Hearing Date: March 15, 2011 at 10:00 a.m. (ET)

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11**
BORDERS GROUP, INC., *et al.*,[1]	**Case No. 11-10614 (MG)**
Debtors.	**(Jointly Administered)**

DEBTORS' OMNIBUS REPLY IN SUPPORT OF DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 (1) APPROVING POSTPETITION FINANCING, (2) AUTHORIZING USE OF CASH COLLATERAL, (3) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS, (4) GRANTING ADEQUATE PROTECTION, AND (5) MODIFYING AUTOMATIC STAY

Borders Group, Inc. ("BGI") and its affiliated debtors, as debtors and debtors in possession (collectively, the "Debtors"), file this reply (the "Reply") to the objections (collectively, the "Objections") of the parties listed on Exhibit A[2] hereto to the entry of the final

[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] Each of the parties listed on Exhibit A filed Objections to the DIP Motion. Only two objections have not been resolved. The primary unresolved objection is that of the Committee and the second objection raises no issues not already in the Committee's Objection. Accordingly, this Reply addresses the Committee's Objection (as defined herein).

order[3] (the "Final Order") approving *Debtors' Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, and (5) Modifying Automatic Stay* [Docket No. 27] (the "DIP Motion").[4] In support of this Reply, the Debtors rely upon the *Declaration of Richard Klein* annexed to the DIP Motion and submit the *Supplemental Declaration of Richard Klein* (the "Klein Supplement"), attached hereto as Exhibit B.

PRELIMINARY STATEMENT

The DIP Loan is the lifeline that will enable the Debtors to remain a going concern, retain thousands of jobs, and maximize their enterprise value by restructuring their businesses for the benefit of all parties in interest. The Court's interim approval of the DIP Loan has sent a strong message to the Debtors' creditors, employees and customers that Borders will remain a robust competitor in the marketplace during the Chapter 11 process. Indeed, the Debtors have since re-engaged with their suppliers to replenish depleted inventory reserves, and have outperformed their initial budget by a substantial margin.

The Debtors have succeeded in resolving all objections to the DIP Loan other than those of the Committee and one other party. It should be noted, however, that the Committee's Objection only includes the residual matters that were not resolved after extensive good faith negotiations among the Committee, the Debtors and the DIP Agents. The Committee already has obtained relief on a number of important points that will empower the Committee's participatory role in this case. In this regard, the Final Order has been amended to provide,

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[3] Filed with the Court on March 8, 2011 [Docket No. 323], as may be modified.

[4] Capitalized terms not otherwise defined herein shall have the meanings set forth in the DIP Motion.

among other changes, the following:

- The Committee and the U.S. Trustee shall have three (3) business days to object to amendments, modifications or supplements to the DIP Loan Documents (as defined in the Final Order) with such objection to be resolved by the Court, if necessary. [Final Order, at ¶ 14]

- The Budget, as updated, will be delivered to the Committee. [Final Order, at ¶ 15]

- The Committee and the U.S. Trustee shall have three (3) business days to object to payment of the DIP Secured Parties out-of-pocket expenses, with such objection to be resolved by the Court, if necessary. [Final Order, at ¶ 28]

- The "investigation cap" pursuant to which the Committee may use DIP Loan proceeds to investigate the liens and claims of the pre-Commencement Date secured lenders has been increased from $50,000 to $125,000, and such cap is not reduced by the Committee's objections to the DIP Motion (which is payable from DIP Loan proceeds). [Final Order, at ¶ 33]

- The sixty (60) day Challenge Period to assert claims against the pre-Commencement Date secured lenders is now automatically extended to a date three (3) business days following the adjudication of a timely filed Standing Motion. [Final Order, at ¶ 35] In other words, the Committee is only required to file a motion to obtain standing within the 60-day period, not to obtain standing *and* commence an adversary proceeding.

- The Committee shall receive the reports, certificates, notices and other documentation required to be sent to the DIP Agents under the DIP Loan Documents. [Final Order, at ¶ 47]

The Debtors believe that these additional protections are appropriate and commend the parties for their agreement.

