Hearing Date: June 22, 2011 at 11:00 a.m. (prevailing Eastern Time)
Objection Deadline: June 21, 2011 at 12:00 p.m. (prevailing Eastern Time)

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and Debtors in Possession

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)**

NOTICE OF HEARING ON DEBTORS' MOTION FOR AN ORDER PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 AUTHORIZING DEBTORS TO ENTER INTO SECOND AMENDMENT TO DEBTOR IN POSSESSION CREDIT AGREEMENT

PLEASE TAKE NOTICE that a hearing to consider the annexed motion (the "Motion"), filed by Borders Group, Inc. ("BGI") and its debtor subsidiaries, as debtors and debtors in possession (collectively, the "Debtors"), shall be held before the Honorable Martin Glenn, United States Bankruptcy Judge, at the United States Bankruptcy Court for the Southern District of New York, Courtroom 501, One Bowling Green, New York, New York 10004 (the "Bankruptcy Court") on **June 22, 2011 at 11:00 a.m. (prevailing Eastern Time)** (the "Hearing

[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.

Date"), or as soon thereafter as counsel may be heard.

PLEASE TAKE FURTHER NOTICE that objections, if any, to the Motion and the relief requested therein shall be made in writing, shall state with particularity the grounds therefore, shall conform to the Federal Rules of Bankruptcy Procedure and the Local Bankruptcy Rules for the Southern District of New York (the "Local Rules"), and shall be filed with the Bankruptcy Court electronically in accordance with General Order M-399 (General Order M-399 and the User's Manual for the Electronic Case Filing System can be found at www.nysb.uscourts.gov, the official website for the Bankruptcy Court) by registered users of the Bankruptcy Court's case filing system, and by all other parties in interest, on a 3.5-inch disk or CD-ROM, preferably in Portable Document Format (PDF), WordPerfect or any other Windows-based word processing format (with a hard copy delivered directly to Chambers) and served in accordance with General Order M-399 or otherwise so as to be actually received **no later than June 21, 2011 at 12:00 p.m. (prevailing Eastern Time)** (the "Objection Deadline") by: (i) Kasowitz, Benson, Torres & Friedman LLP, attorneys for the Debtors, 1633 Broadway, New York, New York 10019 (Attn: David M. Friedman, Esq., Andrew K. Glenn, Esq., and Jeffrey R. Gleit, Esq.); (ii) the Office of the United States Trustee for the Southern District of New York, 33 Whitehall Street, New York, New York 10004 (Attn: Tracy Davis, Esq. and Linda Riffkin, Esq.); (iii) Lowenstein Sandler PC, counsel for the official committee of unsecured creditors, 65 Livingston Avenue, Roseland, New Jersey 07068 (Attn: Bruce D. Buechler, Esq. and Paul Kizel, Esq.), and 1251 Avenue of the Americas, New York, New York 10020 (Attn: Bruce S. Nathan, Esq.); (iv) counsel for the DIP Agents: (a) Morgan, Lewis & Bockius LLP, 101 Park Avenue, New York, New York 10178-0060 (Attn: Wendy Walker, Esq.), and 225 Franklin Street, 16th Floor, Boston, Massachusetts 02110-4104 (Attn: Sandra Vrejan, Esq.), counsel for the Working

Capital Agent, and (b) Choate Hall & Stewart LLP, Two International Place, Boston, Massachusetts 02110 (Attn: Kevin Simard, Esq.), counsel for GA Capital LLC; (v) Kelley Drye & Warren LLP, attorneys for certain landlords, 101 Park Avenue, New York, New York 10178 (Attn: James S. Carr, Esq., Robert L. LeHane, Esq., and Benjamin D. Feder, Esq.); and (vi) Bingham McCutchen LLP, attorneys for Bank of America, N.A., One Federal Street, Boston, Massachusetts 02110-1726 (Attn: Julia Frost-Davies, Esq. and Andrew Gallo, Esq.).

PLEASE TAKE FURTHER NOTICE that the Hearing Date and the Objection Deadline were set at the direction of the Court.

Dated: June 17, 2011
New York, New York

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

By: /s/ Andrew K. Glenn
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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' MOTION FOR AN ORDER PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 AUTHORIZING DEBTORS TO ENTER INTO SECOND AMENDMENT TO DEBTOR IN POSSESSION CREDIT AGREEMENT

TO THE HONORABLE MARTIN GLENN,
UNITED STATES BANKRUPTCY JUDGE:

Borders Group, Inc. and its affiliated debtors, as debtors and debtors in possession (collectively, the "Debtors"), by their undersigned counsel, respectfully submit this motion (the "Motion") for entry of an order approving the second amendment and waiver to the Debtors' debtor-in-possession credit agreement as approved by the *Final Order Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 (1) Approving Postpetition Financing, (2) Authorizing Use of*

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[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.

Cash Collateral, (3) Granting Liens and Providing Superpriority Administrative Expense Status, (4) Granting Adequate Protection, and (5) Modifying Automatic Stay [Docket No. 404] (the "Final DIP Order"). In support of this Motion, the Debtors submit the *Declaration of Holly Felder Etlin* (the "Etlin Declaration"), attached hereto as Exhibit C. In further support of this Motion, the Debtors respectfully state as follows:

PRELIMINARY STATEMENT[2]

The DIP Credit Facility includes various deadlines relating to the commencement and consummation of store closing sales before the expiration of the Debtors' deadline to assume or reject leases covering their stores. Because of these deadlines, the Debtors recently filed a motion seeking authorization to close 51 stores for which the Debtors were unable to obtain extensions from landlords (as more fully described herein, the "Second Store Closing Motion"). The Debtors did not want to proceed with these sales for the reasons cited therein.

However, after extensive good faith negotiations between the Debtors, the DIP Agents and the Committee, the Debtors and the DIP Agents have reached an agreement on the terms of the Second Amendment to the DIP Credit Agreement[3], which addresses all of the Debtors' concerns about the sale contemplated by the Second Store Closing Motion. The Second Amendment will enable the Debtors to commence and consummate a coordinated dual-track sale process for the sale of their businesses by the end of July. If the Debtors are unable to consummate a going concern sale of the business that maximizes value, they will proceed with a sale to liquidators. However, as previously disclosed in this Court, the going concern sale process has gained significant momentum in recent weeks, and the Debtors are encouraged that

[2] Capitalized terms used in this Preliminary Statement but not defined, shall have the meanings ascribed to them elsewhere in this Motion.

[3] The Second Amendment requires the approval of the Required Lenders and the Term B Lenders (each as defined in the DIP Credit Agreement) which has not yet been obtained.

one of the parties presently negotiating with the Debtors will emerge as the successful buyer on a going concern basis, which the Debtors believe would be the best outcome for all constituencies.

As a result of the Second Amendment, the Debtors have withdrawn the Second Store Closing Motion. Instead, the Debtors, DIP Agents and the Committee have agreed, subject to the Court's approval, on the following schedule for the sale of substantially all of their assets:

- *Designation of Stalking Horse Bidder/Bidding Procedures.* The Debtors shall file a motion on or before July 1, 2011 for approval of a stalking horse bidder that shall pay the DIP Lenders in full in cash and for the approval of related bidding procedures.
- *Order Approving Stalking Horse Bidder/Bidding Procedures*. Required to be entered on or before July 15, 2011.
- *Auction*. To be held on July 19, 2011.
- *Sale Hearing*. To be held on or before July 22, 2011.
- *Closing*. To occur on or before July 29, 2011.

The Second Amendment also limits the DIP Lenders' rights to impose additional reserves on inventory for stores with forthcoming lease rejection deadlines and enables the Debtors to liquidate up to ten small format stores if the landlords for such locations terminate any such leases at will in accordance with their terms. In exchange for these substantial benefits to the estates, the DIP Lenders have increased the Debtors' minimum availability requirements from $25 million to $30 million, and will receive a fee of $1 million.

The Debtors respectfully submit that the Second Amendment is a valid exercise of their business judgment and is in the best interests of the Debtors' estates. The Second Amendment paves the way for a sale of substantially all of the Debtors' assets through a process that will maximize value for the benefit of parties in interest while protecting the DIP Lenders' interests. If the Second Amendment is not approved, the Debtors will default under the DIP Credit

Agreement and lose access to critical funds to run their business. Such a default would force the Debtors to halt operations and liquidate on an expedited basis, with the attendant loss of value to the estates, recoveries to unsecured creditors and thousands of jobs.

Accordingly, for the reasons set forth herein, the Second Amendment should be approved.

JURISDICTION

1. This 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

2. By this Motion, the Debtors seek entry of an order pursuant to sections 105, 361, 362, 363, 364, and 507 of chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in substantially the form annexed hereto as Exhibit A (the "Proposed Order") approving and authorizing the Debtors to enter into the Second Amendment and Waiver (the "Second Amendment"), in substantially the form annexed hereto as Exhibit B.

BACKGROUND

3. On February 16, 2011 (the "Petition Date"), each of the Debtors commenced a voluntary case under chapter 11 of title 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. The Debtors' cases (the "Bankruptcy Cases") are being jointly administered pursuant to Rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules").

