurance Policies protects the value of the Debtors' estates by insuring property and personal damage and other matters. In addition, the Debtors are required by state law, in the majority of jurisdictions in which they have a retail store or distribution center, to maintain workers' compensation coverage for employees for claims arising from, or related to, their employment with the Debtors. Furthermore, pursuant to the guidelines established by the United States Trustee for the Southern District of New York (the "U.S. Trustee Guidelines"), the Debtors are obligated to remain current with respect to a number of the Insurance Policies throughout the chapter 11 cases.⁴

11. For the 2010/2011 policy period, the annual premiums for the Insurance Policies totaled approximately \$4.97 million. Prior to the Commencement Date, the Debtors fully paid all of the premiums that were due for the 2010/2011 policy period. With respect to future obligations relating to the 2011/2012 policy period, the Debtors may be required to pay, from time to time, towards the deductibles due under (i) the auto liability policy, (ii) the general liability policy, (iii) the Workers' Compensation Policies (as defined below), and (iv) the property liability policy.

B. Premium Financing Arrangements

12. Prepayment of insurance premiums at inception may not always be economically advantageous, as this reduces the Debtors' working capital. Therefore, the Debtors have

⁴ Specifically, pursuant to the U.S. Trustee Guidelines, the Debtors are required to maintain: general comprehensive liability; property (personal & theft); casualty and theft; workers' compensation; vehicle; product liability; flood insurance; director and officer liability insurance; professional malpractice; other coverage customary or prudent in the Debtors' business, or required by law; and proof of renewal of insurance during pendency of the case. U.S. Trustee Guidelines ¶ 6.

financed certain insurance premiums designated on Exhibit A through Premium Financing Arrangements (“PFAs”) with third-party lenders. For the 2011/2012 policy period, the Debtors plan to finance all lines of coverage (besides director and officer liability insurance) through PFAs using two third-party lenders -- Westfield Insurance Company (“Westfield”) and AFCO. Both PFAs have been finalized as of the Commencement Date. The AFCO PFA was signed and returned with the initial down payment on February 4, 2011. On February 9, 2011, the Debtors executed their PFA with Westfield and transmitted a down payment in the amount of \$40,922.10.

13. Due to the importance of continuing insurance coverage with respect to the Debtors’ business activities as well as preserving the Debtors’ liquidity by potentially financing the insurance premiums through PFAs, the Debtors believe it is in the best interests of their estates to enter into postpetition PFAs as they deem, within their business judgment, to be necessary. This includes, but is not limited to, PFAs with Westfield and AFCO.

14. The Debtors believe that entering into PFAs falls squarely within the ordinary course of their business, and, but for the constraints of section 364 of the Bankruptcy Code, the Debtors would not need the Court’s prior approval to enter into postpetition PFAs. To reduce the administrative burden, as well as the expense of operating as debtors in possession, the Debtors seek the Court’s authority at this time to enter into postpetition PFAs without further Court approval, during the pendency of these chapter 11 cases.

C. Casualty Insurance

15. The Debtors’ casualty lines of insurance coverage (*i.e.*, general liability and auto liability) each contain some form of deductible, whereby the Insurance Carrier provides coverage from the initial dollar of exposure and then seeks reimbursement from the Debtors for the deductible amount established under the terms of the applicable Insurance Policy and pursuant to

any agreements for deductible and/or loss limit reimbursement. The casualty Insurance Policies are secured by a Letter of Credit (as defined below).

D. The Letters of Credit

16. The Debtors have posted two separate letters of credit (each a "Letter of Credit", and together, the "Letters of Credit") through Bank of America, N.A. in the amount of \$22,188,000 and \$1,400,000 to secure their deductible obligations under the general liability, auto liability and workers' compensation Insurance Policies. The Letter of Credit in the amount of \$21,188,000 secures all claims under the Debtors' Liberty Mutual (defined below) general liability, auto liability and workers' compensation Insurance Policies from 1999 to 2011. The Letter of Credit in the amount of \$1,400,000 secures all claims under the Debtors' Travelers Workers' Compensation Policies (defined below) from 1995 to 2001.

E. Executive Insurance

17. The Debtors made premium payments in the approximate aggregate amount of \$1.5 million for their Insurance Policies designated as executive insurance policies for the 2010/2011 policy period. These policies include the Debtors' director and officer liability policies and related special coverage. The Debtors have no additional premium obligations under the director and officer liability policies for the Debtors' 2010/2011 policy period. On February 3, 2011, the Debtors pre-paid all premiums owed for their director and officer liability Insurance Policies for the 2011/2012 cycle. The amount that the Debtors paid towards these premiums for the 2011/2012 policy period was \$1,745,675.

F. Insurance Broker

18. The Debtors employ several parties, including the Hylant Group, Inc. ("Hylant"), Marsh Inc. ("Marsh"), and Mercer Insurance Group ("Mercer"), as their insurance brokers (the "Insurance Brokers"), to assist with the procurement and negotiation of many of the Debtors'

Insurance Policies. The retention and compensation of the services of the Insurance Brokers are governed pursuant to certain contracts.

19. The Debtors' current contract with Hylant covers the period beginning on July 1, 2010 and ending on June 30, 2011. Pursuant to its contract with the Debtors, Hylant has been paid a flat fee of \$50,000. The Debtors do not owe any further payments to Hylant under their current contract.