The Committee's Objection now boils down to the Committee's request that the DIP Loan contain better business terms: lower fees, reduced covenants and more availability. The terms on this "wish list," however desirable, were all terms that were the subject of hard bargaining pre-petition between the Debtors and the DIP Agents, and the Debtors are convinced that the terms contained within the DIP Credit Agreement are fair, reasonable and, most importantly, the best terms that are currently available to the Debtors in the marketplace. As a

legal matter, the business terms of the DIP Loan are subject to the deferential business judgment standard of review. Indeed, where, as here, a debtor exercises sound business judgment in obtaining post-petition financing, the economic terms of the loan will be approved. While the Committee's heart is in the right place, it is telling that the Committee has not identified a DIP lender that will provide the Debtors with better financing terms.

For the reasons set forth herein, the Committee's Objection should be overruled.

BACKGROUND

1. On February 17, 2011, the Court entered the *Interim Order Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, (5) Modifying Automatic Stay, and (6) Scheduling Final Hearing* [Docket No. 69] (the "Interim Order").

2. On February 24, 2011, the office of the United States Trustee for the Southern District of New York appointed an official committee of unsecured creditors (the "Committee").

3. On March 10, 2011, the Committee filed its objection to the DIP Motion and entry of the Final Order [Docket No. 340] (the "Committee's Objection").

THE COMMITTEE'S OBJECTIONS

4. For the Court's convenience, a summary of the Committee's objections and the Debtors' responses appear below in chart form:

Committee's Objections	Debtors' Response
1. "The DIP Facility grants the DIP Lenders liens on the proceeds of Avoidance Actions and would allow the DIP Lenders to satisfy their Superpriority Administrative Claims from the proceeds of the Avoidance Actions. These provisions must be stricken. In addition, proceeds of the Avoidance Actions should not be subject to the Adequate Protection Liens granted to the Prepetition Lenders nor should the proceeds of the Avoidance Actions be subject to the Adequate Protection Superpriority Claims of the Prepetition Lenders. See Interim DIP Order, ¶¶ 6, 8, 10, 12 and 13."	The DIP Agents required that such interests in avoidance actions be a part of the DIP Collateral. In exercising their business judgment, the Debtors granted these liens. However, the DIP Agents have recently advised the Debtors that they will relinquish their lien upon avoidance actions

Committee's Objections	Debtors' Response
Committee's Objection ¶ 1	recoverable under the provisions of Chapter 5 of the Bankruptcy Code, other than recoveries under Sections 506 and 549 of the Bankruptcy Code.
2. "The DIP Facility provides for an aggregate $4.0 million carveout cap for the Debtors' and the Committee's professionals (including accrued and unpaid fees through an event of default plus fees incurred after a notice of event of default). Id. at ¶ 32. For a case of this size, and given the number of professionals retained by the Debtors, a $4.0 million carveout is unreasonably small and should be increased to no less than $6.5 million. In addition, paragraph 32(a) suggests that professionals would not be entitled to receive any of their fees or expenses from the carveout until after the "the application of all available funds of the Debtors' estates." This provision must be revised to allow/require payment of professional fees from the carveout before the exhaustion of the estates' funds." Committee's Objection ¶ 1	The Debtors and DIP Agents negotiated the amount and payment structure of the carve-out in a manner to balance the legitimate needs of the impacted parties, while preserving sufficient availability.
3. "In addition to the payment of over $1.0 million in fees to the DIP Lenders' professionals, the DIP Facility provides for the payment of approximately $15 million in aggregate financing fees. These fees include approximately $4.3 million to the lenders under the $55 million Term B Facility (or approximately 6% of the amount of the facility). Moreover, the $4.3 million fee includes a $1.46 million Make Whole Payment that would be waived if parties do not object to the DIP Motion or take other actions adverse to the lenders. The Make Whole Payment is essentially a penalty and poison pill designed to deter parties from raising objections to the DIP Motion and otherwise taking actions adverse to the lenders. In sum, the Term B Facility fees, including the Make Whole Payment, are unreasonable and excessive in light of both the minimally increased availability offered by the Term B Facility and the value of the DIP Collateral." Committee's Objection ¶ 1	The Debtors were unable to find alternative lenders willing to provide more favorable terms in connection with a facility on substantially similar terms as the DIP Loan. On an aggregate basis, the fees for the entire DIP Loan are not above market. The Committee challenges the fees in connection with their assertion that there is no incremental availability when compared to the Prepetition Term Facility (Committee's Objection ¶ 20); while in fact, the Debtors are receiving substantial additional availability. Klein Supplement ¶ 7. Furthermore, with regard to the "Make Whole Payment," such provision is not a "poison pill" that is structured to deter parties from objecting the DIP Loan, nor is the make-whole triggered by an objection to the DIP Loan. Such payment is waived if the Final Order is entered, and the Committee does not seek to challenge GA Capital's pre-petition liens within the Committee's challenge period.
4. The Committee objects to the following covenants: • "The DIP Facility contains unreasonable and severe borrowing base limitations including, but not limited to, minimum availability reserves for the revolver of $30 million and an unreasonably low borrowing base value that fails to take into account the successful result of the GOB Sale. Moreover, if the minimum availability reserve drops below $25 million, another $15 million reserve block is added on top of that. These borrowing based limitations are unreasonable and excessive given that the DIP Facility is not providing any "new" money to the Debtors and the value of the DIP Collateral is substantially greater than the amounts that will be borrowed. These reserves must be	The DIP Agents insisted on these covenants, and the Debtors have not found any lenders willing to provide more favorable terms in connection with a facility that has similar terms as the DIP Loan. In addition, as evidenced by the Debtors' forecast attached to the Klein Supplement, the Debtors do not appear to be in jeopardy of tripping any of the covenants in the DIP Credit Agreement.

