

David M. Friedman (DFriedman@kasowitz.com)
Andrew K. Glenn (AGlenn@kasowitz.com)
Jeffrey R. Gleit (JGleit@kasowitz.com)
KASOWITZ, BENSON, TORRES & FRIEDMAN LLP
1633 Broadway
New York, New York 10019
Telephone: (212) 506-1700
Facsimile: (212) 506-1800

Attorneys for Debtors and Debtors in Possession

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

In re

**BORDERS GROUP, INC., *et al.*,¹
Debtors.**

Chapter 11

Case No. 11-10614 (MG)

(Jointly Administered)

**Related Docket Nos.: 209, 263, 270, 289, 296
297, 298, 304, 306, 312, 314, 345, 351**

**DEBTORS' OMNIBUS REPLY TO OBJECTIONS TO MOTION FOR ENTRY OF AN
ORDER EXTENDING THE DEADLINE TO ASSUME OR REJECT
UNEXPIRED LEASES OF NONRESIDENTIAL REAL PROPERTY**

Borders Group, Inc. ("BGI") and its affiliated debtors, as debtors and debtors in possession (collectively, the "Debtors"), file this reply to the objections (collectively, the "Objections")² to the order approving the Debtors' Motion For Entry Of An Order Extending The Deadline To Assume Or Reject Unexpired Leases Of Nonresidential Real Property (the "Motion"). In further support of this Motion, the Debtors represent:

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 A summary of the Objections is attached hereto as Exhibit A.

PRELIMINARY STATEMENT

1. No party in this case disputes that the Debtors' lease portfolio is crucial to their reorganization efforts. Instead, individual landlords have objected to the Motion as a platform to address their parochial interests. The Debtors have worked – and will continue to work – with their landlords to address all lease-related issues on a consensual basis. However, the Debtors need sufficient time to make informed determinations about their lease portfolio. If the Debtors are forced to address landlord demands on an individual basis as a condition of obtaining the relief requested in the Motion, the very purpose of the Motion would be frustrated.

2. Many of the objectors complain that the Debtors have not been paid post-petition rent. But the Debtors have paid March rent, and all “stub” rent will be paid on or before April 18, 2011 (if it has not already paid), even though the Debtors could have contested the timing of such stub rent payment. Other objectors complain that the Debtors need not extend the assumption/rejection deadline for leases relating to stores that already are subject to the store closing process. To address these concerns, the Debtors are withdrawing the relief sought in the Motion without prejudice solely as to such stores (the Debtors may need to extend the deadlines later in the process in a few cases if additional time is necessary to assume and assign such leases).

3. Finally, some of the objectors protest that the Debtors have not proven that “cause” exists to extend the assumption/rejection deadline because this Motion was filed so early in the case. The objectors are demonstrably wrong: any delay in filing this Motion could jeopardize or even derail the Debtors' reorganization efforts. Under the DIP Facility, the Debtors must send bid packages to liquidators for store closing sales for any store with a lease that has not been assumed fifteen (15) weeks before the applicable deadline to assume or reject;

they have other obligations as well, such as commencing store closing sales at least twelve (12) weeks before the assumption/rejection deadline. If the Debtors fail to get extensions of the assumption/rejection deadline, they risk being in default and losing borrowing availability for inventory at each such location. Indeed, because the deadline to send bid packages to liquidators already passed, the Debtors needed a waiver from the DIP lenders extending the deadline until March 15, 2010, the day of the hearing on this Motion. If the Court does not approve the Motion, the Debtors will have defaulted under the DIP, which will force these cases into liquidation.

4. Under the circumstances, there is ample cause to extend the deadline to assume or reject the Debtors' unexpired leases under section 365(d)(4) of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), and the Debtors respectfully submit that the Court should grant the Motion in order to afford the Debtors an appropriate opportunity to conduct the analysis and negotiation that is necessary to make informed decisions concerning the Debtors' lease portfolio.

BACKGROUND

5. On February 16, 2011 (the "Commencement Date"), each of the Debtors commenced a voluntary case under chapter 11 of 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

6. The Debtors are a leading operator of book, music and movie superstores and mall-based bookstores. As of 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; three of the Debtors' stores are located in Puerto Rico, and the remainder are in the United States. 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.