20. The Debtors' current contract with Marsh covers the period beginning on August 1, 2010 and ending on July 31, 2012. For the period commencing August 1, 2010 and ending on July 31, 2011, Marsh is to be paid \$264,000 in quarterly installments. Under this fee agreement, the Debtors still owe Marsh \$66,000, which they have wrapped into their PFA with AFCO. Starting on August 1, 2011 and through the end of the contract term, the Debtors will pay Marsh \$275,000 in quarterly installments. The broker fee owed to Mercer is incorporated into the Marsh contract fee agreement, and no separate amount is owed to Mercer.

21. The Debtors plan to finance all non-director and officer liability Insurance Policies that are placed by Hylant through their PFA with Westfield. The Debtors have financed all insurance policies that were placed by Marsh/Mercer through its PFA with AFCO. The Debtors intend to pay the Insurance Brokers' fees as they become due in the ordinary course of business.

G. The Workers' Compensation Program

22. The Debtors: (i) maintain workers' compensation liability insurance or pay into a state administered workers' compensation fund in all 50 states and the Commonwealth of Puerto Rico; and (ii) provide employees with workers' compensation coverage for claims arising in any jurisdiction from or related to their employment by the Debtors (collectively, the "Workers' Compensation Program").

1. The Workers' Compensation Policies

23. Since 1995, the Debtors have maintained high-deductible workers' compensation and employers' liability insurance policies (the "Workers' Compensation Policies") with Travelers Indemnity Company ("Travelers") and Liberty Mutual Insurance Company ("Liberty Mutual"). The Workers' Compensation Policies provide workers' compensation coverage for the Debtors in every state, except Ohio, North Dakota, Washington, Wyoming and the Commonwealth of Puerto Rico (the "Fund States"). The term of each of the Workers' Compensation Policies runs from February 1, 2011 through January 31, 2011. The Debtors have financed and will continue to finance the premiums owed under the Workers' Compensation Policies as part of the PFA with AFCO, and made a down payment of \$730,377 on February 4, 2011.

24. For the 2010/2011 policy period the Debtors paid \$558,374 towards the Liberty Mutual premiums (they have no current Workers' Compensation Policies with Travelers). The Letters of Credit secure the Debtors' obligations with respect to unpaid deductibles under the Liberty Mutual and Travelers Workers' Compensation Policies.

2. The State Administered Funds

25. In each of the Fund States, the Debtors make quarterly, annual and bi-annual payments into a state administered workers' compensation fund (the "Workers' Compensation Funds"). The Debtors make aggregate annual payments to the Workers' Compensation Funds in the approximate amount of \$360,000. The Fund States each have agencies that administer the workers' compensation claims filed against the Debtors, and the Workers' Compensation Funds provide the sole source of recovery for any employee that files a workers' compensation claim against the Debtors. With the exception of their quarterly, annual and bi-annual payments, the

Debtors have no financial obligations in the Fund States with respect to their workers' compensation liability.

3. Estimated Liability Arising From the Workers' Compensation Program

26. As of February 11, 2011, approximately 172 open workers' compensation claims were pending against the Debtors under the Workers' Compensation Program. Liberty Mutual and Travelers show an outstanding, unpaid reserve of approximately \$5,348,943 on those open claims. The Debtors are responsible for payment of the entire outstanding, unpaid reserve.

4. Incurred But Not Reported Claims

27. In addition to the outstanding unpaid reserve of the Workers' Compensation Claims described above, the Debtors anticipate that a material amount of claims under the Workers' Compensation Program have been incurred as of the Commencement Date (thus giving rise to prepetition liabilities), but have not yet been reported to the Debtors, Travelers or Liberty Mutual (any such claim, an "IBNR Claim"). Based on their historical experience, the Debtors estimate that they will be responsible for limited losses with respect to IBNR Claims in an aggregate amount of approximately \$4,000,000 for the 2011/2012 policy period.

BASIS FOR RELIEF

A. Continuing the Insurance Policies and Paying All Undisputed Obligations in Respect Thereof Is Necessary to Preserve the Value of the Debtors' Estates

28. Pursuant to section 503(b)(1) of the Bankruptcy Code, a debtor may incur, and the Court, after notice and a hearing, shall allow, as administrative expenses, among other things, "the actual, necessary costs and expenses of preserving the estate." 11 U.S.C. § 503(b)(1)(A). In addition, pursuant to section 363(b) of the Bankruptcy Code, a debtor may, in the exercise of its sound business judgment and after notice and a hearing, use property of the estate outside of the ordinary course of business. *Id.* § 363(b). The Debtors submit that the use of estate funds for

payment of undisputed prepetition Insurance Obligations is permitted by sections 503(b)(1) and 363(b) of the Bankruptcy Code as necessary costs of preserving the estate.

29. Furthermore, to supplement these explicit powers, section 105(a) of the Bankruptcy Code empowers the Court to “issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” *Id.* §105(a). A bankruptcy court’s use of its equitable powers to “authorize the payment of pre-petition debt when such payment is needed to facilitate the rehabilitation of the debtor is not a novel concept.” *In re Ionosphere Clubs, Inc.*, 98 B.R. 174, 175 (Bankr. S.D.N.Y. 1989). “Under 11 U.S.C. § 105 the court can permit pre-plan payment of a pre-petition obligation when essential to the continued operation of the debtor.” *In re NVR L.P.*, 147 B.R. 126, 127 (Bankr. E.D. Va. 1992) (citing *Ionosphere Clubs*, 98 B.R. at 177).

