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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) AND
363 REQUESTING (I) AUTHORITY TO PAY CERTAIN PREPETITION CLAIMS OF
DISTRIBUTION NETWORK VENDORS AND OTHER LIEN CLAIMANTS, AND (II)
DIRECTION OF BANKS AND OTHER FINANCIAL INSTITUTIONS TO HONOR
RELATED CHECKS AND ELECTRONIC PAYMENT REQUESTS**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Borders Group, Inc. ("**BGI**"), and its debtor subsidiaries, as debtors and debtors in possession (collectively, the "**Debtors**"), submit this motion (the "**Motion**") for the entry of an order pursuant to sections 105(a) and 363 of the Bankruptcy Code (defined below): (i) authorizing the Debtors to pay certain prepetition claims of vendors and providers within the

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.

distribution network for the Debtors' inventory; and (ii) granting certain related relief. The Debtors respectfully represent as follows:

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.

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. An integral component of the Debtors' retail operations is the efficient flow of inventory (the "Retail Inventory") to the Debtors' distribution centers, stores and customers. Accordingly, the Debtors rely heavily on numerous common carriers, movers, shippers, warehousemen, customs brokers and certain other third-party vendors and service providers (collectively, the "Distribution Network Vendors") to ship, transport, store, move through customs and deliver inventory through established distribution networks. The Distribution Network Vendors maintain possession of books and other inventory vital to the Debtors' operations. As of the Commencement Date, many of the Distribution Network Vendors had claims for storage, transportation and related services previously provided to the Debtors (collectively, with any related taxes and custom duties, the "Distribution Network Vendor Claims").

8. If the Debtors fail to pay the Distribution Network Vendor Claims, the Debtors believe that many of the Distribution Network Vendors may stop providing their essential services to the Debtors. The Debtors believe that any such interruption in obtaining the services and cooperation of the Distribution Network Vendors would: (i) delay shipments of inventory to the Debtors' distribution centers, stores and customers; (ii) damage the Debtors' business reputation; (iii) undermine the Debtors' ability to maintain the selection of inventory necessary to retain customer and store loyalty (and thus impair the Debtors' ability to generate ongoing operating revenue); and (iv) adversely and irreparably affect the Debtors' restructuring efforts. Even if suitable alternatives to the existing Distribution Network Vendors are available, the time necessary to identify these replacement providers and integrate them into the Debtors' operations likely would cause a significant disruption to the Debtors' operations. During any such transition period, the Debtors would lose access to valuable inventory held by the Distribution Network Vendors.

9. The Distribution Network Vendors also may be able to assert state law possessory liens against the Debtors' property that they hold or control. Because the perfection and maintenance of the liens held by the Distribution Network Vendors in most cases is dependent upon possession, it is anticipated that the Distribution Network Vendors will refuse to deliver or release the Debtors' inventory before the Distribution Network Vendor Claims have been satisfied and their liens extinguished. Such a material disruption in the operation of the Debtors' distribution network and inventory availability system would delay the shipment of inventory to the Debtors' distribution centers, stores and customers. As such, the Debtors have determined, in the exercise of their business judgment, that payment of the Distribution Network Vendors is

necessary to avoid costly disruptions to the Debtors' operations and preserve their ability to maintain the appropriate levels of inventory mix expected by their customers.

10. The Debtors have reviewed actual monthly disbursements made prior to the Commencement Date for, or related to, the Distribution Network Vendor Claims. During the period February 1, 2010 through January 31, 2011, the Debtors' average payments for, or related to, Distribution Network Vendor Claims were approximately \$5.2 million per month. Although it is difficult to estimate with precision the Distribution Network Vendor Claims outstanding at any given moment, the Debtors estimate that the amount of outstanding prepetition Distribution Network Vendor Claims owed to the Distribution Network Vendors aggregated approximately \$2.4 million as of the Commencement Date. Because the Debtors typically receive invoices from the Distribution Network Vendors on a one-to-four-week delay, the Debtors believe that they have not yet received all invoices for prepetition amounts owed to the Distribution Network Vendors. The Debtors do not believe that the total amount of outstanding prepetition Distribution Network Vendor Claims will exceed \$4.0 million. The Debtors hereby request authority to pay all outstanding prepetition Distribution Network Vendor Claims.