Committee's Objections	Debtors' Response
substantially relaxed to avoid choking the Debtors' cash availability and forcing the Debtors to breach covenants that would trigger defaults leading to an unnecessary and premature liquidation of the Debtors' assets. • The 10% variance covenants for both receipts and disbursements should be replaced with a 15% cumulative net operating cash flow variance and restructuring fees should be excluded from the variance analysis. • The Unused Revolver Fee Margin is 0.50%. Given that the projected unused amount of the revolver is projected to be in excess of $200 million throughout the term of the DIP Facility, this fee is clearly excessive and should be reduced to 0.25%." Committee's Objection ¶ 1	The Debtors have the ability to substantially reduce the unused revolver fee. If, after consultation with the Committee, and after finalization of the Debtors' business plan, it is determined that the revolver can be reduced, the Debtors have the contractual ability to reduce the loan commitment and save the fee. *See* DIP Credit Agreement, § 1.7.

ARGUMENT

I. APPROVAL OF THE DIP LOAN IS SUBJECT TO THE BUSINESS JUDGMENT STANDARD OF REVIEW.

5. Courts have articulated an eight-part test to determine whether to approve the proposed debtor in possession financing. Under this test, the debtor must show that:

(i) the proposed financing is an exercise of sound and reasonable business judgment;

(ii) no alternative financing is available on any other basis;

(iii) the financing is in the best interests of the estate and its creditors;

(iv) as a corollary to the first three points, no better offers, bids, or timely proposals are before the court;

(v) the credit transaction is necessary to preserve assets of the estate;

(vi) the terms of the transaction are fair, reasonable, and adequate, given the circumstances of the debtor and the proposed lender;

(vii) the financing is necessary, essential, and appropriate for the continued operation of the debtor's business and the preservation of its estate; and

(viii) the financing agreement was negotiated in good faith and at arm's length between the debtor and the lender.

See, e.g., In re WorldCom, Inc., Case No. 02-13533, 2002 WL 1732646, at *2-3 (S.D.N.Y. July 22, 2002); *In re Ames Dep't Stores*, 115 B.R. 34, 37-39 (Bankr. S.D.N.Y. 1990). The Debtors

have satisfied this test and have shown that the circumstances of these cases require the Debtors to obtain financing under sections 364(c)(1), (2) and (3) and 364(d) of the Bankruptcy Code. Klein Supplement ¶ 11.

6. The Debtors have exercised sound business judgment in connection with the DIP Loan. In general, "[c]ourts have generally deferred to a debtor's business judgment in granting *section 364* financing." *In re YL West 87th Holdings I LLC*, 423 B.R. 421, 441 (Bankr. S.D.N.Y. 2010) (emphasis in original), *citing In re Ames Dep't Stores*, 115 B.R. at 40; *see also In re Barbara K. Enters., Inc.*, Ch. 11 Case No. 08-11474, 2008 Bankr. LEXIS 1917 at *40 (Bankr. S.D.N.Y. June 16, 2008) (explaining that, although a court has an "important oversight role," a court's "normal function in reviewing requests for post-petition financing is to defer to a debtor's own business judgment"); *see also In re Crowthers McCall Pattern, Inc.*, 114 B.R. 877, 888 (Bankr. S.D.N.Y. 1990) (indicating that under section 363(b), "the Court is not to second guess the inclusion of some provisions as long as the Agreement as a whole is within reasonable business judgment"). Generally, the business judgment doctrine "is grounded in the prudent recognition that courts are ill equipped and infrequently called on to evaluate what are and must be essentially business judgments." *In re Mid-State Raceway, Inc.*, 323 B.R. 40, 57 (Bankr. N.D.N.Y. 2005). As described in the DIP Motion, the DIP Loan is necessary and essential to ensure that the Debtors' continuing viability and is the result of extensive, good faith, arm's-length negotiations after the Debtors' financial advisor canvassed the market. Accordingly, the Court should review this matter under the business judgment standard.