30. In a long line of well-established cases, federal courts consistently have permitted postpetition payment of prepetition obligations where necessary to preserve or enhance the value of a debtor’s estate for the benefit of all creditors. *See, e.g., Miltenberger v. Logansport C. & S. W. Ry. Co.*, 106 U.S. 286, 312 (1882) (payment of pre-receivership claim prior to reorganization permitted to prevent “stoppage of [indispensable] business relations”); *Dudley v. Mealey*, 147 F.2d 268, 271 (2d Cir. 1945) (extending doctrine for payment of prepetition claims beyond railroad reorganization cases); *Mich. Bureau of Workers’ Disability Comp. v. Chateaugay Corp. (In re Chateaugay Corp.)*, 80 B.R. 279, 285-86 (S.D.N.Y. 1987) (approving lower court order authorizing payment of prepetition wages, salaries, expenses, and benefits).

31. The “doctrine of necessity” functions in a chapter 11 reorganization as a mechanism by which the Bankruptcy Court can exercise its equitable power to allow payment of critical prepetition claims not explicitly authorized by the Bankruptcy Code. *See In re Lehigh &*

New England Ry. Co., 657 F.2d 570, 581 (3d Cir. 1981) (holding that court may authorize payment of prepetition claims if such payment was essential to continued operation of debtor); *In re Boston & Me. Corp.*, 634 F.2d 1359, 1382 (1st Cir. 1980) (recognizing existence of judicial power to authorize trustees to pay claims for goods and services that are indispensably necessary to debtors' continued operation). The doctrine is frequently invoked early in a chapter 11 case, particularly in connection with the payment of prepetition claims. The court in *In re Structurlite Plastics Corp.* indicated its accord with "the principle that a bankruptcy court may exercise its equity powers under § 105(a) to authorize payment of pre-petition claims where such payment is necessary to 'permit the greatest likelihood of survival of the debtor and payment of creditors in full or at least proportionately.'" 86 B.R. 922, 931 (Bankr. S.D. Ohio 1988) (quoting *Chateaugay Corp.*, 80 B.R. at 287). The court stated that "a *per se* rule proscribing the payment of pre-petition indebtedness may well be too inflexible to permit the effectuation of the rehabilitative purposes of the Code." *Id.* at 932. The rationale for the doctrine of necessity rule is consistent with the paramount goal of chapter 11 "facilitating the continued operation and rehabilitation of the debtor." *Ionosphere Clubs*, 98 B.R. at 176. Accordingly, pursuant to section 105(a) of the Bankruptcy Code, this Court is empowered to grant the relief requested herein.

32. The nature of the Debtors' business and the extent of their operations make it essential for the Debtors to maintain their Insurance Policies on an uninterrupted basis. If the Debtors fail to pay any premiums, deductibles, or related fees under any of the Insurance Policies, then the Insurance Carriers may seek to terminate the existing Insurance Policies, or they may decline to renew their insurance policies or refuse to insure the Debtors in the future. If the Insurance Policies lapse without renewal, the Debtors could be exposed to substantial liability for personal and/or property damages to the detriment of all parties in interest. The

Debtors would also be in default under their real property leases, which require that the Debtors maintain adequate insurance coverage. Furthermore, if the Debtors' Insurance Policies lapsed, the Debtors would be required to obtain replacement policies on an expedited basis. The Debtors' Insurance Policies are the result of a competitive bidding process and replacing such programs and policies on short notice would result in significant and unnecessary cost to the estates.

33. The continuation of the Insurance Policies, on an uninterrupted basis, and the payment of all undisputed prepetition and postpetition Insurance Obligations arising under the Insurance Policies is therefore essential to preserve the Debtors' business and preserve the value of the Debtors' estates for all parties in interest in these chapter 11 cases. In addition, pursuant to the U.S. Trustee Guidelines, the Debtors are obligated to remain current with respect to their Insurance Policies.

34. In addition, with respect to the Workers' Compensation Programs, for the claims administration process to operate in an efficient manner and to ensure that the Debtors comply with their state law requirements, claim assessment, determination and adjudication must continue. Payment of prepetition workers' compensation claims is essential to the continued operation of the Debtors' business. Moreover, if the claims are not paid, the Debtors expect that the Letters of Credit and cash deposits described above will be drawn, resulting in significant claims against their estates. Additionally, the Debtors' entitlement to self-insurance in Ohio could be revoked, thus relegating the Debtors to a more expensive premium-based program in the future. Lastly, to the extent prosecution by the Debtors' employees of their valid workers' compensation claims is barred by the automatic stay provision of section 362 of the Bankruptcy Code, the Debtors request that the Court waive the automatic stay so as to permit these

employees to liquidate their workers' compensation claims in the appropriate judicial or administrative forum. Thus, the relief requested herein is entirely necessary and appropriate as to the Workers' Compensation Programs.