DEBTORS' BUSINESS

A. Operations

4. 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 three in Puerto Rico. 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. Pursuant to the Court's *Order Approving Agency Agreement, Store Closing Sales and Related Relief* [Docket No. 91] entered on February 18, 2011, the Debtors closed and liquidated the inventory at 226 of their retail locations.

5. The Debtors currently employ approximately 3,792 full-time employees and approximately 7,244 part-time employees, located throughout the United States and Puerto Rico. The Debtors' employees are not subject to any collective bargaining agreements.

B. Financials

6. 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. The Debtors' Schedules list $1,649,799,850 of assets and $2,626,757,691 of liabilities. *See* Debtors' Schedules [Docket Nos. 491, 493, 495, 497, 499, 501, 503, 505, each at 2].

7. 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* [Docket No. 20].

C. **The DIP Credit Agreement**[4]

8. On the Petition Date, the Debtors filed 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, and (5) Modifying Automatic Stay* [Docket No. 27] (the "DIP Motion").

9. On March 10, 2011, the Debtors filed the *First Amendment and Waiver to Debtor-In-Possession Credit Agreement* [Docket No. 349] (the "First Amendment"). Certain changed pages to the First Amendment were filed with this Court on March 11, 2011. [Docket No. 356].

10. On March 16, 2011, the Court entered the *Final 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, and (5) Modifying Automatic Stay* [Docket No. 404] (the "Final DIP Order").

11. Pursuant to the Final DIP Order, the Debtors were authorized to obtain senior secured, superpriority, postpetition financing in the form of a first lien new money superpriority priming credit facility with a maximum outstanding principal amount of up to $505,000,000 (the "DIP Loan"), pursuant to the terms and conditions of that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement (as the same may be amended, supplemented, restated, or otherwise modified from time to time, the "DIP Credit Agreement").

[4] Capitalized terms used in this Section of the Motion but not defined shall have the meanings ascribed to them in the Final DIP Order and DIP Credit Agreement.

12. Article VII of the DIP Credit Agreement outlines certain events of default. To avoid an event of default under the DIP Credit Agreement, Section 7.1(m)(ii)-(v) requires that the Debtors take certain actions within a specified time frame prior to the Lease Rejection Date (defined below). Specifically, Section 7.1(m)(ii)-(v) states that any of the following occurrences shall constitute an event of default:

> (ii) on or before fifteen (15) weeks prior to the Lease Rejection Date, the Credit Parties have not distributed bid packages to solicit bids (with separate bids as to furniture, fixtures and equipment, which bids may be included as part of any bid submitted for the Inventory and which may be on a commission basis) from Approved Liquidators with respect to assets located on the properties that are subject to leases to be rejected on the Lease Rejection Date;
>
> (iii) on or before fourteen (14) weeks prior to the Lease Rejection Date, 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 Affected Asset Sale as the so called "stalking horse", which bidding procedures shall be reasonably acceptable to the Agents;
>
> (iv) on or before thirteen (13) weeks prior to the Lease Rejection Date, the Credit Parties have not entered into a stalking horse bid with an Approved Liquidator pursuant to an Approved Liquidation Agreement with respect to the Affected Asset Sale;
>
> (v) on or before twelve (12) weeks prior to the Lease Rejection Date, the Credit Parties have not (i) received Bankruptcy Court approval of the Affected Asset Sale or (ii) commenced the Affected Asset Sale . . . .

13. Under the DIP Credit Agreement (and herein) "Lease Rejection Date" means the last day of the 120-day lease rejection/assumption period, as such period may be extended or shortened by the Court. The period was extended for all of the Debtors' leases through September 14, 2011 by order of the Court dated March 15, 2011 [Docket No. 383].

14. Pursuant to section 365(d)(4)(B) of the Bankruptcy Code, the September 14, 2011 Lease Rejection Date cannot be further extended absent landlord consent. Thus, absent the

Second Amendment, an event of default would occur under the DIP Credit Agreement unless the Debtors, at any location where a landlord did not consent to a further extension: (1) transmitted bid solicitation packages to liquidate such stores by no later than June 1, 2011; (2) filed an approval motion by June 8, 2011; (3) entered into a stalking horse agency agreement by June 15, 2011; and (4) obtained Court approval and began store closings by June 22, 2011.

15. On June 9, 2011[5], the Debtors filed the *Debtors' Motion For Entry of Order (I) Authorizing The Debtors To Sell Certain Assets Through Store Closing Sales, (II) Approving Bidding Procedures to Select Liquidating Agent to Conduct Store Closing Sales, (III) Authorizing Debtors to Abandon Unsold Property, (IV) Waiving Compliance With Contractual Store Closing Sale Restrictions, (V) Exempting Laws Restricting Store Closing Sales and (VI) Granting Related Relief* [Docket No. 999] (the "Second Store Closing Motion"). On the date the Debtors filed the Second Store Closing Motion, the Debtors had obtained extensions of the Lease Rejection Date at a significant number of their store locations but had not obtained further extensions at 51 of their locations. As of the date hereof, the Debtors have received at least 10 additional stipulations and filed notices withdrawing such stores from the Closing Stores list. *See* Docket Nos. 1016 and 1048. On June 15, 2011, the Debtors filed their notice cancelling the auction for the Additional Closing Stores. *See* Docket No. 1053. As a result of the agreement in principle with respect to the Second Amendment, the Debtors have withdrawn the Second Store Closing Motion.

BASIS FOR RELIEF

16. The Debtors, in consultation with the Committee, did not wish to proceed with a sale of the stores contemplated by the Second Store Closing Motion. Indeed, since that filing, the Debtors have worked diligently to obtain additional extensions from landlords to the

[5] The DIP Lenders consented to a one day extension of the deadline to file the Second Store Closing Motion.

Debtors' deadline to assume or reject leases. Thus several, but not all, of the applicable stores have been removed from the Store Closing Motion.

17. As this Court is aware, the Debtors are actively engaged in a marketing and sales process for their business in an effort to maximize value for all stakeholders. The Debtors have been in talks with a number of parties that have shown significant interest in acquiring a substantial amount of the Debtors assets on a going concern basis, including stores subject to the Store Closing Motion. Accordingly, in May 2011 the Debtors initiated discussions with the DIP Lenders to modify the DIP Credit Agreement to allow the Debtors to conduct a sale of all or substantially all of their business. These negotiations culminated in the Second Amendment.

18. The Second Amendment provides for, among other things, the following primary changes to the DIP credit agreement (the "DIP Credit Agreement"):[6]

(a) Amendment Fee. $1,000,000.[7]

(b) Permitted Dispositions. Section 5.2 of the DIP Credit Agreement shall be amended to permit (i) dispositions in connection with 10 Small-Format Store Liquidations if landlords elect to terminate any lease with kick-out rights, and (ii) dispositions in connection with a Sale Transaction (x) in the case of a Full Chain Liquidation, commencing not later than July 22, 2011, or (y) in the case of a GC Sale, consummated not later than July 29, 2011 as to the GC Sale portion of the Sale Transaction, with any related Remainder Chain Liquidation commencing not later than July 22, 2011, and in either case resulting in the repayment in full in cash at the closing of such Sale Transactions of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the

[6] The description of the terms of the Second Amendment is intended solely to provide the Court and interested parties with a brief overview of the significant terms thereof. For a complete description of the terms and conditions of the Second Amendment, reference should be made to the Second Amendment. This summary is qualified in its entirety by reference to the provisions of the Second Amendment. In the event of any conflict or inconsistency between the provisions of this Motion and the Second Amendment, the Second Amendment shall control in all respects. Capitalized terms used in this section of the Motion and not otherwise defined herein or in the Amended DIP Order shall have the meanings ascribed to such terms in the Second Amendment.

[7] The Debtors have provided or will provide copies of the confidential fee letter to the U.S. Trustee, to the Court, and to the Committee. The Debtors request that this fee letter and its contents be kept confidential pursuant to Bankruptcy Rule 9018, and be limited to the parties listed above (including being limited to only the professionals for the Committee), to protect the sensitive commercial information of the DIP Agents and the DIP Lenders contained therein.

Working Capital Indemnity Account and Term B Indemnity Account). Second Amendment § 2(a).

(c) Budget and Availability Compliance. Section 5.21 of the DIP Credit Agreement will be amended to increase the Availability covenant from $25 million to $30 million. Second Amendment § 2(b).