7. 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

8. For the fiscal year that 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.

9. On March 1, 2011, the Debtors filed a motion (the "Motion"),³ pursuant to section 365(d)(4) title 11 of the United States Code (the "Bankruptcy Code"), to extend the period within which the Debtors may assume or reject unexpired leases of nonresidential real property.

JURISDICTION

10. 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.

³ All capitalized terms not otherwise defined herein, shall have the same meaning as in the Motion.

REPLY TO OBJECTIONS

A. The Debtors Have Paid Or Will Pay Their Post-Petition Obligations.

11. Certain of the objectors contend that the Motion should be denied because the Debtors have not satisfied their post-petition obligations under the leases, including payment of the March 2011 rent and “stub” rent for February. As described in the *Supplemental Declaration of Richard Klein In Support Of The Debtors’ Omnibus Reply To Certain Objections To Motion For Entry Of An Order Extending The Deadline To Assume Or Reject Unexpired Leases Of Nonresidential Real Property* (herein the “Supp. Klein Decl.”), attached hereto as Exhibit B, the Debtors have agreed to pay the stub rent on or before April 18, 2011 (60 days from the Commencement Date). Also, as of the date of this Reply, the Debtors have paid March 2011 rent.⁴ (See Supp. Klein Decl. at ¶ 15). Thus, the Debtors have been satisfying, and will continue to satisfy, all post-petition rent obligations.

B. “Cause” Exists For The Court To Grant The 90-Day Extension.

12. The Debtors request entry of an order pursuant to section 365(d)(4) of the Bankruptcy Code (i) extending the section 365(d)(4) deadline (the “365(d)(4) Deadline”) by 90 days to September 14, 2011, for a total of 210 days and (ii) authorizing, but not directing, the Debtors to enter into Stipulations, as needed, further extending the time beyond the currently requested 210-day period to assume or reject any of the Unexpired Leases. Under section 365(d)(4), the Court may grant the 90-day extension “for cause” and “may grant a subsequent extension only upon prior written consent of the lessor in each instance.” See 11 U.S.C. § 365(d)(4)(B).

⁴ There was an administrative error at the Debtors’ bank that resulted in the return of some of the March rent checks. The Debtors have been working to replace the checks or provide wire transfers to correct this error before the hearing on this matter.

13. As discussed in the Motion, the test in this Circuit for extension of the deadline to assume or reject was articulated in *South St. Seaport L.P. v. Burger Boys, Inc. (In re Burger Boys, Inc.)*, 94 F.3d 755, 761 (2d Cir. 1996). The factors include: (i) whether the lease is the debtor's primary asset; (ii) whether the debtor has had sufficient time to formulate a plan of reorganization; (iii) whether the debtor was paying for the use of the property; and (iv) whether the debtor's continued occupation could damage the lessor beyond the compensation available under the Bankruptcy Code. *Id.*

14. Certain objectors argue that because the Debtors' bankruptcy cases are in their early stages, the Motion is premature, which precludes the Debtors from proving "cause." This argument is flawed and without support in the case law. First, the Debtors' \$505 million DIP Facility requires that:

- "[O]n or before fifteen (15) weeks prior to the [applicable deadline to assume or reject unexpired lease (the "Lease Rejection Deadline")], the Credit Parties have not distributed bid packages to solicit . . . from Approved Liquidators with respect to assets located on the properties that are subject to leases to be rejected on the Lease Rejection Date."
- "[O]n or before fourteen (14) weeks prior to the Lease Rejection Deadline, the Credit Parties have not filed a motion or series of motions seeking authority to establish bidding procedures and to engage an Approved Liquidator to conduct the Permitted Store Closings as the so-called "stalking horse", which bidding procedures shall be reasonably acceptable to the Agents."
- "[O]n or before thirteen (13) weeks prior to the Lease Rejection Deadline, the Credit Parties have not entered into a stalking horse bid with an Approved Liquidator pursuant to an Approved Liquidation Agreement."
- "[O]n or before twelve (12) weeks prior to the Lease Rejection Deadline, the Credit Parties have not (i) received Bankruptcy Court approval of the Permitted Store Closings or (ii) commenced the Permitted Store Closings."
- "[O]n or before the date that is sixty (60) days after the [Commencement] Date, the [Debtors] have not obtained an order of the Bankruptcy Court extending the time period . . . to assume or reject leases to not less than two hundred and ten (210) days from the [Commencement Date]."

