

**THIS IS NOT A SOLICITATION OF ACCEPTANCES OF A CHAPTER 11 PLAN FOR BORDERS GROUP, INC. AND ITS DEBTOR AFFILIATES. ACCEPTANCES OR REJECTIONS OF ANY SUCH PLAN MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL, BUT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT. THE INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT.**

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

**In re:**

**BORDERS GROUP, INC., *et al.*,<sup>1</sup>**

**Debtors.**

**Chapter 11**

**Case No. 11-10614 (MG)**

**(Jointly Administered)**

**DISCLOSURE STATEMENT FOR FIRST AMENDED JOINT PLAN  
OF LIQUIDATION PURSUANT TO CHAPTER 11 OF THE  
BANKRUPTCY CODE PROPOSED BY THE DEBTORS AND THE  
OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

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November 2, 2011

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<sup>1</sup> 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.

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**TABLE OF APPENDIX/EXHIBITS**

**Appendix**

**Name**

1 Index of Defined Terms

**Exhibit**

**Name**

A Chapter 11 Plan

B Disclosure Statement Order



**DISCLAIMER**

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS AND HOLDERS OF EQUITY INTERESTS SHOULD READ THIS DISCLOSURE STATEMENT AND ALL EXHIBITS HERETO, INCLUDING THE PLAN, BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS ANNEXED TO THE DISCLOSURE STATEMENT AND THE PLAN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN. THE TRANSMISSION OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF. AFTER THE DATE HEREOF, THERE CAN BE NO ASSURANCE THAT (A) THE INFORMATION AND REPRESENTATIONS CONTAINED HEREIN WILL BE MATERIALLY ACCURATE, AND (B) THIS DISCLOSURE STATEMENT CONTAINS ALL MATERIAL INFORMATION.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE, AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER NON-BANKRUPTCY LAW. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED NOR DISAPPROVED BY THE SEC, NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. THIS DISCLOSURE STATEMENT WAS PREPARED TO PROVIDE HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS WITH “*ADEQUATE INFORMATION*” (AS DEFINED IN THE BANKRUPTCY CODE) SO THAT THEY CAN MAKE AN INFORMED JUDGMENT ABOUT THE PLAN. PERSONS OR ENTITIES TRADING IN, OR OTHERWISE PURCHASING, SELLING, OR TRANSFERRING, SECURITIES OF THE DEBTORS SHOULD NOT RELY UPON THIS DISCLOSURE STATEMENT FOR SUCH PURPOSES AND SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.

THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, AS A STIPULATION OR AS A WAIVER, BUT, RATHER, AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX,

SECURITIES, OR OTHER LEGAL EFFECTS OF THE LIQUIDATION OR THE PLAN ON  
HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN, THE DEBTORS.

[continued next page]

I.

INTRODUCTION

A. Overview

On February 16, 2011, Borders Group, Inc. and its Debtor affiliates filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. The Debtors are operating their businesses as debtors in possession.

This Disclosure Statement is submitted pursuant to section 1125 of the Bankruptcy Code for the solicitation of votes on the Plan filed concurrently with this Disclosure Statement. The Plan is attached to this Disclosure Statement as **Exhibit A**.

This Disclosure Statement describes certain aspects of the Plan, the Debtors' operations, history and significant events that occurred during the Debtors' chapter 11 cases, the process relating to confirmation of the Plan by the Bankruptcy Court, and related matters. This introduction is intended solely as a summary of the Plan and is qualified in its entirety by the Plan and the other portions of this Disclosure Statement. If there is any inconsistency between the Plan (including the exhibits and schedules attached thereto and any supplements to the Plan) and the descriptions in the Disclosure Statement, the terms of the Plan (and the exhibits and schedules attached thereto and any supplements to the Plan) will control.

**Capitalized terms used in this Disclosure Statement and not otherwise defined herein are defined in Appendix 1 – Defined Terms.**

For a description of the Plan as it relates to Holders of Claims against and Equity Interests in the Debtors, please see Article VI ("*Summary of the Plan*").

**FOR A COMPLETE UNDERSTANDING OF THE PLAN, YOU SHOULD READ THE DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS THERETO IN THEIR ENTIRETY.**

This Disclosure Statement, the Plan and any documents attached or referred to in the Disclosure Statement and the Plan are the only materials that Creditors should use to determine whether to vote to accept or reject the Plan. A Ballot for accepting or rejecting the Plan is being submitted to Holders of Claims that the Debtors and Committee believe are entitled to vote to accept or reject the Plan.

**The last day to vote to accept or reject the Plan is December 9, 2011. To be counted, your Ballot must actually be received by the Voting Agent (identified below) by the "Voting Deadline": December 9, 2011 at 5:00 p.m. (prevailing Eastern Time). Any Ballots received after the Voting Deadline will not be counted. Claimants must return their Ballots to the Voting Agent in accordance with the Voting Instructions that accompany the Ballots.**

**November 10, 2011 is the "Voting Record Date," which is the date on which the identity of Holders of Claims against the Debtors will be determined for the purpose of establishing an**

**entitlement, if any, to receive certain notices and vote on the Plan.**

By the Disclosure Statement Approval Order dated **November [\_\_], 2011**, the Bankruptcy Court approved this Disclosure Statement for dissemination to Holders of Claims against the Debtors. Approval of this Disclosure Statement by the Bankruptcy Court does not constitute a determination by the Bankruptcy Court as to the fairness or merits of the Plan. The Debtors and the Committee believe that approval of the Plan maximizes the recovery to Creditors.

**The Debtors and the Committee strongly urge Creditors to vote to accept the Plan by completing and returning their Ballots so that they will be received on or before the Voting Deadline: December 9, 2011, at 5:00 p.m., prevailing Eastern Time.**

**B. Qualification Concerning Summaries Contained in this Disclosure Statement**

This Disclosure Statement contains summaries of certain provisions of the Plan, certain statutory provisions, certain documents related to the Plan, certain events in the chapter 11 case, and certain financial information. Although the Debtors believe that the summaries of the Plan and related document summaries contained herein are fair and accurate, such summaries are qualified to the extent that they do not set forth the entire text of such documents, statutory provisions or financial information. All of the exhibits to the Plan and this Disclosure Statement and other pleadings and orders relating to the Debtors' chapter 11 cases are available for inspection during regular business hours (9:00 a.m. to 4:00 p.m. weekdays, except legal holidays) at the Office of the Clerk of the Court, United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004-1408, or online at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov). A PACER password is required to access case information, which can be obtained at [www.pacer.psc.uscourts.gov](http://www.pacer.psc.uscourts.gov), or by calling 1-800-676-6856.

**C. Source of Information Contained in this Disclosure Statement**

Factual information contained in this Disclosure Statement has been provided from numerous sources, including (1) the Debtors' books and records, (2) the Debtors' counsel, its professionals and management, (3) documents filed with the United States Securities and Exchange Commission, (4) pleadings filed with the Bankruptcy Court, and (5) the Committee and its professionals. The Debtors and the Committee are unable to warrant or represent that the information contained herein, including the financial information, is without any inaccuracy or omission.

**D. Reliance on Disclosure Statement**

This Disclosure Statement may not be relied on for any purpose other than to determine whether to vote to accept or reject the Plan, and nothing stated herein shall constitute an admission of any fact or liability by any party, or be admissible in any proceeding involving any Debtor or any other party other than proceedings to approve this Disclosure Statement and confirm the Plan, or be deemed evidence of the tax or other legal effects of the Plan on any Debtor or Holders of Claims or Equity Interests. Holders of Claims entitled to vote should read

this Disclosure Statement and the Plan carefully and in their entirety and may wish to consult with counsel prior to voting on the Plan.

**E. No Duty to Update**

The statements contained in this Disclosure Statement are made by the Debtors and the Committee as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. No Debtor or the Committee has a duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

**F. Representations and Inducements Not Included in this Disclosure Statement**

No representations concerning or related to any Debtor, the Debtors' chapter 11 cases, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. You should not rely on any representations or inducements made to secure your acceptance or rejection of the Plan not contained in this Disclosure Statement.

Further, the Liquidating Trust Agreement and various of the other agreements or forms referred to herein are exhibits hereto and/or to the Plan and are incorporated herein by reference. The summary of certain provisions of these documents is qualified in its entirety by reference thereto. The descriptions of these documents and the copies of these documents included as exhibits hereto and/or to the Plan have been included to provide information regarding the terms of these documents. These documents contain representations and warranties made by and to the parties thereto as of specific dates. The representations and warranties of each party set forth in each document have been made solely for the benefit of the other party to such document. In addition, such representations and warranties (1) may have been qualified by confidential disclosures made to the other party in connection with such document, (2) may be subject to a materiality standard which may differ from what may be viewed as material by other readers, (3) were made only as of the date of such documents or such other date as is specified therein and (4) may have been included in such documents for the purpose of allocating risk between or among the parties thereto rather than establishing matters as facts.

**G. Authorization of Information Contained in this Disclosure Statement**

For the purposes of this Disclosure Statement and the confirmation of the Plan, no representations or other statements concerning any Debtor, the Debtors' chapter 11 cases, or the Plan, including, but not limited to, representations and statements regarding asset valuation, are authorized by any Debtor, other than those expressly set forth in this Disclosure Statement.

**H. SEC Review**

This Disclosure Statement has not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the statements contained herein.

## **I. Legal or Tax Advice**

The contents of this Disclosure Statement should not be construed as legal, business or tax advice. Each Creditor or Equity Holder should consult his, her, or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Interest.

This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

## **J. Forward-Looking Statements**

This Disclosure Statement contains forward-looking statements with respect to the Plan.

Forward-looking statements include:

- descriptions of plans and litigation;
- projections of income tax and other contingent liabilities, and other financial items; and
- any descriptions of assumptions underlying or relating to any of the foregoing.

Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements often include words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would” or similar expressions. Forward-looking statements should not be unduly relied upon. They indicate the Debtors’ expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made and the Debtors have no obligation to update them to reflect changes that occur after the date they are made. There are several factors, many beyond the Debtors’ control, which could cause results to differ significantly from expectations. For examples of such factors refer to Article VII, “*Certain Factors to be Considered.*”

Readers are referred to the documents filed by Borders Group, Inc. with the SEC, including, but not limited to, the Form 10-K for the fiscal year ended January 29, 2011, filed with the SEC on April 29, 2011, as may be amended, and the Form 8-Ks filed for each of the Debtors’ Monthly Operating Reports. You may obtain copies of any documents filed with the SEC by visiting the SEC website at <http://www.sec.gov> and performing a search under the “Filings & Forms (EDGAR)” link. Copies of the Debtors’ Monthly Operating Reports referenced above can also be obtained at [www.bordersreorganization.com](http://www.bordersreorganization.com).

## II.

### THE PLAN VOTING INSTRUCTIONS AND PROCEDURES

#### A. Notice to Holders of Claims and Equity Interests

This Disclosure Statement is being transmitted to Holders of certain Claims against and Equity Interests in the Debtor. The primary purpose of this Disclosure Statement is to provide those parties voting on the Plan with adequate information to make a reasonably informed decision with respect to the Plan before voting to accept or to reject the Plan.

On **November [\_\_], 2011**, the Bankruptcy Court entered the Disclosure Statement Approval Order approving this Disclosure Statement, finding that it contains information of a kind and in sufficient detail to enable the Holders of Claims against and Equity Interests in the Debtors that are entitled to vote to make an informed judgment about the Plan. **THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT CONSTITUTES NEITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN, NOR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.**

**IF CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN EACH OF THE DEBTORS, WHETHER OR NOT THEY ARE ENTITLED TO VOTE OR DID VOTE ON THE PLAN AND WHETHER OR NOT THEY RECEIVE OR RETAIN ANY DISTRIBUTIONS OR PROPERTY UNDER THE PLAN. THUS, YOU ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT CAREFULLY. IN PARTICULAR, HOLDERS OF IMPAIRED CLAIMS WHO ARE ENTITLED TO VOTE ON THE PLAN ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ANY EXHIBITS HERETO, THE PLAN, AND ANY EXHIBITS TO THE PLAN CAREFULLY AND IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR TO REJECT THE PLAN.**

**CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD LOOKING OR CONTAINS OR MAY CONTAIN ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL FUTURE RESULTS.**

Except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur after the date hereof and that may have a material impact on the information contained in this Disclosure Statement. Further, the Debtors do not anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences. Accordingly, the delivery of this Disclosure Statement shall not under any circumstance imply that the information herein is correct or complete as of any time after the date hereof.

#### B. Solicitation Package

In addition to approving this Disclosure Statement, the Bankruptcy Court approved certain voting procedures, scheduled the Confirmation Hearing at which the Bankruptcy Court

will consider confirmation of the Plan, and approved the form of the Confirmation Hearing Notice. Accompanying this Disclosure Statement are copies of (1) the Plan (**Exhibit A**); (2) the Confirmation Hearing Notice, which provides notice of, among other things, the time for submitting Ballots to accept or reject the Plan, the date, time and place of the hearing to consider confirmation of the Plan and related matters, and the time for filing objections to confirmation of the Plan; and (3) for Creditors whose Claims are classified in an Impaired Class, one or more Ballots (and return envelopes) to be used in voting to accept or to reject the Plan. If you did not receive a Ballot and believe that you should have, please contact the Voting Agent identified below in the next subsection.

### **C. Voting Procedures, Ballots and Voting Deadline**

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. After carefully reviewing the Plan, this Disclosure Statement, and the detailed instructions accompanying your Ballot, please (1) indicate your acceptance or rejection of the Plan by checking the appropriate boxes and providing requested information on the enclosed Ballot and (2) complete and sign your **original** Ballot (copies will not be accepted) and return it in the envelope provided to the Voting Agent (defined below) so that it is **RECEIVED** by the Voting Deadline (as defined below).

Each Ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement. If you believe you received the wrong Ballot, please contact the Voting Agent.

**FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ACCOMPANYING THE BALLOT AND RECEIVED NO LATER THAN THE VOTING DEADLINE, DECEMBER 9, 2011, AT 5:00 P.M., PREVAILING EASTERN TIME, BY THE VOTING AGENT, THE GARDEN CITY GROUP, at the following address:**

Via Post office:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
P.O. Box 9690  
Dublin, OH 43017-4990

Via FedEx or hand-delivery:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
5151 Blazer Parkway, Suite A  
Dublin, OH 43017-4887

Any Ballot that is executed and returned but does not indicate an acceptance or rejection of the Plan will not be counted.



**DO NOT RETURN ANY DEBT OR EQUITY INSTRUMENTS WITH YOUR BALLOT.**

If you have any questions about the procedure for voting your Impaired Claim or with respect to the packet of materials that you have received, please contact the Voting Agent at (866) 454-7945.

If you wish to obtain, at your own expense (unless otherwise specifically required by Bankruptcy Rule 3017(d)), an additional copy of the Plan, this Disclosure Statement, or any exhibits to such documents, please contact the Voting Agent.

**D. Confirmation Hearing and Deadline for Objections to Confirmation**

The Bankruptcy Court has scheduled the Confirmation Hearing for **December 20, 2011, at 10:00 a.m. (prevailing Eastern Time)**, or as soon thereafter as counsel may be heard, before the Honorable Martin Glenn, United States Bankruptcy Judge, in the United States Bankruptcy Court, Room 501, One Bowling Green, New York, New York 10004. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan must be filed with the Clerk of the Bankruptcy Court, in accordance with the electronic filing requirements as set forth online at [www.nysb.uscourts.gov](http://www.nysb.uscourts.gov), with a copy to the Chambers of Judge Glenn, and served so that they are **RECEIVED on or before December 14, 2011 at 4:00 p.m. (prevailing Eastern Time) by:**

*Counsel for the Debtors*

**Kasowitz, Benson, Torres &  
Friedman LLP**  
1633 Broadway  
New York, New York 10019  
Facsimile: (212) 506-1800  
Attn: David M. Friedman, Esq.  
Andrew K. Glenn, Esq.  
Jeffrey R. Gleit, Esq.

*United States Trustee*

**Office of the United States Trustee  
for the District of New York**  
33 Whitehall Street  
21st Floor  
New York, NY 10004  
Attn: Paul K. Schwartzberg, Esq.

*Counsel for the Official Committee of  
Unsecured Creditors*

**Lowenstein Sandler PC**  
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Roseland, NJ 07068  
Facsimile: 973 597-2400  
Attn: Bruce Buechler, Esq.  
Paul Kizel, Esq.

with a copy to:

**Lowenstein Sandler PC**  
1251 Avenue of the Americas  
New York, New York 10020  
Facsimile: (212) 262-7402  
Attn: Bruce S. Nathan, Esq.

The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

### **III.**

#### **OVERVIEW OF THE PLAN**

The purpose of the Plan is to liquidate, collect and maximize the Cash value of the remaining assets of the Debtors and make distributions in respect of any Allowed Claims against the Debtors' Estates. The Plan is premised on the satisfaction of Claims through creation of the Liquidating Trust (pursuant to the Liquidating Trust Agreement) and distribution of the proceeds raised from the sale and liquidation of the Debtors' remaining assets, claims and Causes of Action.

On the Effective Date, the Debtors will transfer and assign to the Liquidating Trust substantially all property and assets of the Debtors. While the Debtors, in consultation with the Committee, may designate that certain assets remain with the Debtors, proceeds of those assets will constitute Liquidating Trust assets. Pursuant to the Plan, the Liquidating Trust will pay all Allowed Priority Claims and Administrative Expense Claims in full that have not previously been paid by the Debtors. To the extent there are assets remaining in the Liquidating Trust after payment of all Allowed Priority Claims, Administrative Expense Claims and expenses of the Liquidating Trust, all Holders of Allowed General Unsecured Claims shall receive a Pro Rata Share Distribution of the remaining assets of the Liquidating Trust. The Holders of Intercompany Claims and Equity Interests shall not receive any Distributions from the Liquidating Trust.

The following table divides the Claims against and Equity Interests in the Debtors into five (5) separate Classes and summarizes the treatment for each Class. Pursuant to the Plan, each Class will contain sub-Classes for each of the Debtors (*i.e.*, there will be eight (8) sub-Classes in each Class and many of such sub-Classes may be vacant); however, the summary below aggregates sub-Classes. The table also identifies which Classes are entitled to vote on the Plan. Finally, the table indicates an estimated recovery for each Class, expressed as a percentage of the estimated, aggregate Allowed Claims in such Class. Certain unclassified Claims, including Administrative Claims and Priority Tax Claims will be paid in full in Cash to the extent such Claims are Allowed Claims. The recoveries described in the following table represent the Debtors' best estimates based on the information available at this time, and certain significant assumptions described throughout this Disclosure Statement. Unless otherwise specified, the information in the following table is based on calculations as of November 1, 2011.<sup>2</sup>

CLASS	DESCRIPTION	TREATMENT	ENTITLED TO VOTE	ESTIMATED ALLOWED AMOUNTS (\$)	ESTIMATED RECOVERY (%)
Not classified	Administrative Claims (including fees for Professionals)	Unimpaired; payment in full, in Cash, of the allowed amount of such Claim (or as otherwise agreed).	No.	N/A <sup>3</sup>	100%
Not classified	Priority Tax Claims	Unimpaired; payment in full, in Cash, to the extent and in the manners allowed by §1129 of the Bankruptcy Code (or as otherwise agreed).	No.	\$7.4 to \$13.9 million	100%
1	Priority Non-Tax Claims	Unimpaired; payment in full, in Cash, of the allowed amount of such Claim (or as otherwise agreed).	No.	\$0.3 to \$0.4 million	100%
2	Secured Claims	Unimpaired; payment in full, in Cash, of the allowed amount of such Claim (or as otherwise agreed), or return of the collateral.	No.	\$0.0 to \$2.0 million	100%
3	General Unsecured Claims	Impaired; shall receive Pro Rata Share of proceeds remaining after payment of administrative, priority and secured claims.	Yes.	\$812.0 to \$850.0 million <sup>4</sup>	4% to 10%
4	Equity Interests	Impaired; shall receive no Distribution	No.	N/A	0%

<sup>2</sup> Prior to the Disclosure Statement hearing, the Debtors will submit an amended Disclosure Statement with a completed version of this chart detailing the estimated amount of Claims and recoveries.