(d) Events of Default. Section 7.1(m)(ii)-(iv) of the DIP Credit Agreement, will be amended to reflect the following amended events of default:

> (ii) On or before June 17, 2011 the Credit Parties shall have failed to distribute to all interested parties informational packages and solicitations for bids in connection with a Full Chain Liquidation (other than as to the Credit Parties' intellectual property and interest in leases), and any informational packages sent for solicitations of bids for a Full Chain Liquidation shall fail to contain such supporting due diligence documentation as necessary to enable the solicitation of bids for the liquidation of Inventory on an equity basis, and as to furniture, fixtures and equipment, on an equity or commission basis;
>
> (iii) (I) On or before July 1, 2011, (x) the Credit Parties shall have failed to file a motion, in form and substance reasonably acceptable to Agents, seeking approval of bidding procedures, in form and substance reasonably acceptable to Agents, including bid protections (the "Sales Procedure Motion"), for one or more binding stalking horse bids (collectively, the "Stalking Horse Bid") and seeking approval of the related stalking horse bidder (the "Stalking Horse Bidder"), or (y) the Credit Parties shall fail to have received and accepted (subject only to Bankruptcy Court approval), after consultation with the Agents, a Stalking Horse Bid that is reasonably acceptable to Agents. Without limiting the requirement that a Stalking Horse Bid be reasonably acceptable to Agents, in the event the Stalking Horse Bid is a bid for a GC Sale, such Stalking Horse Bid shall either: (A)(1) contain no conditions other than approval of the GC Sale by the Bankruptcy Court and such other conditions reasonably acceptable to Agents, (2) include a good faith deposit in an amount reasonably acceptable to Agents, and (3) if the Stalking Horse Bid for a GC Sale on a stand alone basis is in an amount insufficient to effect at the closing of such GC Sale the repayment in full in cash of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) in accordance with Section 1.10(c)(ii) and (iii), it shall be combined with a Stalking Horse Bid for a Remainder Chain Liquidation such that, on a combined basis, both Stalking Horse Bids shall result in payment in full in cash at the closing of such Sale Transactions of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) in accordance with

Section 1.10(c)(ii) and (iii); or (B) be accompanied by a binding backup bid for a Full Chain Liquidation (including without limitation, bids as to inventory, furniture, fixtures and equipment and substantially all other assets of the Credit Parties, but excluding intellectual property and leases) in support of a GC Sale, as evidenced by an Approved Liquidation Agreement and such other applicable documentation and on other terms reasonably acceptable to Agents and in form and substance reasonably acceptable to Agents, and providing for the repayment in full in cash at the closing of such Sale Transaction of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) and which binding bid shall remain open and not subject to modification or termination until August 1, 2011.

In the event no reasonably acceptable Stalking Horse Bid for a GC Sale is received and accepted, the Credit Parties shall have failed to receive and accept, on or before July 1, 2011, a Stalking Horse Bid for a Full Chain Liquidation (including without limitation, bids as to inventory, furniture, fixtures and equipment, and substantially all other assets of the Credit Parties but excluding intellectual property and leases), as evidenced by an Approved Liquidation Agreement and such other applicable documentation and on other terms reasonably acceptable to Agents and in form and substance reasonably acceptable to Agents; (II) in the event that the Stalking Horse Bid for the Sale Transaction (A) does not provide for payment in full in cash at the closing of such Sale Transaction of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) or (B) is not acceptable to the Agents in their reasonable discretion, then by July 1, 2011 (x) the Credit Parties shall have failed to distribute to all interested parties informational packages and solicitations for bids in connection with the sale of the Credit Parties' intellectual property and interests in leases, or any informational packages sent for solicitations of bids for such sale shall fail to contain such supporting due diligence documentation as reasonably requested by Agents, or (y) the Credit Parties' intellectual property assets and interest in leases shall fail to be included in the auction applicable to the balance of the Sale Transaction, provided, that, in the event that the Bankruptcy Court later approves a Sale Transaction that is a GC Sale that provides for payment in full in cash of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii), then the Credit Parties shall be permitted to withdraw the solicitations for bids for their intellectual property assets and interest in leases at such time; and (III) on or before July 15, 2011, the Bankruptcy Court shall not have entered an order, in form and substance reasonably

acceptable to Agents, approving the Sales Procedure Motion and Stalking Horse Bid(s);

(iv) on or before July 22, 2011, the Credit Parties shall have failed to receive approval from the Bankruptcy Court of a Sale Transaction (which Sale Transaction, for the avoidance of doubt, in the case of the application of Section 7.1(m)(iii)(II) above, shall include the Credit Parties' intellectual property and interests in leases) in an amount sufficient to result in the repayment in full in cash of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) herein, and the order approving such Sale Transaction shall be in form and substance reasonably satisfactory to the Agents and shall provide for the payment in full in cash of all Obligations (including cash collateralization of contingent obligations) pursuant to Section 1.10(c)(ii) and (iii);

(v) In the event the approved Sale Transaction (i) is a Full Chain Liquidation, on or before July 22, 2011, the Credit Parties shall have failed to have executed all of the agency documents or other relevant documents to be executed to effect the Full Chain Liquidation and the Full Chain Liquidation shall not have commenced; or (ii) includes a GC Sale, (x) on or before July 22, 2011, the Credit Parties shall have failed to have executed all of the agency documents or other relevant documents to be executed to effect the Remainder Chain Liquidation occurring on a parallel basis with such GC Sale, and such Remainder Chain Liquidation, if any, shall not have commenced, and (y) on or before July 29, 2011, the Debtors shall have failed to have executed all purchase agreements and other relevant documents in connection with the GC Sale and the GC Sale shall not have been consummated;

Second Amendment § 2(c).

(e) The definition of "Eligible Inventory" in Section 11.1 of the Credit Agreement is hereby amended to exclude Inventory at any Store that is the subject of (i) a Permitted Store Closing or (ii) a Small-Format Store Liquidation, provided with respect to this subclause (ii) that such Inventory shall be ineligible upon the earlier of (x) the Credit Parties' receipt of notice from the related landlord of the exercise of rights to compel the Credit Parties to vacate such Store, or (y) the commencement of the liquidation sale at such Store. Second Amendment §2(e).

(f) The definition of "Lease Assumption Reserve Commencement Date" in Section 11.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"Lease Assumption Reserve Commencement Date" means (i) as to Inventory at any leased locations with respect to which the period for lease

rejection/assumption has not been extended past October 31, 2011 or with respect to which the lease shall expire on or prior to October 31, 2011, July 29, 2011; and (ii) as to Inventory at all other locations, the date that is twelve (12) weeks prior to the Lease Rejection Date.

(g) Minimum Excess Availability. The definition of Minimum Excess Availability shall be increased from $25 million to $30 million. Second Amendment § 2(g).

(h) Withdrawal of the Second Store Closing Motion. The DIP Lenders consent to the withdrawal of the Second Store Closing Motion and related bid packages and waive any Events of Default relating thereto. Second Amendment § 4(a).

(i) Source Interlink. The DIP Lenders consent to the Debtors' filing a motion to assume and amend an agreement with Source Interlink Companies, Inc. ("Source"), the Debtors national supplier of periodicals. Second Amendment § 4(b).

(j) Additional Store Closings. The Lenders and the Agents hereby consent to the Borrowers' closure of Store No. 10-608, located at Ocean County Mall, Toms River, New Jersey, Store No. 10-652, located at Valley River Center, Eugene, Oregon, and Store No. 754, located in the McCarran Airport, Las Vegas, Nevada (the "Additional Store Closings"), and the dispositions of collateral in connection with the Additional Store Closings; provided, that such Additional Store Closings are conducted pursuant to that certain Letter Agreement Governing Inventory Disposition, dated as of December 9, 2010, between Borders, Inc. and Hilco Merchant Resources, LLC. Second Amendment § 4(d).

(k) Updated Appraisal. The Debtors shall provide an updated appraisal of their assets by June 30, 2011. Second Amendment § 5.

19. The DIP Lenders have informed the Debtors that they are willing to amend the DIP Credit Agreement as contemplated in the Second Amendment only under the specific conditions and requirements set forth therein.

A. The Second Amendment Provides the Debtors with the Necessary Relief to Continue Their Regular Business Operations and Complete the Marketing and Sale Process

20. The success of the Debtors' operations and sale efforts hinges on their continuing access to sufficient post-petition financing during an appropriate marketing period to consummate a sale. If the Court does not approve the Second Amendment, the Debtors may lose

the opportunity to enter into a going concern sale. The Debtors also face a substantial risk of severe disruption to their business operations and irreparable harm to the ultimate value they can obtain from their assets. The Debtors respectfully submit that the Second Amendment should be approved to give the Debtors the time and flexibility necessary to assure a value-maximizing transaction.