(DIP Facility § 7.1(m)). Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores because they are not prepared to assume all of the leases. If the Debtors fail to adhere to these deadlines, they will risk defaulting on the DIP and losing the ability to borrow thereunder, which also will force a liquidation. (See DIP Facility §§ 1.1, 1.8, 2.2 and § 11.01) (definitions of Maximum Borrowing Availability and Maximum Borrowing Availability).⁵ Indeed, the deadline to send bid packages to liquidators under the DIP Facility occurred on March 3, 2011. To address this issue, the DIP Lenders agreed to extend this deadline through March 15, 2011, the date of this hearing. (Supp. Klein Decl. ¶ 13). If the Court does not approve the Motion, the Debtors will be in default under the DIP Facility.

15. Given the milestones in the DIP Facility, the Debtors' *de facto* deadline to assume or reject leases will be at least 90 days earlier than any deadline set by Section 365 of the Bankruptcy Code. Even though the requested extension is for 90 days, the DIP Facility requires that the Debtors make decisions to close stores 90 days before the deadline to assume or reject. Thus, with this Motion, the Debtors are merely seeking to give themselves what section 365(d)(4) of the Bankruptcy Code actually affords to make these determinations: 120 days. Accordingly, this Motion is not premature. To the contrary, if the Debtors failed to make this Motion now, they would forfeit their opportunity to reorganize because the chain would have no alternative except liquidation.

⁵ The Debtors are required to set a Lease Reserve (as defined in the DIP Facility), that is determined, in part, by the amount of inventory at leased locations that have not been assumed by the Lease Assumption Reserve Commencement Date (12 weeks before the applicable deadline to assume or reject). Under the DIP Facility, an increase in the Lease Reserve will decrease borrowing availability. To the extent the 120-day deadline is not extended by March 24, 2011, the Lease Reserve will be triggered and the Debtors will lose their availability under the DIP Facility.

16. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. As of the Commencement Date, the Debtors were party to approximately 680 commercial leases, including approximately 670 leases for retail stores. The Debtors operate all of their stores pursuant to these leases, which are vital to their business and, thus, a successful reorganization. Even if the milestones in the DIP Facility did not exist, the Debtors need the 90-day extension to complete this process. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period. Where, as here, the initial period to assume or reject unexpired nonresidential leases likely will be inadequate to make determinations about lease assumption and rejection, bankruptcy courts have routinely extended such periods, especially in retail bankruptcy cases. *In re Uno Rest. Holdings Corp.*, Case No. 10-10209 (Bankr. S.D.N.Y. May 11, 2010); *see also In re Movie Gallery, Inc.*, Case No. 10-30696 (Bankr. E.D. Va. May 28, 2010) (granting 90-day extension of the 120-day period to assume or reject unexpired leases); (same); *In re Finlay Enters., Inc.*, Case No. 09-14873 (Bankr. S.D.N.Y. Dec. 17, 2009) (same); *In re Stone Barn Manhattan LLC*, Case No. 08-12579 (Bankr. S.D.N.Y. Oct. 17, 2008) (same).

17. In sum, the proposed extension of the 365(d)(4) deadline through and including the additional 90 days provided by section 365(d)(4) of the Bankruptcy Code is necessary, appropriate and in the best interests of the Debtors' estates. Accordingly, the Debtors respectfully request that the Court grant the requested extension.

WHEREFORE, for the reasons set forth herein and in the Supplemental Declaration of Richard Klein, the Debtors respectfully request that the Court (a) enter an order, substantially in the form attached as Exhibit A to the Motion granting the relief requested herein and (b) grant such other and further relief as is just and proper.