<sup>3</sup> The Debtors cannot estimate at this time what the amount of Allowed Administrative Claims will aggregate on the Effective Date because the Administrative Claims Bar Date has not yet passed and the Debtors have been paying undisputed Administrative Claims in the ordinary course of the Debtors' business.

<sup>4</sup> Estimated recovery excludes any proceeds from Avoidance Actions and the costs of pursuing such actions.

CLASS	DESCRIPTION	TREATMENT	ENTITLED TO VOTE	ESTIMATED ALLOWED AMOUNTS (\$)	ESTIMATED RECOVERY (%)
5	Intercompany Claims	Impaired; shall receive no Distribution	No.	N/A	0%

ALTHOUGH THE DEBTORS BELIEVE FROM THEIR REVIEW OF THE CLAIMS THAT THEIR ESTIMATION OF CLAIMS AND RECOVERIES IS REASONABLE, THERE IS NO ASSURANCE THAT THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN EACH CLASS WILL NOT MATERIALLY EXCEED THE ESTIMATED AGGREGATE AMOUNTS SHOWN HEREIN. THE DEBTORS ARE CONTINUING THEIR INVESTIGATION OF THE CLAIMS AND HAVE NOT MADE A FINAL DETERMINATION OF ALL THE CLAIMS THAT MAY BE OBJECTED TO, AS SUCH DETERMINATION MAY BE MADE BY THE DEBTORS. THE ACTUAL RECOVERIES UNDER THE PLAN WILL BE DEPENDENT UPON A VARIETY OF FACTORS INCLUDING, BUT NOT LIMITED TO, WHETHER, AND IN WHAT AMOUNT, CONTINGENT CLAIMS, IF ANY, AGAINST ANY OF THE DEBTORS BECOME NON-CONTINGENT AND FIXED AND WHETHER, AND TO WHAT EXTENT DISPUTED CLAIMS, IF ANY, ARE RESOLVED IN FAVOR OF THE ESTATES RATHER THAN THE CLAIMANTS. ACCORDINGLY, NO REPRESENTATION CAN BE OR IS BEING MADE WITH RESPECT TO WHETHER EACH ESTIMATED RECOVERY SHOWN IN THE TABLE ABOVE WILL BE REALIZED BY THE HOLDER OF AN ALLOWED CLAIM IN ANY PARTICULAR CLASS.

#### IV.

#### HISTORY OF THE DEBTORS AND COMMENCEMENT OF THE CASES

##### A. Overview of Prepetition Operations

##### 1. Debtors' Business

Borders Group, Inc. or "BGI", through its subsidiaries, was an operator of book, music and movie superstores and mall-based bookstores. Prior to the Petition Date, the Debtors operated 642 stores,<sup>5</sup> 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 were located in the United States and 3 in Puerto Rico. In addition, the Debtors operated a proprietary e-commerce web site, www.Borders.com, launched in May 2008, which included both in-store and online e-commerce components.

<sup>5</sup> Not including seasonal kiosks operated under Day By Day Calendar Co. described below. The Debtors operated approximately 488 Superstores. The Superstores maintained the widest selection of merchandise of the Debtors' branded stores.

**a. Consolidated Financial Results**

For the fiscal year ended January 29, 2011, the Debtors, on a consolidated basis, 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, and had total assets of approximately \$964.7 million.<sup>6</sup> No dividends were paid to holders of BGI common stock in 2010 or in the period from January 1, 2011 to the Petition Date.

**B. Capital Structure**

**1. Equity**

Prior to the Petition Date, BGI common stock was publicly traded on the New York Stock Exchange under ticker symbol BGP. BGI common stock ceased trading on the New York Stock Exchange as of the close of the market on February 15, 2011.

**2. Debt**

**a. The Prepetition Revolver**

The Debtors were party to a Prepetition Revolver Credit Agreement, dated March 31, 2010, with Bank of America, N.A., as administrative agent, and other lenders, under which the Prepetition Revolver Lenders committed to provide up to \$970.5 million in loans under a secured revolving credit facility. Bank of America, N.A. and GECC were the co-collateral agents, Wells Fargo Retail Finance, LLC and GECC were co-syndication agents and JPMorgan Chase Bank, N.A. was the documentation agent for the Prepetition Revolver Agreement. The Prepetition Revolver Credit Agreement amended and restated a Second Amended and Restated Multicurrency Revolving Credit Agreement, dated as of July 31, 2006.

The commitments of the Prepetition Revolver Lenders to provide the Prepetition Revolver were divided into an existing tranche maturing on July 31, 2011 and an extended tranche maturing on March 31, 2014. The total commitments of the Prepetition Revolver Lenders aggregated \$970.5 million through July 31, 2011, and \$700 million through March 31, 2014. As of the Petition Date, approximately \$196.05 million was outstanding under the Prepetition Revolver.

The Prepetition Revolver was secured by a first priority security interest in substantially all of the inventory, accounts receivable, cash and cash equivalents and certain other collateral of the borrowers and guarantors under the Prepetition Revolver Credit Agreement, a first priority pledge of equity interests in certain subsidiaries, and a second priority security interest in equity interests in certain other subsidiaries, intellectual property, equipment and certain other property.

**b. Prepetition Term Loan Agreement**

The Debtors also entered into the secured Prepetition Term Loan Agreement, dated March 31, 2010, with GA Capital, as administrative agent, and other lenders. Under the

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<sup>6</sup> See Form 10-K for the fiscal year ended January 29, 2011, filed with the SEC on April 29, 2011.

Prepetition Term Loan Agreements, the Prepetition Term Lenders committed to provide the secured Prepetition Term Loan Facility, comprised of an \$80 million tranche and a \$10 million tranche. At the Petition Date, approximately \$48.6 million was outstanding under the \$80 million tranche, which was to mature on March 31, 2014. No amounts were outstanding under the \$10 million tranche.

The Prepetition Term Loan Facility was secured by a first-priority security interest in Borders Group, Inc.'s ownership interests in certain subsidiaries, intellectual property (subject to certain subordination provisions), and the fixed assets of the borrowers and guarantors under the Prepetition Term Loan Facility, and by a second priority security interest in all of the other collateral securing the Prepetition Revolver.

**c. Vendor Financing.**

Prior to December 2010, the Debtors relied on unsecured vendor credit to finance approximately 44% of the Debtors' inventory. As of the Petition Date, the Debtors owed approximately \$303.2 million to vendors for inventory, net of vendors in debit balances.

**C. Events Leading to Chapter 11 Filing**

A variety of external economic and competitive factors led to a substantial decline in the Debtors' profitability and liquidity. Foremost were the external economic factors that have led to a decline in consumer discretionary spending, and the rise of competitive forces in the marketplace. An important internal factor was the Debtors' inability to respond rapidly to these changing conditions, including specifically, their inability outside of a bankruptcy to timely free themselves from unprofitable real estate lease obligations.

The U.S. book retailing business is a mature industry, and has experienced little or no growth in recent years. Books represented the Debtors' primary product category in terms of sales. The Debtors, as well as all book, music and movie retailers, faced commoditization in their primary product categories and an extremely competitive marketplace (including both store-based and online competitors), product formats that evolved from physical formats to digital formats, and the Debtors' loss of market share. These factors, among others, contributed to declines in the Debtors' comparable store sales measures and sales per square foot measures over the last several years. These declines, in turn, negatively impacted profitability.

Web-based retailing has continued to increase in market share as a distribution method for physical book, music, and movie merchandise. In addition, the Internet has enabled changes in the formats of many of the product categories the Debtors offered. Sales of music in the physical compact disc and movies in the DVD format, for example, declined over the past several years, as consumers have increasingly turned to digital downloads of music and movies. This trend, which is expected to continue, also manifested itself in the book category, with the increasing popularity of electronic book readers.

The environment in which the Debtors' retail outlets operated was intensely competitive and included not only Internet-based retailers and book superstore operators, but also mass merchants and other non-bookseller retailers. Because of this, the industry experienced

significant price competition over the last several years, which further decreased gross margin percentages.

The Debtors' financial condition and results of operations were also dependent upon discretionary spending by consumers, which deteriorated significantly over the last several years.

#### **D. Prepetition Restructuring Activities**

As the Debtors were facing market and liquidity pressures, they sought cooperation from their primary creditor constituencies to reassess and manage their cost structure and sought replacement financing in order to maintain their businesses and avoid a chapter 11 filing. Beginning in October 2010, the Debtors began discussions with various lending institutions with respect to obtaining a new credit facility to replace the Prepetition Revolver Credit Agreement and Prepetition Term Loan Agreement.

##### **1. Negotiations With Vendors and Landlords**

In December 2010, the Debtors announced that due to liquidity issues they would withhold payments to certain vendors and seek to restructure those obligations on a consensual basis. In January 2011, the Debtors increased their holdback of vendor payments and began to withhold payments to landlords as well. Prior to the Petition Date, approximately \$178.8 million was past due to vendors, and approximately \$18.6 million was past due to landlords.

In January 2011, the Debtors began negotiations with certain of their landlords in an attempt to obtain relief from their lease obligations. Throughout January 2011, the Debtors negotiated with their vendors, landlords and their respective professionals with respect to a potential out-of-court restructuring of their debts, all of which was contingent upon the Debtors obtaining replacement financing for the Prepetition Revolver.

##### **2. Attempted Refinancing**

On January 27, 2011, the Debtors announced that they received the GE Prepetition Commitment, a commitment from GE Capital to provide a \$550 million senior secured credit facility that would provide the Debtors sufficient liquidity to run their businesses. The GE Prepetition Commitment, however, required the syndication of \$175 million of the total commitment and required the Debtors to raise an additional \$125 million of junior capital. To secure this junior capital, the Debtors approached both third-party capital providers and trade vendors about investing fresh capital or converting outstanding accounts payable into a junior note. Despite active discussions with numerous vendors and third-parties, the Debtors were unable to obtain commitments for subordinate financing to satisfy the requirements of the GE Prepetition Commitment within the required timeframe. As a result, the Debtors could not obtain the necessary financing on an out-of-court basis and turned their attention to sourcing DIP financing.

The Debtors directed their financial advisor Jefferies & Company, Inc. to contact and obtain proposals from various sources of post petition DIP financing to fund the Debtors' operations. Jefferies contacted 40 potential DIP financing providers, including 32 potential new lenders, four Prepetition Revolver Lenders, and four Prepetition Term Lenders. Twenty-three

(23) of such parties executed confidentiality agreements with the Debtors. Jefferies held multiple diligence calls with these potential lenders, created a data room to share confidential information, and actively worked with these parties with the goal of obtaining the best overall financing package for the Debtors.

When soliciting proposals from potential lenders, Jefferies asked all interested parties to provide terms for: (a) first-lien DIP financing; (b) second-lien DIP financing; or (c) a combination of both. The Debtors received two term sheets and commitment letters for first lien DIP financing and three proposals for junior DIP facilities. These parties were the only lenders who indicated a willingness to proceed with the requested financing in a manner that would meet the time and business constraints of the Debtors. None of the potential lenders were willing to provide financing in the form of unsecured credit allowable under section 503(b)(1), as an administrative expense under section 364(a) or (b) of the Bankruptcy Code, or on a junior lien basis under section 364(c).

One of the first lien DIP proposals that the Debtors received was from GE Capital. The Debtors received the initial DIP proposal from GE Capital on January 28, 2011 that provided for the GE DIP Commitment, a fully committed \$550 million senior secured DIP credit facility and, unlike the GE Prepetition Commitment, removed the requirement that the Debtors obtain \$125 million in junior financing. While this proposal included improved terms when compared to the GE Prepetition Commitment, the Debtors, with the assistance of their financial and legal advisors, continued negotiating with GE Capital and Bank of America (agent for the Prepetition Revolver Lenders) to secure more favorable terms. In addition, as discussed below, this proposal did not have the consent of the Prepetition Term Lenders.

On February 9, 2011, after multiple discussions regarding potential improvements to the GE DIP Commitment, GE Capital provided a revised term sheet and commitment documentation for a fully committed \$450 million senior secured debtor-in-possession credit facility. That proposal substantially addressed the post-petition liquidity needs of the Debtors and was more favorable than any other proposal which the Debtors had received. The GE DIP Commitment, as revised, however, contemplated financing that would be senior to the Prepetition Term Lenders' pre-Petition Date loans and did not have the Prepetition Term Lenders' consent. GE Capital advised the Debtors that it would not proceed with DIP financing without their consent.

The Debtors continued to seek financing that would be satisfactory to the Prepetition Term Lenders, who were parties to an intercreditor agreement with the Prepetition Revolver Lenders, and who held second liens on the collateral securing the Prepetition Revolver. The Debtors and GE Capital engaged in active discussions with GA Capital, LLC and other Prepetition Term Lenders on a facility that would be satisfactory to all parties. After intensive, lengthy and arduous negotiations between the Debtors, GE Capital, and GA Capital, LLC, all three parties were able to agree on the terms of the \$505 million DIP Loan, which are set forth in that certain term sheet, dated February 14, 2011.

#### **E. Bidding Process for Bulk Store Liquidations**

Further to the determination by the Debtors that certain unprofitable stores needed to be eliminated, in January 2011, the Debtors began discussions with experienced and reputable



liquidators, and began a bidding process which culminated with the selection of a stalking horse bidder. During such discussions, the liquidators performed extensive due diligence on the assets of such stores, including inventory, and FFE located at the stores expected to be closed. As discussed below, the Debtors filed a motion to begin a store closing process for up to 275 stores on or about the Petition Date.

## V.

### THE CHAPTER 11 CASES

#### A. Continuation of Business; Stay of Litigation and Enforcement of Creditors' Rights

Since the Petition Date, the Debtors have continued to operate as debtors in possession subject to the supervision of the Bankruptcy Court. Although the Debtors are authorized to operate in the ordinary course of business, transactions out of the ordinary course of business have required Bankruptcy Court approval.

An immediate effect of the Debtors' filing their voluntary chapter 11 petitions was the imposition of the automatic stay under the Bankruptcy Code, which, with limited exceptions, enjoins the commencement or continuation of all collection efforts by Creditors, the enforcement of liens against property of the Debtors and the continuation of litigation against the Debtors. The automatic stay of an act against property of the Debtors' Estates remains in effect, unless modified by the Bankruptcy Court, until such property no longer is property of the Debtors' Estates; the stay of all other acts encompassed by the automatic stay continues until the earlier of the time the Debtors' chapter 11 cases are closed or dismissed.

#### B. Parties In Interest and Advisors

Described below are the primary parties that have played significant roles in the Debtors' chapter 11 cases to date.

##### 1. The Bankruptcy Court

The Debtors' chapter 11 cases were filed in the United States Bankruptcy Court for the Southern District of New York, located in New York, New York. The Honorable Martin Glenn, United States Bankruptcy Judge, is presiding over the Debtors' chapter 11 cases.

##### 2. Advisors to the Debtor

The Debtors have retained Kasowitz, Benson, Torres & Friedman LLP as bankruptcy counsel for the Debtors' chapter 11 cases and Jefferies & Company, Inc., as financial advisor. In addition, the Debtors have retained various other firms and individuals to assist the Debtors in their chapter 11 cases, including Baker and McKenzie LLP as special corporate counsel, DJM Realty Services, LLC as real estate consultant, Dickinson Wright PLLC as special counsel, Streambank, LLC as intellectual property disposition consultant, and AP Services, LLC as crisis managers.

### **3. The Committee and Its Advisors**

On February 24, 2011, the United States Trustee, pursuant to its authority under section 1102 of the Bankruptcy Code, appointed the Committee to serve in the Debtors' chapter 11 cases. The Committee was appointed to represent the interests of, and to serve as a fiduciary for, the Debtors' unsecured creditors.

The original members of the Committee were:

Penguin Group (USA) Inc.  
HarperCollins Publishers, LLC  
Random House Bertelsmann  
The Perseus Books Group  
Sony Music Entertainment  
General Growth Properties, Inc.  
Simon Property Group  
Hachette Book Group USA (*ex officio*)  
Simon & Schuster Inc. (*ex officio*)  
Developers Diversified Realty Corporation (*ex officio*)

During the course of these cases, The Perseus Books Group and Sony Music Entertainment resigned from the Committee.

The Committee's legal counsel is Lowenstein Sandler PC, and its financial advisor is BDO USA, LLP.

#### **C. The Debtor In Possession Credit Facility**

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.*

On March 16, 2011, the Bankruptcy 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.* Pursuant to that order, the Debtors were authorized to obtain senior secured, superpriority, postpetition DIP 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 pursuant to the terms and conditions of the DIP Credit Agreement.

On or about July 22, 2011, all amounts due and owing under the DIP Credit Agreement were repaid in full from proceeds of the liquidation of the Debtors assets pursuant to the *Order Approving Agency Agreement, Store Closing Sales and Related Relief*, entered on July 21, 2011.

## **D. First Day Orders**

On February 16, 2011 the Bankruptcy Court entered certain “first day orders” granting the Debtors various forms of relief to stabilize the business, including:

- **Case Administration Orders**

These orders: (1) authorized joint administration of the Debtors’ chapter 11 cases solely for procedural purposes, (2) granted an extension of the time to file the Debtors’ schedules and statements of financial affairs, (3) implemented certain case management procedures, and (4) waived the requirement to file certain lists of creditors and equity holders.

- **Operational Orders**

These orders authorized the Debtors to: (a) continue prepetition premium obligation under workers’ compensation insurance policies and all other insurance policies, (b) maintain their existing cash management system on an interim basis, including maintaining bank accounts and business forms, (c) provide adequate assurance to utility companies on an interim basis, (d) maintain the Debtors’ customer programs, and (e) implement certain stock transfer notice procedures. The Debtors subsequently obtained Bankruptcy Court approval to operate their cash management system.

- **Payments on Account of Prepetition Claims**

The orders authorized the Debtors to pay the following prepetition amounts (i) certain wages, compensation and employee benefits, (ii) certain tax and other assessments, (iii) certain insurance costs, and (iv) certain distribution network vendor claims.

## **E. Store Closing Sales**

### **1. Phase I Store Closing Sales**

On the Petition Date, the Debtors filed an emergency motion with the Bankruptcy Court seeking authority to, among other things, enter into an agreement with a liquidating agent to conduct store closing sales at no fewer than 200 of the Debtors’ stores, and up to an additional 75 of the Debtors’ stores if the landlords did not agree to substantial rent concessions.

Pursuant to the Bankruptcy Court’s *Order Approving the Agency Agreement, Store Closing Sales and Related Relief*, dated February 18, 2011, the Bankruptcy Court approved the appointment of the Phase I Liquidating Agent (as defined in such order) and the commencement of the store closing sales. On March 19 and 25, 2011, the Debtors designated 26 additional stores to be included in the closing stores. The liquidation sales at all 226 locations ended in June 2011, and the Debtors and the Phase I Liquidating Agent reconciled all amounts due under the related agency agreements.

## **2. Chain Wide Store Closing Sales**

On or about June 30, 2011, the Debtors filed the *Motion for an Order Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code and Rules 2002, 6004, 6006 and 9014 of the Federal Rules of Bankruptcy Procedure (I) Approving the Sale of Substantially All of the Debtors' Assets Free and Clear of All Liens, Claims, Encumbrances and Interests and the Assumption and Assignment of Executory Contracts and Unexpired Leases Related Thereto, (II) Approving the Sale Procedures and Break-Up Fee, and (III) Granting Related Relief*, seeking authority to, among other things, sell substantially all of the Debtors' assets. At the time the Debtors filed this motion, the Debtors were seeking approval of an agreement with an affiliate of the Najafi Companies and Direct Brands, Inc., which would have designated such company a stalking horse bidder in connection with a possible purchase of the Debtors' assets and business as a going concern. By July 13, 2011, the Debtors announced that they would be unable to continue to seek approval of such an agreement.

Ultimately, the Debtors received no offers to purchase the Debtors' assets and business as a going concern, causing the Debtors to seek approval of liquidation in connection with this sale motion. Accordingly, on or about July 21, 2011, the Bankruptcy Court entered the *Order Approving Agency Agreement, Store Closing Sales and Related Relief*, which, among other things, authorized the Debtors to conduct store closing sales for the Debtors' remaining inventory and related assets. The store closing sales were concluded by September 20, 2011.