21. The negotiation and entry into the Second Amendment is a reasonable exercise of the Debtors' business judgment. Bankruptcy courts consistently defer to a debtor's business judgment on most business decisions, unless such decision is arbitrary and capricious. *See*, *e.g.*, *Official Comm. Of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.)*, 147 B.R. 650, 656 (S.D.N.Y. 1992); *In re Simasko Prod. Co.,* 47 B.R. 444, 449 (D. Colo. 1985) ("[b]usiness judgments should be left to the board room and not to this Court."). Similarly, courts have looked to a debtor's business judgment in connection with amendments of post-petition credit facilities. *See In re Farmland Indus., Inc.*, 294 B.R. 855, 881, 884 (Bankr. W.D. Mo. 2003) (finding that the debtors made a "sound, reasonable decision" to enter into an amendment to a post-petition credit agreement and that it was "in best interests of the Debtors, and thus their creditors, to avoid a termination of the Debtors' DIP financing . . . [which] would have been disastrous for the Debtors").[8]

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[8] In approving an amendment to a post-petition credit facility that included an amendment fee and payment of certain expenses, the court in *Farmland* articulated five factors in considering an "amendment to existing financing, particularly where the amendment makes extensive changes in the post-petition financing package *and where there is serious opposition by creditors to the proposal* …" Such factors include:

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

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

(3) That the credit transaction is necessary to preserve the assets of the estate, and is necessary, essential, and appropriate for the continued operation of the Debtors' businesses;

(4) That the terms of the transaction are fair, reasonable, and adequate, given the circumstances of the debtor-borrower and the proposed lender; and

22. The Debtors clearly satisfy these standards because the Second Amendment is fair, reasonable and in the best interests of the estates and their constituents. The Second Amendment will prevent defaults that may otherwise occur if the DIP Credit Agreement were not amended; this will assure that the Debtors have continued access to funds to continue operations without interruption and allow the Debtors to consummate a successful sale of their businesses by July 29, 2011. Moreover, the Second Amendment was subject to extensive, good faith, arm's-length negotiations among the Debtors, lenders and the official committee of unsecured creditors (the "Committee"), and has the support of the Committee.

B. The Amendment Fee is Fair, Reasonable, and Necessary

23. The DIP Lenders have required that the Debtors pay the Amendment Fee as consideration and a condition precedent to the Second Amendment. DIP lenders typically require such fees in these circumstances.

24. The agreement to pay the Amendment Fee is subject to the reasonable exercise of the Debtors' business judgment and is reasonable under the circumstances. *See In re Farmland Indus., Inc.*, 294 B.R. at 887. Courts in this district have approved the payment of fees in connection with an amendment of a post-petition financing agreement. *See e.g. In re Tronox Incorporated*, Ch. 11 Case No. 09-10156 (ALG) [Docket No. 465] (Bankr. S.D.N.Y May 28, 2009) (objections by official committees of unsecured creditors and equityholders resolved prior to entry of order); *In re Chemtura*, Ch. 11 Case No. 09-11233 (REG) [Docket No. 765] (Bankr. S.D.N.Y July 14, 2009) (issues raised by creditors committee resolved consensually). Without the Second Amendment, the DIP Lenders could effectively halt the Debtors' operations and force a

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(5) That the financing agreement was negotiated in good faith and at arm's-length between the Debtors, on the one hand, and the Agents and the Lenders, on the other hand.

Id. at 881 (emphasis added).

liquidation that, while paying the DIP Lenders in full, would likely cost subordinated creditors far more than $1 million in aggregate lost recoveries. The Debtors submit that the Amendment Fee is fair, reasonable and necessary under the circumstances.

CONCLUSION

25. Accordingly, the Debtors respectfully submit that entry of an order approving the proposed Second Amendment is necessary and appropriate to enable the Debtors to continue operations and maximize value. The proposed Second Amendment has been negotiated in good faith, at arm's-length, and is in the best interests of the Debtors, the estates and their creditors.

NOTICE

26. No trustee or examiner has been appointed in these chapter 11 cases. Notice of this Motion has been given in accordance with this Court's order, dated February 16, 2011, implementing certain notice and case management procedures [Docket No. 64] (the "Case Management Order"). The Debtors submit that no other or further notice need be provided.

27. 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: June 17, 2011
New York, New York

KASOWITZ, BENSON, TORRES
& FRIEDMAN LLP

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<u>EXHIBIT A</u>

PROPOSED ORDER

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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)**

ORDER PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 AUTHORIZING DEBTORS TO ENTER INTO SECOND AMENDMENT TO DEBTOR IN POSSESSION CREDIT AGREEMENT

Upon the motion (the "Motion") dated June 16, 2011, of Borders Group, Inc. ("BGI") and its debtor subsidiaries, including Borders, Inc., as debtors and debtors in possession (collectively, the "Debtors"), for an order authorizing the Debtors to enter into the Second Amendment to Senior Secured, Super-Priority Post-Petition Credit Agreement (the "Motion"),[2] a copy of which is attached to the Motion as Exhibit B (the "Second Amendment"); and this Court previously having entered the *Final Order Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and*

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[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 not defined herein shall have the same meaning as in the Motion.

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, dated March 16, 2011 [Docket No. 404] (the "Final DIP Order"), authorizing the Debtors to enter into that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement (the "DIP Credit Agreement"); 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 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 pursuant to 28 U.S.C. §§ 1408 and 1409; and the Debtors having provided notice of the Motion and Hearing (as defined below) to the Court and to parties in interest and the Court having held a hearing to consider the requested relief (the "Hearing"); and upon the record of the Hearing, and all of the proceedings before the Court, the Court finds and determines that the requested relief is in the best interests of the Debtors, their estates, creditors, and all parties in interest; and upon the Court having found that a sound business purpose exists for the Debtors to enter into the Second Amendment which was negotiated at arm's-length and in good faith; and the Debtors having provided due and proper notice of the Motion and Hearing and no further notice being necessary; the legal and factual bases set forth in the Motion establish just and sufficient cause to grant the relief requested herein;

IT IS HEREBY ORDERED THAT:

1. The Motion is granted, and all objections, if any, to the Motion heretofore not withdrawn or resolved are overruled on the merits in all respects.

2. The Second Amendment, substantially in the form annexed as Exhibit B to the Motion, is approved in all respects, and the Debtors are authorized to enter into the Second Amendment and to perform all acts, to make, execute and deliver all instruments and documents in connection therewith that may be reasonably required, necessary, or requested by the DIP Agents, including, without limitation, the payment of the Amendment Fee. Upon execution and delivery of the Second Amendment, the Second Amendment and the obligations thereunder shall constitute legal, valid and binding obligations of the Debtors enforceable in accordance with its terms.

3. Except to the extent modified by the Second Amendment or this Order, each of the DIP Credit Agreement and Final DIP Order shall remain in full force and effect

4. The Debtors shall, contemporaneously with the delivery thereof to the DIP Agents, deliver to the Committee copies of all reports, certificates, notices and other documentation required to be delivered by the Debtors to the DIP Agents pursuant to the DIP Loan Documents, including the appraisal referenced in section 5 of the Second Amendment, provided, however, that (i) nothing in this paragraph 4 shall obligate any DIP Secured Parties to deliver copies of any such reports, certificates, notices and other documentation to the Committee, and (ii) the Committee shall not be entitled to copies of any reports or other materials prepared internally by any DIP Secured Party or by any professionals retained by any DIP Secured Party, including, without limitation, any attorneys, accountants, appraisers or financial advisors.

5. The Second Amendment has been negotiated in good faith and at arms' length between the Debtors, the DIP Agents and the DIP Lenders, and all of the Debtors' obligations

under the Second Amendment have been incurred in good faith as that term is used in section 364(e) of the Bankruptcy Code.

6. To the extent the Debtors are permitted, under the terms of the Second Amendment, to exclude their intellectual property assets and interests in leases in or from a Sale Transaction, the Debtors shall include those assets in a Sale Transaction only after consultation (the "Consultation") with the Committee and the Committee reserves its rights to object to the Debtors' inclusion of those assets in a Sale Transaction in the event the Debtors seek to include them after the Consultation.

7. Notwithstanding Bankruptcy Rule 6004(h) or other applicable law, the terms and conditions of this Order shall take effect immediately.

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

Dated: June __, 2011
New York, New York

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UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B

SECOND AMENDMENT

SECOND AMENDMENT AND WAIVER TO CREDIT AGREEMENT

This **SECOND AMENDMENT AND WAIVER TO CREDIT AGREEMENT**, dated as of June ___, 2011 (this "Amendment"), by and among (i) **BORDERS GROUP, INC.**, a Michigan corporation, as a debtor-in-possession ("BGI"), (ii) **BORDERS, INC.**, a Colorado corporation, as a debtor-in-possession ("Borders" and, collectively with BGI, the "Borrowers", and each individually a "Borrower"), (iii) each other Credit Party from time to time party to the Credit Agreement (as defined herein), each as a debtor-in-possession, (iv) **GENERAL ELECTRIC CAPITAL CORPORATION**, a Delaware corporation, in its individual capacity and as Working Capital Agent (the "Working Capital Agent") for the Secured Parties (as defined in the Credit Agreement referred to below), (v) **GA CAPITAL, LLC**, a Delaware limited liability company, as Term B Agent (the "Term B Agent") for the Term B Lenders (as defined in the Credit Agreement), and (vi) each lender party to the Credit Agreement (collectively, the "Lenders" and individually, a "Lender"), amends that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement, dated as of February 16, 2011 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrowers and the other Credit Parties, the Working Capital Agent, the Term B Agent and the Lenders.

WHEREAS, the Borrowers have requested that the Agents and the Lenders agree to amend certain of the terms and provisions of the Credit Agreement, as specifically set forth in this Amendment; and

WHEREAS, Agents and the Lenders are prepared to amend the Credit Agreement on the terms, subject to the conditions and in reliance on the representations set forth herein.