Dated: March 11, 2011
New York, New York

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

By: /s/ Andrew K. Glenn
David M. Friedman (DFriedman@kasowitz.com)
Andrew K. Glenn (AGlenn@kasowitz.com)
Jeffrey R. Gleit (JGleit@kasowitz.com)
1633 Broadway
New York, New York 10019
Telephone: (212) 506-1700
Facsimile: (212) 506-1800

Attorneys for Debtors and Debtors in Possession

EXHIBIT A

SUMMARY CHART OF OBJECTIONS

SUMMARY OF OBJECTIONS

	NAME OF OBJECTING LANDLORD	DOCKET NO.	DATE FILED	ASSERTED GROUNDS FOR OBJECTING	DEBTORS' RESPONSE
1	Mt. Kisco Associates L.P.	263	3/7/2011	Objecting Landlord alleges that Debtors' motion for extension is premature, because the chapter 11 case is still in its infancy.	The DIP Facility contains numerous milestones tied to the deadline to assume or reject leases. Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores, because they are not prepared to assume all of the leases. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. The Debtors operate all of their stores pursuant to their leases, which are vital to their business and, thus, a successful reorganization. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period.
2	Toys Center, LLC	270	3/7/2011	Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.
3	Faber Bros., Inc.	289	3/7/2011	Objecting Landlord alleges that Debtors have not made post-petition payments for March 2011 rent when due.	As of the date of this Reply, the Debtors have paid or in the process of paying March 2011 rent.
4	First Interstate Mentor Centers, L.P. and Ledgewood Equities, LLC	296	3/7/2011	Objecting Landlord alleges that Debtors' motion for extension is premature, because the chapter 11 case is still in its infancy. Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent. Objecting Landlord alleges that Debtors' motion for extension lacks "cause" as required by section 365(d)(4)(B).	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011. The DIP Facility contains numerous milestones tied to the deadline to assume or reject leases. Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores, because they are not prepared to assume all of the leases. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. The Debtors operate all of their stores pursuant to their leases, which are vital to their business and, thus, a successful reorganization. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period.

	NAME OF OBJECTING LANDLORD	DOCKET NO.	DATE FILED	ASSERTED GROUNDS FOR OBJECTING	DEBTORS' RESPONSE
5	The Macerich Company, RREEF Management Company, Related Urban Management, Cousins Properties, Incorporated, Corning Companies, Passco Companies, LLC, AEW Capital Management, LP, Urban Retail Properties, Inc., and Steadfast Companies	297	3/8/2011	<p>Objecting Landlord asserts that Debtors' motion for extension should exclude closed and closing store locations.</p> <p>Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent and March 2011 rent when due.</p> <p>Objecting Landlord asserts that Debtors' motion for extension should not extend beyond the confirmation date of any plan of reorganization.</p>	<p>The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.</p> <p>The Debtors are withdrawing the relief sought in the Motion without prejudice solely as to the closing stores. However, the Debtors may need to extend the deadlines later in the process in a few cases if additional time is necessary to assume and assign such leases. H8</p>
6	Inland Southwest Management LLC, Inland American Retail Management LLC, Inland US Management LLC, Inland Commercial Property Management Corp.	298	3/8/2011	<p>Objecting Landlord alleges that Debtors have not made post-petition payments for March 2011 rent when due.</p> <p>Objecting Landlord alleges that Debtors' motion for extension lacks "cause" as required by section 365(d)(4)(B).</p>	<p>As of the date of this Reply, the Debtors have paid or in the process of paying March 2011 rent.</p> <p>The Debtors are going to pay the Stub Period Rent on or before April 18, 2011. The DIP Facility contains numerous milestones tied to the deadline to assume or reject leases. Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores, because they are not prepared to assume all of the leases. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. The Debtors operate all of their stores pursuant to their leases, which are vital to their business and, thus, a successful reorganization. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period.</p>
7	Coventry Retail, L.P.	304	3/8/2011	<p>Objecting Landlord asserts that Debtors do not have the right to assume or reject the Lease, because the Lease expired prior to the Petition Date.</p> <p>To the extent the Lease is property of the Debtors' estate, Objecting Landlord alleges that Debtors' motion for extension lacks "cause" as required by section 365(d)(4)(B).</p>	<p>The Debtors agree that the lease with Coventry Realty L.P. expired in January 31, 2011. The Objecting Landlord and the Debtors have agreed to a turn over date of the property and are in the process of entered into a joint stipulation.</p> <p>The Debtors are going to pay the Stub Period Rent on or before April 18, 2011. The DIP Facility contains numerous milestones tied to the deadline to assume or reject leases. Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores, because they are not prepared to assume all of the leases. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. The Debtors operate all of their stores pursuant to their leases, which are vital to their business and, thus, a successful reorganization. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period.</p>