11. In addition, the Debtors request authority, but not direction, to pay certain miscellaneous lien claims, including, but not limited to, mechanics' liens and materialman's liens (the "Miscellaneous Lien Claims"), on a case-by-case basis and at the Debtors' sole discretion, that either have resulted or reasonably could result in a lien being asserted against the Debtors' property.

12. The Debtors further request the authority to pay outstanding prepetition amounts owed to Interstate Freight, Inc. ("Interstate Freight"), a third-party vendor that is vital to the Debtors' ability to manage, process and pay the Distribution Network Vendor invoices. Given

the large-scale nature of their retail operations, the Debtors employ Interstate Freight to aggregate and manage all payments to the Debtors' Distribution Network Vendors. Interstate Freight receives all invoices from the Debtors' Distribution Network Vendors, reconciles the invoices, submits them to the Debtors with a request for funding and a payment date, and disburses the funds to the Distribution Network Vendors. The services provided by Interstate Freight are integral to the Debtors' operations. The Debtors believe that the inability to pay and employ Interstate Freight could cause a serious disruption in their shipments of inventory to the Debtors' distribution centers, stores and customers that could last for up to 3-4 weeks. The Debtors paid Interstate Freight a processing fee of \$0.64/invoice in 2010. As of the Commencement Date, the Debtors owe approximately \$5,000 to Interstate Freight. By this Motion, the Debtors seek authority from the Court to pay all prepetition accrued but unpaid service and administrative fees due to Interstate Freight, and to continue such payments to Interstate Freight in the ordinary course of the Debtors' business.

13. The Debtors further request that this Court authorize and direct all banks and other financial institutions (each a "Bank" and collectively, the "Banks") on which checks are drawn or electronic funds are transferred with respect to Distribution Network Vendor Claims or Miscellaneous Lien Claims to receive, process, honor, and pay, to the extent of funds on deposit, any and all such checks or electronic transfers, whether such checks or transfers were issued before or after the Commencement Date, upon the receipt by each Bank of such notice of authorization without further order of the Court. A proposed form of order approving the relief requested herein on an interim basis is annexed hereto as Exhibit A (the "Interim Order") and, pending a final hearing on the Motion, on a final basis as Exhibit B (the "Final Order").

BASIS FOR RELIEF

A. The Distribution Network Vendors and Miscellaneous Lien Claimants May Have Possessory Liens on Retail Goods in their Possession

14. If the Distribution Network Vendors and Miscellaneous Lien claimants (the “Miscellaneous Lien Claimants”) are not paid by the Debtors, the Debtors believe the Retail Inventory held by the Distribution Network Vendors and Miscellaneous Lien Claimants may be subject to possessory liens under applicable state law. Typically, state laws grant an entity that transports or warehouses goods a possessory lien on such goods in order to secure payment for such charges and related expenses, if such entity retains possession of the goods at issue.²

15. Indeed, the act of perfecting such state law liens, to the extent consistent with section 546(b) of the Bankruptcy Code, is expressly excluded from the automatic stay. 11 U.S.C §362 (b)(3). Section 546(b)(1)(A) of the Bankruptcy Code provides, in pertinent part, that a debtor in possession’s avoidance powers “are subject to any generally applicable law that . . . permits perfection of an interest in property to be effective against an entity that acquires rights in such property before the date of perfection.” 11 U.S.C. § 546(b)(1)(A).