NOW THEREFORE, in consideration of the mutual agreements contained in the Credit Agreement and herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

§1. Defined Terms. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in Section 11.1 of the Credit Agreement.

§2. Amendments to the Credit Agreement. Subject to the satisfaction of the conditions set forth in Section 3 of this Amendment, the Credit Agreement is hereby amended as follows:

(a) Section 5.2 of the Credit Agreement is hereby amended by (1) deleting the "and" at the end of clause (d), (2) replacing the period at the end of clause (e) with a semicolon, and (3) adding new clauses (f) and (g) at the end thereof to read as follows:

"(f) dispositions in connection with the Small-Format Store Liquidations; and

(g) dispositions in connection with a Sale Transaction (x) in the case of a Full Chain Liquidation, commencing not later than July 22, 2011, or (y) in the case of a GC Sale, consummated not later than July 29, 2011 as to the

GC Sale portion of the Sale Transaction, with any related Remainder Chain Liquidation commencing not later than July 22, 2011, and in either case resulting in the repayment in full in cash at the closing of such Sale Transactions of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii)."

(b) Section 5.21 of the Credit Agreement is hereby amended by replacing "$25,000,000" in clause (iii) therein with "$30,000,000".

(c) Subsections 7.1(m)(ii)-(v) of the Credit Agreement are hereby deleted in their entirety and replaced with the following:

"(ii) on or before June 17, 2011, the Credit Parties shall have failed to distribute to all interested parties informational packages and solicitations for bids in connection with a Full Chain Liquidation (other than as to the Credit Parties' intellectual property and interest in leases), and any informational packages sent for solicitations of bids for a Full Chain Liquidation shall fail to contain such supporting due diligence documentation as necessary to enable the solicitation of bids for the liquidation of Inventory on an equity basis, and as to furniture, fixtures and equipment, on an equity or commission basis;

(iii) (I) on or before July 1, 2011, (x) the Credit Parties shall have failed to file a motion, in form and substance reasonably acceptable to Agents, seeking approval of bidding procedures, in form and substance reasonably acceptable to Agents, including bid protections (the "Sales Procedure Motion"), for one or more binding stalking horse bids (collectively, the "Stalking Horse Bid") and seeking approval of the related stalking horse bidder (the "Stalking Horse Bidder"), or (y) the Credit Parties shall fail to have received and accepted (subject only to Bankruptcy Court approval), after consultation with the Agents, a Stalking Horse Bid that is reasonably acceptable to Agents.

Without limiting the requirement that a Stalking Horse Bid be reasonably acceptable to Agents, in the event the Stalking Horse Bid is a bid for a GC Sale, such Stalking Horse Bid shall either:

(A) (1) contain no conditions other than approval of the GC Sale by the Bankruptcy Court and such other conditions reasonably acceptable to Agents,

(2) include a good faith deposit in an amount reasonably acceptable to Agents, and

(3) if the Stalking Horse Bid for a GC Sale on a stand alone basis is in an amount insufficient to effect at the closing of such GC Sale the repayment in full in cash of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account)

in accordance with Section 1.10(c)(ii) and (iii), it shall be combined with a Stalking Horse Bid for a Remainder Chain Liquidation such that, on a combined basis, both Stalking Horse Bids shall result in payment in full in cash at the closing of such Sale Transactions of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) in accordance with Section 1.10(c)(ii) and (iii); or

(B) be accompanied by a binding backup bid for a Full Chain Liquidation (including without limitation, bids as to inventory, furniture, fixtures and equipment and substantially all other assets of the Credit Parties, but excluding intellectual property and leases) in support of a GC Sale, as evidenced by an Approved Liquidation Agreement and such other applicable documentation and on other terms reasonably acceptable to Agents and in form and substance reasonably acceptable to Agents, and providing for the repayment in full in cash at the closing of such Sale Transaction of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) and which binding bid shall remain open and not subject to modification or termination until August 1, 2011.

In the event no reasonably acceptable Stalking Horse Bid for a GC Sale is received and accepted, the Credit Parties shall have failed to receive and accept, on or before July 1, 2011, a Stalking Horse Bid for a Full Chain Liquidation (including without limitation, bids as to inventory, furniture, fixtures and equipment and substantially all other assets of the Credit Parties but excluding intellectual property and leases), as evidenced by an Approved Liquidation Agreement and such other applicable documentation and on other terms reasonably acceptable to Agents and in form and substance reasonably acceptable to Agents;

(II) in the event that the Stalking Horse Bid for the Sale Transaction (A) does not provide for payment in full in cash at the closing of such Sale Transaction of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) or (B) is not acceptable to the Agents in their reasonable discretion, then by July 1, 2011 (x) the Credit Parties shall have failed to distribute to all interested parties informational packages and solicitations for bids in connection with the sale of the Credit Parties' intellectual property and interests in leases, or any informational packages sent for solicitations of bids for such sale shall fail to contain such supporting due diligence documentation as reasonably requested by Agents, or (y) the Credit Parties' intellectual property assets and interest in leases shall fail to be included in the auction applicable to the balance of the Sale Transaction; provided, that, in the event that the Bankruptcy Court later approves a Sale Transaction that is a GC Sale that provides for payment in full in cash of all

Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii), then the Credit Parties shall be permitted to withdraw the solicitations for bids for their intellectual property assets and interest in leases at such time; and

(III) on or before July 15, 2011, the Bankruptcy Court shall not have entered an order, in form and substance reasonably acceptable to Agents, approving the Sales Procedure Motion and Stalking Horse Bid(s);

(iv) on or before July 22, 2011, the Credit Parties shall have failed to receive approval from the Bankruptcy Court of a Sale Transaction (which Sale Transaction, for the avoidance of doubt, in the case of the application of Section 7.1(m)(iii)(II) above, shall include the Credit Parties' intellectual property and interests in leases) in an amount sufficient to result in the repayment in full in cash of all Obligations (including the cash collateralization of all L/C Reimbursement Obligations and the funding of the Working Capital Indemnity Account and Term B Indemnity Account) pursuant to Section 1.10(c)(ii) and (iii) herein, and the order approving such Sale Transaction shall be in form and substance reasonably satisfactory to the Agents and shall provide for the payment in full in cash of all Obligations (including cash collateralization of contingent obligations) pursuant to Section 1.10(c)(ii) and (iii);

(v) in the event the approved Sale Transaction (i) is a Full Chain Liquidation, on or before July 22, 2011, the Credit Parties shall have failed to have executed all of the agency documents or other relevant documents to be executed to effect the Full Chain Liquidation and the Full Chain Liquidation shall not have commenced; or (ii) includes a GC Sale, (x) on or before July 22, 2011, the Credit Parties shall have failed to have executed all of the agency documents or other relevant documents to be executed to effect the Remainder Chain Liquidation occurring on a parallel basis with such GC Sale, and such Remainder Chain Liquidation, if any, shall not have commenced, and (y) on or before July 29, 2011, the Debtor shall have failed to have executed all purchase agreements and other relevant documents in connection with the GC Sale and the GC Sale shall not have been consummated;"

(d) Section 7.1(m)(vi) of the Credit Agreement is hereby amended by (1) inserting "(I)" at the beginning thereof, and (2) inserting the following at the end thereof:

"or (II) (x) the Credit Parties shall fail to comply with the terms of the Stalking Horse Bid(s) or backup bid for the Sale Transaction and any of the documents or agreements executed in connection therewith, including without limitation the Approved Liquidation Agreement, in any manner which results in a decrease in proceeds from the Sale Transaction of more than $500,000, (y) the Credit Parties shall fail to consummate the Sale Transaction strictly in accordance with the terms of such Approved Liquidation Agreement or purchase agreement, as applicable (in each case of clauses (x) and (y) without any waiver or amendment to the

Approved Liquidation Agreement or purchase agreement unless consented to by Agents), or (z) the Credit Parties shall take any action, or an event shall occur, that could reasonably be expected to adversely affect the value of the Stalking Horse Bid(s) or backup bid or any Credit Party's ability to comply with the terms of the Approved Liquidation Agreement or purchase agreement, as applicable;"

(e) The definition of "Eligible Inventory" in Section 11.1 of the Credit Agreement is hereby amended by deleting clause (u) within such definition in its entirety and replacing such clause with the following:

"(u) Inventory at any Store that is the subject of (i) a Permitted Store Closing or (ii) a Small-Format Store Liquidation, provided with respect to this subclause (ii) that such Inventory shall be ineligible upon the earlier of (x) the Credit Parties' receipt of notice from the related landlord of the exercise of rights to compel the Credit Parties to vacate such Store, or (y) the commencement of the liquidation sale at such Store; or"

(f) The definition of "Lease Assumption Reserve Commencement Date" in Section 11.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"Lease Assumption Reserve Commencement Date" means (i) as to Inventory at any leased locations with respect to which the period for lease rejection/assumption has not been extended past October 31, 2011 or with respect to which the lease shall expire on or prior to October 31, 2011, July 29, 2011; and (ii) as to Inventory at all other locations, the date that is twelve (12) weeks prior to the Lease Rejection Date.