	NAME OF OBJECTING LANDLORD	DOCKET NO.	DATE FILED	ASSERTED GROUNDS FOR OBJECTING	DEBTORS' RESPONSE
8	Camino Real Limited Liability Company	306	3/8/2011	Objecting Landlord alleges that Debtors' motion for extension lacks "cause" as required by section 365(d)(4)(B), particularly with respect to Debtor's decision not to make its Goletta, California store, leased from Objecting Landlord, part of its "going forward" restructuring plan and the anticipated duration of the store closing sale.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011. The DIP Facility contains numerous milestones tied to the deadline to assume or reject leases. Because the Debtors must adhere to these deadlines, if the deadline to assume or reject the Unexpired Leases is not extended, they will be required to liquidate all inventory in all stores, because they are not prepared to assume all of the leases. Second, the complexity of these cases necessitates that the Debtors receive the statutory 90-day extension. The Debtors operate all of their stores pursuant to their leases, which are vital to their business and, thus, a successful reorganization. Without the 90-day extension, the Debtors must analyze operations, negotiate with landlords and develop a plan for these critical assets within the initial 120-day period.
9	Westfield, LLC	312	3/8/2011	Joinder to Docket No. 297.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.
10	Simon Property Group, Inc.	314	3/8/2011	Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.
11	GGP Limited Partnership	345	3/10/2011	Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.
12	TigrisWoods, LLC	351	3/10/2011	Objecting Landlord alleges that Debtors have not made post-petition payments for the Stub Period Rent.	The Debtors are going to pay the Stub Period Rent on or before April 18, 2011.

EXHIBIT B

RICHARD KLEIN SUPPLEMENTAL DECLARATION

David M. Friedman (DFriedman@kasowitz.com)
Andrew K. Glenn (AGlenn@kasowitz.com)
Jeffrey R. Gleit (JGleit@kasowitz.com)
KASOWITZ, BENSON, TORRES & FRIEDMAN LLP
1633 Broadway
New York, New York 10019
Telephone: (212) 506-1700
Facsimile: (212) 506-1800

Attorneys for Debtors and Debtors in Possession

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

**In re
BORDERS GROUP, INC., et al.,¹
Debtors.**

**Chapter 11
Case No. 11-10614 (MG)
(Jointly Administered)**

**SUPPLEMENTAL DECLARATION OF RICHARD KLEIN IN SUPPORT OF
DEBTORS' OMNIBUS REPLY TO CERTAIN OBJECTIONS TO MOTION FOR
ENTRY OF AN ORDER EXTENDING THE DEADLINE TO ASSUME OR REJECT
UNEXPIRED LEASES OF NONRESIDENTIAL REAL PROPERTY**

Pursuant to 28 U.S.C. § 1746, I, Richard Klein, hereby declare as follows:

1. I am a Senior Vice President of Jefferies & Company, Inc. (“Jefferies”), an investment banking firm with its principal offices located at 520 Madison Avenue, New York, New York, 10022, and other offices located worldwide.