16. Accordingly, notwithstanding the automatic stay imposed by section 362(a) of the Bankruptcy Code, the Distribution Network Vendors and Miscellaneous Lien Claimants may (i) be entitled to assert and perfect liens against Retail Inventory that would entitle them to payment ahead of other general unsecured creditors, and (ii) hold Retail Inventory subject

² For example, section 7-307 of New York’s Uniform Commercial Code provides, in pertinent part:

“A carrier has a lien on the goods covered by a bill of lading for charges subsequent to the date of its receipt of the goods for storage or transportation (including demurrage and terminal charges) and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to law.”

N.Y. U.C.C. § 7-307(1).

to the asserted liens pending payment, to the direct detriment of the Debtors, their estates, and other parties in interest.

17. Further, section 9-310 of the Uniform Commercial Code grants creditors holding possessory liens a priority in payment over consensual lien creditors. Thus, as secured creditors under the Bankruptcy Code, the Distribution Network Vendors and Miscellaneous Lien Claimants may be entitled to receive priority payment as compared to general unsecured creditors pursuant to any confirmed chapter 11 plan. Consequently, payment of such amounts would give the Distribution Network Vendors and Miscellaneous Lien Claimants no more than that to which they are already entitled. On the other hand, absent payment of the amounts owed, millions of dollars of Retail Inventory are in danger of being retained by the Distribution Network Vendors as security for payment of any outstanding amounts.

18. In addition, pursuant to section 363(e) of the Bankruptcy Code, the Distribution Network Vendors and Miscellaneous Lien Claimants, as bailees, may be entitled to adequate protection of a valid possessory lien. Section 363(e) of the Bankruptcy Code provides that on request of an entity that has an interest in property, the court may prohibit or condition the use, sale or lease of such property, "as is necessary to provide adequate protection of such interest." 11 U.S.C. § 363(e). Given that the value of the Retail Inventory in the possession of the Distribution Network Vendors or the Miscellaneous Lien Claimants will generally far exceed the value of their respective claims, creditors will not be harmed -- and, in fact, will be benefited -- by the satisfaction of certain prepetition claims of such parties because such payments will help preserve the going-concern value of the Debtors' business.

B. Payment of the Distribution Network Vendor Claims and Miscellaneous Lien Claims Comports With the Debtors' Business Judgment and is Authorized Under Sections 363 and 105(a) of the Bankruptcy Code

19. Section 363(b)(1) of the Bankruptcy Code provides that, after notice and a hearing, the trustee “may use sell, or lease, other than in the ordinary course of business, property of the estate.” 11 U.S.C. § 363(b)(1). 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.” 11 U.S.C. § 105(a). A bankruptcy court’s use of its equitable powers to “authorize the payment of prepetition 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 Section 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).

20. Federal courts have consistently 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 R. Co.*, 106 U.S. 286, 312 (1882) (payment of pre-receivership claim prior to reorganization permitted to prevent “stoppage of [crucial] business relations”); *Dudley v. Mealey*, 147 F.2d 268 (2d Cir. 1945), *cert. denied*, 325 U.S. 873 (1945) (Second Circuit extends 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), *appeal dismissed*, 838 F.2d 59 (2d Cir. 1988) (approving lower Court order authorizing payment of prepetition wages, salaries, expenses, and benefits); *In re Boston & Maine Corp.*, 634 F.2d 1359, 1382 (1st Cir. 1980) (recognizing the existence of a judicial power to authorize trustees to pay claims for goods and services that are indispensably necessary to debtors’ continued operation).

21. The doctrine of necessity functions in a chapter 11 case as a mechanism by which the Bankruptcy Court can exercise its equitable power to facilitate a successful reorganization by allowing payment of critical prepetition claims not explicitly authorized by the Bankruptcy Code. See *In re Just for Feet, Inc.*, 242 B.R. 821, 824 (D. Del. 1999) (recognizing that “[c]ertain pre-petition claims by employees and trade creditors . . . may need to be paid to facilitate a successful reorganization”).