### **F. Motions Related to the Assumption and Rejection of Leases**

On the Petition Date, the Debtors filed the *Debtors' Motion Pursuant to 11 U.S.C. §§ 105, 365(a), and 554(a) Requesting Approval of Procedures for the Rejection of Unexpired Leases*, which sought authority to establish procedures for the rejection of unexpired leases of non-residential real property after the Petition Date. On March 16, 2011, the Bankruptcy Court entered the *Order Establishing and Authorizing Procedures for the Rejection of Unexpired Leases of Nonresidential Real Property*, granting this motion.

On March 1, 2011, the Debtors filed a motion to extend the time within which the Debtors must assume or reject unexpired leases of non-residential real property under section 365(d)(4) of the Bankruptcy Code from June 16, 2011 through and including September 14, 2011, which also sought approval of a form stipulation further extending the deadline within which the Debtors must assume or reject of non-residential real property under section 365(d)(4) that would be entered into between the Debtors and consenting landlords. On March 15, 2011, the Bankruptcy Court granted this motion and approved the stipulation. Subsequently, the Debtors were able to enter into a number of stipulations with landlords extending the deadline for the Debtors to assume or reject certain leases.

### **G. Key Employee Programs**

On March 24, 2011, the Debtors filed a motion to implement a key employee incentive plan (the "KEIP") for seventeen (17) of their key executive employees, and a key employee retention plan (the "KERP," and together with the KEIP, the "Key Employee Programs") for twenty-five (25) of their director-level, non-executive employees, as well as certain additional

discretionary employees to be determined based on job performance by the Debtors' five highest-level executives. The Debtors formulated the Key Employee Programs based on advice from Mercer (US) Inc., a leading global compensation consulting firm. The Bankruptcy Court held an initial hearing on the Key Employee Programs on April 14, 2011. After negotiations with, among others, the Committee and the United States Trustee, the Debtors filed a revised proposed order and term sheet on April 21, 2011. On April 22, 2011, the Bankruptcy Court held a hearing and entered an order approving the final Key Employee Programs. Thereafter, the Bankruptcy Court followed up with a written opinion on April 27, 2011.

As a result of the liquidation of the Debtors' businesses, no payments were made under the KEIP. All the terminated employees who were on the KERP list received their KERP payment, which offset any severance they were otherwise entitled to. All of the Debtors' employees with titles of director or below who were entitled to severance under the Debtors' existing pre-petition severance policies and individual severance agreements will receive such severance in accordance with such policies and agreements as authorized by the Debtors' first-day employee wage order. The Debtors' fourteen (14) highest level employees are receiving severance in accordance with the Bankruptcy Court's order, entered September 8, 2011, authorizing certain severance payments.

## **H. Certain Other Sale Motions**

### **1. Intellectual Property Sale Motion**

On July 27, 2011, the Debtors filed the *Debtors' Motion for Orders Pursuant to Sections 332, 363, 365 and 105 of the Bankruptcy Code and Rules 2002, 6004 and 6006 of the Federal Rules of Bankruptcy Procedure: (I) Approving Bidding Procedures with Respect to Sale of Certain IP Assets, Including Expense Reimbursement for a Stalking Horse Bidder, Setting the Sale Hearing Date, and Appointing a Consumer Privacy Ombudsman; and (II) Approving and Authorizing the Sale of IP Assets to the Highest and Best Bidder Free and Clear of All Liens, Interests, Claims and Encumbrances and the Assumption and Assignment of Certain Related Executory Contracts and Waiving the Requirements of Bankruptcy Rules 6004(h) and 6006(d)*, which sought approval of a bidding process and auction for the Debtors' intellectual property assets.

On August 8, 2011, the Bankruptcy Court entered the *Order Pursuant to Sections 332, 363, 365 and 105 of the Bankruptcy Code and Rules 2002, 6004 and 6006 of the Federal Rules of Bankruptcy Procedure Approving Bidding Procedures in Connection with the Sale of the Debtors' IP Assets Free and Clear of All Liens, Interests, Claims and Encumbrances*, which, among other things, adopted certain bidding procedures for the Debtors' intellectual property assets and established September 8, 2011 as the deadline for submission of bids for such Debtors' IP Assets and September 20, 2011 as the hearing date for the Bankruptcy Court to consider approval of the sale of such assets. Such hearing was later continued to September 26, 2011. On September 27, 2011, the Bankruptcy Court entered the *Order Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code and Rules 2002, 6004, 6006 and 9014 of the Federal Rules of Bankruptcy Procedure Approving the Sale of Certain of the Debtors' IP Assets Free and Clear of all Liens, Interests, Claims and Encumbrances and the Rejection of Certain Executory Contracts Related Thereto*, which approved, *inter alia*, the sale of such assets to Barnes &

Noble, Inc. and certain foreign licensees for approximately \$15.675 million. This transaction has closed.

## **2. Lease Sale Motion**

On July 27, 2011, the Debtors filed *the Debtors' Motion for Order Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code and Rules 2002, 6004, 6006 and 9014 of the Federal Rules of Bankruptcy Procedure (I) Approving the Bidding and Auction Procedures for Sale of Unexpired Nonresidential Real Property Leases, (II) Setting Lease Sale Hearing Dates and (III) Authorizing and Approving (A) Sale of Certain Unexpired Nonresidential Real Property Leases Free and Clear of All Interests, and (B) Assumption and Assignment of Certain Unexpired Nonresidential Real Property Leases*, which sought approval of a bidding process and two auctions for the Debtors' non-residential real property leases.

On August 11, 2011, the Bankruptcy Court entered the *Order Under Bankruptcy Code Sections 105, 363, and 365 (I) Approving Bidding and Auction Procedures for Sale of Unexpired Nonresidential Real Property Leases, and (II) Setting Sale Hearing Dates and Objection Deadlines*, which, among other things, established procedures for the bidding and auction of the Debtors' non-residential real property leases in two separate rounds, and established September 8 and 20, 2011 as the hearing dates for the Bankruptcy Court to consider the approval of the sale of the Debtors' unexpired nonresidential real property leases for round 1 and round 2 leases, respectively. Beginning on September 8, 2011, the Bankruptcy Court entered multiple orders approving the sale or termination of multiple of the Debtors' unexpired non-residential real property leases in round 1 for \$220,000 plus the waiver of certain claims against the Debtors. Beginning on September 22, 2011, the Court entered orders approving the sale or termination of multiple of the Debtors' unexpired non-residential real property leases in round 2 for approximately \$125,000 plus the waiver of certain claims against the Debtors. Moreover, the Debtors are seeking approval of the last round 2 lease transaction for their Puerto Rico location which contemplates a cash payment of \$425,000 plus the waiver of certain claims against the Debtors.

### **I. Exclusivity**

The Bankruptcy Code grants a debtor an initial period of 120 days after the commencement of a chapter 11 case during which the debtor has the exclusive right to propose and to file a plan of reorganization. If a debtor proposes and files a plan within this initial 120-day exclusivity period, then the debtor has until the end of the period ending on the 180th day after the commencement of a chapter 11 case to solicit and to obtain acceptances of such plan. These exclusive periods may be extended for a limited period of time by an order of the court.

The Debtors filed their petition for relief under chapter 11 of the Bankruptcy Code on the Petition Date, February 16, 2011. Accordingly, the exclusive period to file a plan and solicit acceptances and rejections of that plan were initially scheduled to end on June 16, 2011 and August 15, 2011, respectively. On May 19, 2011, the Debtors filed the *Debtors' Motion for Order Pursuant to 11 U.S.C. § 1121(d) Extending Their Exclusive Periods For Filing and Soliciting Acceptances of a Chapter 11 Plan*. On June 2, 2011, the Bankruptcy Court entered the *Order Pursuant to 11 U.S.C. 1121(d) Extending Their Exclusive Periods For Filing and*

*Soliciting Acceptances of a Chapter 11 Plan*, extending the exclusive period for the Debtors to file a plan and solicit acceptances and rejections for that plan until October 14, 2011 and December 13, 2011, respectively.

## **J. Kobo**

In 2009, the Debtors entered into an agreement with Kobo, Inc. (“Kobo”) pursuant to which, among other things, the Debtors provided their customers with the ability to purchase and download literary works over the internet. At the same time, the Debtors purchased 5,000,000 shares of Kobo’s common stock (the “Kobo Stock”) for a price of approximately 5 million Canadian dollars. The Debtors currently hold approximately 9.9% of all of Kobo’s common stock. In 2011, the Debtors entered into a new agreement with Kobo whereby the Debtors’ customers interacted directly with Kobo.

The Debtors, and after the Effective Date, the Liquidating Debtor, intend to market the Kobo Stock for sale, the proceeds of which will be transferred to the Liquidating Trust for distribution to General Unsecured Creditors. Kobo may attempt to assert certain restrictions to the transferability of the Kobo Stock.

## **K. Claims Process and Bar Date**

### **1. Schedules and Statements**

On March 30, 2011, each of the Debtors filed with the Bankruptcy Court a statement of financial affairs, and schedules of assets, liabilities and executory contracts and unexpired leases (collectively, the “Schedules”).

### **2. Bar Date**

By order dated April 7, 2011, the Bankruptcy Court set June 1, 2011 as the general deadline for filing prepetition proofs of claim and August 15, 2011 as the deadline for governmental units to file prepetition proofs of claim. By order dated October 11, 2011, the Bankruptcy Court set November 21, 2011, at 5:00 p.m. (prevailing Eastern Time) as the deadline for all holders of Administrative Claims (except for Professional Fees and Claims under section 503(b)(9) of the Bankruptcy Code) accruing on or after the Petition Date through and including October 21, 2011, to file proofs of such Administrative Claims with the Claims Agent. Any Holder of an Administrative Claim that is required to file a Proof of Claim for such Administrative Claim and does not file a Proof of Claim for such Administrative Claim so as to be received by the Claims Agent by the aforesaid bar date, or, by thirty (30) days after the Effective Date for Administrative Claims accruing between October 22, 2011 and the Effective Date pursuant to Article XII. Q. of the Plan, shall be forever barred from asserting such Administrative Claim against a Debtor, an Estate, their respective successors or their respective property, and such Administrative Claim shall be deemed discharged and released as of the Effective Date.

### **3. Preparation of Claims Estimates and Recoveries**

The Debtors have prepared their estimates of Claims and recoveries by Holders of such Claims based primarily on the following: (a) projections based on anticipated future Claim reconciliations and Claim objections, and (b) other legal and factual analyses unique to particular types of Claims.

The Debtors' estimates of Allowed Claims are identified in the chart set forth in Article III ("*Overview of the Plan*") above and form the basis of projected recoveries in Classes 1 (Priority Non-Tax Claims), 2 (Secured Claims) and 3 (General Unsecured Claims). Notwithstanding the Debtors' efforts in developing their Claims estimates, the preparation of such estimates is inherently uncertain, and, accordingly, there is no assurance that such estimates accurately will predict the actual amount of Allowed Claims in the Debtors' chapter 11 cases. As a result, the actual amount of Allowed Claims may differ materially from the Debtors' Claims estimates contained herein.

#### **L. Post Petition Date Litigation**

##### **1. Next Jump**

On August 31, 2011, Borders Inc. and Borders Properties, Inc. ("Borders") filed a complaint against Next Jump, Inc. ("Next Jump") alleging breach of contract, misappropriation of trade secrets, violations of the Lanham Act and common law trademark infringement, violations of the automatic stay, and unjust enrichment and seeking turnover of an Estate asset as well as injunctive relief protecting the Debtors' intellectual property rights and customer list. Specifically, the complaint alleges that Next Jump, Inc. had been using Borders' trademarks and customer list in violation of and after the termination of a pre-petition agreement between Borders and Next Jump by which Next Jump was allowed to use the customer list and trademarks on its website, oo.com, for certain pre-authorized purposes related to the Debtors' Borders Rewards program. Plaintiffs have included in their complaint and supporting memorandum and declaration specific instances by which Next Jump, through its website oo.com, used the Borders trademarks and/or contacted individuals on Borders' customer list without Borders' authorization and in violation of and after the termination of the Borders/Next Jump Agreement.

An initial hearing was held on the requested temporary restraining order on September 2, 2011 and was continued to September 6, 2011. Thereafter, the Debtors and Next Jump entered into a stipulated order providing for injunctive relief which was approved by the Bankruptcy Court. In the stipulated order, the defendant agreed, among other things, to no longer communicate with persons that were listed on the Debtors' customer list or use the sponsor enrollee data in any way, and further stated that it would remove the Borders name and marks from its websites, including oo.com. Next Jump further agreed to disable its website bordersrewardsperks.com. Next Jump has, since the hearing, filed an answer to the plaintiffs' complaint denying certain allegations and asserting counterclaims against Borders Inc. and Borders Properties, Inc., and third-party counterclaims against Daniel Angus, a Borders employee. These claims include common law fraud, unfair business practices, *quantum meruit*, unjust enrichment, indemnification and tortious interference with contractual relations against all



defendants and a claim for breach of contract against Borders Inc. The defendant has also filed a motion to withdraw the reference from the Bankruptcy Court. The Debtors intend to vigorously pursue their affirmative claims and deny liability to Next Jump.

## **2. WARN Act Complaint**

On September 2, 2011, Jared Pinsker, a former Borders, Inc. District Manager, filed a Complaint against the Company on behalf of himself, and a class of former employees he claims to be similarly situated to him and who were terminated between July 23 and August 23, 2011 and thereafter, alleging the Company violated the Worker Adjustment and Retraining Notification Act of 1988, 29 U.S.C. §§ 2101-2109 et. seq. (“WARN”), and its New York counterpart, N.Y. Lab. Code §§ 921 et seq. Specifically, the Complaint alleges the Company failed to provide Mr. Pinsker and the members of the putative class he seeks to represent at least 60 days advance notice of their terminations in accordance with WARN. The Complaint seeks damages consisting of the amount of wages, holiday pay, vacation pay, sick leave pay and the value of any other benefits which would have been earned and paid during the period of time for which notice purportedly had not been sufficiently provided. The Complaint has not yet been served on the Company.

The Company denies the claims and allegations contained in the Complaint, none of which it believes have merit. The Company strongly believes it complied, and continues to comply, with any obligations it may have owed Mr. Pinsker and the class he seeks to represent under WARN, or any other applicable law, rule or regulation, and that proper, timely and sufficient notice was provided to all employees who may have been required to receive same. As such, the Company is prepared to vigorously defend itself against this action.

## **VI.**

### **SUMMARY OF THE PLAN**

#### **A. Introduction**

This Article provides a summary of the terms and provisions of the Plan, including the classification and treatment of Claims and Equity Interests under the Plan and the means for implementation of the Plan. The summary is qualified in its entirety by reference to the Plan, which is attached to this Disclosure Statement as **Exhibit A**. The statements contained in this Disclosure Statement include summaries of the provisions contained in the Plan and in documents referred to therein. The statements contained in this Disclosure Statement do not purport to be precise or complete statements of all the terms of the Plan or the documents referred to therein; reference is made to the Plan and to such documents for the full and complete statements of such terms.

The Plan itself and the documents referred to therein control the actual treatment of Claims against and Equity Interests in the Debtors under the Plan and will, upon the Effective Date, be binding upon all Holders of Claims against and Equity Interests in the Debtors, their Estates and other parties in interest.

The structure of the Plan and the Distributions to Holders of Claims and Equity Interests thereunder reflect the result of negotiations among the Debtors, the Committee and other stakeholders. After careful review of the estimated recoveries in a chapter 11 reorganization scenario and a chapter 7 liquidation scenario, the Debtors have concluded that the recoveries to Creditors will be maximized by consummating and making Distributions pursuant to the Plan. The Debtors believe that their Estates have value that would not be fully realized by Creditors in a chapter 7 liquidation primarily due to: (1) the additional administrative expenses that would be incurred in a chapter 7 liquidation; (2) a “fire sale” of the Debtors’ remaining assets, which would not allow full value to be realized on such assets as would be realized under the Plan; and (3) the additional delay in distributions that may occur if the Debtors’ chapter 11 cases were converted to cases under chapter 7.

Accordingly, the Proponents believe that the Estates are worth more to their stakeholders if the Debtors’ liquidation is completed as described above, and Distributions are made, under chapter 11 pursuant to the Plan.

## **B. Overall Structure of The Plan**

The Plan provides for the creation of a Liquidating Trust, into which shall be transferred substantially all of the Debtors’ remaining assets that have not been either abandoned or sold prior to the Effective Date. The Debtors, in consultation with the Committee, may designate that certain assets remain with the Debtors with all proceeds of those assets deemed Liquidating Trust assets. The Liquidating Trust shall liquidate all Liquidating Trust assets for the benefit of the Debtors’ creditors. Net proceeds generated by the Liquidating Trustee shall be distributed to Allowed General Unsecured Claims (Class 3).

The Classes of Claims against and Equity Interests in the Debtors created under the Plan, the treatment of those Classes under the Plan, the means for implementation of the Plan and the Distributions to be made under the Plan are described in more detail below.

## **C. Classification and Treatment of Claims and Equity Interests under the Plan**

### **1. Classification Generally**

Under the Plan, Claims against and Equity Interests in the Debtors are divided into different Classes. Classification of Claims and Equity Interests in the Plan are for all purposes, including voting, Confirmation and Distribution pursuant to the Plan.

A Claim or Equity Interest shall be deemed classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and shall be deemed classified in a different Class only to the extent that any portion of such Claim or Equity Interest qualifies within the description of such different Class. A Claim or Equity Interest is placed in a particular Class only to the extent that such Claim or Equity Interest is Allowed in that Class and has not been paid, released or otherwise settled prior to the Effective Date. Notwithstanding any Distribution provided for in the Plan, no Distribution on account of any Claim or Equity Interest is required or permitted unless and until such Claim or Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be, which might not occur, if at all, until after the Effective Date.

The classification of Claims and Equity Interests set forth in the Plan and explained below shall apply separately to each of the Debtors. All of the potential Classes for the Debtors are set forth in the Plan and explained below. Certain of the Debtors may not have Holders of Claims or Equity Interests in a particular Class or Classes, and such Classes shall be treated as set forth in Article III.D. of the Plan. For all purposes under the Plan, each Class will contain sub-Classes for each of the Debtors (*i.e.*, there will be eight (8) sub-Classes in each Class and many of such sub-Classes may be vacant).

## **2. Unclassified Claims Under the Plan**

### **a. Administrative Claims**

The Bankruptcy Court has set November 21, 2011 at 5:00 p.m. (prevailing Eastern Time) as the deadline for all holders of Administrative Claims (except for Professional Fees and Claims under section 503(b)(9) of the Bankruptcy Code) accruing on or after the Petition Date through and including October 21, 2011, to file proofs of such Administrative Claims with the Claims Agent. As set forth in Article XII.Q. of the Plan, holders of Administrative Claims accruing between October 22, 2011 and the Effective Date must file proofs of such Administrative Claims with the Claims Agent no later than thirty (30) days after the Effective Date. On, or as soon as reasonably practicable after (i) the Initial Distribution Date, if an Administrative Claim is an Allowed Administrative Claim as of the Effective Date, or (ii) the date on which such Administrative Claim becomes an Allowed Administrative Claim or as otherwise determined by the Debtors or Liquidating Trustee, as applicable, each Holder (other than a Professional) of an Allowed Administrative Claim shall receive, in full settlement, satisfaction and release of, and in exchange for, such Allowed Administrative Claim, (A) Cash in an amount equal to the unpaid amount of such Allowed Administrative Claim or (B) such other treatment as may be agreed upon in writing by such Holder and the Debtors or the Liquidating Trustee, as applicable; provided, however, that the Liquidating Trustee shall be authorized to pay Allowed Administrative Claims that arise in the ordinary course of the Debtors' business, in full, in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to, such transactions, post-confirmation.

The Debtors cannot estimate at this time what the amount of Allowed Administrative Claims will aggregate on the Effective Date because the Administrative Claims Bar Date has not yet passed and the Debtors have been paying undisputed Administrative Claims in the ordinary course of the Debtors' business.