2. I have provided financial advisory services to debtors and creditors through in-court and out-of-court reorganizations in a number of industries for approximately 14 years. These matters include distressed sale, buy-side and other restructuring advisory mandates, including bankruptcy planning and management, valuation and other analysis, as well as securing debtor in possession financing and/or exit financing. My distressed sale and

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.

restructuring experience, which includes numerous retail cases, includes Adelphia, Apex Silver, Anthony Crane Rentals, Arthur D. Little, Bruegger's Corporation, Buffet Holdings, Circuit City, Fitzgeralds Gaming, Fontainebleau, Friedman's Jewelers, Harrah's Jazz, Legends Gaming, Majestic Star, Robotic Vision Systems, Inc., TIMCO Aviation Services, Tony Roma's, Transeastern Homes, Trump Hotels & Casino Resorts and Uno's Restaurant Holdings. Prior to joining Jefferies, I spent 12 years at Houlihan Lokey Howard & Zuckin, where I advised companies and various creditor constituencies on a variety of recapitalization, restructuring and sale transactions. Prior to joining Houlihan Lokey in 1996, I worked in commercial finance for the CIT Group. I received a B.S. in Business Administration with a concentration in finance from the State University of New York at Albany.

3. Jefferies is the proposed financial advisor to the above-captioned debtors and debtors in possession (collectively, the "Debtors").

4. I submit this declaration (the "Supplemental Declaration") in support of the *Debtors' Omnibus Reply To Certain Objections To Motion For Entry Of An Order Extending The Deadline To Assume Or Reject Unexpired Leases Of Nonresidential Real Property.*² In particular, I submit this Supplemental Declaration to place before this Court evidence supporting my opinions, to a reasonable degree of expert certainty, that (a) the Debtors' Unexpired Leases (defined below) are core assets of the Debtors; (b) the Debtors' treatment of the Unexpired Leases is one part of a multi-faceted operational restructuring plan; (c) the Debtors have paid or are currently paying all March 2011 rent obligations and will continue to pay the post-petition rent obligations that arise under the Unexpired Leases; (d) and the Debtors will pay the "stub

² Capitalized terms not otherwise defined herein shall have the meanings set forth in the Motion.

period” rent from the Commencement Date through and including February 28, 2011 (the “Stub Period Rent”) on or before April 18, 2011.

5. I believe that the Debtors need at least the 210-day statutory period provided by section 365(d)(4) of the Bankruptcy Code to determine, as part of implementing their comprehensive operational restructuring, whether to assume or reject remaining real property leases and subleases (collectively, the “Unexpired Leases”). These leasehold interests are core assets of the Debtors’ estates and are vital to their operations. Thus, the ultimate treatment of such assets will play a pivotal role in the Debtors’ successful reorganization. In addition, as circumstances may require, further extensions of the lease assumption/rejection deadline from certain landlords may be necessary.

6. Generally, the Debtors do not own the property from which they conduct their operations; rather, they lease such nonresidential real property. As of the Commencement Date, the Debtors are party to approximately 680 Unexpired Leases, including approximately 670 leases for its brick and mortar retail stores, offices and warehouses, with approximately 300 landlords, not including four (4) leases for dark properties that the Debtors have already sought to reject.

7. On February 19, 2011, the Debtors, through a liquidating agent, commenced store closing sales (“SCSs”) at 200 of the Debtors’ stores (the “Closing Stores”). Additionally, up to 75 of 136 potential other stores (the “Put Option Stores”) may be designated as a Closing Store by March 20, 2011. However, once a Put Option Store has been designated a Closing Store, it takes up to three (3) weeks for the SCSs to commence and up to twelve (12) weeks for the SCSs to conclude. Thus, a total of 105 days will elapse between the designation of a new Closing Store and the conclusion of the SCSs for the Put Option Stores. Given this timeline, the initial

120-day period will not afford the Debtors with sufficient time to make informed decisions regarding whether to assume or reject each lease for Put Option Stores.

8. If the Court grants the Debtors the 90-day extension, the Debtors do not intend to delay their decision to assume or reject an Unexpired Lease, even for leases at Closing Stores. Instead, the Debtors will move expeditiously to target and determine which Unexpired Lease they should assume, which ones they may be able to assign to third-parties, and which leases they should reject.

9. The Debtors are involved in a comprehensive evaluation of their Unexpired Leases. These leasehold interests are core assets of the Debtors' estates and are vital to their operations. Thus, the ultimate treatment of such assets will play a pivotal role in the Debtors' successful reorganization.