35. Further, if the Debtors are unable to pay general liability or auto liability claims, the Debtors expect that the Letter of Credit in the amount of \$21,188,000 will be drawn upon, resulting in significant claims against the Debtors' estates. In addition to securing the workers' compensation Insurance Policies, this Letter of Credit also serves as collateral for claims made under the Debtors' general liability and auto liability Insurance Policies. Therefore, if the Debtors fail to pay general liability or auto liability claims, Liberty Mutual could draw on that Letter of Credit for the full amount of current general liability claims and estimated losses. Currently, the Debtors have 40 open general liability claims with an unpaid reserve of \$687,792. The estimated value of IBNR Claims under the general liability Insurance Policy is \$1,291,693 (with \$700,000 of that being estimated losses for the 2011/2012 policy period). There are no pending auto liability claims at this time. The current estimated value of IBNR Claims under the auto liability Insurance Policy is \$41,465 (with \$25,000 of that amount being estimated losses for the 2011/2012 policy period).

36. To the extent any Insurance Program or related agreement is deemed an executory contract within the meaning of section 365 of the Bankruptcy Code, the Debtors do not, at this time, seek to assume any such contract. Accordingly, if the Court authorizes the payments described above, such payments should not be deemed to constitute a postpetition assumption or adoption of any programs, policies, or agreements as executory contracts pursuant to section 365 of the Bankruptcy Code. The Debtors are in the process of reviewing these matters and reserve all of their rights under the Bankruptcy Code with respect thereto.

37. Moreover, authorization to pay all amounts on account of the Insurance Obligations shall not affect the Debtors' right to contest the amount or validity of these obligations.

38. As numerous courts in this jurisdiction have granted similar relief to that requested herein in other recent chapter 11 cases, the Debtors respectfully request entry of the proposed order annexed hereto as Exhibit B.⁵ See, e.g., *In re Blockbuster Inc.*, Ch. 11 Case No. 10-14997 (BRL) (Bankr. S.D.N.Y. Sept. 21, 2010) (Docket No. 356); *In re Finlay Enters., Inc., et al.*, Ch. 11 Case No. 09-14873 (JMP) (Bankr. S.D.N.Y. Sept. 3, 2009) (Docket No. 189); *In re General Motors Corp., et al.*, Ch. 11 Case No. 09-50026 (REG) (Bankr. S.D.N.Y. June 1, 2009) (Docket No. 172); *In re US Shipping Partners L.P., et al.*, Ch. 11 Case No. 09-12711 (RDD) (Bankr. S.D.N.Y. April 30, 2009) (Docket No. 85); *In re Steve & Barry's Manhattan LLC, et al.*, Ch. 11 Case No. 08-12579 (ALG) (Bankr. S.D.N.Y. July 9, 2008) (Docket No. 68); *In re Lenox Sales, Inc.*, Ch. 11 Case No. 08-14679 (ALG) (Bankr. S.D.N.Y. Nov. 23, 2008) (Docket No. 125); *In re Lexington Precision Corp., et al.*, Ch. 11 Case No. 08-11153 (MG) (Bankr. S.D.N.Y. Apr. 1, 2008) (Docket No. 80); *In re PRC, LLC*, Ch. 11 Case No. 08-10239 (MG) (Bankr. S.D.N.Y. Jan. 25, 2008) (Docket No. 37).

B. Applicable Banks Should Be Directed to Honor and Pay Checks and Transfers Related to the Insurance Obligations

39. As a result of the commencement of the Debtors' chapter 11 cases, and in the absence of an order of the Court providing otherwise, the Banks may dishonor or reject the Debtors' checks and electronic fund transfers with respect to the Insurance Obligations. Therefore, the Debtors request that the Court authorize and direct the Banks listed on Exhibit D,

⁵ Because of the voluminous nature of the unreported orders cited herein, such orders are not annexed to the Motion. Copies of these orders are available upon request of Debtors' counsel.

and any other bank the Debtors are authorized to do business with, to process, honor, and pay all prepetition and postpetition checks issued or to be issued, and electronic funds transfers requested or to be requested, by the Debtors with respect to their Insurance Obligations, to the extent of funds on deposit. The Debtors also seek authority to issue new postpetition checks or effect new electronic fund transfers with respect to the Insurance Obligations to replace any prepetition checks or electronic fund transfer requests that may be dishonored or rejected.

40. The Debtors represent that each of these checks or transfers can be readily identified as relating directly to payments under the Insurance Obligations. Accordingly, the Debtors believe that prepetition checks and transfers other than those relating to the Insurance Policies will not be honored inadvertently.

C. Deemed Compliance and/or Waiver with Applicable Bankruptcy Rules

1. The Debtors Have Satisfied Bankruptcy Rule 6003(b)

41. Bankruptcy Rule 6003(b) provides that to the extent “relief is necessary to avoid immediate and irreparable harm,” a bankruptcy court may approve a motion to “pay all or part of a claim that arose before the filing of the petition” within twenty-one (21) days after the Commencement Date. Fed. R. Bankr. P. 6003(b). As described herein and in the First Day Declaration, continuation of the Insurance Policies is essential to the Debtors’ business operations. The failure to maintain the Insurance Policies would have immediate and negative consequences to the Debtors’ business operations to the detriment and prejudice of all parties in interest. Accordingly, the Debtors submit that the relief requested in the Motion is necessary to avoid immediate and irreparable harm to the Debtors and, therefore, Bankruptcy Rule 6003(b) is satisfied.