### **b. Professional Fees**

Notwithstanding any other provision of the Plan concerning Administrative Claims, any Professional seeking an award by the Bankruptcy Court of an Allowed Administrative Claim on account of Professional Fees incurred from the Petition Date through and including the Effective Date (1) shall, no later than forty-five (45) days after the Effective Date, File a final application for allowance of compensation for services rendered and reimbursement of expenses incurred through and including the Effective Date and (2) shall receive, as soon as reasonably practicable after such claim is Allowed, in full settlement, satisfaction and release of, and in exchange for,

such Allowed Administrative Claim, Cash in an amount equal to the unpaid amount of such Allowed Administrative Claim in accordance with the Order relating to or allowing any such Administrative Claim.

**c. Priority Tax Claims**

On, or as soon as reasonably practicable after (1) the Initial Distribution Date, if such Priority Tax Claim is an Allowed Priority Tax Claim as of the Effective Date or (2) the date on which such Priority Tax Claim becomes an Allowed Priority Tax Claim, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive: (A) Cash in an amount equal to the amount of such Allowed Priority Tax Claim; (B) Cash in an amount agreed to by such Holder and agreed to and paid by the Debtors or the Liquidating Trust, as applicable, provided that such parties may further agree for the payment of such Allowed Priority Tax Claim to occur at a later date without any further notice to or action, order, or approval of the Bankruptcy Court; or (C) at the sole discretion of the Debtors or Liquidating Trustee, as applicable, Cash paid by the Liquidating Trust in the aggregate amount of such Allowed Priority Tax Claim, payable in installment payments over a period not more than five (5) years from the Petition Date with payment of interest at a fixed annual rate to be determined by the Bankruptcy Court, all in accordance with section 1129(a)(9)(C) of the Bankruptcy Code.

The Debtors estimate that on the Effective Date, the Allowed amount of Priority Tax Claims will aggregate approximately \$7.4 to \$13.9 million.

**3. Summary of Classes**

Pursuant to the Plan, Holders of Claims in Class 1 (Priority Non-Tax Claims) and Class 2 (Secured Claims) are unimpaired, and therefore, the Holders of such Claims are “conclusively presumed” to have voted to accept the Plan.

Pursuant to the Plan, Holders of Claims in Class 3 (General Unsecured Claims) are impaired and entitled to vote to accept or reject the Plan.

Pursuant to the Plan, Holders of Equity Interests in Class 4 (Equity Interests) and Claims in Class 5 (Intercompany Claims) are receiving no Distributions under the Plan. A class is deemed to reject a plan under section 1126(g) of the Bankruptcy Code if the holders of claims or interests in such class do not receive or retain property under the plan on account of their claims or equity interests. Holders of Claims or Equity Interests in Class 4 (Equity Interests) and Class 5 (Intercompany Claims) are not entitled to vote on the Plan and are deemed to have rejected the Plan.

**4. Classification Under the Plan**

**a. Class 1 – Priority Non-Tax Claims (Unimpaired; not entitled to vote)**

On or as soon as practicable after the Effective Date, each Holder of an Allowed Priority Non-Tax Claim shall receive, in full and final satisfaction of such Claim, one of the following treatments, in the sole discretion of the Debtors or the Liquidating Trustee, as the case may be:

(i) full payment in Cash of its Allowed Priority Non-Tax Claim or (ii) treatment of its Allowed Priority Non-Tax Claim in a manner that leaves such Claim Unimpaired. Holders of Class 1 Priority Non-Tax Claims are Unimpaired and conclusively deemed to have accepted the Plan. The Debtors estimate that on the Effective Date, the Allowed amount of Class 1 Priority Non-Tax Claims will aggregate approximately \$0.3 to \$0.4 million.

**b. Class 2 – Secured Claims (Unimpaired; not entitled to vote)**

Each Holder of an Allowed Secured Claim will be placed in a separate subclass, and each subclass will be treated as a separate class for Distribution purposes. Except to the extent that a Holder of an Allowed Secured Claim agrees to a different treatment, on or as soon as practicable after the Effective Date, each Holder of an Allowed Secured Claim shall receive, in full and final satisfaction of such Claim, in the sole discretion of the Debtors or the Liquidating Trustee, as the case may be:

- (i) the collateral securing such Allowed Secured Claim;
- (ii) Cash in an amount equal to the value of the collateral securing such Allowed Secured Claim; or
- (iii) such other treatment required under section 1124(2) of the Bankruptcy Code for such Claim to be rendered Unimpaired.

Holders of Class 2 Secured Claims are Unimpaired and conclusively deemed to have accepted the Plan. The Debtors estimate that on the Effective Date, the Allowed amount of Class 2 Secured Claims will aggregate approximately \$0.0 to \$2.0 million.

**c. Class 3 – General Unsecured Claims (Impaired; entitled to vote)**

Each Holder of an Allowed General Unsecured Claim shall receive, in full and final satisfaction of such Claim, its Pro Rata Share of the Liquidating Trust Interests. Holders of Class 3 General Unsecured Claims are Impaired and are entitled to vote to accept or reject the Plan. The Debtors estimate that on the Effective Date, the Allowed amount of Class 3 General Unsecured Claims will aggregate approximately \$812.0 to \$850.0 million.

**d. Class 4 – Equity Interests (Impaired; not entitled to vote)**

Holders of Equity Interests shall neither receive nor retain any property under the Plan. All Equity Interests shall be cancelled and of no further force or effect and all Claims filed on account of Equity Interests shall be deemed disallowed by operation of the Plan. Class 4 Equity Interests are Impaired and Holders of Equity Interests are conclusively deemed to reject the Plan.

**e. Class 5 – Intercompany Claims (Impaired; not entitled to vote)**

Holders of Intercompany Claims shall neither receive nor retain any property under the Plan. All Intercompany Claims shall be released and of no further force or effect. Holders of Class 5 Intercompany Claims are Impaired and are conclusively deemed to reject the Plan.

## **D. Means for Implementation of the Plan**

### **1. Substantive Consolidation**

Voting on the Plan shall be conducted on an entity-by-entity basis to assure that the requirements for confirmation have been met. Entry of the Confirmation Order shall constitute approval, pursuant to sections 105(a) and 1123(a)(5) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of the Estates of the Debtors for the purposes of confirming and consummating the Plan, including but not limited to voting, confirmation, and Distribution. Accordingly, (a) the assets and liabilities of the Debtors are deemed to be the assets and liabilities of a single, consolidated entity, (b) each and every Claim filed or to be filed in the Bankruptcy Cases against any Debtor shall be considered filed against the consolidated Debtors and shall be considered one Claim against and obligation of the consolidated Debtors on and after the Effective Date, (c) all joint obligations of two or more Debtors, and all multiple Claims against such entities on account of such joint obligations, are considered a single claim against the Debtors, and (d) all guaranties by any of the Debtors of the obligations of any other Debtor arising prior to the Effective Date shall be deemed eliminated under the Plan, so that any Claim against any Debtor and any guaranty thereof executed by any other Debtor, and any joint and several liability of any of the Debtors, shall be deemed to be one obligation of the deemed consolidated Debtors.

Such deemed consolidation, however, shall not (other than for purposes related to funding Distributions under the Plan) affect: (i) the legal and organizational structure of the Debtors, (ii) executory contracts or unexpired leases that were entered into during the Bankruptcy Case or that have been or will be assumed or rejected, (iii) any agreements entered into by the Liquidating Trust on the Effective Date, and (iv) the Debtors' or the Liquidating Trust's ability to subordinate or otherwise challenge Claims **on an entity by entity basis**. Moreover, the Proponents reserve the right to seek confirmation of the Plan on an entity-by-entity basis.

In the event the Bankruptcy Court authorizes the Debtors to substantively consolidate less than all of the Debtors' Estates: (A) the Plan shall be treated as a separate plan of liquidation for each Debtor not substantively consolidated, and (B) the Debtors shall not be required to resolicit votes with respect to the Plan.

### **2. Vesting of Assets and Dissolution**

On the Effective Date, the Liquidating Trust Assets shall vest in the Liquidating Trust free and clear of all Claims, Equity Interests, liens, charges or other encumbrances, except as set forth in the Plan.

On the Effective Date, the Retained Assets, if any, will vest in the Liquidating Debtor free and clear of all Claims, Equity Interests, liens, charges or other encumbrances. For so long as any Retained Assets exist, the Liquidating Debtor will continue to exist and the Liquidating Trustee on the Effective Date will be appointed sole member, director and officer of the Liquidating Debtor. The Liquidating Trustee is authorized, without the need for any further

action or formality which might otherwise be required under applicable non-bankruptcy laws, to dissolve the Liquidating Debtor or to merge the Liquidating Debtor into the Liquidating Trust.

As of the Effective Date, or as soon as practicable thereafter, and without the need for any further order of the Bankruptcy Court, action or formality which might otherwise be required under applicable non-bankruptcy laws, the Debtors may be (a) dissolved without the need for any filings with the Secretary of State or other governmental official in each Debtor's respective state of incorporation, or (b) merged into or with the Liquidating Debtor or the Liquidating Trust.

On the Effective Date or as soon as practicable thereafter, the Liquidating Debtor or the Liquidating Trustee, as applicable, shall consummate, pursuant to section 1123(a)(5)(D) of the Bankruptcy Code, remaining transactions and sales of property, if any.

On the Effective Date, any provision in any operating agreements, partnership agreements, limited liability company agreements or any other organizational document (as the same may be amended or restated from time to time) of any Debtor or Liquidating Debtor requiring dissolution, liquidation, or withdrawal of a member upon insolvency, bankruptcy or the filing of Bankruptcy Cases:

- i. is deemed waived and of no further force and effect and
- ii. any action taken to prevent or revoke such potential dissolution or liquidation by the Debtors or Liquidating Debtor or potential withdrawal of any such Debtors or Liquidating Debtor from the applicable limited liability company or partnership is ratified and deemed effective to prevent such dissolution or liquidation and each such Debtor or Liquidating Debtor shall continue its existence regardless of any such provision.

### **3. Reservation of Rights Regarding Causes of Action**

The Debtors and, after the Effective Date, the Liquidating Trustee, on behalf of the Liquidating Trust, reserve the rights to pursue any and all Causes of Action not relinquished, released, compromised or settled in this Plan, or any Final Order, and the Debtors hereby reserve the rights of the Liquidating Trust and the Liquidating Trustee, on behalf of the Liquidating Trust, to pursue, administer, settle, litigate, enforce and liquidate consistent with the terms and conditions of the Plan and Liquidating Trust Agreement such Causes of Action. The Liquidating Trustee shall, pursuant to section 1123 and all applicable law, have the requisite standing to prosecute, pursue, administer, settle, litigate, enforce and liquidate any and all Causes of Action.

### **4. The Liquidating Trust**

#### **a. Establishment and Administration of the Liquidating Trust**

- i. On the Effective Date, the Liquidating Trust shall be established pursuant to the Liquidating Trust Agreement for the purpose of, among other things, (A) investigating and, if appropriate, pursuing Trust Claims and Causes of Action, (B) administering and pursuing the Liquidating Trust Assets, (C) resolving all Disputed

Claims and (D) making all Distributions from the Liquidating Trust as provided for in the Plan and the Liquidating Trust Agreement.

ii. Upon execution of the Liquidating Trust Agreement, the Liquidating Trustee shall be authorized to take all steps necessary to complete the formation of the Liquidating Trust; provided, that, prior to the Confirmation Date, the Debtors, the Committee or the Liquidating Trustee, as applicable, may act as organizers of the Liquidating Trust and take such steps in furtherance thereof as may be necessary, useful or appropriate under applicable law to ensure that the Liquidating Trust shall be formed and in existence as of the Confirmation Date. The Liquidating Trust shall be administered by the Liquidating Trustee in accordance with the Liquidating Trust Agreement. From and after the Effective Date, the Liquidating Trustee shall be vested with the powers of the sole shareholder, member, officer and director of the Liquidating Debtor. The Liquidating Trust shall have authority to incur indebtedness in furtherance of its objectives. The Liquidating Trustee shall not be required to post a bond.

iii. It is intended that the Liquidating Trust be classified for federal income tax purposes as a "liquidating trust" within the meaning of Treasury Regulations Section 301.7701-4(d) and as a "grantor trust" within the meaning of Sections 671 through 679 of the Internal Revenue Code. In furtherance of this objective, the Liquidating Trustee shall, in its business judgment, make continuing best efforts not to unduly prolong the duration of the Liquidating Trust. All assets held by the Liquidating Trust on the Effective Date shall be deemed for federal income tax purposes to have been distributed by the Debtors on a Pro Rata Share basis to Holders of Allowed General Unsecured Claims and then contributed by such Holders to the Liquidating Trust in exchange for the Liquidating Trust Interests. All Holders have agreed to use the valuation of the assets transferred to the Liquidating Trust as established by the Liquidating Trustee for all federal income tax purposes. The beneficiaries under the Liquidating Trust will be treated as the deemed owners of the Liquidating Trust. The Liquidating Trust will be responsible for filing information on behalf of the Liquidating Trust as grantor trust pursuant to Treasury Regulation Section 1.671-4(a).

#### **b. Assets of the Liquidating Trust**

On the Effective Date, or as soon as reasonably practicable thereafter, the Debtors will transfer and assign to the Liquidating Trust the Liquidating Trust Assets, which shall be deemed vested in the Liquidating Trust. On and after the Effective Date, the Liquidating Trustee shall have discretion with respect to the timing of the transfers of Liquidating Trust Assets. Any checks of the Debtors issued prior to the Effective Date that remain un-cashed three (3) months after the Confirmation Date shall revert to the Liquidating Trust. The Liquidating Trust will hold and administer, among other things, (i) Cash in bank account(s), and (ii) the Disputed Claims Reserve.

#### **c. Liquidating Trust Interests**

i. On the Effective Date, each Holder of an Allowed General Unsecured Claim shall, by operation of the Plan, receive its Pro Rata Share of the Liquidating Trust



Interests. Liquidating Trust Interests shall be reserved for Holders of Disputed General Unsecured Claims and issued by the Liquidating Trust to, and held by the Liquidating Trustee in, the Disputed Claims Reserve pending allowance or disallowance of such Claims. No other entity shall have any interest, legal, beneficial, or otherwise, in the Liquidating Trust, its assets or Causes of Action upon the assignment and transfer of such assets to the Liquidating Trust.

ii. The Liquidating Trust Interests shall be uncertificated and shall be non-transferable except upon death of the Holder or by operation of law. Holders of Liquidating Trust Interests, in such capacity, shall have no voting rights with respect to such interests. The Liquidating Trust shall have a term of five (5) years from the Effective Date, without prejudice to the rights of the Liquidating Trust Committee to extend such term conditioned upon the Liquidating Trust not becoming subject to the Securities Exchange Act of 1934 (as now in effect or hereafter amended).

**d. Liquidating Trust Distributions**

i. Initial Distributions.

On the Initial Distribution Date, the Liquidating Trustee shall make, or shall make adequate reserves in the Disputed Claims Reserve for, the Distributions required to be made under the Plan to Holders of Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed General Unsecured Claims and Allowed Secured Claims. The Liquidating Trustee shall not make any distributions of Trust Assets to the Trust Beneficiaries unless the Trustee retains and reserves in the Disputed Claims Reserve such amounts as are reasonably necessary to satisfy amounts that would have been distributed in accordance with Article IV of the Liquidating Trust Agreement in respect of Disputed Claims if the Disputed Claims were determined to be Allowed Claims immediately prior to such proposed distribution to the Beneficiaries.

ii. Interim Distributions.

The Liquidating Trustee shall make interim Distributions of Cash (A) to Holders of the Liquidating Trust Interests at least once each calendar year, but solely in accordance with the Liquidating Trust Agreement, and (B) from the Disputed Claims Reserve in accordance with Article VII.D. of the Plan.

iii. Final Distributions.

The Liquidating Trust shall be dissolved and its affairs wound up and the Liquidating Trustee shall make the Final Distributions, upon the earlier of (A) the date which is five (5) years after the Effective Date, and (B) that date when, (I) in the reasonable judgment of the Liquidating Trustee, substantially all of the assets of the Liquidating Trust have been liquidated and there are no substantial potential sources of additional Cash for Distribution, and (II) there remain no substantial Disputed Claims. Notwithstanding the foregoing, on or prior to a date not less than six (6) months prior to such termination, the Bankruptcy Court, upon motion by a party in interest, may extend the term of the Liquidating Trust for one or more finite terms based upon the particular facts and circumstances present at that time, if an extension is necessary to the

liquidating purpose of the Liquidating Trust. The date on which the Final Distributions are made is referred to as the "Trust Termination Date". On the Trust Termination Date, the Liquidating Trustee shall

- A. distribute all remaining Cash to the Holders of Liquidating Trust Interests in accordance with the Plan and Liquidating Trust Agreement; and
- B. promptly thereafter, request that the Bankruptcy Court enter an order closing the Bankruptcy Cases (unless this has already been done).

After Final Distributions have been made in accordance with the terms of the Plan and the Liquidating Trust Agreement, if the amount of remaining cash is less than \$50,000, the Liquidating Trustee, after consultation with the Liquidating Trust Committee, may donate such amount to a charity approved by the Liquidating Trust Committee.

#### **e. Reporting Requirement of Liquidating Trust**

The Liquidating Trust's formation documents will require that bi-annual financial statements or similar reports of the Liquidating Trust be filed with the Bankruptcy Court and made available to any Holder of Liquidating Trust Interests that so requests such statements and/or reports.

### **5. Cancellation of Existing Agreements and Existing Common Stock**

On the Effective Date, except to the extent otherwise provided in the Plan, all notes, stock, instruments, certificates, and other documents evidencing any Claims or Equity Interests shall be canceled, shall be of no further force, whether surrendered for cancellation or otherwise, and the obligations of the Debtors thereunder or in any way related thereto shall be discharged.

### **6. Exemption from Certain Fees and Taxes**

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property pursuant to the Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment in the United States, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation instruments or other documents pursuant to such transfers of property without the payment of any such tax or governmental assessment.

#### **E. Procedures for Resolving Disputed Claims**

##### **1. Prosecution of Objections to Claims on and After the Effective Date**

On and after the Effective Date, objections to, and requests for estimation of any Claims may be interposed and prosecuted only by the Liquidating Trust. Such objections and requests for estimation shall be served on the respective claimant and filed with the Bankruptcy Court on or before the later of (a) one hundred twenty (120) days after the Effective Date and (b) such

other date as may be fixed by the Bankruptcy Court upon a motion filed by the Liquidating Trust served only on the Rule 2002 service list. On the Effective Date, all outstanding objections to, and requests for estimation of Claims will vest in the Liquidating Trust.

**F. Treatment of Executory Contracts and Unexpired Leases**

**1. Assumption and Rejection of Executory Contracts and Unexpired Leases**

a. Any executory contracts and unexpired leases that are listed as executory contracts or unexpired leases to be assumed in an exhibit hereto, or to be filed at least ten (10) business days prior to the Confirmation Hearing Date and incorporated herein, or are to be assumed pursuant to the terms hereof, shall be deemed assumed by the Debtors as of immediately prior to the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of any such assumptions pursuant to sections 365(a) and 1123 of the Bankruptcy Code.

b. Any executory contract or unexpired lease which has not expired by its own terms on or prior to the Effective Date, which has not been assumed, assumed and assigned, or rejected with the approval of the Bankruptcy Court, or which the Debtors have obtained the authority to reject but have not rejected as of the Effective Date, or which is not the subject of a motion to assume the same pending as of the Effective Date, shall be deemed rejected by the Debtors on the Confirmation Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejection pursuant to sections 365(e) and 1123(b)(2) of the Bankruptcy Code.

**2. Rejection Damages Claims**

Proofs of all Claims arising out of the rejection of an executory contract or an unexpired lease pursuant to the Plan shall be filed with the Claims Agent and served upon the Liquidating Trust not later than thirty (30) days after the date on which notice of the occurrence of the Confirmation Date has been served. Any such Claims covered by the preceding sentence not filed within such time shall be forever barred from assertion against the Debtors, their Estates, the Liquidating Trust, and their respective properties and interests.