22. The doctrine is frequently invoked early in a chapter 11 case. The Court in *In re Structurlite Plastics Corp.*, 86 B.R. 922, 931 (Bankr. S.D. Ohio 1988), indicated its accord with “the principle that a Bankruptcy Court may exercise its equity powers under section 105(a) to authorize payment of prepetition 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’” (quoting *In re Chateaugy Corp.*, 80 B.R. at 287). The Bankruptcy Court stated that “a *per se* rule proscribing the payment of prepetition 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.

23. This Motion satisfies the foregoing criteria, as the relief sought herein plainly is essential to the Debtors’ reorganization, and payment of the Distribution Network Vendor Claims is warranted as a reasonable exercise of the Debtors’ business judgment. It is essential that the Debtors be permitted immediately to pay the Distribution Network Vendor Claims to insure that the flow of books and inventory throughout the Debtors’ distribution network (including inventory being delivered from the Debtors to their customers) remains constant, timely and efficient. Should the Debtors’ flow of inventory be interrupted for even a brief time,

the Debtors could suffer disruptions of their businesses at multiple locations, with a corresponding loss of customer confidence. The Debtors cannot afford any material disruptions of their business operations or present anything less than a “business as usual” appearance to the public.

24. Moreover, because the amount of most of the Distribution Network Vendor Claims are for less than the value of the property securing those claims, it appears that most of the Distribution Network Vendors are (or will allege that they are) fully secured creditors. In general, pursuant to section 506 of the Bankruptcy Code, fully secured creditors are entitled to receive (i) payment in full of their prepetition claims and (ii) the postpetition interest accruing on such claims up to the value of the collateral. Consequently, payment of the Distribution Network Vendor Claims now will (i) in most cases give the Distribution Network Vendors no more than they otherwise would be entitled to receive on account of their claims in the chapter 11 process and (ii) save the Debtors the cost of interest that otherwise may accrue on the Distribution Network Vendor Claims. Accordingly, the Debtors’ general creditors are not prejudiced by the relief sought herein.

25. The Debtors, moreover, intend to reserve the right to make any such payments in their sole discretion, and to require, as a condition to payment, that each Distribution Network Vendor agree to: (i) release any liens it may have; and (ii) on a prospective basis, provide credit, pricing or payment terms equal to, or better than, those provided to the Debtors prepetition. By reserving the right to require, as a condition to any payment on account of any Distribution Network Vendor Claim, that the Distribution Network Vendors agree to release any Liens and provide credit terms equivalent to those provided prepetition, the Debtors anticipate that they

will be able to enhance their liquidity during these chapter 11 cases to the benefit of their estates and creditors.³

26. In light of the foregoing, the Debtors respectfully submit that the relief requested herein is: (i) necessary and essential for the Debtors' reorganization; (ii) in the best interests of the Debtors, their estates and their creditors; and (iii) necessary to prevent immediate and irreparable harm to the Debtors and their estates.

27. Payment of the Distribution Network Vendor Claims is not simply necessary for the continued operations of the Debtors but critical to the survival of the Debtors' business. The sale of the Retail Inventory -- especially newly released book, movie and music titles, which are the lifeblood of the Debtors' operations -- depend upon the Debtors' ability to receive the Retail Inventory in a timely fashion. Moreover, the Debtors believe in their sound business judgment that continuation of their positive relationships with the Distribution Network Vendors and Miscellaneous Lien Claimants is imperative to their continued operations and greatly increases the likelihood of a successful reorganization.