(g) The definition of "Minimum Excess Availability Amount" in Section 11.1 of the Credit Agreement is hereby amended by replacing "$25,000,000" in clause (ii) therein with "$30,000,000".

(h) The following definitions shall be added to Section 11.1 of the Credit Agreement, in their respective appropriate alphabetical locations:

"Full Chain Liquidation" means a liquidation, in one or a series of related transactions, of (x) substantially the entire chain of store locations of the Credit Parties and substantially all of the Inventory of the Credit Parties, and furniture, fixtures and equipment, with an Approved Liquidator, and (y) substantially all of the other assets of the Credit Parties (including without limitation intellectual property, leases and substantially all other assets of the Credit Parties), in each case on terms reasonably acceptable to the Agents. The agency documents executed in connection with the Full Chain Liquidation shall constitute an Approved Liquidation Agreement, and all other sale and other relevant documents executed in connection with the Full Chain Liquidation shall be in form and substance reasonably satisfactory to the Agents in all respects.

"GC Sale" means a sale, in one or a series of related transactions, of a substantial portion of the business of the Credit Parties as a going concern (which sale may include a liquidation of a portion of the assets acquired) under Section 363 of the Bankruptcy Code with respect to the Credit Parties and/or all or any substantial portion of the assets of the Credit Parties. The purchase documents and all other relevant documents executed in connection with the GC Sale shall be in form and substance reasonably satisfactory to the Agents in all respects.

"Permitted Small-Format Stores" means up to ten (10) of the small-format Stores of the Credit Parties (other than the Additional Store Closings) with respect to which the related landlord for the applicable small-format Store has exercised its rights to compel the Credit Parties to vacate such small-format Store, as identified by Borrowers to Agents in writing.

"Remainder Chain Liquidation " means a liquidation, in one or a series of related transactions, with an Approved Liquidator, of each store location of the Credit Parties not subject to a GC Sale, subject to an Approved Liquidation Agreement, and a sale of substantially all of the assets of the Credit Parties not subject to a GC Sale (including without limitation inventory, furniture, fixtures and equipment, intellectual property, leases and substantially all other assets of the Credit Parties), on terms reasonably acceptable to the Agents. The agency documents executed in connection with the Remainder Chain Liquidation shall constitute an Approved Liquidation Agreement, and all other sale and other relevant documents executed in connection with the Remainder Chain Liquidation shall be in form and substance reasonably satisfactory to the Agents in all respects.

"Sale Transaction" means either of (a) a GC Sale combined with a Remainder Chain Liquidation or (b) Full Chain Liquidation, in each case of clauses (a) and (b) on terms reasonably acceptable to Agents in all respects.

"Small-Format Store Liquidations" means the closure of the Permitted Small-Format Stores, and the dispositions of Collateral in connection with such closure; provided, that such Small-Format Store Liquidations are conducted pursuant to that certain Letter Agreement Governing Inventory Disposition, dated as of December 9, 2010, between Borders, Inc. and Hilco Merchant Resources, LLC.

§3. Conditions to Effectiveness. This Amendment shall become effective upon the date (the "Effective Date") on which each of the following shall have occurred, which Effective Date shall occur not later than June 23, 2011:

(a) Agents' receipt of fully-executed counterparts hereof signed by the Borrowers, Credit Parties, Agents, Required Lenders and Term B Lenders;

(b) payment of the unpaid fees, costs and expenses of each Agent's counsel, advisors and consultants;

(c) payment of the fees set forth in the Amendment Fee Letter, of even date herewith, among the Borrowers and the Agents (collectively, the "Amendment Fee"); and

(d) entry of an order of the Bankruptcy Court, in form and substance satisfactory to Agents, approving this Amendment (the "Approval Order").

§4. Waiver and Consent.

(a) Subject to the satisfaction of the conditions set forth in Section 3 of this Amendment, and in consideration of and reliance upon the agreements of the Credit Parties contained herein, each of the Agents and Lenders hereby (i) authorizes the Borrowers to withdraw the bid packages transmitted on or about May 31, 2011, and (ii) waives any Event of Default resulting from the failure to have entered into a stalking horse bid with respect to an Affected Asset Sale as required by Section 7.1(m)(iii) of the Credit Agreement as in effect prior to the effectiveness of this Amendment. For the avoidance of doubt, the foregoing waiver shall not constitute a waiver of the requirement to deliver a Stalking Horse Bid as to either a GC Sale and Remainder Chain Liquidation, or alternatively a Full Chain Liquidation, that includes assets that would have been comprised in an Affected Asset Sale in accordance with, and the Lenders and the Agents shall at all times retain all of the rights and remedies in respect of any Default or Event of Default under the Credit Agreement with respect to Section 7.1(m)(iii) as in effect after the effectiveness of this Amendment.

(b) Subject to the satisfaction of the conditions set forth in Section 3 of this Amendment, and in consideration of and reliance upon the agreements of the Credit Parties contained herein, each of the Agents and Lenders hereby authorizes the Borrowers to file that certain "Debtors' Motion Pursuant to Section 365 of the Bankruptcy Code Authorizing the Debtors to Assume and Amend an Exclusive Retail Supply Agreement with Source Interlink Companies, Inc. and Pay Related Cure Costs" (the "Source Interlink Motion"); provided, that the hearing for the Source Interlink Motion shall be scheduled no earlier than July 14, 2011. The foregoing constitutes solely a consent to the filing of the Source Interlink Motion and does not constitute a consent to the payment of any amounts to Source Interlink Companies, Inc. ("Source Interlink") on account of prepetition claims set forth in such motion. Accordingly, the Agents and the Lenders reserve all rights under the Loan Documents with respect to any payments by the Debtors of any prepetition claims of Source Interlink, and the deadline for the Agents to object to the Source Interlink Motion shall be extended to 11:59 pm on July 13, 2011.

(c) No waiver with respect to any other Default or Event of Default, whether presently existing or hereafter arising, is granted hereby. The Lenders and the Agents shall, at all times, retain all of the rights and remedies in respect of any Default or Event of Default under the Credit Agreement and the Final Order, other than as set forth in clause (a) above.

(d) Notwithstanding any provision contained in Section 5.2 of the Credit Agreement to the contrary, and subject to the satisfaction of the conditions set forth in Section 3 of this Amendment, the Lenders and the Agents hereby consent to the

Borrowers' closure of Store No: 10-608, located at Ocean County Mall, Toms River, New Jersey, Store No. 10-652, located at Valley River Center, Eugene, Oregon and Store No. 754, located in the McCarran Airport, Las Vegas, Nevada (the "Additional Store Closings"), and the dispositions of Collateral in connection with the Additional Store Closings; provided, that such Additional Store Closings are conducted pursuant to that certain Letter Agreement Governing Inventory Disposition, dated as of December 9, 2010, between Borders, Inc. and Hilco Merchant Resources, LLC.

§5. Covenant as to Appraisal; Sale Transaction Status. Each Credit Party hereby covenants with the Agents and the Lenders as follows:

(a) The Credit Parties shall cooperate with and promptly provide the appraiser retained by Working Capital Agent with all supporting information and documentation required by such appraiser so as to ensure delivery of an updated "desk top" appraisal by not later than June 30, 2011.

(b) Promptly upon any such information becoming available to Credit Parties, each Credit Party shall provide Agents copies of any informational packages provided to potential bidders, draft agency agreements, the deadlines established as to receipt of bids and, upon request of Agents, a status report and updated information relating to the Sale Transaction and copies of any such bids and any updates, modifications or supplements to such information and materials.

(c) The failure to comply with this Section 5 shall constitute an immediate Event of Default under the Credit Agreement.

§6. Representations and Warranties. Each Credit Party hereby represents and warrants to the Agents and the Lenders as follows:

(a) Representations and Warranties in the Credit Agreement. The representations and warranties of the Credit Parties contained in the Credit Agreement (assuming the effectiveness of this Amendment) and the other Loan Documents were true and correct as of the date when made and, except to the extent that such representations and warranties relate expressly to an earlier date, continue to be true and correct on the date hereof.

(b) Ratification, Etc. Except as expressly amended hereby, the Credit Agreement (as amended hereby), the other Loan Documents and all documents, instruments and agreements related thereto, are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Credit Agreement, together with the applicable provisions of this Amendment, shall be read and construed as a single agreement. All references in the Loan Documents to the Credit Agreement or any other Loan Document shall hereafter refer to the Credit Agreement or any other Loan Document as amended hereby.

(c) Authority, Etc. Upon entry of the Approval Order, the execution and delivery by the Credit Parties of this Amendment and the performance by the Credit Parties of all of their respective agreements and obligations under the Credit Agreement

and the other Loan Documents as amended hereby, are within the corporate authority of the Credit Parties and have been duly authorized by all necessary corporate action on the part of the Credit Parties.