**3. Indemnification Obligations**

Any obligations of the Debtors pursuant to their corporate charters and bylaws or agreements, including amendments, entered into any time prior to the Effective Date, to indemnify, reimburse, or limit the liability of any Covered Persons pursuant to the Debtors' certificates of incorporation, bylaws, policy of providing employee indemnification, applicable state law, or specific agreement in respect of any claims, demands, suits, causes of action, or proceedings against such Covered Persons based upon any act or omission related to such Covered Persons' service with, for, or on behalf of the Debtors prior to the Effective Date with respect to all present and future actions, suits, and proceedings relating to the Debtors shall continue as obligations of the Liquidating Trust, and shall, in any event, survive confirmation of the Plan and except as set forth herein, remain unaffected thereby, and shall not be discharged, irrespective of whether such defense, indemnification, reimbursement, or

limitation of liability accrued or is owed in connection with an occurrence before or after the Petition Date, provided, however, that all monetary obligations under Article V.C. of the Plan shall be limited solely to available insurance coverage and neither the Liquidating Trust, the Liquidating Trustee nor any of their assets shall be liable for any such obligations. Any Claim based on the Debtors' obligations set forth in Article V.D. of the Plan shall not be a Disputed Claim or subject to any objection in either case by reason of section 502(e)(1)(B) of the Bankruptcy Code. This provision for Indemnification Obligations shall not apply to or cover any Claims, suits or actions against a Covered Person that result in a final order determining that such Covered Person is liable for fraud, willful misconduct, gross negligence, bad faith, self-dealing, or breach of the duty of loyalty, nor will such provision apply to Michael Edwards or any Pershing Square Affiliates.

### **G. Condition Precedent to Confirmation**

The Plan shall not be confirmed, and the Confirmation Date shall not be deemed to occur, unless and until the Confirmation Order, in form and substance satisfactory to the Proponents, has been entered on the docket maintained by the Clerk of the Bankruptcy Court.

#### **1. Conditions Precedent to the Effective Date**

The Effective Date shall not occur and the Plan shall not become effective unless and until the following conditions have been satisfied in full or waived by the Proponents in writing:

a. the Confirmation Order, in form and substance satisfactory to the Proponents, shall be entered by the Bankruptcy Court, shall become a Final Order, shall be in full force and effect and shall not be subject to a stay or an injunction which would prohibit the transactions under the Plan;

b. the Confirmation Order shall, among other things, provide that all transfers of property by the Debtors (i) to the Liquidating Trust (A) are or shall be legal, valid, and effective transfers of property, (B) vest or shall vest the Liquidating Trust with good title to such property free and clear of all liens, charges, claims, encumbrances or interests, except as expressly provided in the Plan or Confirmation Order, (C) do not and shall not constitute voidable transfers under the Bankruptcy Code or under applicable non-bankruptcy law, (D) shall be exempt from any transfer, sales, stamp or other similar tax (which exemption shall also apply to the transfers by the Liquidating Trust) and (E) do not and shall not subject the Liquidating Trustee or Holders of Claims to any liability by reason of such transfer under the Bankruptcy Code or under applicable non-bankruptcy law, including, without limitation, any laws affecting successor or transferee liability and (ii) to Holders of Claims under the Plan are for good consideration and value;

c. the final version of the Plan and any supplemental documents and exhibits contained therein shall have been Filed and in a form and substance satisfactory to the Proponents;

d. all actions and transfers and all agreements, instruments, or other documents necessary to implement the terms and provisions of the Plan, including all transfers to the

Liquidating Trust, shall have been effected or executed and delivered, as applicable, in form and substance satisfactory to the Proponents; and

e. all authorizations, consents, and regulatory approvals, if any, required by the Proponents in connection with the consummation of the Plan shall have been obtained and not revoked.

## **2. Waiver of Conditions**

Any of the conditions to Confirmation of the Plan and/or to the Effective Date set forth in Articles VIII.A. and VIII.B. of the Plan, other than entry of the Confirmation Order in form and substance satisfactory to the Proponents, may be waived with the express written consent of the Proponents without leave or order of the Bankruptcy Court, and without any formal action.

## **3. Satisfaction of Conditions**

Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action. If the Proponents determine that one of the conditions precedent set forth in Articles VIII.A. and VIII.B. of the Plan cannot be satisfied and the occurrence of such condition is not waived or cannot be waived, then the Proponents shall file a notice of the failure of the Effective Date with the Bankruptcy Court.

## **4. Effect of Nonoccurrence of Conditions**

If each of the conditions to occurrence of the Effective Date set forth in Article VIII.B. of the Plan has not been satisfied or duly waived on or before the first Business Day that is 180 days after the Confirmation Date, or such later date as shall be determined by the Proponents, the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is so vacated, the Plan shall be null and void in all respects, and nothing contained in the Plan shall constitute a waiver or release of any Claims or Equity Interests against any of the Debtors or release of any claims or interests by the Debtors or the Estates.

## **H. Settlement, Release, Injunction and Related Provisions**

### **1. Compromise and Settlement of Claims, Equity Interests and Controversies**

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019 and in consideration for the classification, distributions, releases, and other benefits provided pursuant to the Plan, on the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims, Equity Interests, and controversies resolved pursuant to the Plan or relating to the contractual, legal, and subordination rights that a Holder of a Claim or Equity Interest may have with respect to any Claim or Equity Interest, or any Distribution to be made on account of such Claim or Equity Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Equity Interests, and controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtors, their Estates, and Holders of

Claims and Equity Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, pursuant to Bankruptcy Rule 9019, without any further notice to, or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Liquidating Trustee may compromise and settle Claims against the Debtors and their Estates and Trust Claims against other Entities.

**2. Discharge of the Debtors and Injunction**

**a. Discharge**

**Except as otherwise provided in the Plan or the Confirmation Order, the rights afforded in the Plan and the payments and Distributions to be made under the Plan shall be in exchange for, and in complete satisfaction, settlement, discharge, and release of, all Claims against and Equity Interests in the Debtors' assets of any kind, nature, or description, whatsoever or against any of the Debtors' assets or properties to the full extent permitted by section 1141 of the Bankruptcy Code. Except as otherwise expressly provided in the Plan, entry of the Confirmation Order (subject to the occurrence of the Effective Date) shall act as a discharge to the full extent permitted by section 1141 of the Bankruptcy Code of all Claims against and debt of, liens on, and Equity Interests in each of the Debtors' assets and their properties, arising at any time before the entry of the Confirmation Order, regardless of whether a Proof of Claim or proof of Equity Interest therefor was filed, whether the Claim or Equity Interest is Allowed, or whether the Holder thereof votes to accept the Plan or is entitled to receive a Distribution under the Plan. Upon entry of the Confirmation Order, and subject to the occurrence of the Effective Date, any Holder of such discharged Claim or Equity Interest shall be precluded from asserting against the Debtors' assets or properties any other or further Claim or Equity Interest based upon any document, instrument, act, omission, transaction, or other activity of any kind or nature that occurred before the Confirmation Date except as otherwise expressly provided in the Plan. The Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtors, subject to the occurrence of the Effective Date.**

**b. Injunction**

**In accordance with section 524 of the Bankruptcy Code, and to the full extent permitted by section 1141 of the Bankruptcy Code, the discharge provided by Article IX.B. of the Plan shall act as an injunction against the commencement or continuation of any action, employment of process, or act to collect, offset, or recover a Claim and Equity Interest against the Debtors' assets and properties which are discharged hereby. Except as otherwise expressly provided in the Plan or the Confirmation Order, all Persons who have held, hold, or may hold Claims against, or Equity Interests in, the Debtors' assets or property shall be permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (b) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against the Debtors on account of any such Claim or Equity Interest and (c) creating, perfecting, or enforcing any encumbrance of any kind against the Debtors or against the property or interests in property of the Debtors on account of any such Claim or Equity Interest. The**

**foregoing injunction shall extend to successors of the Debtors (including, without limitation, the Liquidating Trust) and their respective properties and interests in property.**

### **3. Preservation of Causes of Action**

In accordance with section 1123(b) of the Bankruptcy Code, and except where such Causes of Action have been expressly released, the Liquidating Trustee shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, including any action specifically enumerated in any supplemental documents,, and the Liquidating Trustee's rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. The Liquidating Trustee may pursue such Causes of Action, as appropriate, in accordance with the best interests of the Liquidating Trust beneficiaries. No Entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Liquidating Trustee, as applicable, will not pursue any and all available Causes of Action against them. Except with respect to Causes of Action as to which the Debtors have released any Entity on or prior to the Effective Date, the Debtors or the Liquidating Trustee, as applicable, expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan. Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Liquidating Trustee expressly reserves all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, estoppels (judicial, equitable or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation. Without limiting the foregoing, the Liquidating Trustee may pursue (i) Causes of Action against the Pershing Square Affiliates; (ii) Causes of Action against Michael Edwards; (iii) Creditors to avoid and recover Avoidance Actions; and (iv) actions to collect accounts receivable and other Claims due to the Debtors' Estates. The pending action in Pierce County Superior Court in the State of Washington, *City of Puyallup v. Carl R. Hogan et al.*, case number 05-2-05211-8, and related appeal to Division II of the Washington State Court of Appeals, cause number 41017-6, shall continue to be pursued by litigation counsel.

### **4. Releases**

#### **a. Releases by the Debtors**

As of the Effective Date, the Debtors, their Estates and the Liquidating Trust will be deemed to forever release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whether direct or derivative, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise that are based in whole or in part on any act, omission, transaction, event, or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtors, the Bankruptcy Cases, the Plan, or the Disclosure Statement, that could have been asserted at any time, past, present, or future, by or on behalf of the Debtors, or their Estates, against (i) each director, officer or employee employed by or serving the Debtors on and after the Petition Date,

in its capacity as such, (ii) financial advisor, restructuring advisor, or attorney of the Debtors, in its capacity as such, employed by or serving on and after the Petition Date and (iii) the Committee, and each member, financial advisor, restructuring advisor, and attorney of the Committee, in its capacity as such; provided, however, that the foregoing shall not affect the liability or release of any Person that otherwise would result from any such act or omission to the extent such act or omission is determined by a Final Order to have constituted fraud, willful misconduct, gross negligence, bad faith, self-dealing, or breach of the duty of loyalty; provided further, however, that the foregoing shall not affect any liability of or release Michael Edwards or any Pershing Square Affiliates and shall not be a waiver of any defense, offset or objection to any Claim filed against the Debtors and their Estates by any Person.

**b. Releases among the Releasing Parties**

NOTWITHSTANDING ANYTHING IN THE PLAN TO THE CONTRARY, ON THE EFFECTIVE DATE, IN CONSIDERATION FOR THE GOOD AND VALUABLE CONSIDERATION PROVIDED BY THE RELEASING PARTIES, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, THE RELEASING PARTIES, TO THE MAXIMUM EXTENT PERMISSIBLE UNDER APPLICABLE LAW, DISCHARGE AND RELEASE AND SHALL BE DEEMED TO HAVE PROVIDED A FULL DISCHARGE AND RELEASE TO EACH OF THE OTHER RELEASING PARTIES (AND EACH OF THE OTHER RELEASING PARTIES SHALL BE DEEMED FULLY RELEASED AND DISCHARGED BY THE RELEASING PARTIES) AND THEIR RESPECTIVE PROPERTY FROM ANY AND ALL CLAIMS, INTERESTS, OBLIGATIONS, DEBTS, RIGHTS, SUITS, DAMAGES, REMEDIES, CAUSES OF ACTION, LIABILITIES WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, LIQUIDATED OR UNLIQUIDATED, CONTINGENT OR NON-CONTINGENT, EXISTING AS OF THE EFFECTIVE DATE IN LAW, EQUITY OR OTHERWISE, WHETHER FOR TORT, CONTRACT, VIOLATIONS OF FEDERAL OR STATE SECURITIES LAWS, OR OTHERWISE, ARISING FROM OR RELATED IN ANY WAY TO THE DEBTORS, THE TRANSACTIONS CONTEMPLATED BY THE PLAN, THE BANKRUPTCY CASES, THE PURCHASE, SALE OR RESCISSION OF ANY SECURITY OF THE DEBTORS, THE SUBJECT MATTER OF, OR THE TRANSACTIONS OR EVENTS GIVING RISE TO, ANY CLAIM OR EQUITY INTEREST THAT IS TREATED IN THE PLAN, THE BUSINESS OR CONTRACTUAL ARRANGEMENTS BETWEEN ANY OF THE DEBTORS AND ANY OF THE OTHER RELEASING PARTIES, THE RESTRUCTURING OF CLAIMS AND EQUITY INTERESTS PRIOR TO OR IN THE BANKRUPTCY CASES, THE NEGOTIATION, FORMULATION, OR PREPARATION OF THE PLAN, THE DISCLOSURE STATEMENT, THE AGENCY AGREEMENTS, THE LIQUIDATING TRUST AGREEMENT, OR RELATED AGREEMENTS, INSTRUMENTS, OR OTHER DOCUMENTS RELATED TO THE BANKRUPTCY CASES, OR ANY OTHER ACT OR OMISSION, TRANSACTION, AGREEMENT, EVENT, OR OTHER OCCURRENCE TAKING PLACE ON OR BEFORE THE EFFECTIVE DATE, INCLUDING THOSE THAT ANY OF THE RELEASING PARTIES WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT IN THEIR OWN RIGHT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR THAT ANY HOLDER OF A CLAIM OR AN EQUITY INTEREST OR OTHER ENTITY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT ON BEHALF OF ANY OF THE RELEASING PARTIES; PROVIDED, HOWEVER, THE FOREGOING SHALL NOT AFFECT THE LIABILITY OF ANY PERSON THAT OTHERWISE WOULD RESULT



FROM ANY SUCH ACT OR OMISSION TO THE EXTENT SUCH ACT OR OMISSION IS DETERMINED BY A FINAL ORDER TO HAVE CONSTITUTED FRAUD, WILLFUL MISCONDUCT, GROSS NEGLIGENCE, BAD FAITH, SELF-DEALING OR BREACH OF THE DUTY OF LOYALTY; PROVIDED FURTHER, HOWEVER, THAT THE FOREGOING SHALL NOT RELEASE ANY CAUSES OF ACTION AND/OR TRUST CLAIMS (WHICH FOR THE AVOIDANCE OF DOUBT INCLUDES, AMONG OTHER THINGS, AVOIDANCE ACTIONS NOT RELEASED UNDER THE PLAN) AND SHALL NOT BE A WAIVER OF ANY PROOF OF CLAIM FILED AGAINST ANY OF THE DEBTORS AND THEIR ESTATES BY ANY PERSON OR OF ANY DEFENSE, OFFSET OR OBJECTION TO ANY CLAIM FILED AGAINST THE DEBTORS AND THEIR ESTATES BY ANY PERSON; PROVIDED FURTHER, HOWEVER, THAT THE FOREGOING SHALL NOT AFFECT ANY LIABILITY OF MICHAEL EDWARDS OR ANY PERSHING SQUARE AFFILIATES.

## **5. Exculpation**

The Exculpated Parties shall neither have, nor incur, any liability to any Entity for any act taken or omitted to be taken in connection with, relating to, or arising out of, the Bankruptcy Cases, formulating, negotiating, soliciting, preparing, disseminating, implementing, confirming, or effecting the Consummation of the Plan, the Agency Agreements, the Disclosure Statement, the administration of the Plan or the property to be distributed under the Plan or related to the issuance, distribution, and/or sale of any security, or any contract, instrument, release, or other agreement or document created or entered into in connection with the Plan through and including the Effective Date; provided, however, that the foregoing shall not affect the liability of any Person that otherwise would result from any such act or omission to the extent such act or omission is determined by a Final Order to have constituted fraud, willful misconduct, gross negligence, bad faith, self-dealing or breach of duty of loyalty.

## **VII.**

### **CERTAIN FACTORS TO BE CONSIDERED**

**ALL HOLDERS OF IMPAIRED CLAIMS AND EQUITY INTERESTS SHOULD READ AND CAREFULLY CONSIDER THE FACTORS SET FORTH BELOW AS WELL AS THE OTHER INFORMATION SET FORTH OR OTHERWISE REFERENCED IN THIS DISCLOSURE STATEMENT PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN.**

#### **A. Financial Information; Disclaimer**

Although the Debtors have used their best efforts to ensure the accuracy of the financial information provided in this Disclosure Statement, the financial information contained in this Disclosure Statement has not been audited and is based upon an analysis of data available to the Debtors at the time of the preparation of the Plan and Disclosure Statement. While the Debtors expect that such financial information fairly reflects the financial condition of the Debtors, the Debtors are unable to warrant or represent that the information contained herein and attached hereto is without inaccuracies.

**B. Failure to Confirm Plan**

Even if the impaired Classes accept or could be deemed to have accepted the Plan, the Plan may not be confirmed by the Bankruptcy Court. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, (1) that the confirmation of the Plan not be followed by liquidation or a need for further financial reorganization, unless, as is the case here, the Plan provides for such liquidation or reorganization, (2) that the value of distributions to dissenting holders not be less than the value of distributions to such holders if the Debtors were liquidated under chapter 7 of the Bankruptcy Code, and (3) that the Plan and the Debtors, as proponents of the Plan, otherwise comply with the applicable provisions of the Bankruptcy Code. Although the Debtors believe that the Plan will meet all applicable tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

**C. Nonconsensual Confirmation**

Pursuant to the “cramdown” provisions of section 1129(b) of the Bankruptcy Code, the Bankruptcy Court can confirm the Plan notwithstanding the nonacceptance of the Plan by an Impaired Class of Claims or Equity Interests if at least one other Impaired Class has accepted the Plan (with such acceptance being determined without including the acceptance of any insider (as defined in section 101(31) of the Bankruptcy Code) in such Class) and, as to each Impaired Class which has not accepted the Plan, the Bankruptcy Court determines that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to Impaired Classes. In accordance with section 1129(a)(8) of the Bankruptcy Code, the Debtors intend to request confirmation of the Plan in accordance with section 1129(b) of the Bankruptcy Code.

Although the Debtors believe that the Plan satisfies the requirements of section 1129(b), there is no guaranty that the Bankruptcy Court will reach that conclusion. Moreover, although the Debtors encourage all Creditors in an impaired Class to vote in favor of the Plan and the Debtors believe that they are likely to have at least one impaired Class vote in favor of the Plan, there is no guaranty that this will occur. If no impaired Class votes in favor of the Plan, the Plan cannot be confirmed as written.

**D. Delays of Confirmation or Effective Date**

Any delays of either confirmation or effectiveness of the Plan could result in, among other things, increased administrative costs, including professional fee claims. These negative effects of delays of either confirmation or effectiveness of the Plan could endanger the ultimate approval of the Plan by the Bankruptcy Court.

**E. Certain Bankruptcy Considerations**

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes. In addition, although the Debtors believe that the Effective Date will occur during the last calendar quarter of 2011, there can be no assurance as to such timing.

**F. Certain Tax Considerations**

There are a number of material United States federal income tax considerations, risks and uncertainties associated with consummation of the Plan. Interested parties should read carefully the discussion set forth in Article VIII of this Disclosure Statement (“*Certain United States Federal Income Tax Consequences of the Plan*”) for a discussion of the material United States federal income tax consequences and risks for Holders of Claims resulting from the transactions occurring in connection with the Plan.

**G. No Duty to Update**

The statements contained in this Disclosure Statement are made by the Debtors and the Committee as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The Debtors and the Committee have no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

**H. No Representations Outside This Disclosure Statement Are Authorized**

No representations concerning or related to the Debtors, the chapter 11 cases, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. Any representations or inducements made to secure your acceptance or rejection of the Plan that are other than as contained in, or included with, this Disclosure Statement should not be relied upon by you in arriving at your decision.

**I. Claims Could Be More Than Projected, Assets Could Be Less Than Projected**

The Allowed amount of Claims in each Class could be greater than projected, which in turn, could cause the amount of distributions to creditors to be reduced substantially. Likewise, the amount of cash realized for the liquidation of the Debtors’ assets could be less than projected, which could cause the amount of distributions to creditors to be reduced substantially.