28. The Debtors submit that payment of the prepetition Distribution Network Vendor Claims will benefit the Debtors and their creditors by allowing the Debtors to receive the Retail Inventory necessary to operate their business, and will not prejudice unsecured creditors since the Debtors will only pay those claimants that they believe in their business judgment to be secured by valid liens, or that they believe are capable of being secured by perfecting liens in the Debtors' property. In addition, payment of the Miscellaneous Lien Claims will save the Debtors the considerable time and expense of having to negotiate or litigate for the return of, or right to use, property of these estates that may be subject to such lien claims. As such, the Debtors

³ As such, the payment of the Distribution Network Vendor Claims is further justified pursuant to section 364 of the Bankruptcy Code because any postpetition credit provided by the Distribution Network Vendors may constitute trade financing to the Debtors pursuant to that section. *See* 11 U.S.C. § 364.

respectfully submit that the Court should exercise its equitable power to grant the relief requested herein.

29. Courts have previously authorized the payment of charges similar to the Distribution Network Vendor Claims in other large chapter 11 cases in this district.⁴ *See, e.g., In re The Great Atl. & Pac. Tea Co., Inc.*, Ch. 11 Case No. 10-24549 (RDD) (Bankr. S.D.N.Y. Jan. 13, 2011) [Docket No. 500]; *In re General Motors Corp.*, Ch. 11 Case No. 09-50026 (REG) (Bankr. S.D.N.Y. June 1, 2009) [Docket No. 170]; *In re Finlay Enterprises., Inc.*, Ch. 11 Case No. 09-14873 (JMP) (Bankr. S.D.N.Y. Sept. 3, 2009) [Docket No. 193]; *In re U.S. Shipping Partners L.P.*, Ch. 11 Case No. 09-12711 (RDD) (Bankr. S.D.N.Y. May 22, 2009) [Docket No. 81]; *In re Lenox Sales, Inc.*, Ch. 11 Case No. 08-14679 (ALG) (Bankr. S.D.N.Y. Nov. 5, 2008) [Docket No.33]; *In re Lexington Precision*, Ch. 11 Case No. 08-11153 (MG) (Bankr. S.D.N.Y. Apr. 2, 2008) [Docket No. 79]; *In re Silicon Graphics, Inc.*, Ch. 11 Case No. 06-10977 (BRL) (Bankr. S.D.N.Y. May 10, 2006) [Docket No. 372]; *In re Footstar, Inc.*, Ch. 11 Case No. 04-22350 (ASH) (Bankr. S.D.N.Y. Mar. 31, 2004) [Docket No. 257]; *In re Loral Space & Communications Ltd.*, Ch. 11 Case No. 03-13532 (RDD) (Bankr. S.D.N.Y. July 16, 2003) [Docket No. 41].

30. Nothing in this Motion shall be an admission as to any possessory lien or right of setoff. Moreover, authorization of the payment of all prepetition Distribution Network Vendor Claims or Miscellaneous Lien Claims requested herein shall not be deemed to constitute postpetition assumption or adoption of any related agreements pursuant to section 365 of the Bankruptcy Code. The Debtors reserve all of their rights under the Bankruptcy Code with respect thereto.

⁴ 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.

31. Based upon the foregoing, the Debtors submit that the relief requested herein is essential, appropriate, in the best interest of their estates and creditors, and should be granted.

C. Applicable Banks Should Be Directed to Honor and Process Checks and Transfers Related to the Distribution Network Vendor Claims

32. In furtherance of the relief requested herein, the Debtors request that the Court authorize and direct the Banks to receive, honor, process, and pay, to the extent of funds on deposit, any and all checks or electronic transfers requested or to be requested by the Debtors relating to the Distribution Network Vendor Claims or Miscellaneous Lien Claims, including those checks or electronic transfers that have not cleared the Banks as of the Commencement Date, without the need for further Court approval.

33. The Debtors also seek authority to replace any prepetition checks or electronic transfers relating to the Distribution Vendor Network Claims or Miscellaneous Lien Claims that may be dishonored or rejected. Each of the checks or electronic transfers can be readily identified as relating directly to the authorized payment of the Distribution Network Vendor Claims or Miscellaneous Lien Claims. The Debtors believe that prepetition checks and electronic transfers, other than those for Distribution Network Vendor Claims or Miscellaneous Lien Claims, or those authorized by another order of the Court, may not be honored inadvertently. The Debtors also request that the Banks be authorized and directed to rely on the representations of the Debtors as to which checks and electronic transfers are in payment of the Distribution Network Vendor Claims or Miscellaneous Lien Claims.

