

Hearing Date and Time: October 19, 2010 at 10:00 a.m. ET
Objection Deadline: October 12, 2010 at 4:00 p.m. ET

Karen C. Bifferato
Christina M. Thompson (admitted *pro hac vice*)
The Nemours Building
1007 N. Orange Street
P.O. Box 2207
Wilmington, Delaware 19801
(302) 658-9141
*Attorneys for Inland US Management, LLC,
Inland American Retail Management, LLC,
Inland Southwest Management, LLC,
Inland Continental Property Management Corp.
and Inland Commercial Property Management, Inc.*

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

-----X
: **Chapter 11**
In re :
: **Case No. 10-14997 (BRL)**
BLOCKBUSTER INC., et al., :
: **Jointly Administered**
: **Debtors.** :
-----X

**OBJECTION OF INLAND US MANAGEMENT, LLC, INLAND AMERICAN
RETAIL MANAGEMENT, LLC, INLAND SOUTHWEST MANAGEMENT, LLC,
INLAND CONTINENTAL PROPERTY MANAGEMENT CORP. AND INLAND
COMMERCIAL PROPERTY MANAGEMENT, INC. TO ENTRY OF A FINAL
ORDER (I) AUTHORIZING POSTPETITION SUPERPRIORITY SECURED
FINANCING PURSUANT TO 11 U.S.C. SECTIONS 105(A), 361 362, 364(C)(1),
364(C)(2), 364(C)(3), 364(D)(1) AND 364(E), (II) AUTHORIZING POSTPETITION
USE OF CASH COLLATERAL PURSUANT TO 11 U.S.C. SECTION 363, (III)
GRANTING ADEQUATE PROTECTION PURSUANT TO 11 U.S.C. SECTIONS
361, 362, 363 AND 364 AND (IV) SCHEDULING A FINAL HEARING
PURSUANT TO BANKRUPTCY RULES 4001(B) AND 4001(C)**

Inland US Management, LLC, Inland American Retail Management, LLC, Inland
Southwest Management, LLC, Inland Continental Property Management Corp. and
Inland Commercial Property Management, Inc. (collectively, "Inland"), by and through
their undersigned counsel, hereby object to the entry of an final order *(I) Authorizing*

Postpetition Superpriority Secured Financing Pursuant To 11 U.S.C. Sections 105(a), 361 362, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1) and 364(e), (II) Authorizing Postpetition Use of Cash Collateral Pursuant To 11 U.S.C. Section 363, (III) Granting Adequate Protection Pursuant To 11 U.S.C. Sections 361, 362, 363 And 364 and (IV) Scheduling a Final Hearing Pursuant To Bankruptcy Rules 4001(b) And 4001(c) (“DIP Order”), and in support thereof, respectfully state as follows:

BACKGROUND

1. On September 23, 2010 (“Petition Date”), the above-captioned debtors and debtors-in-possession (“Debtors”) each filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (“Bankruptcy Code”).
2. Inland is managing agent for the owners and landlords of approximately 42 leases (“Leases”) of non-residential real property with one or more of the Debtors. A chart that identifies each of the properties managed by Inland is attached hereto as Exhibit A. Each of the premises subject to the Leases (“Premises”) are located within “shopping centers” as that term is used in section 365(d)(3) of the Bankruptcy Code. *See In re Joshua Slocum, Ltd.*, 922 F.2d 1081, 1086-87 (3d Cir. 1990).
3. On the Petition Date, the Debtors filed the DIP Motion, in which they seek interim and final orders that authorize the Debtors to, among other things, obtain post-petition secured financing pursuant to the terms of the DIP Credit Agreement.¹ On September 27, 2010, the Court entered an order that approves the relief requested in the DIP Motion on an interim basis (“Interim Order”), subject to further objection and final approval by the Court.

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the DIP Motion.

4. Pursuant to the DIP Motion, the Debtors are requesting authority to grant their DIP Lenders certain DIP Liens, which include liens on the Debtors' leasehold interests and to nullify any provision of a lease agreement that prohibits or conditions the granting of such liens by the Debtors. *See* DIP Motion, ¶ 29.

INLAND'S OBJECTIONS AND BASIS THEREFOR

5. Inland objects to the granting of any lien by the Debtors on the Leases as requested in the DIP Motion. Although the Leases are currently excluded from the definition of DIP Collateral pursuant to the Interim Order (resulting in DIP Facility Agent's Collateral consisting of only the profits and proceeds of such Leases), it is not clear whether this exclusion will also exist in the final order approving the relief requested in the DIP Motion ("Final Order"). Accordingly, Inland objects to any expansion of the definition of DIP Collateral in the Final Order such that the DIP Lenders' DIP Collateral will include the Leases.