**J. No Legal Or Tax Advice Is Provided To You By This Disclosure Statement**

The contents of this Disclosure Statement should not be construed as legal, business, or tax advice. Each Claim or Equity Interest Holder should consult his, her, or its own legal counsel and accountant as to legal, tax, and other matters concerning his, her, or its Claim or Equity Interest.

This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

## VIII.

### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. ALL HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE PLAN AND THE OWNERSHIP AND DISPOSITION OF PROCEEDS FROM CLAIMS INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN (NON-US) TAX LAWS AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

The following discussion addresses certain United States Federal income tax consequences of the consummation of the Plan. This discussion is based upon the United States Tax Code, as amended, existing and proposed regulations thereunder, current administrative rulings, and judicial decisions as in effect on the date hereof, all of which are subject to change, possibly retroactively. No rulings or determinations by the Internal Revenue Service have been obtained or sought by the Debtors with respect to the Plan. An opinion of counsel has not been obtained with respect to the tax aspects of the Plan. This discussion does not purport to address the federal income tax consequences of the Plan to particular classes of taxpayers (such as foreign persons, s corporations, mutual funds, small business investment companies, regulated investment companies, broker-dealers, insurance companies, tax-exempt organizations and financial institutions) or the state, local or foreign income and other tax consequences of the Plan.

IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED TO OR WRITTEN TO BE USED, AND CANNOT BE USED, BY SUCH HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE PLAN; AND (C) SUCH HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

#### **A. Federal Income Tax Consequences to Holders of Claims and Interests**

A Holder of an Allowed Claim or Equity Interest will generally recognize ordinary income to the extent that the amount of cash or property received (or to be received) under the Plan is attributable to interest that accrued on a claim but was not previously paid by the Debtors or included in income by the Holder of the allowed claim or interest. A Holder of an Allowed Claim or Equity Interest will generally recognize gain or loss equal to the difference between the Holder's adjusted basis in its claim and the amount realized by the Holder upon consummation of the Plan that is not attributable to accrued but unpaid interest. The amount realized will equal the sum of cash and the fair market value of other consideration received (or to be received).

The character of any gain or loss that is recognized will depend upon a number of factors, including the status of the Holder, the nature of the Claim or Equity Interest in its hands, whether the Claim was purchased at a discount, whether and to what extent the Holder has previously claimed a bad debt deduction with respect to the Claim, and the Holder's holding period of the Claim or Equity Interest. If the Claim or Equity Interest in the Holder's hands is a capital asset, the gain or loss realized will generally be characterized as a capital gain or loss. Such gain or loss will constitute long-term capital gain or loss if the Holder held such Claim or Equity Interest for longer than one year or short-term capital gain or loss if the Holder held such Claim or Equity Interest for one year or less. If the Holder realizes a capital loss, the Holder's deduction of the loss may be subject to limitation.

A Holder of an Allowed Claim or Equity Interest who receives, in respect of its claim, an amount that is less than its tax basis in such claim or equity interest may be entitled to a bad debt deduction under section 166(a) of the Tax Code or a worthless securities deduction under section 165(g) of the Tax Code. The rules governing the character, timing, and amount of these deductions depend upon the facts and circumstances of the Holder, the obligor, and the instrument with respect to which a deduction is claimed. Accordingly, Holders are urged to consult their tax advisors with respect to their ability to take such a deduction if either: (1) the Holder is a corporation; or (2) the Claim or Equity Interest constituted (a) a debt created or acquired (as the case may be) in connection with a trade or business of the Holder or (b) a debt the loss from the worthlessness of which is incurred in the Holder's trade or business. A Holder that has previously recognized a loss or deduction in respect of its claim or equity interest may be required to include in its gross income (as ordinary income) any amounts received under the Plan to the extent such amounts exceed the Holder's adjusted basis in such Claim or Equity Interest.

Holders of Claims who were not previously required to include any accrued but unpaid interest in their gross income on a Claim may be treated as receiving taxable interest income to the extent any consideration they receive under the Plan is allocable to such interest. Holders previously required to include in their gross income any accrued but unpaid interest on a claim may be entitled to recognize a deductible loss to the extent such interest is not satisfied under the Plan. Under the Plan, to the extent that any Allowed Claim entitled to a Distribution is comprised of indebtedness and accrued but unpaid interest thereon, such Distribution shall, for federal income tax purposes, be allocated to the principal amount of the Claim first and then, to the extent the Distribution exceeds the principal amount of the Claim, to the portion of such Claim representing accrued but unpaid interest.

A Holder of a Claim constituting any installment obligation for tax purposes may be required to currently recognize any gain remaining with respect to such obligation if, pursuant to the Plan, the obligation is considered to be satisfied at other than its face value, distributed, transmitted, sold or otherwise disposed of within the meaning of section 453b of the Tax Code.

Whether the Holder of Claims or Equity Interests will recognize a loss, a deduction for worthless securities or any other tax treatment will depend upon facts and circumstances that are specific to the nature of the Holder and its Claims or Equity Interests. Accordingly, Holders of Claims and Equity Interests should consult their own tax advisors.

Under backup withholding rules, a Holder of an Allowed Claim may be subject to backup withholding with respect to payments made pursuant to the Plan unless such Holder (i) is a corporation or is otherwise exempt from backup withholding and, when required, demonstrates this fact or (ii) provides a correct taxpayer identification and certifies under penalty of perjury that the taxpayer identification number is correct and that the Holder is not subject to backup withholding because of failure to report all dividend and interest income. Any amount withheld under these rules will be credited against the Holder's federal income tax liability. Holders of Claims may be required to establish an exemption from backup withholding or to make arrangements with regard to payment thereof.

## **B. Federal Income Tax Consequences to Debtors**

The Debtors may realize cancellation of debt income to the extent of any debt forgiveness. To the extent there is cancellation of debt income, the same will reduce the Federal tax attributes of the Debtors' operating loss carry-forwards and the tax bases of their assets; if cancellation of debt income exceeds these attributes, it will be exempt from tax. As of January 29, 2011, the Debtors had federal net operating loss carryforwards of approximately \$319,000,000.

Pursuant to the Plan, all of the Debtors' remaining assets other than those sold or abandoned prior to the Effective Date will be transferred directly or indirectly to Holders of Allowed Claims in liquidation of the Debtors. For federal income tax purposes, any such assets transferred to the Liquidating Trust will be treated by the Debtors and by Holders of Allowed Claims as having been transferred to Holders of Allowed Claims, with such Holders then transferring the assets to the Liquidating Trust in exchange for beneficial interests in the Liquidating Trust. The Debtors will not retain a beneficial interest in the Liquidating Trust; instead, the beneficial interest in the Liquidating Trust will be held by Holders of Allowed Claims in Class 3. It is intended that the Liquidating Trust thereafter be treated as a liquidating trust and as a grantor trust for federal income tax purposes.

The Debtors' transfer of their assets pursuant to the Plan will constitute a taxable disposition of such assets. It is not known at the present time whether the transfer of the Debtors' assets will result in any gain to the Debtors. If such a transfer results in gain, it is not known at the present time whether the Debtors will have sufficient losses or loss carryforwards to offset that gain. If the transfer results in gain and the Debtors do not have losses or loss carryforwards to offset that gain, the transfer of such assets will result in federal income tax liability.

## **C. Consequences of the Liquidating Trust**

The Liquidating Trust will be organized for the primary purpose of liquidating the assets transferred to it with no objective to continue or engage in the conduct of a trade or business, except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Liquidating Trust. Thus, the Liquidating Trust is intended to be classified for federal income tax purposes as a "liquidating trust" within the meaning of Treasury Regulation Section 301.7701-4(d). The provisions of the Liquidating Trust Agreement and the Plan are intended to satisfy the guidelines for classification as a liquidating trust that are set forth in Revenue Procedure 94-45,

1994-2 C.B. 684. Under the Plan, all parties are required to treat the Liquidating Trust as a liquidating trust, subject to contrary definitive guidance from the IRS. In general, a liquidating trust is not a separate taxable entity but rather is treated as a grantor trust, pursuant to Sections 671 et seq. of the Tax Code, owned by the persons who are treated as transferring assets to the Trust.

No request for a ruling from the IRS will be sought on the classification of the Liquidating Trust. Accordingly, there can be no assurance that the IRS would not take a contrary position to the classification of the Liquidating Trust. If the IRS were to challenge successfully the classification of the Liquidating Trust as a grantor trust, the federal income tax consequences to the Liquidating Trust and the Holders of Claims could vary from those discussed herein (including the potential for an entity-level tax).

Each Holder of a beneficial interest in the Liquidating Trust must report on its federal income tax return its allocable share of income, gain, loss, deduction and credit recognized or incurred by the Liquidating Trust. None of the Debtors' loss carryforwards will be available to reduce any income or gain of the Liquidating Trust. Moreover, upon the sale or other disposition (or deemed disposition) of any Liquidating Trust asset, each Holder of a beneficial interest in the Liquidating Trust must report on its federal income tax return its share of any gain or loss measured by the difference between (1) its share of the amount of cash and/or the fair market value of any property received by the Liquidating Trust in exchange for the Liquidating Trust asset so sold or otherwise disposed of and (2) such Holder's adjusted tax basis in its share of the Liquidating Trust asset. The character of any such gain or loss to the Holder will be determined as if such Holder itself had directly sold or otherwise disposed of the Liquidating Trust asset. The character of items of income, gain, loss, deduction and credit to any Holder of a beneficial interest in the Liquidating Trust, and the ability of the Holder to benefit from any deductions or losses, may depend on the particular circumstances or status of the Holder.

Given the treatment of the Liquidating Trust as a grantor trust, each Holder of a beneficial interest in the Liquidating Trust has an obligation to report its share of the Liquidating Trust's tax items (including gain on the sale or other disposition of a Liquidating Trust asset) which is not dependent on the distribution of any cash or other Liquidating Trust assets by the Liquidating Trust. Accordingly, a Holder of a beneficial interest in the Liquidating Trust may incur a tax liability as a result of owning a share of the Liquidating Trust assets, regardless of whether the Liquidating Trust distributes cash or other assets. Although the Liquidating Trust Agreement provides that the Liquidating Trust will generally make distributions of cash at least quarterly, due to the requirement that the Liquidating Trust maintain certain reserves, the Liquidating Trust's ability to make current cash distributions may be limited or precluded. In addition, due to possible differences in the timing of income on, and the receipt of cash from the Liquidating Trust assets, a Holder of beneficial interest in the Liquidating Trust may be required to report and pay tax on a greater amount of income for a taxable year than the amount of cash received by the Holder during the year.

The Liquidating Trust will file annual information tax returns with the IRS as a grantor trust pursuant to Treasury Regulation Section 1.671-4(a) that will include information concerning certain items relating to the holding or disposition (or deemed disposition) of the Liquidating Trust assets (*e.g.*, income, gain, loss, deduction and credit). Each Holder of a

beneficial interest in the Liquidating Trust will receive a copy of the information returns and must report on its federal income tax return its share of all such items. The information provided by the Liquidating Trust will pertain to Holders of beneficial interests who received their interests in connection with the Plan.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

## **IX.**

### **PROCESS OF VOTING AND CONFIRMATION**

The following is a brief summary regarding the voting procedures and the requirements for confirmation of the Plan. Holders of Claims and Holders of Equity Interests are encouraged to review the relevant provisions of the Bankruptcy Code or to consult their own attorneys. Additional information regarding voting procedures is set forth in the Notice accompanying this Disclosure Statement.

#### **A. Voting Instructions**

This Disclosure Statement, accompanied by a Ballot to be used for voting on the Plan, is being distributed to Holders of Allowed Claims in Class 3. Only such Holders of Allowed Claims are entitled to vote to accept or reject the Plan, and may do so by completing the Ballot and returning it to the Voting Agent:

Via Post office:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
P.O. Box 9690  
Dublin, OH 43017-4990

Via FedEx or hand-delivery:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
5151 Blazer Parkway, Suite A  
Dublin, OH 43017-4887



In light of the benefits to be attained under the Plan by the Holders in each Impaired Class of Claims, the Debtors recommend that Holders of Claims in the Impaired Classes vote to accept the Plan and return the Ballot prior to the Voting Deadline referred to below.

**BALLOTS MUST BE RECEIVED BY THE VOTING AGENT ON OR BEFORE THE VOTING DEADLINE OF DECEMBER 9, 2011 AT 5:00 P.M., (PREVAILING EASTERN TIME). ANY BALLOTS RECEIVED AFTER THE FOREGOING TIME MAY NOT BE COUNTED. ANY BALLOT WHICH IS EXECUTED BY THE HOLDER OF AN ALLOWED CLAIM BUT WHICH DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN SHALL NOT BE COUNTED AS AN ACCEPTANCE OR REJECTION OF THE PLAN. A BALLOT TRANSMITTED TO THE VOTING AGENT BY FACSIMILE, EMAIL OR OTHER ELECTRONIC METHOD WILL NOT BE COUNTED.**

Except to the extent permitted by the Bankruptcy Court, Ballots received after the Voting Deadline will not be accepted or counted by the Debtors in connection with the Debtors' request for confirmation of the Plan. The Proponents expressly reserve the right to amend, at any time and from time to time, the terms of the Plan (subject to compliance with the requirements of section 1127 of the Bankruptcy Code). If the Proponents make a material change to the terms of the Plan or waive a material condition thereof, the Debtors will disseminate additional solicitation materials and will extend the Voting Deadline, in each case to the extent required by law.

If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other Person or Entity acting in a fiduciary or representative capacity, such person must so indicate and, unless otherwise determined by the Proponents, must submit evidence satisfactory to the Debtors of such person's authority.

Except as provided below or as ordered by the Bankruptcy Court, unless the Ballot being furnished is timely submitted on or prior to the Voting Deadline, the Debtors may, in their discretion, reject such Ballot as invalid and decline to recognize such Ballot in connection with confirmation of the Plan by the Bankruptcy Court.

In the event that a Claim is disputed or a designation is requested under section 1126(e) of the Bankruptcy Code, any vote cast to accept or reject the Plan with respect to such Claim will not be counted for purposes of determining whether the Plan has been accepted or rejected, unless the Bankruptcy Court orders otherwise.

The method of delivery of Ballots to be delivered to the Voting Agent is at the election and risk of each Holder of a Claim. Except as otherwise provided herein, such delivery will be deemed made only when actually received by the Voting Agent. Instead of effecting delivery by mail, it is recommended that such Holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery.

Any Holder of Impaired Claims that has delivered a valid Ballot may withdraw its vote solely in accordance with Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

Subject to any contrary order of the Bankruptcy Court, the Debtors reserve the absolute right to reject any and all Ballots not proper in form and the acceptance of which would, in the opinion of the Debtors or its counsel, not be in accordance with the provisions of the Bankruptcy Code. Subject to contrary order of the Bankruptcy Court, the Debtors further reserve the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot unless otherwise directed by the Bankruptcy Court. Unless waived or as ordered by the Bankruptcy Court, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtors (or the Bankruptcy Court) determine. Neither the Debtors, nor any other Person or Entity, will be under any duty to provide notification of defects or irregularities with respect to the delivery of Ballots and neither the Debtors, nor any other Person or Entity, will incur any liability for failure to provide such notice. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots as to which any irregularities have not theretofore been cured or waived will not be counted.

### **B. Confirmation Hearing**

Section 1128(a) of the Bankruptcy Code requires that the Bankruptcy Court, after notice, hold a hearing on confirmation of a plan (the "Confirmation Hearing"). Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of such plan.

The Confirmation Hearing in respect of the Plan has been scheduled for December 20, 2011 at 10:00 a.m. (prevailing Eastern Time), or as soon thereafter as counsel may be heard, before the Honorable Martin Glenn, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York, Room 501, One Bowling Green, New York, New York 10004. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for any announcement of the adjourned date made at the Confirmation Hearing or any adjournment thereof.

**Objections to confirmation of the Plan must be filed and served on or before December 14, 2011 at 4:00 p.m. (prevailing Eastern Time) in accordance with the Notice accompanying this Disclosure Statement. UNLESS OBJECTIONS TO CONFIRMATION OF THE PLAN ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE DISCLOSURE STATEMENT APPROVAL ORDER, THEY WILL NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

### **C. Statutory Requirements for Confirmation of the Plan**

At the Confirmation Hearing, the Bankruptcy Court shall determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied. If so, the Bankruptcy Court shall enter the Confirmation Order. The Debtors believe that the Plan satisfies or will satisfy the applicable requirements, as follows:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtors have complied with the applicable provisions of the Bankruptcy Code.

- The Plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or to be made under the Plan for services or for costs and expenses in or in connection with the Debtors' chapter 11 cases has been disclosed to the Bankruptcy Court and any such payment made before the confirmation of the Plan is reasonable or if such payment is to be fixed after the confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court.
- With respect to each Class of Impaired Claims, either each Holder of a Claim in such Class had accepted the Plan or each such Holder will receive or retain under the Plan on account of such Claim property of a value as of the Effective Date of the Plan that is not less than the amount that such Holder would receive or retain if the Debtors were liquidated on such date under chapter 7 of the Bankruptcy Code.
- Each Class of Claims that is entitled to vote on the Plan has either accepted the Plan or is not impaired under the Plan.
- Except to the extent that the Holder of a particular Claim agrees to a different treatment of such Claim, the Plan provides that Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Non-Tax Priority Claims and Allowed Secured Claims will be paid in full on the Effective Date or as soon thereafter as practicable.
- At least one Class of Impaired Claims (not including any acceptance of the Plan by any Insider (as defined in section 101(31) of the Bankruptcy Code) holding a Claim in such Class) has accepted the Plan.
- Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan.
- All fees of the type described in 28 U.S.C. § 1930, including the fees of the United States Trustee, will be paid as of the Effective Date.

The Debtors believe that (1) the Plan satisfies or will satisfy all of the statutory requirements of chapter 11 of the Bankruptcy Code; (2) they have complied or will have complied with all of the requirements of chapter 11 of the Bankruptcy Code; and (3) the Plan has been proposed in good faith.

### **1. Best Interests of Creditors Test**

Before the Plan may be confirmed, the Bankruptcy Court must find (with certain exceptions) that the Plan provides, with respect to each Class, that each Holder of a Claim in such Class either (a) has accepted the Plan or (b) will receive or retain under the Plan property of

a value, as of the Effective Date, that is not less than the amount that such Holder would receive or retain if the Debtors liquidated under chapter 7 of the Bankruptcy Code.

In chapter 7 liquidation cases, unsecured creditors and equity interest holders of a debtor are paid from available assets generally in the following order, with no lower class receiving any payments until all amounts due to senior classes have been paid fully or payment has been provided for:

- Secured creditors (to the extent of the value of their collateral).
- Priority creditors.
- Unsecured creditors.
- Debt expressly subordinated by its terms or by order of the Bankruptcy Court.
- Equity interest holders.

This is a liquidating plan. In any event, whether by the Liquidating Trust, or a chapter 7 trustee, the Debtors' Estates' assets will be liquidated. Accordingly, there is no reorganization value to be calculated, or distribution scenarios related thereto. In addition, the activities of the Liquidating Trust Committee and the Liquidating Trustee after the Effective Date are the very same ones that would be pursued by a chapter 7 trustee. However, unlike a chapter 7 trustee, who may seek to charge statutory fees of up to 3% of disbursements, the members of the Liquidating Trust Committee will not be compensated for their services. Additionally, it is likely that a chapter 7 trustee will retain counsel who would likely be required to spend a significant amount of time and expense becoming familiar with the case – time and expense that would not be required if the Plan is confirmed.

After careful review of the estimated recoveries in a chapter 11 liquidation scenario and a chapter 7 liquidation scenario, the Debtors have concluded that the recoveries to Creditors will be maximized by completing the liquidation of any remaining assets of the Debtors under chapter 11 of the Bankruptcy Code and making distributions pursuant to the Plan. The Debtors believe that the Debtors' Estates have value that would not be fully realized by Creditors in a chapter 7 liquidation primarily because, among other reasons, (i) additional administrative expenses would be incurred in a chapter 7 liquidation, specifically those of a chapter 7 trustee charging statutory fees of up to 3% of disbursements and any costs of counsel to the chapter 7 trustee to become familiar with the facts and circumstances of these cases, and (ii) the additional delay in distributions that would occur if the Debtors' chapter 11 cases were converted to a case under chapter 7.