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

1. The Requested Relief Satisfies Bankruptcy Rule 6003

34. Bankruptcy Rule 6003 provides that, except to the extent the relief requested is necessary to avoid immediate and irreparable harm to the Debtors' estates, the court shall not,

within twenty-one (21) days after the filing of the petition, grant relief regarding a motion to use, sell, lease, or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition. As detailed above and as set forth in the First Day Declaration, the Debtors submit that such relief is necessary to avoid immediate and irreparable harm to the Debtors and their estates and, accordingly, submit that Bankruptcy Rule 6003 is satisfied.

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

35. Unless the Court orders otherwise, Bankruptcy Rule 6004(a) requires the Debtors to provide 21 days notice to all creditors and certain other parties in interest of the use of property outside the ordinary course of business. Moreover, unless the Court orders otherwise, Bankruptcy Rule 6004(h) automatically stays for fourteen (14) days any order granting such relief. As described above and in the First Day Declaration, the relief requested in this Motion is necessary to avoid immediate and irreparable harm to the Debtors that would otherwise be caused by a delay in the delivery of the Retail Goods. Accordingly, the Debtors request the Court waive (i) the notice requirements under Bankruptcy Rule 6004(a), and (ii) the stay of the order authorizing the use, sale, or lease of property under Bankruptcy Rule 6004(h).

NOTICE

36. 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.); and (vii) Bingham McCutchen LLP, attorneys for Bank of America, N.A. (Attn: Julia Frost-Davies, Esq. and Andrew Gallo, Esq.) (collectively, the “Notice Parties”). The Debtors submit that no other or further notice need be provided.

37. 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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*Attorneys for Debtors
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EXHIBIT A

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 PURSUANT TO 11 U.S.C. §§ 105(a) AND 363
(I) AUTHORIZING THE DEBTORS TO PAY CERTAIN PREPETITION CLAIMS
OF DISTRIBUTION NETWORK VENDORS AND OTHER LIEN CLAIMANTS,
AND (II) DIRECTING BANKS AND OTHER FINANCIAL INSTITUTIONS
TO HONOR RELATED CHECKS AND ELECTRONIC PAYMENT REQUESTS**

Upon the Motion,² dated February 16, 2011, of Borders Group, Inc. (“BGI”), and its debtor subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), pursuant to sections 105(a) and 363 of the Bankruptcy Code requesting (i) authorization to pay certain Distribution Network Vendor Claims and Miscellaneous Lien Claims, and (ii) authorizing and directing Banks to honor related checks and electronic payment requests, 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);

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 and not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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 therefore,

IT IS HEREBY ORDERED THAT:

1. The Motion is granted as provided herein on an interim basis.
2. The Debtors are authorized, but not directed, to make payments in the interim period of all valid, undisputed Distribution Network Vendor Claims that are past due or become due during the interim period and Miscellaneous Lien Claims, whether relating to the period prior to or after the Commencement Date, as the Debtors determine, in the exercise of their business judgment, to be necessary or appropriate to obtain the release of Retail Inventory or liens against real or personal property of the Debtors.
3. All applicable Banks are hereby authorized and directed, at the Debtors’ instruction, 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 Distribution Network Vendor Claims or Miscellaneous Lien Claims, including those checks or electronic transfers that have not cleared the Banks as of the Commencement Date.

4. The Debtors are authorized to replace any prepetition checks or electronic transfers relating to the Distribution Network Vendor Claims or Miscellaneous Lien Claims that may be dishonored or rejected.