7. The Debtors are unable to obtain the required funds in the form of unsecured credit with an administrative priority because virtually all of the Debtors' assets are encumbered. Having determined that financing was available only under sections 364(c) and (d) of the

Bankruptcy Code, the Debtors negotiated the DIP Loan at arm's-length and pursuant to their business judgment (as more fully described below). Moreover, as described in the DIP Motion, the Debtors are not required, although they certainly attempted here, to seek out alternative financing from all possible sources; rather, courts simply require that debtors exercise sufficient effort in securing financing. *See In re Snowshoe Co., Inc.*, 789 F.2d 1085, 1088 (4th Cir. 1986) (*cited by In re YL West 87th Holdings I LLC*, 423 B.R. at 441). The Debtors have determined that the DIP Loan is the best financing available, despite the fact that certain terms, viewed in isolation, favor the DIP Lenders. "[H]ard bargains are often the lot of Chapter 11 debtors," and "debtors may have to enter into hard bargains to acquire (or continue to receive) the funds needed for reorganization." *In re Farmland Indus., Inc.*, 294 B.R. 855, 885-86 (Bankr. W.D. Mo. 2003) (citations omitted). By extension, the fact that the DIP Loan is the result of "hard bargaining" by no means indicates that the terms of the financing are unsound or unreasonable. *See Id.* at 881, 883-84 ("Debtors thoroughly considered their options and arrived at a sound, reasonable decision" and "[u]nder the business judgment rule . . . [b]usiness judgments should be left to the board room and not to [the] Court") (citations omitted). As explained in the DIP Motion and herein, the DIP Loan was the result of extensive, rational, meaningful negotiations among sophisticated parties. Accordingly, the Debtors procurement of the DIP Loan is an appropriate exercise of the Debtors' sound and reasonable business judgment.

8. Approval of the Final Order will provide the Debtors with ongoing access to borrowing availability to pay their current and ongoing operating expenses, including postpetition wages and salaries, vendor obligations, and other operational costs. Without the liquidity to make these payments, the Debtors will likely be forced to cease operations, which would frustrate the Debtors ability to reorganize and would be antithetical to stakeholder

interests. And, notwithstanding the Committee's unsubstantiated assertion, with appropriate extensions of the Debtors' deadlines under section 365(d)(4) of the Bankruptcy Code, the DIP Loan does not require the Debtors to sell their assets or consummate a plan by June 2011. *See* Committee's Objection ¶ 22.

9. The DIP Loan is the only financing alternative available to the Debtors that will provide the Debtors with the liquidity they need to operate their business without higher fees and/or more restrictive controls or covenants. Its terms are the most favorable upon which the Debtors can obtain needed financing. The Committee cannot credibly contend otherwise.

10. The crux of the Committee's Objection relates primarily to the economic terms of the DIP Loan. The Committee's remaining objections are:

- The fees under the DIP Loan are excessive.
- Certain provisions of the DIP Credit Agreement must be revised, including (i) covenants for both receipts and disbursements, and (ii) the calculation of the borrowing base.
- Avoidance actions should not be part of DIP Collateral.[5]
- The amount of the expense Carve-Out is insufficient.

See Committee's Objection ¶ 1; ¶ 4 *supra*.

11. As described above, the Debtors and the DIP Agents addressed in good faith a substantial portion of the objections asserted by the Committee. However, the Committee is not satisfied and is seeking to renegotiate an arm's-length deal where there is no realistic alternative. The Committee's objections fail for several reasons.