#### **D. Plan Feasibility**

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successors to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. The Plan provides for a liquidation of the Debtors'

remaining assets and a distribution of the Cash proceeds to creditors in accordance with the priority scheme of the Bankruptcy Code and the terms of the Plan and Liquidating Trust Agreement. The Debtors will not be conducting any business operations after the Effective Date.

The ability to make distributions described in the Plan therefore does not depend on future earnings or operations of the Debtors, but only on the orderly liquidation of the Debtors' remaining assets. Accordingly, the Debtors believe that the Plan is feasible and meets the requirements of section 1129(a)(11) of the Bankruptcy Code.

#### **E. Section 1129(b): Unfair Discrimination and the “Fair and Equitable” Test**

The Debtors will request Confirmation of the Plan under section 1129(b) of the Bankruptcy Code, and they have reserved the right to modify the Plan to the extent, if any, that Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification. The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by an Impaired Class of Claims or Equity Interests if the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to such Class.

##### **1. No Unfair Discrimination**

The “unfair discrimination” test applies to Impaired Classes of Claims or Equity Interests that are of equal priority and are receiving disparate treatment under the Plan. The test does not require that the treatment of such Classes be the same or equivalent, but only that the treatment be “fair.” The Plan does not classify separately Claims against the Debtors, into two or more Impaired Classes of equal priority. Accordingly, there is no basis for any Claimant to assert that the Plan unfairly discriminates. Accordingly, the Plan does not discriminate (let alone unfairly) and satisfies the “unfair discrimination” test. Simply put, all Claims of equal rank are classified in the same Class and are treated equally.

##### **2. Fair and Equitable Test: “Cramdown”**

The Bankruptcy Code provides a non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cramdown” tests for dissenting classes of secured creditors, unsecured creditors and equity holders. As to each dissenting class, the test prescribes different standards, depending on the type of claims or equity interests in such class:

*Secured Creditors.* With respect to each class of secured claims that rejects the plan, the plan must provide (i)(a) that each holder of a Secured Claim in the rejecting class retain the liens securing those claims, whether the property subject to those liens is retained by the debtor or transferred to another entity, to the extent of the allowed amount of such secured claim and (b) that the Secured Creditor receives on account of its secured claim deferred cash payments having a value, as of the effective date of the plan, of at least the value of the allowed amount of such secured claim; (ii) for the sale of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of such liens, with such liens to attach to the proceeds of the sale, and the treatment of such liens on proceeds under clause (i) or (iii) of this subparagraph; or (iii) for the realization by the Secured Creditor of the “indubitable equivalent” of its Secured Claim.

*Unsecured Creditors.* With respect to each Impaired Class of unsecured Claims that rejects the plan, the plan must provide (A) that each holder of a claim in the rejecting class will receive or retain on account of that claim property that has a value, as of the effective date of the plan, equal to the allowed amount of such claim; or (B) that no holder of a claim or interest that is junior to the claims of such rejecting class will receive or retain under the Plan any property on account of such junior claim or interest.

*Equity Interests.* With respect to each Impaired Class of equity interests that rejects the plan, the plan must provide (I) that each holder of an equity interest included in the rejecting class receive or retain on account of that equity interest property that has a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such equity interest; or (II) that no holder of an equity interest that is junior to the equity interests of such rejecting class will receive or retain under the plan any property on account of such junior interest.

The Debtors believe that the Plan may be confirmed pursuant to the above-described “cramdown” provisions, over the dissent of certain Classes of Claims and Equity Interests, in view of the treatment proposed for such Classes. The Debtors believe that the treatment under the Plan of the Holders of Classes 3, 4 and 5 will satisfy the “fair and equitable” test. Additionally, as noted above, the Debtors do not believe that the Plan unfairly discriminates against any dissenting Class because all dissenting Classes of equal rank are treated equally under the Plan.

## X.

### **ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN**

#### **A. Liquidation Under Chapter 7**

If no chapter 11 plan can be confirmed, the Debtors’ chapter 11 cases may be converted to a case under chapter 7 of the Bankruptcy Code to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in lower distributions being made to creditors than those provided for in the Plan because, among other reasons, (1) additional administrative expenses would be incurred in a chapter 7 liquidation, specifically those of a chapter 7 trustee charging statutory fees of up to 3% of disbursements and any costs of counsel to the chapter 7 trustee to become familiar with the facts and circumstances of these cases, and (2) the additional delay in distributions that would occur if the Debtors’ chapter 11 cases were converted to a case under chapter 7.

#### **B. Alternative Plan of Reorganization**

The Debtors, with the assistance of their professionals, have considered their options and have concluded that the Plan offers the best and highest recoveries for Creditors. The Proponents have concluded that the Plan provides greater potential recoveries for Creditors than any feasible alternative.

**RECOMMENDATION**

In the opinion of the Debtors and the Committee, the Plan is preferable to the alternatives described herein. It provides for larger distribution to the Holders than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. In addition, any alternative other than confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in smaller distributions to the Holders of Claims. **Accordingly, the Debtors and the Committee recommend that Holders of Claims entitled to vote to accept or reject the Plan support confirmation of the Plan and vote to accept the Plan.**

Dated: November 2, 2011

Respectfully submitted,

BORDERS GROUP, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS INTERNATIONAL SERVICES, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS DIRECT, LLC

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS PROPERTIES, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS ONLINE, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS ONLINE, LLC

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BGP (UK) LIMITED

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

THE OFFICIAL COMMITTEE OF UNSECURED  
CREDITORS OF BORDERS GROUP, INC., *et al.*

By: /s/ Alexander Gigante  
Alexander Gigante, Esq.  
Penguin Group (USA), Chair



## **APPENDIX 1 – DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME**

### **A. Rules of Interpretation**

The following are definitions of terms that are used in the Plan and/or the Disclosure Statement. For purposes of the Disclosure Statement: (a) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and the neuter gender; (b) any reference in the Disclosure Statement to a contract, instrument, release, indenture or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) any reference in the Disclosure Statement to an existing document or exhibit Filed, or to be Filed, shall mean such document or exhibit, as it may have been or may be amended, modified, supplemented or restated; (d) unless otherwise specified, all references in the Disclosure Statement to Sections, Articles and Exhibits are references to Sections, Articles and Exhibits of or to the Disclosure Statement; (e) the words “**hereof**”, “**herein**”, “**hereto**”, “**hereunder**” and comparable terms refer to the Disclosure Statement in its entirety rather than to a particular portion of the Disclosure Statement; (f) the words “**include**”, “**includes**” and “**including**” shall not be limiting and shall be deemed to be followed by “**without limitation**” whether or not they are, in fact, followed by such words or words of like import; (g) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Disclosure Statement; (h) the rules of construction set forth in section 102 of the Bankruptcy Code shall apply; (i) any capitalized term used in the Disclosure Statement that is not defined herein but that is defined in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as the case may be; (j) in the event of any inconsistency between the terms of the Plan and the terms of the Disclosure Statement, the terms of the Plan shall control and (k) in the event of any inconsistency between the terms of the Disclosure Statement and the terms of the Liquidating Trust Agreement, the terms of the Plan shall control.

### **B. Computation of Time**

In computing any period of time prescribed or allowed by the Plan or Disclosure Statement, the provisions of Bankruptcy Rule 9006(a) shall apply.

### **C. Defined Terms**

“**Administrative Claim**” means a Claim for payment of an administrative expense of a kind specified in Bankruptcy Code section 503(b) and entitled to priority in payment under Bankruptcy Code sections 507(a)(1), 507(b) or 1114(e)(2), including: (a) the actual and necessary costs and expenses incurred after the Petition Date of preserving the Estates and

operating the businesses of the Debtors (such as wages, salaries or commissions for services and payments for goods and other services and leased premises); (b) any indebtedness or obligations incurred or assumed by the Debtors in the ordinary course of business in connection with the conduct of their business; (c) any Professional Fees incurred before the Effective Date; (d) all fees and charges assessed against the Estates under Chapter 123 of title 28 of the United States Code, sections 1911-30; (e) obligations designated as Allowed Administrative Claims pursuant to an order of the Bankruptcy Court and (f) Claims under Section 503(b)(9) of the Bankruptcy Code.

“**Agency Agreements**” means, collectively, the Agency Agreements entered into among the Debtors and certain liquidation firms during the pendency of the Bankruptcy Cases.

“**Allowed**” means, with reference to any Claim, except as otherwise provided herein:

- (a) a Claim that has been Scheduled by a Debtor in its Schedules as other than disputed, contingent or unliquidated and as to which such Debtor, Liquidating Trustee or any other party in interest has not timely Filed an objection in accordance with Article VII.A. of the Plan;
- (b) a Claim that either is not a Disputed Claim or has been allowed by a Final Order;
- (c) a Claim that is allowed (i) in any stipulation with a Debtor concerning the amount and nature of such Claim executed prior to the Confirmation Date and approved by the Bankruptcy Court upon proper notice to the Debtors and other parties in interest; (ii) in any stipulation with a Debtor concerning the amount and nature of such Claim executed on or after the Confirmation Date and, to the extent necessary, approved by the Bankruptcy Court or (iii) in any contract, instrument, indenture or other agreement entered into or assumed pursuant to the Plan;
- (d) a Claim relating to a rejected executory contract or unexpired lease that (i) is not a Disputed Claim or (ii) has been allowed by a Final Order, in either case only if a Proof of Claim has been timely Filed in accordance with Article V.B. of the Plan or has otherwise been deemed timely Filed under applicable law; or
- (e) a Claim that is allowed pursuant to the terms of the Plan; provided, however, unless otherwise specified herein or by order of the Bankruptcy Court, the term “Allowed Claim” shall not, for any purpose under the Plan, include interest, penalties, premiums or late charges on such Claim from and after the Petition Date.

“**Avoidance Actions**” means (a) any and all actions that are Filed or that may be Filed pursuant to the provisions of Bankruptcy Code sections 502(d), 542, 544, 545, 547, 548, 549, 550, 551 and 553, or applicable nonbankruptcy law that may be incorporated or brought under the foregoing sections of the Bankruptcy Code; or (b) any other similar actions or proceedings filed to recover property for or on behalf of the Estates or to avoid a lien or transfer.

**“Bankruptcy Cases”** means, collectively, the Debtors’ bankruptcy cases under Chapter 11 of the Bankruptcy Code pending in the Bankruptcy Court and jointly administered under Case No. 11-10614.

**“Bankruptcy Code”** means title I of the Bankruptcy Reform Act of 1978, as amended from time to time, as codified in title 11 of the United States Code, sections 101-1330 and applicable portions of titles 18 and 28 of the United States Code.

**“Bankruptcy Court”** means the United States Bankruptcy Court for the Southern District of New York.

**“Bankruptcy Rules”** means the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended from time to time, as applicable to the Bankruptcy Cases, promulgated under 28 U.S.C. § 2075 and the Local Rules of the Bankruptcy Court.

**“Business Day”** means any day, other than a Saturday, Sunday or “legal holiday” (as defined in Bankruptcy Rule 9006(a)).

**“Cash”** means legal tender of the United States of America and equivalents thereof.

**“Causes of Action”** mean all of the Debtors’ actions, causes of action, choses in action, liabilities, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, third-party claims, counterclaims, and crossclaims, whether known or unknown, reduced to judgment or not reduced to judgment, liquidated or unliquidated, contingent or non-contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission or other event occurring prior to the Petition Date or during the course of the Bankruptcy Cases, through and including the Effective Date, including, but not limited to, the Avoidance Actions and Trust Claims.

**“Chapter 11 Cases”** means the Debtors’ chapter 11 bankruptcy cases.

**“Claim”** means a “claim” against the Debtor, as defined in Bankruptcy Code section 101(5), whether or not asserted.

**“Claims Agent”** means The Garden City Group, the entity designated by order of the Bankruptcy Court to process Proofs of Claim.

**“Class”** means a category of Claims or Equity Interests described in Article III of the Plan.

**“Committee”** means the official committee of unsecured creditors appointed by the United States Trustee in the Bankruptcy Cases pursuant to section 1102 of the Bankruptcy Code, including its official members and its ex officio members.

“**Confirmation**” means the entry of the Confirmation Order, subject to all conditions specified in Article VIII.A of the Plan having been (i) satisfied or (ii) waived pursuant to Article VIII.C.

“**Confirmation Date**” means the date of entry of the Confirmation Order on the docket of the Bankruptcy Cases within the meaning of Bankruptcy Rules 5003 and 9021.

“**Confirmation Hearing**” means the hearing held by the Bankruptcy Court pursuant to Bankruptcy Code section 1128(a) to consider Confirmation of the Plan in accordance with Bankruptcy Code section 1129, as such hearing may be adjourned or continued from time to time.

“**Confirmation Hearing Date**” means the date on which the Confirmation Hearing is first commenced.

“**Confirmation Hearing Notice**” means the notice of the Confirmation Hearing to be served by the Debtors after the Bankruptcy Court approves the Disclosure Statement, which provides notice of, among other things, the time for submitting Ballots to accept or reject the Plan, the date, time and place of the hearing to consider confirmation of the Plan and related matters, and the time for filing objections to confirmation of the Plan.

“**Confirmation Order**” means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

“**Consummation**” means the occurrence of the Effective Date.

“**Covered Persons**” means (i) all directors and officers of the Debtors, whenever serving, but solely in the amount and to the extent covered by the Debtors’ directors and officers insurance policies and (ii) employees employed by or serving the Debtors as of the Petition Date, provided, however, that Covered Persons shall not include Michael Edwards or any Pershing Square Affiliates.

“**Creditor**” means the Holder of a Claim against any Debtor or its Estate.

“**Debtor**” means any one of the Debtors, in its individual capacity, as a debtor and debtor in possession in the Bankruptcy Cases.

“**Debtors**” means Borders Group, Inc.; Borders International Services, Inc.; Borders, Inc.; Borders Direct, LLC; Borders Properties, Inc.; Borders Online, Inc.; Borders Online, LLC; and BGP (UK) Limited as debtors and debtors-in-possession in the Bankruptcy Cases.

“**DIP**” means the Debtor-in-possession or the Debtors-in-possession under chapter 11 of the Bankruptcy Code.

“**DIP Credit Agreement**” means that certain Senior Secured, Super-Priority Debtor-in-Possession Credit Agreement, dated February 16, 2011, amongst Borders Group, Inc. and Borders, Inc., as borrowers, all direct and indirect subsidiaries of Borders Group, Inc. and Borders, Inc. as guarantors, GE Capital Markets, Inc., as working capital lead arranger, General

Electric Capital Corporation, as administrative agent for the revolver lenders, and GA Capital, LLC, as Term B Agent (as the same may have be amended, supplemented, restated, or otherwise modified from time to time).

“**DIP Loan**” means that certain 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 pursuant to the terms and conditions of the DIP Credit Agreement.

“**Disallowed Claim**” means (a) a Claim, or any portion thereof, that has been disallowed by a Final Order, (b) a Claim that is Scheduled as zero or as contingent, disputed, or unliquidated and as to which no proof of claim has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or other applicable bankruptcy law, (c) a Claim that has not been Scheduled and as to which no proof of claim has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or other applicable bankruptcy law or (d) a Claim disallowed in accordance with section 502(d) of the Bankruptcy Code pursuant to Article VII.F. of the Plan.

“**Disbursing Agent**” means the Liquidating Trustee, or the entity or entities chosen by the Liquidating Trustee to make or facilitate distributions pursuant to the Plan.

“**Disclosure Statement**” means the written disclosure statement (including all exhibits and schedules thereto) that relates to the Plan, as the same may be amended, supplemented, revised or modified from time to time, as approved by the Bankruptcy Court pursuant to the Disclosure Statement Approval Order.

“**Disclosure Statement Approval Order**” means the Final Order approving, among other things, the adequacy of the Disclosure Statement pursuant to Bankruptcy Code section 1125.

“**Disputed . . . Claim**” means a Claim, or any portion thereof, that is neither an Allowed Claim nor a Disallowed Claim, and in relation to a Class, a Disputed Claim in the particular Class described.

“**Disputed Claims Reserve**” means a fund held by the Liquidating Trust for the payment of Disputed Claims that become Allowed Claims after the Effective Date, which fund shall be maintained by the Liquidating Trustee for the benefit of the Holders of Disputed Claims. The Disputed Claims Reserve need not be in a segregated account.

“**Distribution**” means the distributions to be made in accordance with the Plan of, as the case may be: (a) Cash or (b) any other consideration or residual value distributed to Holders of Allowed Claims under the terms and provisions of the Plan.

“**Distribution Record Date**” means the record date for the purpose of determining Holders of Allowed Claims entitled to receive Distributions under the Plan on account of Allowed Claims which date shall be ten (10) business days prior to the Confirmation Hearing Date originally scheduled by the Bankruptcy Court in the Disclosure Statement Approval Order.

“**Effective Date**” means that date following the Confirmation Date on which all conditions to consummation to the Plan shall have been satisfied or waived as provided in Article VI.G. hereof and Article VIII.B. and Article VIII.C. of the Plan.

“**Entity**” means an “entity,” as defined in section 101(15) of the Bankruptcy Code.

“**Equity Interest**” means, with respect to a Debtor, as of the Petition Date, any capital stock or other ownership interest in such Debtor, whether or not transferable, and any option, call, warrant or right to purchase, sell or subscribe for an ownership interest or other equity security in such Debtor, and any redemption, conversion, exchange, voting, participation, dividend rights, and liquidation preferences relating to such capital stock or other ownership interest.

“**Estate**” means the estate of each of the Debtors created by section 541 of the Bankruptcy Code upon the commencement of the Bankruptcy Cases.

“**Exculpated Parties**” mean, collectively, each of the following parties in their respective capacities as such: (a) the Debtors, (b) each director, officer, financial advisor, restructuring advisor or attorney employed by or serving the Debtors as of the Petition Date, (c) the Committee, and (d) each member and ex officio member only in their capacity as a member of the Committee, and (e) the Committee’s financial advisors, attorneys and representatives (and their respective affiliates), provided, however, that Exculpated Parties shall not include Michael Edwards and any Pershing Square Affiliates.

“**File**” or “**Filed**” means file or filed on the Bankruptcy Court’s docket for the Bankruptcy Cases.

“**Final Order**” means an order of the Bankruptcy Court (x) as to which the time to appeal, petition for certiorari, or move for reargument, rehearing or new trial has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument, rehearing or new trial shall then be pending; (y) as to which any right to appeal, petition for certiorari, reargue, rehear or retry shall have been waived in writing; or (z) in the event that an appeal, writ of certiorari, reargument, rehearing or new trial has been sought, as to which (i) such order of the Bankruptcy Court shall have been affirmed by the highest court to which such order is appealed, (ii) certiorari has been denied as to such order, or (iii) reargument or rehearing or new trial from such order shall have been denied, and the time to take any further appeal, petition for certiorari or move for reargument, rehearing or new trial shall have expired without such actions having been taken.

“**GA Capital**” means GA Capital LLC.

“**GE Capital**” means GE Capital, Restructuring Finance.

“**GECC**” means General Electric Capital Corporation.

“**GE DIP Commitment**” means the proposal by GE Capital to the Debtors on or about January 28, 2011, for a fully committed \$550 million senior secured DIP credit facility.

**“GE Prepetition Commitment”** means that certain commitment by GE Capital to provide to the Debtors a \$550 million senior secured credit facility, as announced by the Debtors on January 17, 2011.

**“General Unsecured Claim”** means any Claim against the Debtors that is not an Administrative Claim, a Secured Claim, a Priority Tax Claim or a Priority Non-Tax Claim.

**“Holder”** means any Entity holding a Claim, an Equity Interest or a Liquidating Trust Interest.

**“Impaired Class”** means a Class that is impaired within the meaning of section 1124 of the Bankruptcy Code.

**“Initial Distribution Date”** means the Effective Date or the date, occurring as soon as practicable after the Effective Date, on which the initial Distributions are made to Holders of Allowed Claims.