(d) Enforceability of Obligations. Upon entry of the Approval Order, this Amendment, the Credit Agreement and the other Loan Documents as amended hereby constitute the legal, valid and binding obligations each of the Credit Parties enforceable against each of the Credit Parties in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and general equitable principles, whether enforcement is sought by a proceeding in equity or at law.

(e) No Default. After giving effect to this Amendment, no Default or Event of Default has occurred and is continuing.

§7. Effect of Amendment. Except as expressly provided in this Amendment, all of the terms and conditions of the Credit Agreement and the other Loan Documents remain in full force and effect. Nothing contained in this Amendment shall in any way prejudice, impair or effect any rights or remedies of the Agents or any Lender or the Borrowers under the Credit Agreement or the other Loan Documents. The execution, delivery and effectiveness of this Amendment shall not (i), except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders or the Agents under any of the Loan Documents, nor constitute a waiver or amendment of any other provision of any of the Loan Documents or for any purpose except as expressly set forth herein, or (ii) establish a course of dealing or conduct between any Agent or Lender or any Credit Parties. All other amendments, modifications and waivers shall comply strictly with the terms and conditions of the Credit Agreement and the other Loan Documents. As of the date hereof, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import, and each reference in the other Loan Documents to the "Credit Agreement" (including, without limitation, by means of words like "thereunder", "thereof" and words of like import), shall mean and be a reference to the Credit Agreement as modified hereby, and this Amendment and the Credit Agreement shall be read together and construed as a single agreement. This Amendment shall be deemed a Loan Document.

§8. Execution in Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but which together shall constitute one instrument.

§9. Expenses. Pursuant to Section 9.5 of the Credit Agreement, all reasonable, out of pocket costs and expenses incurred or sustained by the Agents in connection with this Amendment, including the fees and disbursements of legal counsel for the Agents in producing, reproducing and negotiating the Amendment, will be for the account of the Borrowers whether or not this Amendment is consummated.

§10. Miscellaneous. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND

PERFORMED IN THAT STATE AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA (INCLUDING THE BANKRUPTCY CODE). EACH CREDIT PARTY HEREBY CONSENTS AND AGREES THAT THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN THE CREDIT PARTIES, AGENTS AND LENDERS PERTAINING TO THIS AMENDMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AMENDMENT OR ANY OF THE OTHER LOAN DOCUMENTS; PROVIDED, THAT AGENTS, LENDERS AND THE CREDIT PARTIES ACKNOWLEDGE THAT ANY APPEALS FROM THE BANKRUPTCY COURT MAY HAVE TO BE HEARD BY A COURT OTHER THAN THE BANKRUPTCY COURT; PROVIDED FURTHER, THAT NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE AGENTS FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF AGENTS. EACH CREDIT PARTY EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND EACH CREDIT PARTY HEREBY WAIVES ANY OBJECTION THAT SUCH CREDIT PARTY MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. EACH CREDIT PARTY HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO SUCH CREDIT PARTY AT THE ADDRESS AND IN THE MANNER SET FORTH IN SECTION 9.2. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof.

§11. Ratification by Guarantors. Each of the Guarantors acknowledges that its consent to this Amendment is not required, but each of the undersigned nevertheless does hereby agree and consent to this Amendment and to the documents and agreements referred to herein. Each of the Guarantors agrees and acknowledges that notwithstanding the effectiveness of this Amendment, such Guarantor's obligations under the Loan Documents shall remain in full force and effect and nothing herein shall in any way limit such obligations, all of which are hereby ratified, confirmed and affirmed in all respects. Each of the Guarantors hereby further acknowledges that the Borrowers, Agents and any Lender may from time to time enter into any further amendments, modifications, terminations and/or amendments of any provisions of the Loan Documents without notice to or consent from such Guarantor and without affecting the validity or enforceability of such Guarantor's obligations under the Loan Documents or giving rise to any reduction, limitation, impairment, discharge or termination of such Guarantor's obligations under the Loan Documents.

[*Remainder of page intentionally left blank.*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their duly authorized officers as of the day and year first written above.

BORROWERS:

BORDERS GROUP, INC.

By: ___________________________________
Name: ________________________________
Title: _________________________________
FEIN: 38-3294588

BORDERS, INC.

By: ___________________________________
Name: ________________________________
Title: _________________________________
FEIN: 38-2104285

BORROWER REPRESENTATIVE:

BORDERS, INC.

By: ___________________________________
Name: ________________________________
Title: _________________________________
FEIN: 38-2104285

BORROWER REPRESENTATIVE:

BORDERS GROUP, INC.

By: ___________________________________
Name: ________________________________
Title: _________________________________
FEIN: 38-3294588

GUARANTORS:

BORDERS PROPERTIES, INC.

By: ___________________________________
Name: _________________________________
Title: _________________________________
FEIN: 38-3237978

BORDERS INTERNATIONAL SERVICES, INC.

By: ___________________________________
Name: _________________________________
Title: _________________________________
FEIN: 20-2025075

BORDERS DIRECT, LLC

By: ___________________________________
Name: _________________________________
Title: _________________________________
FEIN: 20-899-0084

GENERAL ELECTRIC CAPITAL CORPORATION, as Working Capital Agent, Swingline Lender, Revolving Lender and FILO Lender

By: ________________________________
Name: ______________________________
Title: Duly Authorized Signatory

FIFTEENTH INVESTMENT SPONSOR LIMITED, as a Revolving Lender

By: ________________________________
Name: ______________________________
Title: ______________________________

ALADDIN CREDIT INTERMEDIATE FUND LTD., as a Revolving Lender and FILO Lender

By:_________________________________
Name: ______________________________
Title: ______________________________

ALADDIN CREDIT PARTNERS I, L.P., as a Revolving Lender and FILO Lender

By: Aladdin Credit Partners, LLC, its General Partner

By: ________________________________
Name: ______________________________
Title: ______________________________

ALADDIN CREDIT OFFSHORE FUND II L.P.,
as a FILO Lender

By: Aladdin Credit Partners, LLC, its General Partner

By: ________________________________
Name: ______________________________
Title: _______________________________

ALADDIN DIP OFFSHORE FUND, L.P.., as a FILO Lender

By: Aladdin Credit Partners, LLC, its General Partner

By: ________________________________
Name: ______________________________
Title: _______________________________

ALADDIN INTERMEDIATE FUND (IRELAND) II LTD, as a FILO Lender

By: Aladdin Credit Advisors, L.P. its General Partner, ACA HOLDINGS LLC

By: ________________________________
Name: ______________________________
Title: _______________________________

MC CREDIT PRODUCTS DIP SMA L.P., as a FILO Lender

By: Aladdin Credit Partners, LLC, its General Partner

By: ________________________________
Name: ______________________________
Title: _______________________________

THE CIT GROUP/BUSINESS CREDIT, INC.,
as Syndication Agent

By: ___________________________________
Name: _________________________________
Title: _________________________________

CIT BANK, as a Revolving Lender

By: ___________________________________
Name: _________________________________
Title: _________________________________

CRYSTAL FINANCIAL SPV LLC,
as a FILO Lender

By: ________________________________
Name: ______________________________
Title: _______________________________

RB INTERNATIONAL FINANCE (USA) LLC,
as a Revolving Lender

By: ________________________________
Name: ______________________________
Title: _______________________________

CITIZENS BANK,
as a Revolving Lender

By: ___________________________________
Name: _________________________________
Title: __________________________________

SUN LIFE ASSURANCE COMPANY OF CANADA, as a Revolving Lender

By: ___________________________________
Name: _________________________________
Title: __________________________________

BURDALE CAPITAL FINANCE, INC.,
as a Revolving Lender

By: ___________________________________
Name: _________________________________
Title: __________________________________

TD BANK, N.A.,
as a Revolving Lender

By: ________________________________
Name: ______________________________
Title: _______________________________

GA CAPITAL, LLC, as Term B Agent

By: ________________________________
Name: ______________________________
Title: _______________________________

SPECIAL VALUE CONTINUATION PARTNERS, LP, as a Term B Lender

By: Tennenbaum Capital Partners, LLC
Its: Investment Manager

By: ______________________________
Name: ____________________________
Title: ____________________________

TENNENBAUM OPPORTUNITIES PARTNERS V, LP, as a Term B Lender

By: Tennenbaum Capital Partners, LLC
Its: Investment Manager

By: ______________________________
Name: ____________________________
Title: ____________________________

1903 ONSHORE FUNDING, LLP, as a Term B Lender

By: GB Merchant Partners, LLC
Its: Investment Manager

By: ______________________________
Name: ____________________________
Title: _____________________________

1903 OFFSHORE LOANS SPV LIMITED, as a Term B Lender

By: GB Merchant Partners, LLC
Its: Investment Manager

By: ______________________________
Name: ____________________________
Title: _____________________________

EXHIBIT C

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

DECLARATION OF HOLLY FELDER ETLIN
IN SUPPORT OF DEBTORS' MOTION PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 363, 364 AND 507 FOR AN ORDER AUTHORIZING DEBTORS TO ENTER INTO SECOND AMENDMENT TO DEBTOR-IN-POSSESSION CREDIT AGREEMENT

Pursuant to 28 U.S.C. § 1746, I, Holly Felder Etlin, hereby declare as follows:

1. I am a managing director of AlixPartners, LLP ("AlixPartners"). My business address is 40 West 57th Street, 29th Fl., New York, New York 10019. On February 18, 2011, I was appointed Senior Vice President – Restructuring ("SVPR") of Borders Group, Inc., as documented in an addendum dated as of February 23, 2011, to the engagement letter between AP Services, LLC ("APS") and Borders Group, Inc. dated as of February 9, 2011. On March 16,

[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.