12. First and foremost, the issue here is one of business judgment. As described in the DIP Motion, the DIP Loan is the result of extensive good faith, arm's-length negotiations

[5] The objection of Dallas/Fort Worth International Board, as described on Exhibit A, includes this same objection.

among sophisticated parties, after the Debtors diligently pursued a number of financing options with numerous parties. In the sound and reasonable business judgment of the Debtors and their advisors, the DIP Loan was necessary, was the best deal available, and provided the Debtors required liquidity to keep the lights on and preserve value for the estates. Moreover, in the aggregate, the fees charged by the DIP Agents are within the range of market comparables. When viewed separately, the fees being paid to GA Capital may appear to be above market; however the allocation of fees among the lenders should be irrelevant. It is the aggregate fees that must be measured against the aggregate facility. Furthermore, no other lender was willing to provide financing that primed GA Capital and, indeed, all interested lenders required the consent of GA Capital. In fact, the only party other than GA Capital that displayed serious interest in providing a term loan required higher fees than what GA Capital is receiving. Klein Supplement ¶ 6.

13. Second, while the Debtors acknowledge that the Committee's remaining requests are advantageous to the Debtors, the financial terms they wish to implement are simply not available to the Debtors. In fact, before entering into the DIP Credit Agreement, the Debtors made substantial efforts to obtain better terms from the DIP Agents and DIP Lenders, including, but not limited to, excluding avoidance actions from the DIP Collateral, seeking less restrictive financial covenants, a greater carve-out, and a reduction in the amount of fees payable to the DIP Agents (which the DIP Agents did significantly reduce at the Debtors' insistence, in addition to other points negotiated zealously by the Debtors). However, the DIP Agents insisted on the terms in the DIP Credit Agreement, and the Debtors had to balance seeking more concessions from the DIP Agents – or lose critical post-petition financing and the ability to reorganize. The Debtors chose the path that would maximize value by providing the strongest platform to

reorganize. If the Committee has identified a more reasonable alternative to the DIP Loan, they have not yet shared it with the Debtors. Klein Supplement ¶ 7. Notwithstanding the DIP Agents' position, as a further compromise, the DIP Agents have recently advised the Debtors that they will relinquish their lien on avoidance actions recoverable under the provisions of Chapter 5 of the Bankruptcy Code, other than recoveries under Sections 506 and 549 of the Bankruptcy Code.

14. Third, notwithstanding the financial covenants the Committee is objecting to, the Debtors believe that the DIP Loan will have ample liquidity to maintain their operations and take necessary strategic actions through the chapter 11 cases. Moreover, the Debtors have exceeded their projections in the original Budget filed with the DIP Motion by a wide margin. Klein Supplement ¶ 9.

15. The Debtors have concluded that the DIP Loan will help stabilize their business and facilitate the reorganization process by reassuring tenants, vendors, and employees that the Debtors have ample liquidity to meet postpetition expenses and continue uninterrupted operation of their properties. Any delays in approval of the DIP Loan and the attendant uncertainty that could create -- to both the day-to-day operations of the Debtors and the perception of the Debtors in the marketplace -- could ultimately doom the Debtors' ability to reorganize.

* * *

16. The Debtors have worked diligently to obtain financing that is in the best interests of the Debtors' estates and all stakeholders. There are no better options. The Objections and any incremental savings from the proposed changes are insubstantial in comparison to the absolute devastation to the Debtors, their businesses and value to stakeholders if the Objections prevail. The Objections should be overruled and the DIP Motion approved.

CONCLUSION

WHEREFORE for all of the foregoing reasons, the Debtors respectfully request that the Court overrule the Objections and grant the relief requested herein.