2. Waiver of Bankruptcy Rules 6004(a) and (h)

42. To implement the foregoing immediately, the Debtors seek a waiver of the notice requirements under Bankruptcy Rule 6004(a) and the fourteen-day stay of an order authorizing the use, sale, or lease of property under Bankruptcy Rule 6004(h). The Debtors further request waiver of the stay of the order granting a motion for relief from the automatic stay under Bankruptcy Rule 4001(a).

NOTICE

43. No trustee or examiner has been appointed in these chapter 11 cases. The Debtors have served notice of this Motion on: (i) the Office of the United States Trustee for the Southern District of New York (Attn: Tracy Davis, Esq. and Linda Riffkin, Esq.); (ii) those creditors holding the thirty largest unsecured claims against the Debtors' estates; (iii) counsel for the DIP Agents: (x) Morgan, Lewis & Bockius LLP (Attn: Wendy Walker, Esq. and Sandra Vrejan, Esq.), counsel for the Working Capital Agent, (y) Riemer & Braunstein LLP (Attn: Donald E. Rothman, Esq.), counsel for GA Capital LLC; (iv) Kelley Drye & Warren LLP, attorneys for certain landlords (Attn: James S. Carr, Esq., Robert L. LeHane, Esq., and Benjamin D. Feder, Esq.); (v) Lowenstein Sandler PC, attorneys for certain trade vendors (Attn: Kenneth A. Rosen, Esq., Bruce D. Buechler, Esq., Bruce S. Nathan, Esq., and Paul Kizel, Esq.); (vi) Fried, Frank, Harris, Shriver & Jacobson LLP, attorneys for General Growth Properties, Inc. (Attn: Brad Eric Scheler, Esq.); (vii) Bingham McCutchen LLP, attorneys for Bank of America, N.A. (Attn: Julia Frost-Davies, Esq. and Andrew Gallo, Esq.); and (viii) the Department of Labor of each state in which the Debtors maintain their Insurance Policies (collectively, the "Notice Parties"). The Debtors submit that no other or further notice need be provided.

44. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

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

Dated: February 16, 2011
New York, New York

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

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EXHIBIT A

THE INSURANCE POLICIES

DEBTORS' 2011/2012 INSURANCE POLICIES

CARRIER OR BROKER	TYPE OF INSURANCE POLICY	POLICY NUMBER	CONTRACT NUMBER	ANNUAL AGGREGATE PREMIUM	PAYMENT IN FULL	FINANCED	MONTHLY PREMIUM INSTALLMENT
Liberty Mutual	Business Automobile Liability	A52-641-004284-011	2/1/11-2/1/12	\$26,729		Y	
Liberty Mutual	Workers Compensation/Employer's Liability	WC7-641-004284-061 (OR & W1 ONLY) WA7-64D-004284-071 (ALL OTHER STATES)*	2/1/11-2/1/12	\$490,471		Y	
Liberty Mutual	General Liability	TB2-641-004284-021	2/1/11-2/1/12	\$265,743		Y	
Zurich	Umbrella	CUC-5344071-06	2/1/11-2/1/12	\$166,953		Y	
Great American	Excess Liability	EXC2098730	2/1/11-2/1/12	\$39,375		Y	
Chubb	Excess Liability	9364-19-77	2/1/11-2/1/12	\$13,787		Y	
Liberty Mutual	Property	YU2-L9L-440531-011	2/1/22-2/1/12	\$1,584,924		Y	\$247,681.88
Empire	Excess California Earthquake	312950XG-1	2/1/11-2/1/12	\$80,535		Y	
Princeton	Excess California Earthquake	B2A3IM0001044-02	2/1/11-2/1/12	\$40,268		Y	
First Mercury	Excess California Earthquake	FMAH000556	2/1/11-2/1/12	\$20,734		Y	
QBE	Excess California Earthquake	ESE10455-00	2/1/11-2/1/12	\$40,268		Y	
Starr Marine	Ocean Marine	MASICCH0126US11	2/1/11-2/1/12	\$20,000		Y	
CIGNA	Travel Accident	ABL961072	2/1/11-2/1/14	\$1,592		Y	
Marsh/Mercer (Broker)	Broker Fee: Year 1:\$264,000 Year 2: \$275,000		8/1/10-7/31/12	\$264,000		Y	
Chartis	Directors & Officers Liability	01-479-04-51	2/1/11-2/1/12	\$650,000	Y		Paid 2/3/2011
XL	Excess D&O Liability	ELU120259-11	2/1/11-2/1/12	\$459,000	Y		Paid 2/3/2011
HCC	Excess D&O Liability	14-MGU-11-A23160	2/1/11-2/1/12	\$149,175	Y		Paid 2/3/2011
Beazley	Excess Side A D&O Liability	V15QWW110301	2/1/11-2/1/12	\$325,000	Y		Paid 2/3/2011
Endurance	Excess Side A D&O Liability	ADX10002976800	2/1/11-2/1/12	\$162,500	Y		Paid 2/3/2011
U.S. Specialty	Special Coverage (K&R)	U710-85108	2/1/10-2/1/13	\$6,000	Y		Pre-paid in 2010
Hylant (Broker)	Broker Fee: \$50,000		7/1/10-6/30/11	\$50,000	Y		Pre-paid in 2010
Hiscox	Media Liability	US UUA 2606686, 11	2/1/11-2/1/12	\$16,845		Y	
Lloyd's of London	Cyber Liability	81150SF100925E	2/1/11-2/1/12	\$117,875		Y	
Great American	Crime	SAA517-77-89	2/1/09-2/1/12	\$57,597		Y	\$26,408.65
HCC	Fiduciary	14-MG-11-A23171	2/1/11-2/1/12	\$45,450		Y	
Axis	Excess Fiduciary	MCN730838/01/2011	2/1/11-2/1/12	\$35,047		Y	
			Total Annual Premiums	\$5,131,867	Excluding Monopolistic WC		