6. Any Final Order that grants the relief requested in the DIP Motion should provide that the liens granted to the DIP Lenders shall attach only to the proceeds of the Leases and not to the Leases themselves. To the extent that the Final Order seeks to grant a lien on the Leases, such a pledge is prohibited by the Leases and is invalid. The DIP Lenders cannot obtain any rights in the Leases which they would not be entitled to absent the Debtors' bankruptcy cases. The Debtors cite to no authority, and Inland does not believe that any such authority exists, for the proposed pledge of the Debtors' leaseholds to the DIP Lenders as collateral for the DIP Loans.

7. Upon information and belief, the Premises that are subject to the Leases are themselves subject to a mortgage and/or other financial agreements, which may

prohibit Inland from allowing any liens to be placed upon the Leases. The Debtors should not be able to grant any liens on the leaseholds to the detriment of Inland and/or its mortgagees, especially if such liens would supersede any existing mortgage liens granted by Inland to its mortgagees or other parties.

8. Moreover, if liens on the Leases are permitted, a *de facto* assignment of the Leases will result upon an occurrence of default under DIP Credit Agreement. First, section 365(f)(1) and (2) of the Bankruptcy Code only permit an assignment of the Leases by the Debtors if the Leases are first assumed. Nothing in the DIP Motion suggests that the Debtors will assume the Leases prior to the exercise by the DIP Lenders of any of their rights under the DIP Credit Facility. Second, the Leases expressly prohibit any assignment of the Leases without Inland's prior consent. These provisions in the Leases cannot be trumped by section 365(f)(1) of the Bankruptcy Code, because the assignment must comply with the requirements of section 365(b)(3) of the Bankruptcy Code, and an assignment of the Leases to the DIP Lenders for the purpose of liquidating such leasehold for the benefit of the DIP Lenders cannot comply with any of the section 365(b)(3) requirements.

9. Any foreclosure by the DIP Lenders on the Leases would circumvent the express requirements for assumption and assignment of the Leases, which are even more stringent in this instance as the Lease is for Premises located within a shopping center. The Debtors have cited no authority for circumventing the protections that are afforded to landlords by section 365 of the Bankruptcy Code and the heightened requirements contained therein with respect to assignments of shopping center leases in order to benefit the Debtors' lenders.

10. To the extent not inconsistent with the arguments raised herein, Inland hereby joins in the objections to the DIP Motion that have been filed by other landlords.

WHEREFORE, Inland respectfully requests that the Court enter an order that denies approval of the DIP Motion unless the Final Order approving such DIP Motion is modified as set forth herein. Inland further requests that the Court enter an order that grants Inland such further and additional relief as the Court may deem just and proper.

Dated: October 12, 2010

CONNOLLY BOVE LODGE & HUTZ LLP



Karen C. Bifferato (No. 3279)

Christina M. Thompson (No. 3976)

The Nemours Building

1007 N. Orange Street

P.O. Box 2207

Wilmington, Delaware 19801

(302) 658-9141

Attorneys for Inland US Management, LLC, Inland

American Retail Management, LLC, Inland

Southwest Management, LLC, Inland Continental

Property Management Corp., and Inland

Commercial Property Management, Inc.