Dated: March 11, 2011
New York, New York

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

By: /s/ David M. Friedman

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EXHIBIT A

OBJECTION SUMMARY CHART

TIMELY OBJECTIONS TO THE DIP MOTION

Objecting Parties	Nature of Objection	Nature of Resolution (if any)	Basis for the Objections to be Overruled
Lewisville Independent School District (Texas) [Docket No. 292]	Treatment of ad valorem taxes	Resolved. Language has been added to the Final Order to clarify that ad valorem taxes will not be primed. See Final Order, footnote 3.	n/a
Burleson ISD, City of Burleson, city of Colleyville, Grapevine-Colleyville ISD, City of Grapevine, Clear Creek ISD, Woodlands Metro MUD, Woodlands RUD #1, and Baybrook MUD #1 (Texas) [Docket No. 290]	Same as above	Same as above	n/a
Bell County and County of Denton (Texas) [Docket No. 161]	Same as above	Same as above	n/a
Dallas/Fort Worth International Board [Docket No. 303]	(i) Objection to the extent certain surety bonds are deemed DIP Collateral (ii) Objection to DIP Agents of DIP Lenders receiving a security interest in avoidance actions	(i) See next column (ii) See next column	(i) The DIP Agents and the Debtors acknowledge that the surety bonds described in the objection are not DIP Collateral. (ii) The DIP Agents required that such interests in avoidance actions be a part of the DIP Collateral. In exercising their business judgment, the Debtors granted these liens. However, the DIP Agents have recently advised the Debtors that they will relinquish their lien upon avoidance actions recoverable under the provisions of Chapter 5 of the Bankruptcy Code other than recoveries under sections 506 and 549.
Verizon Communications, Inc. [Docket No. 319]	Clarification that certain equipment leased to the Debtors was part of DIP Collateral	Resolved. No changes to the Final Order needed.	n/a
The Official Committee of Unsecured Creditors [Docket No. 340]	As described in the body of the response		As described in the body of the response

EXHIBIT B

SUPPLEMENTAL DECLARATON OF RICHARD KLEIN

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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	**Chapter 11**
BORDERS GROUP, INC., *et al.*,[1]	**Case No. 11-10614 (MG)**
Debtors.	**(Jointly Administered)**

SUPPLEMENTAL DECLARATION OF RICHARD KLEIN IN SUPPORT OF DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 (1) APPROVING POSTPETITION FINANCING, (2) AUTHORIZING USE OF CASH COLLATERAL, (3) GRANTING LIENS AND PROVIDING SUPERPRIORITY ADMINISTRATIVE EXPENSE STATUS, (4) GRANTING ADEQUATE PROTECTION, AND (5) MODIFYING THE AUTOMATIC STAY

I, Richard Klein, pursuant to 28 U.S.C. § 1746, hereby declares and state:

1. I submit this declaration (the "Supplemental Declaration") as a supplement to the *Declaration of Richard Klein in Support of Debtors' Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, (5) Modifying the Automatic Stay, and (6) Scheduling a Final Hearing,* dated February 16, 2011 [Docket No.

[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.

28] (the "Original Declaration"), and in support of the *Debtors' Omnibus Reply in Support of Debtors' Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, and (5) Modifying the Automatic Stay* (the "DIP Reply") to be filed concurrently with this Supplemental Declaration.[2]

2. Unless otherwise stated in this Supplemental Declaration, I have personal knowledge of the facts set forth herein and, if called as a witness, I would testify thereto.

The DIP Negotiations

3. In its objection, the Committee objects to heavily negotiated terms, including, (i) the inclusion of the estates' interests in certain avoidance actions as DIP Collateral, (ii) the amount of fees payable to the DIP Agents, and (iii) certain financial covenants and borrowing base provisions that the Committee believes unduly restrict the Debtors' liquidity.

4. Before entering into the DIP Credit Agreement, the Debtors made substantial efforts – similar to, and indeed far more comprehensive than, the objections raised by the Committee – to obtain better terms from the DIP Agents, including, but not limited to, seeking less restrictive financial covenants and a larger carve-out for payment of professional fees. The DIP Agents repeatedly and strenuously declined the Debtors' requests. In addition, as set forth in the Original Declaration, Jefferies reached out to 39 other potential DIP lenders to obtain better terms from a different lender. As a result of this process, it became clear that the DIP Loan was the best financing package available to the Debtors.

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[2] Capitalized terms and phrases not otherwise defined herein shall have the meanings ascribed to such terms in the *Debtors' Motion for Entry of Interim and Final Orders Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, (5) Modifying the Automatic Stay, and (6) Scheduling a Final Hearing* [Docket No. 27] (the "DIP Motion").

5. The Debtors sought to reduce the fees payable to the DIP Agents, but the Debtors simply could not obtain better terms. The Committee complains primarily that the fees payable to GA Capital and the Term B Facility Lenders (the "Term Lenders") are excessive. However, the aggregate amount of fees payable under the DIP Loan is consistent with market terms for debtor-in-possession ("DIP") loans. The total fees paid are approximately 2.6% (not including the potential "make-whole" payment) of the DIP commitments and within the range of the market for loans of comparable tenor. After reviewing recent DIP loans in retail cases, I concluded that the range for comparable facilities was approximately 1% to 2.75%, and that for other types of cases over the last two years, many DIP lender fees were greater than 3%. Although the fees being paid to GA Capital in isolation may be higher than other DIP loans of a similar amount, the appropriate metric should be the total fees paid by the Debtors for the total facility, not the particular fees allocated to a particular lender. Moreover, although not necessarily relevant to the analysis, GA Capital, as the holder of the "first loss" position in the secured portion of the Debtors' capital structure and party to an Intercreditor Agreement with other lenders, had what amounted to veto power over any DIP financing absent repayment in full. Indeed, none of the prospective DIP lenders identified by Jefferies was willing to provide DIP financing without refinancing, or the consent of, GA Capital and the Term Lenders.