2011, the Court entered an order authorizing the Debtors to designate me as SVPR for the Debtors [Docket No. 397].

2. I submit this declaration (this "Declaration") in accordance with Rule 1007-2 of the Local Bankruptcy Rules for the Southern District of New York (the "Local Bankruptcy Rules") in support of the *Debtors' Motion Pursuant to 11 U.S.C. §§ 105, 361, 362, 363, 364 and 507 for an Order Authorizing the Debtors to Enter Into Second Amendment to Debtor-in-Possession Credit Agreement* (the "Motion"). [2]

3. The facts set forth in this Declaration are based upon my personal knowledge, upon information and belief (where indicated), or upon client matter records kept in the ordinary course of business that were reviewed by me or other employees of APS under my supervision and direction. If called and sworn as a witness, I could and would testify competently to the matters set forth herein.

A. **The DIP Credit Agreement**[3]

4. On the Petition Date, the Debtors filed 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, and (5) Modifying Automatic Stay* [Docket No. 27] (the "DIP Motion").

5. On March 10, 2011, the Debtors filed the First Amendment and Waiver to Debtor-In-Possession Credit Agreement [Docket No. 349] (the "First Amendment"). Certain

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[2] Capitalized terms used but not defined herein are as defined in the Motion.

[3] All capitalized terms used in this Section of the Motion but not defined shall have the meanings ascribed to them in the Final DIP Order and DIP Credit Agreement.

changed pages to the First Amendment were filed with this Court on March 11, 2011. [Docket No. 356].

6. On March 16, 2011, the Court entered the *Final 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, and (5) Modifying Automatic Stay* [Docket No. 404] (the "Final DIP Order").

7. Pursuant to the Final DIP Order, the Debtors were authorized to obtain senior secured, superpriority, postpetition financing in the form of a first lien new money superpriority priming credit facility with a maximum outstanding principal amount of up to $505,000,000 (the "DIP Loan") pursuant to the terms and conditions of that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement (as the same may be amended, supplemented, restated, or otherwise modified from time to time, the "DIP Credit Agreement").

8. Article VII of the DIP Credit Agreement outlines certain events of default. To avoid an event of default under the DIP Credit Agreement, Section 7.1(m)(ii)-(v) requires that the Debtors take certain actions within a specified time frame prior to the Lease Rejection Date (defined below). Specifically, Section 7.1(m)(ii)-(v) states that any of the following occurrences shall constitute an event of default:

> (ii) on or before fifteen (15) weeks prior to the Lease Rejection Date, the Credit Parties have not distributed bid packages to solicit bids (with separate bids as to furniture, fixtures and equipment, which bids may be included as part of any bid submitted for the Inventory and which may be on a commission basis) from Approved Liquidators with respect to assets located on the properties that are subject to leases to be rejected on the Lease Rejection Date;
>
> (iii) on or before fourteen (14) weeks prior to the Lease Rejection Date, 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 Affected Asset Sale as the so called "stalking horse", which bidding procedures shall be reasonably acceptable to the Agents;
>
> (iv) on or before thirteen (13) weeks prior to the Lease Rejection Date, the Credit Parties have not entered into a stalking horse bid with an Approved Liquidator pursuant to an Approved Liquidation Agreement with respect to the Affected Asset Sale;
>
> (v) on or before twelve (12) weeks prior to the Lease Rejection Date, the Credit Parties have not (i) received Bankruptcy Court approval of the Affected Asset Sale or (ii) commenced the Affected Asset Sale . . .

9. Under the DIP Credit Agreement (and herein) "Lease Rejection Date" means the last day of the 120-day lease rejection/assumption period, as such period may be extended or shortened by the Court. The period was extended for all of the Debtors' leases through September 14, 2011 by order of the Court dated March 15, 2011 [Docket No. 383].

10. Pursuant to section 365(d)(4)(B) of the Bankruptcy Code, the September 14, 2011 Lease Rejection Date cannot be further extended absent landlord consent. Thus, absent the Second Amendment, an event of default would occur under the DIP Credit Agreement at any location where a landlord did not consent to a further extension unless the Debtors: (1) transmitted bid solicitation packages to liquidate such stores by no later than June 1, 2011, (2) filed an approval motion by June 8, 2011, (3) entered into a stalking horse agency agreement (the "Stalking Horse Store Agency Agreement") by June 15, 2011 and (4) obtained Court approval and began store closings by June 22, 2011.

11. With the consent of the DIP Lenders, on June 9, 2011, the Debtors filed the *Debtors' Motion For Entry of Order (I) Authorizing The Debtors To Sell Certain Assets Through Store Closing Sales, (II) Approving Bidding Procedures to Select Liquidating Agent to Conduct Store Closing Sales, (III) Authorizing Debtors to Abandon Unsold Property, (IV) Waiving*

Compliance With Contractual Store Closing Sale Restrictions, (V) Exempting Laws Restricting Store Closing Sales and (VI) Granting Related Relief [Docket No. 999] (the "Second Store Closing Motion").

12. Throughout the negotiating process, the Debtors consulted with the Committee's professionals (who also participated in negotiations) and as a result, the Debtors understand that the Committee supports the immediate approval of the Second Amendment.

13. On the date the Debtors filed the Second Store Closing Motion, the Debtors had obtained extensions of the Lease Rejection Date at a significant number of their store locations but had not obtained further extensions at 51 of their locations. As of the date hereof, the Debtors have received at least 10 additional stipulations and filed notices withdrawing such stores from the Closing Stores list. *See* Docket Nos. 1016 and 1048. On June 15, 2011, the Debtors filed their notice cancelling the auction for the Additional Closing Stores. *See* Docket No. 1053. As a result of the Second Amendment, the Debtors have withdrawn the Second Store Closing Motion.

B. The Second Amendment is Vital to the Success of the Debtors' Sales Process

14. The Debtors are actively engaged in a marketing and sales process for their business in an effort to maximize value for all stakeholders. The Debtors have been in talks with a number of parties that have shown significant interest in acquiring a substantial amount of the Debtors' assets on a going concern basis, including stores subject to the Second Closing Store Motion.

15. Accordingly, in May 2011 the Debtors began talks with the DIP Lenders to modify the DIP Credit Agreement to allow the Debtors to conduct an orderly sale of all or substantially all of their business. After extensive good faith negotiations between the Debtors,

the DIP Lenders and the Committee, the Debtors and the DIP Agents have reached an agreement on the terms of the Second Amendment to the DIP Credit Agreement which addresses all of the Debtors' concerns about the sale contemplated by the Second Store Closing Motion.

16. The Debtors, in consultation with the Committee, did not wish to proceed with a sale of the stores contemplated by the Second Store Closing Motion. Indeed, since that filing, the Debtors have worked diligently to obtain additional extensions from landlords to the Debtors' deadline to assume or reject leases. Thus several, but not all, of the applicable stores have been removed from the Second Store Closing Motion.

17. The Second Amendment will enable the Debtors to commence and consummate a coordinated dual-track sale process for the sale of their businesses by the end of July. If the Debtors are unable to consummate a going concern sale of the business that maximizes value, they will proceed with a sale to liquidators. However, as previously disclosed in this Court, the going concern sale process has gained significant momentum in recent weeks, and the Debtors are encouraged that one of the parties presently negotiating with the Debtors will emerge as the successful buyer on a going concern basis, which the Debtors believe would be the best outcome for all constituencies.

18. The DIP Lenders have informed the Debtors that they are willing to amend the DIP Credit Agreement as contemplated in the Second Amendment only under the specific conditions and requirements set forth therein.

19. The DIP Lenders have required that the Debtors pay the Amendment Fee as consideration and a condition precedent to the Second Amendment. In my experience, DIP Lenders typically require such fees in these circumstances.

20. The success of the Debtors' operations and sale efforts hinges on their continuing access to sufficient post-petition financing during an appropriate marketing period to consummate a sale. If the Court does not approve the Second Amendment, the Debtors may lose the opportunity to enter into a going concern sale. The Debtors also face a substantial risk of severe disruption to their business operations and irreparable harm to the ultimate value they can obtain from their assets. The Debtors respectfully submit that the Second Amendment should be approved to give the Debtors the time and flexibility necessary to assure a value-maximizing transaction.

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[SIGNATURE PAGE FOR DECLARATION OF HOLLY FELDER ETLIN
IN SUPPORT OF DIP SECOND AMENDMENT MOTION]

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: June 17, 2011

Respectfully submitted,

Holly Felder Etlin
Senior Vice President - Restructuring