*EXCEPT MONOPOLISTIC STATES: OHIO, NORTH DAKOTA, WASHINGTON, WYOMING & PUERTO RICO. THESE STATES HAVE STATE RUN JWC PROGRAMS, WHICH MUST BE PURCHASED DIRECTLY FROM THE INDIVIDUAL STATE.

AFCO Premium Financing Down Payment \$730,377 Paid 2/4/2011 – 9 Monthly Installments \$247,681.88 To be paid 3/1/10 – 11/1/10

Westfield Bank Premium Finance Down Payment \$40,922.10 To be Paid Feb-2011 – 9 Monthly Installments \$26,408.65 To Be Paid 3/1/11 – 11/1/11

DEBTORS' FUND STATE WORKERS' COMPENSATION POLICIES

STATE	TYPE	POLICY #	CONTRACT TERM	ANNUAL AGGREGATE PREMIUM	PAYMENT IN FULL	FINANCED	
Ohio	Workers Compensation	Policy No. 1004764	1/1/11-12/3/11	\$65K est	Y	Payment: July-2011	Bi-Annual Payments
				\$46K est	Y	Payment January 2012	
North Dakota	Workers Compensation	Account No. 975854	9/1/10-9/1/11	\$500 est	Y	Payment October 2011	Annual Payments
Washington	Workers Compensation	Account No. 86347903	1/1/11-12/31/11	\$44K est	Y	Payment April 2011	
				\$42K est	Y	Payment July 2011	
				\$51K est	Y	Payment October 2011	Quarterly Payments
				\$62K est	Y	Payment January 2012	
Wyoming	Workers Compensation	Employer ID 000236229	1/1/11-12/31/11	\$400 est	Y	Payment April 2011	
				\$300 est.	Y	Payment July 2011	
				\$400 est.	Y	Payment October 2011	Quarterly Payments
				\$600 est.	Y	Payment January 2012	
Puerto Rico	Workers Compensation	Policy No. 0012001068	7/1/10-6/30/11	\$50k est	Y	Payment July 2011	Annual Payment w/an Audited Payment in Dec.
				\$0	Y	Payment December 2011	
			Total Annual Premiums	\$5,494,067	Including estimated Monopolistic WC		

EXHIBIT B

PROPOSED INTERIM ORDER

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

In re

BORDERS GROUP, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 11-_____ (___)

(Joint Administration Pending)

INTERIM ORDER AUTHORIZING DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105(a), 362(d), 363(b) AND 503(b) AND FED. R. BANKR. P. 4001, 6003, AND 6004 FOR (I) AUTHORITY TO (A) CONTINUE THE DEBTORS' INSURANCE PROGRAMS AND (B) PAY ALL OBLIGATIONS IN RESPECT THEREOF, AND (II) TO DIRECT FINANCIAL INSTITUTIONS TO HONOR AND PROCESS CHECKS AND TRANSFERS RELATED TO SUCH INSURANCE OBLIGATIONS

Upon the Motion², dated February 16, 2011, of Borders Group, Inc. ("BGI") and its debtor subsidiaries, including Borders, Inc., as debtors and debtors in possession (collectively, the "Debtors") pursuant to sections 105(a), 362(d), 363(b), and 503(b) of the Bankruptcy Code and Bankruptcy Rules 4001, 6003 and 6004, for an order (i) authorizing the Debtors to (a) continue their Insurance Policies and (b) pay all undisputed obligations in respect thereof, on an uninterrupted basis, consistent with their practices in effect prior to the commencement of the Debtors' chapter 11 cases, including the payment of all undisputed premiums, claims, deductibles, administrative fees, insurance brokers' fees, and all other obligations arising under or related to the Insurance Policies, whether relating to the period prior to or after the commencement of these chapter 11 cases (collectively, the "Insurance Obligations"), (ii) authorizing and directing the banks and other financial institutions at which the Debtors maintain

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Borders Group, Inc. (4588); Borders International Services, Inc. (5075); Borders, Inc. (4285); Borders Direct, LLC (0084); Borders Properties, Inc. (7978); Borders Online, Inc. (8425); Borders Online, LLC (8996); and BGP (UK) Limited.

² Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Motion.

disbursement accounts, including, but not limited to, the banks listed on Exhibit D annexed to the Motion (the “Banks”), to honor and process checks and electronic funds transfers requested by the Debtors related to such obligations to the extent of funds on deposit, and (iii) scheduling a final hearing (the “Final Hearing”) to consider the relief requested on a final basis, all as more fully described in the Motion; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334 and the Standing Order M-61 Referring to Bankruptcy Judges for the Southern District of New York Any and All Proceedings Under Title 11, dated July 10, 1984 (Ward, Acting C.J.); and consideration of the Motion and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been provided to the Notice Parties, and it appearing that no other or further notice need be provided; and a hearing having been held to consider the relief requested in the Motion (the “Interim Hearing”); and upon the record of the Interim Hearing and all of the proceedings had before the Court; and upon the First Day Declaration; and the Court having found and determined that the relief sought in the Motion is in the best interests of the Debtors, their estates, and creditors, and that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor, IT IS HEREBY ORDERED THAT:

1. The Motion is granted as provided herein on an interim basis.
2. The Debtors are authorized to pay, in their sole discretion, all Insurance Obligations, including without limitation, all premiums, claims, deductibles, administrative fees and expenses, broker’s fees, and all other costs, charges, and obligations arising under or relating to the Insurance Policies, which become due during the interim period as indicated by

the Court at the Interim Hearing on the record, including those Insurance Obligations that (i) were due and payable or related to the period prior to the Commencement Date, and (ii) are or become due and payable or are related to the period after the Commencement Date.

3. The Debtors are authorized and empowered to maintain their Insurance Policies without interruption, on the same basis, and in accordance with the same practices and procedures that were in effect prior to the Commencement Date.

4. The Debtors are authorized to renew their Insurance Policies or obtain replacement coverage, as needed, in the ordinary course of business.

5. The Debtors are authorized to enter into post-petition PFAs related to the Insurance Policies and new insurance policies, as needed, in the ordinary course of business.

6. Consistent with the foregoing, the Debtors are authorized, but not directed, to maintain and administer their Workers' Compensation Programs in the ordinary course of business and consistent with past practice and honor and pay all claims and other costs and expenses related thereto whether arising prior or subsequent to the Commencement Date.

7. The Banks are authorized and directed to receive, honor, process, and pay, to the extent of funds on deposit, any and all checks or electronic transfers drawn on the Debtors' bank accounts relating to the Insurance Obligations, including those checks or electronic transfers that have not cleared the Banks as of the Commencement Date.

8. The Debtors are authorized to replace any prepetition checks or electronic transfers relating to the Insurance Obligations that may be dishonored or rejected.

9. The Banks may rely on the representations of the Debtors as to which checks or electronic transfers are in payment of the Insurance Obligations.

10. Nothing in this Order or the Motion shall be construed as prejudicing the rights of the Debtors to dispute or contest the amount of or basis for any claims against the Debtors in connection with or relating to the Debtors' Insurance Policies.

11. To the extent that any Insurance Program or any related contract or agreement is deemed an executory contract within the meaning of section 365 of the Bankruptcy Code, neither this Order nor any payments made in accordance with this Order shall constitute the postpetition assumption of any such Insurance Program, contract, or related agreement pursuant to section 365 of the Bankruptcy Code.

12. The requirements of Bankruptcy Rule 6003(b) are satisfied.

13. The requirements of Bankruptcy Rule 6004(a) are waived.

14. Notwithstanding the possible applicability of Bankruptcy Rule 6004(h), the terms and provisions of this Order shall be immediately effective and enforceable upon its entry.

15. The Final Hearing to consider entry of an order granting the relief requested in the Motion on a final basis shall be held on [____], 2011 at [____] []m. (Prevailing Eastern Time) before the Honorable [____], United States Bankruptcy Judge, One Bowling Green, Room [____], New York, New York 10004; and any objections to entry of such order shall be in writing, filed with the Court in accordance with General Order M-242, and served upon counsel to the Debtors, the Notice Parties, and counsel for any official committee of unsecured creditors appointed in these chapter 11 cases, in each case so as to be received no later than [____] []m. on [____], 2011 (Prevailing Eastern Time).

16. This Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation or interpretation of this Order.

Dated: _____, 2011
New York, New York

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT C

PROPOSED FINAL ORDER

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

In re

BORDERS GROUP, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 11-_____ (___)

(Joint Administration Pending)

FINAL ORDER AUTHORIZING DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105(a), 362(d), 363(b) AND 503(b) AND FED. R. BANKR. P. 4001, 6003, AND 6004 FOR (I) AUTHORITY TO (A) CONTINUE THE DEBTORS' INSURANCE PROGRAMS AND (B) PAY ALL OBLIGATIONS IN RESPECT THEREOF, AND (II) TO DIRECT FINANCIAL INSTITUTIONS TO HONOR AND PROCESS CHECKS AND TRANSFERS RELATED TO SUCH INSURANCE OBLIGATIONS

Upon the Motion², dated February 16, 2011, of Borders Group, Inc. ("BGI") and its debtor subsidiaries, including Borders, Inc., as debtors and debtors in possession (collectively, the "Debtors"), pursuant to sections 105(a), 362(d), 363(b) and 503(b) of the Bankruptcy Code and Bankruptcy Rules 4001, 6003 and 6004, for an order (i) authorizing the Debtors to (a) continue their Insurance Policies and (b) pay all undisputed obligations in respect thereof, on an uninterrupted basis, consistent with their practices in effect prior to the commencement of the Debtors' chapter 11 cases, including the payment of all undisputed premiums, claims, deductibles, administrative fees, insurance brokers' fees, and all other obligations arising under or related to the Insurance Policies, whether relating to the period prior to or after the commencement of these chapter 11 cases (collectively, the "Insurance Obligations"), (ii) authorizing and directing the banks and other financial institutions at which the Debtors maintain

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Borders Group, Inc. (4588); Borders International Services, Inc. (5075); Borders, Inc. (4285); Borders Direct, LLC (0084); Borders Properties, Inc. (7978); Borders Online, Inc. (8425); Borders Online, LLC (8996); and BGP (UK) Limited.

² Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Motion.

disbursement accounts, including, but not limited to, the banks listed on Exhibit D annexed to the Motion (the “Banks”), to honor and process checks and electronic fund transfers requested by the Debtors related to such obligations to the extent of funds on deposit, and (iii) scheduling a final hearing (the “Final Hearing”) to consider the relief requested on a final basis, all as more fully described in the Motion; and the Court having jurisdiction to consider the Motion and grant the requested relief in accordance with 28 U.S.C. §§ 157 and 1334 and the Standing Order M-6I Referring to Bankruptcy Judges for the Southern District of New York Any and All Proceedings Under Title 11, dated July 10, 1984 (Ward, Acting C.J.); and consideration of the Motion being a core proceeding pursuant to 28 U.S.C. § 157(b); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been provided to the Notice Parties, and it appearing that no further notice need be provided; and the Court having held a hearing to consider the requested relief; and a hearing to consider approval of the Motion on an interim basis having been held (the “Interim Hearing”); and the Court having entered an interim order (the “Interim Order”) granting the relief requested in the Motion, pending the Final Hearing; and it appearing that due and proper notice of the Final Hearing having been given and that no other or further notice need be provided; and upon the record of the Interim Hearing and the Final Hearing and all of the proceedings had before the Court; and upon the First Day Declaration; and the Court having found and determined that the relief sought in the Motion is in the best interests of the Debtors, their estates and creditors, and all parties in interest, and that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor, IT IS HEREBY ORDERED THAT:

1. The Motion is granted as provided herein on a final basis.

2. The Debtors are authorized to pay, in their sole discretion, all Insurance Obligations, including without limitation, all premiums, claims, deductibles, administrative fees and expenses, brokers' fees, and all other costs, charges, and obligations arising under or relating to the Insurance Policies, including those Insurance Obligations that (i) were due and payable or related to the period prior to the Commencement Date, and (ii) are or become due and payable or are related to the period after the Commencement Date.

3. The Debtors are authorized and empowered to maintain their Insurance Policies without interruption, on the same basis, and in accordance with the same practices and procedures that were in effect prior to the Commencement Date.

4. The Debtors are authorized to renew their Insurance Policies or obtain replacement coverage, as needed, in the ordinary course of business.

5. The Debtors are authorized to enter into post-petition PFAs related to the Insurance Policies and new insurance policies, as needed, in the ordinary course of business.

6. Consistent with the foregoing, the Debtors are authorized, but not directed, to maintain and administer their Workers' Compensation Programs in the ordinary course of business and consistent with past practice and honor and pay all claims and other costs and expenses related thereto whether arising prior or subsequent to the Commencement Date.

7. The Banks are authorized and directed to receive, honor, process, and pay, to the extent of funds on deposit, any and all checks or electronic transfers drawn on the Debtors' bank accounts relating to the Insurance Obligations, including those checks or electronic transfers that have not cleared the Banks as of the Commencement Date.

8. The Debtors are authorized to replace any prepetition checks or electronic transfers relating to the Insurance Obligations that may be dishonored or rejected.

9. The Banks may rely on the representations of the Debtors as to which checks or electronic transfers are in payment of the Insurance Obligations.

10. Nothing in this Order or the Motion shall be construed as prejudicing the rights of the Debtors to dispute or contest the amount of or basis for any claims against the Debtors in connection with or relating to the Debtors' Insurance Policies.

11. To the extent that any Insurance Program or any related contract or agreement is deemed an executory contract within the meaning of section 365 of the Bankruptcy Code, neither this Order nor any payments made in accordance with this Order shall constitute the postpetition assumption of any such Insurance Program, contract, or related agreement pursuant to section 365 of the Bankruptcy Code.

12. The requirements of Bankruptcy Rule 6003(b) are satisfied.

13. The requirements of Bankruptcy Rule 6004(a) are waived.

14. The terms and provisions of this Order shall be immediately effective and enforceable upon its entry.

15. This Court shall retain jurisdiction to hear and determine all matters arising from or related to the implementation, interpretation and/or enforcement of this Order.

Dated: _____, 2011
New York, New York

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT D

BANKS

BANKS

BANK	LAST FOUR DIGITS OF ACCOUNT #	ACCOUNT TYPE
PNC Bank, N.A.	5263	General Liability
	5327	Travelers
	9852	Liberty Mutual
	6979	A/P Controlled Disbursement
	6952	A/P Controlled Disbursement
	5413	A/P Controlled Disbursement
	3572	A/P Controlled Disbursement
	8768	A/P Controlled Disbursement
	3628	A/P Controlled Disbursement
	4196	Borders Inc. Concentration Account
Bank of America, N.A.	5715	AP/Insurance Disbursement