6. Thus, to obtain any DIP Loan, the Debtors were required to negotiate with GA Capital on the terms of the DIP term loan, and the amount of the fees payable to GA Capital, accurately reflected their negotiating leverage. Importantly, the only party other than GA Capital that displayed serious interest in providing a term loan required higher fees than what GA Capital will receive. As a result, it would have been more costly, if even possible, to replace GA Capital.

7. The Committee also is incorrect by characterizing the Term Lenders as providing no incremental liquidity to the Debtors. The DIP Loan package includes significant concessions by the DIP Lenders that provide approximately $30 million (if not higher) of liquidity incremental to the Debtors' pre-petition credit facilities[3]. This incremental liquidity primes the Term Lenders in a manner that the Term Lenders contend would otherwise violate the Intercreditor Agreement. The Term Lenders' consent to this incremental priming thus is essential to the Debtors' receipt of these extra funds. If the Committee has identified a more reasonable alternative to the DIP Loan, they have not yet shared it with the Debtors.

8. The economic terms of the DIP Credit Agreement are appropriate and represent the best financing available to the Debtors. The Debtors reasonably believe, and I agree, that the DIP Loan provides the Debtors the best chance to reorganize and enhance the value available to all parties in interest.

The Debtors Have Adequate Availability

9. I was heavily involved in the negotiation of the covenants in the DIP Credit Agreement and believe that the Debtors will be able to comply with such covenants. For example, annexed hereto as Exhibits A and B, respectively, are: (i) a chart detailing the DIP Budget variance since the Commencement Date (the "Variance Report"); and (ii) a revised DIP forecast (the "Revised DIP Forecast"). As set forth in the Variance Report, the Debtors' actual availability under the DIP Loan at March 5, 2011 was approximately $54 million more than projected in the initial Budget filed on February 16, 2011. The reasons for the increased availability are, among others: (i) the success of the Debtors' store closure auction; (ii) lower operating disbursements; and (iii) greater than expected operating receipts. As a result of the

[3] The Term Lenders have also agreed to allow their loan to be further subordinated by the Cash Management L/C Facility, in an amount not to exceed $20 million.

events detailed in the Variance Report, the Debtors have prepared the Revised DIP Forecast, which shows that the Debtors should have more than sufficient availability to operate successfully in chapter 11 and ultimately emerge a stronger and more viable company.

10. I believe the DIP Loan will provide the Debtors ample availability to pay all of their operating and restructuring expenses during these cases.

11. I understand courts look at several factors in determining whether to approve post-petition financing, including whether:

(i) the proposed financing is an exercise of sound and reasonable business judgment;

(ii) alternative financing is available on any other basis;

(iii) the financing is in the best interests of the estate and its creditors;

(iv) as a corollary to the first three points, no better offers, bids, or timely proposals are before the court;

(v) the credit transaction is necessary to preserve assets of the estate;

(vi) the terms of the transaction are fair, reasonable, and adequate, given the circumstances of the debtor and the proposed lender;

(vii) the financing is necessary, essential, and appropriate for the continued operation of the debtor's business and the preservation of its estate; and

(viii) the financing agreement was negotiated in good faith and at arm's length between the debtor and the lender.

I believe based on my experience with the Debtors and my professional judgment that each of the foregoing factors have been met in connection with the DIP Loan.

I declare under penalty of perjury that the foregoing information is true and correct to the best of my knowledge, information, and belief.