10. The Debtors' \$505 million DIP financing facility (the "DIP Facility") has a number of covenants and conditions relating to Unexpired Leases. Among other things, the proceeds of leasehold interests have been pledged to the DIP lenders, and the Debtors have agreed to obtain within 60 days of the Commencement Date the relief sought in this Motion.

11. In addition, several milestones in the DIP Facility are tied to the deadline to assume or reject unexpired leases including, but not limited to: (i) on or before fifteen (15) weeks prior to the deadline to assume or reject leases (the "Lease Rejection Deadline"), the Debtors must circulate bid packages to solicit bids for the assets located at rejected locations (the "Affected Assets"); (ii) on or before the fourteen (14) weeks prior to the Lease Rejection Deadline, the Debtors must file a motion establishing bid procedures to conduct an auction for the Affected Assets; (iii) on or before thirteen (13) weeks prior to Lease Rejection Deadline, the Debtors must enter into a stalking horse agreement with respect to the Affected Assets; (iv) on or

before twelve (12) weeks prior to the Lease Rejection Deadline, the Debtors must have either received Bankruptcy Court approval to conduct sales of the Affected Assets or have commenced sales of the Affected Assets. (*See* DIP Facility § 7.1(m)).

12. Given the milestones in the DIP Facility, the Debtors' *de facto* deadline to assume or reject leases will be at least 90 days earlier than any deadline set by statute. This is because even though the requested extension is for 90 days, the DIP Facility requires the Debtors to make decisions to close stores 90 days before the deadline to assume or reject.

13. The deadline to send bid packages to liquidators under the DIP Facility occurred on March 3, 2011. To address this issue, the DIP Lenders have agreed to extend this deadline through March 15, 2011, the date of this hearing. If the Court does not grant the Motion, the Debtors may be in default under the DIP Facility.

14. In addition, under the DIP Facility certain required reserves will decrease the availability of funds to the Debtors. One such reserve is the Lease Reserve (as defined in the DIP Agreement), which is determined, in part, by the amount of inventory at leased locations that have not been assumed by the Lease Assumption Reserve Commencement Date (twelve (12) weeks before any applicable deadline to assume or reject the Unexpired Leases). Under the DIP Facility, an increase in the Lease Reserve may decrease availability of available credit, which could severely harm operations. Therefore, granting the Motion, which will extend the Lease Assumption Reserve Commencement Date, will ensure that the Debtors have sufficient liquidity.

15. Some Landlord Objectors have objected to the Motion because the Debtors have not paid their post-petition rent obligations. These obligations include the Stub Period Rent and March 2011 rent. As of the date of this Supplemental Declaration, March 2011 rent for all of the Unexpired Leases has been paid, or is in the process of being paid. Delay in payment to certain

landlords was an administrative error at the Debtors' bank that resulted in the return of some of the March rent checks. The Debtors have been working to replace the checks or provide wire transfers to correct this error before the hearing on this matter. In addition, the stub rent will be paid on or before April 18, 2011, which is 60 days after the Commencement Date.

16. In addition, considering the size and complexity of these cases, it may be necessary to have more than 210 days to make determinations on all of the Unexpired Leases. Therefore, the Debtors' believe, and I agree, it is prudent to prepare for this possibility now by entering into stipulations with landlords to extend the deadline beyond 210 days. If the Debtors precipitously reject or assume the Unexpired Leases or are deemed to reject the Unexpired Leases by operation of Section 365(d)(4) of the Bankruptcy Code, they may forego significant value in such Unexpired Leases or incur unnecessary rejection damages or administrative claims, as the case may be and will be severely, if not irreparably, hampered in their ability to reorganize.

17. Therefore, I believe that the Debtors' (i) proposed extension of the deadline to assume or reject their Unexpired Leases through and including the additional 90 days provided by section 365(d)(4) of the Bankruptcy Code and (ii) the ability to enter into the Stipulations as described in the Motion, is absolutely necessary – indeed critical – and in the best interests of the Debtors' estates.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Dated: March 11, 2011

Respectfully submitted,

/s/ Richard Klein
Richard Klein