5. The Debtors are authorized to pay Interstate Freight all prepetition accrued but unpaid service and administrative fees due to Interstate Freight, and to continue such payments to Interstate Freight in the ordinary course of the Debtors' business thereafter.

6. The Banks may rely on the representations of the Debtors as to which checks or electronic transfers are in payment of the Distribution Network Vendor Claims or Miscellaneous Lien Claims.

7. 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 arising in connection with, or relating to, the Distribution Network Vendor Claims or Miscellaneous Lien Claims.

8. Nothing contained in the Motion or this Order shall be deemed: (i) an assumption, adoption, authorization to assume, or rejection of any executory contract or agreement between the Debtors and any third party pursuant to section 365 of the Bankruptcy Code; (ii) a requirement that the Debtors make any of the payments authorized herein; or (iii) a waiver of the Debtors' rights under the Bankruptcy Code or any other applicable law.

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

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

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

12. 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 []; 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 the attorneys for the Debtors, the Notice Parties, and any official committee of unsecured creditors appointed in these chapter 11 cases, in each case so as to be received no later than [] p.m. (Prevailing Eastern Time) on [_____], 2011.

13. 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 B

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 PURSUANT TO 11 U.S.C. §§ 105(a) AND 363
(I) AUTHORIZING THE DEBTORS TO PAY CERTAIN PREPETITION CLAIMS OF
DISTRIBUTION NETWORK VENDORS AND OTHER LIEN CLAIMANTS, AND (II)
DIRECTING BANKS AND OTHER FINANCIAL INSTITUTIONS TO HONOR
RELATED CHECKS AND ELECTRONIC PAYMENT REQUESTS**

Upon the Motion,² dated February 16, 2011, of Borders Group, Inc., and its debtor subsidiaries, as debtors and debtors in possession (collectively, the “Debtors”), pursuant to sections 105(a) and 363 of the Bankruptcy Code requesting (i) authorization to pay certain Distribution Network Vendor Claims and Miscellaneous Lien Claims, and (ii) authorizing and directing Banks to honor related checks and electronic payment requests 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-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 being a core proceeding pursuant to 28 U.S.C. § 157(b); and venue being proper before this Court

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 and not otherwise defined herein shall have the meanings ascribed to them in the Motion.

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 has 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, but not directed, to make payments in respect of all valid, undisputed Distribution Network Vendor Claims and Miscellaneous Lien Claims, whether relating to the period prior to or after the Commencement Date, as the Debtors determine, in the exercise of their business judgment, to be necessary or appropriate to obtain the release of Retail Goods or liens against real or personal property of the Debtors.
3. All applicable Banks are hereby authorized and directed, at the Debtors’ instruction, 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 Distribution

Network Vendor Claims or Miscellaneous Lien Claims, including those checks or electronic transfers that have not cleared the Banks as of the Commencement Date.

4. The Debtors are authorized to replace any prepetition checks or electronic transfers relating to the Distribution Network Vendor Claims or Miscellaneous Lien Claims that may be dishonored or rejected.

5. The Debtors are authorized to pay Interstate Freight all prepetition accrued but unpaid service and administrative fees due to Interstate Freight, and to continue such payments to Interstate Freight in the ordinary course of the Debtors' business thereafter.

6. The Banks may rely on the representations of the Debtors as to which checks or electronic transfers are in payment of the Distribution Network Vendor Claims or Miscellaneous Lien Claims.

7. 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 arising in connection with, or relating to, the Distribution Network Vendor Claims or Miscellaneous Lien Claims.

8. Nothing contained in the Motion or this Order shall be deemed: (i) an assumption, adoption, authorization to assume, or rejection of any executory contract or agreement between the Debtors and any third party pursuant to section 365 of the Bankruptcy Code; (ii) a requirement that the Debtors make any of the payments authorized herein; or (iii) a waiver of the Debtors' rights under the Bankruptcy Code or any other applicable law.

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

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

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

12. 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