Dated: March 11, 2011
New York, New York

/s/ Richard Klein
Richard Klein
Senior Vice President

Exhibit A

Exhibit A

($Millions)

Cumulative Actual vs. Budget Variance Report for the Three Weeks Ending 3/5/2011			
Week Ending	**Actual**	**Budget**	**Variance**
Cash Flow			
Receipts Subtotal	232	206	26
Operating Disbursements			
Merchandise	(20)	(25)	5
Payroll & Payroll Taxes (all stores)	(14)	(15)	1
Rent & Occupancy	(15)	(16)	0
Other	(17)	(22)	6
Operating Disbursements Subtotal	(66)	(78)	12
Operating Cash Flow	166	128	38
Non Operating Disbursements			
GOB Related Disbursements	$ (14)	$ (12)	$ (2)
Bankruptcy Payments	-	(4)	4
Financing Expenses	(23)	(21)	(2)
Other	-	(4)	4
Total Non Operating Disbursements	(37)	(40)	4
Net Cash Flow (Weekly)	129	87	42
Net Availability			
Borrowing Base (After Reserves)	240	249	(9)
Less: Loan Balance	(39)	(102)	63
Less: LC's	(37)	(34)	(3)
Less: Minimum Availability Reserve	(30)	(30)	-
Less: TL Minimum Availability Reserve	-	(3)	3
Total	(106)	(169)	63
Net Availability	**$ 134**	**$ 80**	**$ 54**

Exhibit B

Exhibit B

($Millions)

Cash Flow Forecast	March			April					May				June			
Week Ending	12	19	26	2	9	16	23	30	7	14	21	28	4	11	18	25
Cash Flow																
Receipts Subtotal	25	27	28	27	61	28	30	28	23	23	23	23	24	24	23	31
Operating Disbursements																
Merchandise	(21)	(21)	(22)	(24)	(21)	(18)	(11)	(10)	(10)	(10)	(10)	(13)	(16)	(17)	(15)	(16)
Payroll & Payroll Taxes (all stores)	(8)	(3)	(10)	(3)	(8)	(3)	(8)	(3)	(8)	(3)	(6)	(2)	(6)	(2)	(6)	(2)
Rent & Occupancy	-	-	-	(17)	-	(5)	-	(17)	-	-	-	-	(17)	-	-	-
Other	(7)	(13)	(12)	(5)	(5)	(6)	(11)	(10)	(5)	(5)	(11)	(10)	(5)	(5)	(8)	(7)
Operating Disbursements Subtotal	(36)	(37)	(44)	(49)	(34)	(32)	(30)	(39)	(23)	(17)	(27)	(24)	(43)	(24)	(29)	(25)
Operating Cash Flow	(11)	(10)	(16)	(22)	26	(5)	(0)	(12)	0	6	(4)	(1)	(19)	1	(6)	6
Non Operating Disbursements																
GOB Related Disbursements	$ (1)	$ (1)	$ (1)	$ (10)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Bankruptcy Payments	(4)	-	-	-	(2)	-	-	-	-	-	-	-	-	-	-	-
Financing Expenses	(0)	(3)	(0)	(1)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)
Other	(1)	(1)	(1)	(0)	-	-	-	(3)	(4)	-	-	(3)	(4)	-	-	(2)
Total Non Operating Disbursements	(6)	(4)	(1)	(11)	(2)	(0)	(0)	(4)	(5)	(0)	(0)	(4)	(4)	(0)	(0)	(3)
Net Cash Flow (Weekly)	(17)	(14)	(17)	(33)	24	(5)	(0)	(16)	(5)	6	(4)	(5)	(22)	0	(6)	3
Net Cash Flow (Cum, Post-Petition)	112	98	81	48	72	68	67	51	46	53	48	43	21	21	15	18
Net Availability																
Borrowing Base (After Reserves)	243	247	255	264	273	281	287	288	286	287	286	287	288	290	293	296
Less: Loan Balance	(80)	(94)	(111)	(144)	(120)	(126)	(125)	(141)	(146)	(140)	(144)	(149)	(172)	(171)	(178)	(174)
Less: LC's	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)	(37)
Less: Minimum Availability Reserve	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Less: TL Minimum Availability Reserve	-	-	-	-	-	(7)	(7)	(7)	(7)	(8)	(8)	(8)	(8)	(7)	(7)	(8)
Total	(147)	(161)	(178)	(211)	(186)	(198)	(199)	(215)	(220)	(214)	(218)	(224)	(246)	(245)	(251)	(249)
Net Availability	$ 96	$ 87	$ 77	$ 53	$ 87	$ 83	$ 88	$ 72	$ 66	$ 73	$ 68	$ 63	$ 42	$ 45	$ 42	$ 48