#911317

EXHIBIT A

Inland Lease Locations		
Inland Management Entity	Shopping Center Name	Shopping Center Location
Inland American Retail Management, LLC	Cypress Town Center	Houston, Texas
Inland American Retail Management, LLC	Triangle Center	Longview, Washington
Inland American Retail Management, LLC	Flower Mound Crossing	Flower Mound, Texas
Inland American Retail Management, LLC	The Highlands	Flower Mound, Texas
Inland American Retail Management, LLC	Campus Marketplace	San Marcos, California
Inland American Retail Management, LLC	Garden Village	San Pedro, California
Inland American Retail Management, LLC	Center of Greeley	Greeley, Colorado
Inland American Retail Management, LLC	Palm Harbor S.C.	Palm Coast, Florida
Inland American Retail Management, LLC	Heritage Plaza - Chicago	Carol Stream, Illinois
Inland American Retail Management, LLC	Silverlake	Erlanger, Kentucky
Inland Continental Property Management Corp.	Southpoint	Arlington Heights, Illinois
Inland Continental Property Management Corp.	Innsbrooke	Murfreesboro, Tennessee
Inland Southwest Management, LLC	Humblewood S.C.	Humble, Texas
Inland US Management, LLC	Stilesboro Oaks	Acworth, Georgia
Inland US Management, LLC	Green's Corner	Cumming, Georgia
Inland US Management, LLC	Shoppes of Prominence Point	Canton, Georgia
Inland US Management, LLC	Greensburg Commons	Greensburg, Indiana
Inland US Management, LLC	Stony Creek I	Noblesville, Indiana
Inland US Management, LLC	High Ridge Crossing	High Ridge, Missouri
Inland US Management, LLC	Gloucester Town Center	Sicklerville, New Jersey
Inland US Management, LLC	Coram Plaza	Coram, New York
Inland US Management, LLC	Saucon Valley Square	Bethlehem, Pennsylvania
Inland US Management, LLC	Blockbuster at Five Forks	Greenville, South Carolina
Inland US Management, LLC	West Town Market	Fort Mill, South Carolina
Inland US Management, LLC	Boulevard Plaza	Pawtucket, Pawtucket RI
Inland Southwest Management, LLC	MacArthur Crossing I	Irving, Texas
Inland Southwest Management, LLC	Riverpark Shopping Center	Sugar Land, Texas
Inland Southwest Management, LLC	McDermott Towne Crossing	Allen, Texas
Inland Southwest Management, LLC	Shops at Forest Commons	Round Rock, Texas
Inland Commercial Property Management, Inc.	Aurora Commons	Aurora, Illinois
Inland Commercial Property Management, Inc.	Lansing Square	Lansing, Illinois
Inland Commercial Property Management, Inc.	Chestnut Court	Darien, Illinois
Inland Commercial Property Management, Inc.	Bergen Plaza	Oakdale, Minnesota
Inland Commercial Property Management, Inc.	Park Center	Tinley Park, Illinois
Inland Commercial Property Management, Inc.	Townes Crossing	Oswego, Illinois
Inland Commercial Property Management, Inc.	Brunswick Market Center	Brunswick, Ohio
Inland Commercial Property Management, Inc.	Marketplace at Six Corners	Chicago, Illinois
Inland Commercial Property Management, Inc.	Greentree Center Outlet	Racine, Wisconsin
Inland Commercial Property Management, Inc.	Fox Run Square	Naperville, Illinois

CERTIFICATE OF SERVICE

I, Christina M. Thompson, hereby certify that on the 12th day of October, 2010, I served a true and correct copy of the *Objection of Inland US Management, LLC, Inland American Retail Management, LLC, Inland Southwest Management, LLC, Inland Continental Property Management Corp. and Inland Commercial Property Management, Inc. to Entry of a Final Order (I) Authorizing Postpetition Superpriority Secured Financing Pursuant To 11 U.S.C. Sections 105(A), 361 362, 364(C)(1), 364(C)(2), 364(C)(3), 364(D)(1) and 364(E), (II) Authorizing Postpetition Use of Cash Collateral Pursuant to 11 U.S.C. Section 363, (III) Granting Adequate Protection Pursuant to 11 U.S.C. Sections 361, 362, 363 and 364 and (IV) Scheduling a Final Hearing Pursuant to Bankruptcy Rules 4001(B) and 4001(C)* upon the parties listed below in the manner indicated.


Christina M. Thompson (#3976)

VIA FEDERAL EXPRESS

The Honorable Burton R. Lifland
United States Bankruptcy Court
One Bowling Green, Courtroom 623
New York, NY 10004

**VIA ECF, FACSIMILE
and FIRST CLASS MAIL**

Rod McDonald, Esquire
Blockbuster Inc.
1201 Elm Street
Dallas, TX 75270
Facsimile: 214-854-4321

Stephen Karotkin, Esquire
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Facsimile: 212-310-8007

Martin A. Sosland, Esquire
Weil, Gotshal & Manges LLP
200 Crescent Court, Suite 300
Dallas, TX 75201
Facsimile: 214-746-7777

Brian Masumoto, Esquire
Office of the United States Trustee
for the Southern District of New York
33 Whitehall Street, 21st Floor
New York, NY 10004
Facsimile: 212-668-2255

James P. Seery, Esquire
Paul S. Caruso, Esquire
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019
Facsimile: 212-839-5599

Peter Neckles, Esquire
Alexandra Margolis, Esquire
Skadden, Arps, Slate Meagher & Flom LLP
4 Times Square
New York, NY 10036
Facsimile: 917-777-2466

Edward P. Zujkowski, Esquire
Emmet, Marvin & Martin, LLP
120 Broadway, 32nd Floor
New York, NY 10271
Facsimile: 212-238-3100

David McCarty, Esquire
Kyle J. Mathews, Esquire
Sheppard, Mullin, Richter & Hampton LLP
333 South Hope Street, 43rd Floor
Los Angeles, CA 90071
Facsimile: 213-620-1398