**“Internal Revenue Code”** means title 26 of the United States Code, as amended from time to time.

**“Intercompany Claims”** means any Claim, Cause of Action, remedy or Administrative Claim asserted by a Debtor against another Debtor, as applicable.

**“IRS”** means the Internal Revenue Service.

**“Jefferies”** means Jefferies & Company, Inc.

**“Liquidating Debtor”** means the Debtor Borders Group, Inc. after the Effective Date.

**“Liquidating Trust”** means the trust described in Article IV.D. of the Plan to be established under New York trust law that will effectuate the wind down of the Debtors, and make distributions pursuant to the terms of the Plan and Liquidating Trust Agreement. With respect to any action required or permitted to be taken by the Liquidating Trust, the term includes the Liquidating Trustee or any other person authorized to take such action in accordance with the Liquidating Trust Agreement.

**“Liquidating Trust Agreement”** means the agreement, substantially in the form annexed to the Plan as Exhibit A, establishing the Liquidating Trust in conformity with the provisions of the Plan, which shall be approved in the Confirmation Order and entered into by the Debtors, on behalf of the beneficiaries, and the Liquidating Trustee on the Confirmation Date pursuant to the terms of the Plan.

**“Liquidating Trust Assets”** means all property and assets of the Debtors that have neither been previously abandoned nor sold, including without limitation, all Cash and Cash equivalents, all Claims and Causes of Action, all executory contracts and unexpired leases that are assumed pursuant to Article V.A. of the Plan, any and all books and records including computer generated or computer maintained books and records and computer data, as well as electronically generated or maintained books and records or data, along with books and records

of any Debtor maintained by or in the possession of third parties, wherever located, and other remaining assets of the Debtors; provided, however, that the Retained Assets shall vest in the Liquidating Debtor and shall not constitute Liquidating Trust Assets; provided further, however, at all times the proceeds of Retained Assets shall constitute Liquidating Trust Assets and shall be treated in the same manner as proceeds of Liquidating Trust Assets, including, without limitation, for purposes of making Distributions on account of Liquidating Trust Interests.

**“Liquidating Trust Committee”** means the five (5) member committee along with three (3) *ex officio* members created hereunder and appointed by the Committee in consultation with the Debtors that shall provide oversight and direction to the Liquidating Trustee in accordance with the terms of the Liquidating Trust Agreement. The members and *ex officio* members of the Liquidating Trust Committee shall be the same members and *ex officio* members that currently constitute the Committee.

**“Liquidating Trust Interests”** means the uncertificated beneficial interests in the Liquidating Trust representing the right of each Holder of an Allowed Claim thereof to receive distributions from the Liquidating Trust in accordance with Article IV.D. of the Plan.

**“Liquidating Trustee”** means the person appointed by the Committee in consultation with the Debtors in accordance to Article IV.D. of the Plan to administer the Liquidating Trust in accordance with the terms of the Liquidating Trust Agreement.

**“Official Bankruptcy Forms”** means the Official Bankruptcy Forms, prescribed by the Judicial Conference of the United States, the observance and use of which is required pursuant to Bankruptcy Rule 9009, as such forms may be amended, revised or supplemented from time to time.

**“Pershing Square Affiliates”** means, collectively, Pershing Square Capital Management, L.P., its affiliates and all Entities owned, managed or controlled thereby, including its principal William Ackman.

**“Person”** means a “person,” as defined in section 101(41) of the Bankruptcy Code.

**“Petition Date”** means February 16, 2011.

**“Plan”** means the first amended chapter 11 plan filed contemporaneously herewith and as **Exhibit A** hereto, including all exhibits and schedules annexed thereto or otherwise incorporated therein, either in its present form or as it may be altered, amended, modified, revised or supplemented from time to time.

**“Prepetition Revolver”** means the secured revolving credit facility of up to \$970.5 million provided to the Debtors pursuant to the Prepetition Revolver Credit Agreement.

**“Prepetition Revolver Credit Agreement”** means that certain Third Amended and Restated Revolving Credit Agreement, dated March 31, 2010, together with all related documents and agreements.



**“Prepetition Revolver Lenders”** means the lenders to the Debtors under the Prepetition Revolver pursuant to the Prepetition Revolver Credit Agreement.

**“Prepetition Term Loan Agreement”** means that certain Term Loan Agreement, dated March 31, 2010, with GA Capital LLC, as administrative agent, and other lenders, together with all related documents and agreements.

**“Prepetition Term Lenders”** means the lenders to the Debtors under the Prepetition Term Loan Facility pursuant to the Prepetition Term Loan Agreement.

**“Prepetition Term Loan Facility”** means the secured term loan facility provided to the Debtors pursuant to the Prepetition Term Loan Agreement that, initially, was comprised of an \$80 million tranche and a \$10 million tranche.

**“Priority Non-Tax Claim”** means any Claim accorded priority in right of payment under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim or an Administrative Claim.

**“Priority Tax Claim”** means a Claim of a “governmental unit” (as such term is defined in section 101(27) of the Bankruptcy Code) of the kind specified in, and entitled to priority under, sections 502(i) and 507(a)(8) of the Bankruptcy Code.

**“Professional”** means a Person or Entity (a) employed by the Debtors or the Committee pursuant to a Final Order in accordance with sections 327, 328 or 1103 of the Bankruptcy Code and to be compensated for services rendered prior to the Effective Date pursuant to sections 327, 328, 330 or 331 of the Bankruptcy Code, for whom or for which compensation and reimbursement of expenses has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b) of the Bankruptcy Code or (b) for whom or for which compensation and reimbursement has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b)(4) of the Bankruptcy Code.

**“Professional Fees”** means the fees for professional services rendered and expenses incurred in connection with such services by Professionals on and after the Petition Date and prior to and including the Effective Date.

**“Proof of Claim”** means a proof of Claim Filed against any of the Debtors in the Bankruptcy Cases.

**“Proponents”** means the Debtors and the Committee.

**“Pro Rata Share”** means, with reference to any Distribution on account of any Allowed Claim or Allowed Interest, as applicable, in any Class, the ratio (expressed as a percentage) that the amount of such Allowed Claim or Allowed Interest bears to the aggregate amount of Allowed Claims (and to the extent required for an interim Distribution and any reserve for Disputed Claims) or Allowed Interests of the same Class.

**“Releasing Parties”** mean, collectively, each of the following parties in their respective capacities as such: (a) the Debtors, (b) each director, officer, and/or employee employed by or

serving the Debtors on or after the Petition Date, (c) all financial advisors and attorneys of the Debtors employed by and serving on or after the Petition Date, (d) the Committee, (e) each member and ex officio member of the Committee only in their capacity as a member of the Committee, (f) the Committee's financial advisors, restructuring advisors, attorneys and representatives (and their respective affiliates) and (g) each Holder of a Claim in Class 3 that does not "opt-out" of being included as a Releasing Party pursuant to the procedures set forth in the Disclosure Statement Approval Order, provided, however, that Releasing Parties shall not include (i) any Holder of a Claim in Class 3 that does not vote to accept or reject the Plan, (ii) Michael Edwards or (iii) any Pershing Square Affiliates and shall not be a waiver of any defense, offset or objection to any Claim filed against the Debtors and their Estates by any Person.

**"Retained Assets"** means specific assets of the Debtors, if any, designated jointly by the Debtors and the Committee prior to the Effective Date to be retained by the Liquidating Debtor, but only to the extent and for so long as such assets are retained by the Liquidating Debtor; provided, however, that the proceeds of such assets are deemed Liquidating Trust Assets.

**"Schedules"** mean the schedules of assets and liabilities, schedules of executory contracts, and the statements of financial affairs Filed by each Debtor pursuant to section 521 of the Bankruptcy Code, Bankruptcy Rule 1007 and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements have been or may be supplemented or amended from time to time through the Confirmation Date in accordance with Bankruptcy Rule 1009.

**"Scheduled"** means an entry that appears on the Schedules.

**"Secured"** means when referring to a Claim: (a) secured by a Lien on property in which the applicable Estate has an interest, which Lien is valid, perfected and enforceable under applicable law or by reason of a Final Order, or that is subject to setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Holder's interest in the Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to section 506(a) of the Bankruptcy Code or (b) otherwise Allowed pursuant to the Plan as a Secured Claim.

**"SEC"** means the Securities and Exchange Commission.

**"Secured Claim"** means a Claim against the Debtors to the extent it is Secured.

**"Securities Act"** means the Securities Act of 1933, as amended.

**"Security"** means a "security," as defined in section 101(49) of the Bankruptcy Code.

**"Tax"** or **"Taxes"** means all income, gross receipts, sales, use, transfer, payroll, employment, franchise, profits, property, excise or other similar taxes, estimated import duties, fees, stamp taxes and duties, value added taxes, assessments or charges of any kind whatsoever (whether payable directly or by withholding), together with any interest and any penalties, additions to tax or additional amounts imposed on the Debtors or the Estates by any taxing authority with respect thereto.

“**Tax Code**” means the Internal Revenue Code of 1986, as amended, along with any applicable regulations, revenue rulings and case law interpreting or applying the foregoing.

“**Trust Claims**” means any and all Causes of Action against any Person, officer, director, shareholder, lender, attorney, law firm, auditor, accounting firm, accountant or other Person, including, without limitation, all Avoidance Actions.

“**Unimpaired**” means a Claim or Equity Interest that is unimpaired within the meaning of section 1124 of the Bankruptcy Code.

“**Unimpaired Class**” means a Class that is unimpaired within the meaning of section 1124 of the Bankruptcy Code.

“**United States Trustee**” means the United States Trustee appointed under 28 U.S.C. § 591 to serve in the Southern District of New York.

“**Voting Agent**” means the Garden City Group.

“**Voting Deadline**” means December 9, 2011 at 5:00 p.m. (prevailing Eastern Time).

**EXHIBIT A**

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

**In re:**

**BORDERS GROUP, INC., *et al.*,<sup>1</sup>**

**Debtors.**

**Chapter 11**

**Case No. 11-10614 (MG)**

**(Jointly Administered)**

**FIRST AMENDED JOINT PLAN OF LIQUIDATION PURSUANT  
TO CHAPTER 11 OF THE BANKRUPTCY CODE PROPOSED BY THE DEBTORS  
AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS**

Nothing contained herein shall constitute an offer, an acceptance, or a legally binding obligation of the Debtors or any other party in interest. This Plan is subject to approval of the Bankruptcy Court and other customary conditions. This Plan is not an offer with respect to any securities. This is not a solicitation of acceptances or rejections of the Plan. Acceptances or rejections with respect to this Plan may not be solicited until a disclosure statement has been approved by the United States Bankruptcy Court for the Southern District of New York in accordance with section 1125 of the Bankruptcy Code. Such a solicitation will only be made in compliance with applicable provisions of securities and bankruptcy laws. **YOU SHOULD NOT RELY ON THE INFORMATION CONTAINED IN, OR THE TERMS OF, THIS PLAN FOR ANY PURPOSE (INCLUDING IN CONNECTION WITH THE PURCHASE OR SALE OF THE DEBTORS' SECURITIES) PRIOR TO THE CONFIRMATION OF THIS PLAN BY THE BANKRUPTCY COURT.**

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& FRIEDMAN LLP**

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Debtors in Possession*

**LOWENSTEIN SANDLER PC**

Bruce Buechler, Esq.  
Paul Kizel, Esq.

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<sup>1</sup> 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.

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November 2, 2011

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## INTRODUCTION

The above-referenced debtors and debtors-in-possession in the Bankruptcy Cases (as defined herein) and the Official Committee of Unsecured Creditors hereby respectfully propose this Plan (as defined herein) pursuant to section 1121(a) of the Bankruptcy Code. Reference is made to the Disclosure Statement (as defined herein), distributed contemporaneously herewith, for a discussion of the Debtors' history, business, properties, and operations; a summary and analysis of this Plan; and certain related matters.

## ARTICLE I.

### DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME

#### A. Rules of Interpretation

For purposes of the Plan: (a) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and the neuter gender; (b) any reference in the Plan to a contract, instrument, release, indenture or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) any reference in the Plan to an existing document or exhibit Filed, or to be Filed, shall mean such document or exhibit, as it may have been or may be amended, modified, supplemented or restated; (d) unless otherwise specified, all references in the Plan to Sections, Articles and Exhibits are references to Sections, Articles and Exhibits of or to the Plan; (e) the words "**hereof**", "**herein**", "**hereto**", "**hereunder**" and comparable terms refer to the Plan in its entirety rather than to a particular portion of the Plan; (f) the words "**include**", "**includes**" and "**including**" shall not be limiting and shall be deemed to be followed by "**without limitation**" whether or not they are, in fact, followed by such words or words of like import; (g) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan; (h) the rules of construction set forth in section 102 of the Bankruptcy Code shall apply; (i) any capitalized term used in the Plan that is not defined herein but that is defined in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as the case may be; (j) in the event of any inconsistency between the terms of the Plan and the terms of the Disclosure Statement, the terms of the Plan shall control and (k) in the event of any inconsistency between the terms of the Plan and the terms of the Liquidating Trust Agreement, the terms of the Plan shall control.

#### B. Computation of Time

In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply.

#### C. Defined Terms

When used in capitalized form in the Plan, the following terms shall have the respective

meanings assigned to such terms below:

**“Administrative Claim”** means a Claim for payment of an administrative expense of a kind specified in Bankruptcy Code section 503(b) and entitled to priority in payment under Bankruptcy Code sections 507(a)(1), 507(b) or 1114(e)(2), including: (a) the actual and necessary costs and expenses incurred after the Petition Date of preserving the Estates and operating the businesses of the Debtors (such as wages, salaries or commissions for services and payments for goods and other services and leased premises); (b) any indebtedness or obligations incurred or assumed by the Debtors in the ordinary course of business in connection with the conduct of their business; (c) any Professional Fees incurred before the Effective Date; (d) all fees and charges assessed against the Estates under Chapter 123 of title 28 of the United States Code, sections 1911-30; (e) obligations designated as Allowed Administrative Claims pursuant to an order of the Bankruptcy Court and (f) Claims under Section 503(b)(9) of the Bankruptcy Code.

**“Agency Agreements”** means, collectively, the Agency Agreements entered into among the Debtors and certain liquidation firms during the pendency of the Bankruptcy Cases.

**“Allowed”** means, with reference to any Claim, except as otherwise provided herein:

(a) a Claim that has been Scheduled by a Debtor in its Schedules as other than disputed, contingent or unliquidated and as to which such Debtor, Liquidating Trustee or any other party in interest has not timely Filed an objection in accordance with Article VII.A. of the Plan;

(b) a Claim that either is not a Disputed Claim or has been allowed by a Final Order;

(c) a Claim that is allowed (i) in any stipulation with a Debtor concerning the amount and nature of such Claim executed prior to the Confirmation Date and approved by the Bankruptcy Court upon proper notice to the Debtors and other parties in interest; (ii) in any stipulation with a Debtor concerning the amount and nature of such Claim executed on or after the Confirmation Date and, to the extent necessary, approved by the Bankruptcy Court or (iii) in any contract, instrument, indenture or other agreement entered into or assumed pursuant to the Plan;

(d) a Claim relating to a rejected executory contract or unexpired lease that (i) is not a Disputed Claim or (ii) has been allowed by a Final Order, in either case only if a Proof of Claim has been timely Filed in accordance with Article V.B. of the Plan or has otherwise been deemed timely Filed under applicable law; or

(e) a Claim that is allowed pursuant to the terms of the Plan; *provided, however*, unless otherwise specified herein or by order of the Bankruptcy Court, the term “Allowed Claim” shall not, for any purpose under the Plan, include interest, penalties, premiums or late charges on such Claim from and after the Petition Date.

**“Avoidance Actions”** means (a) any and all actions that are Filed or that may be Filed pursuant to the provisions of Bankruptcy Code sections 502(d), 542, 544, 545, 547, 548, 549, 550, 551 and 553, or applicable nonbankruptcy law that may be incorporated or brought under

the foregoing sections of the Bankruptcy Code; or (b) any other similar actions or proceedings filed to recover property for or on behalf of the Estates or to avoid a lien or transfer.

**“Bankruptcy Cases”** means, collectively, the Debtors’ bankruptcy cases under Chapter 11 of the Bankruptcy Code pending in the Bankruptcy Court and jointly administered under Case No. 11-10614.

**“Bankruptcy Code”** means title I of the Bankruptcy Reform Act of 1978, as amended from time to time, as codified in title 11 of the United States Code, sections 101-1330 and applicable portions of titles 18 and 28 of the United States Code.

**“Bankruptcy Court”** means the United States Bankruptcy Court for the Southern District of New York.

**“Bankruptcy Rules”** means the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended from time to time, as applicable to the Bankruptcy Cases, promulgated under 28 U.S.C. § 2075 and the Local Rules of the Bankruptcy Court.

**“Business Day”** means any day, other than a Saturday, Sunday or “legal holiday” (as defined in Bankruptcy Rule 9006(a)).

**“Cash”** means legal tender of the United States of America and equivalents thereof.

**“Causes of Action”** mean all of the Debtors’ actions, causes of action, choses in action, liabilities, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, third-party claims, counterclaims, and crossclaims, whether known or unknown, reduced to judgment or not reduced to judgment, liquidated or unliquidated, contingent or non-contingent, matured or unmatured, disputed or undisputed, secured or unsecured, assertable directly or derivatively, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission or other event occurring prior to the Petition Date or during the course of the Bankruptcy Cases, through and including the Effective Date, including, but not limited to, the Avoidance Actions and Trust Claims.

**“Claim”** means a “claim” against the Debtor, as defined in Bankruptcy Code section 101(5), whether or not asserted.

**“Claims Agent”** means The Garden City Group, the entity designated by order of the Bankruptcy Court to process Proofs of Claim.

**“Class”** means a category of Claims or Equity Interests described in Article III of the Plan.

**“Committee”** means the official committee of unsecured creditors appointed by the United States Trustee in the Bankruptcy Cases pursuant to section 1102 of the Bankruptcy Code, including its official members and its *ex officio* members.

**“Confirmation”** means the entry of the Confirmation Order, subject to all conditions specified in Article VIII.A of the Plan having been (i) satisfied or (ii) waived pursuant to Article VIII.C.

**“Confirmation Date”** means the date of entry of the Confirmation Order on the docket of the Bankruptcy Cases within the meaning of Bankruptcy Rules 5003 and 9021.

**“Confirmation Hearing”** means the hearing held by the Bankruptcy Court pursuant to Bankruptcy Code section 1128(a) to consider Confirmation of the Plan in accordance with Bankruptcy Code section 1129, as such hearing may be adjourned or continued from time to time.

**“Confirmation Hearing Date”** means the date on which the Confirmation Hearing is first commenced.

**“Confirmation Order”** means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

**“Consummation”** means the occurrence of the Effective Date.

**“Covered Persons”** means (i) all directors and officers of the Debtors, whenever serving, but solely in the amount and to the extent covered by the Debtors’ directors and officers insurance policies and (ii) employees employed by or serving the Debtors as of the Petition Date, provided, however, that Covered Persons shall not include Michael Edwards or any Pershing Square Affiliates.

**“Creditor”** means the Holder of a Claim against any Debtor or its Estate.

**“Debtor”** means any one of the Debtors, in its individual capacity, as a debtor and debtor in possession in the Bankruptcy Cases.

**“Debtors”** means Borders Group, Inc.; Borders International Services, Inc.; Borders, Inc.; Borders Direct, LLC; Borders Properties, Inc.; Borders Online, Inc.; Borders Online, LLC; and BGP (UK) Limited as debtors and debtors-in-possession in the Bankruptcy Cases.

**“Disallowed Claim”** means (a) a Claim, or any portion thereof, that has been disallowed by a Final Order, (b) a Claim that is Scheduled as zero or as contingent, disputed, or unliquidated and as to which no proof of claim has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or other applicable bankruptcy law, (c) a Claim that has not been Scheduled and as to which no proof of claim has been timely filed or deemed timely filed with the Bankruptcy Court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or other applicable bankruptcy law or (d) a Claim disallowed in accordance with section 502(d) of the Bankruptcy Code pursuant to Article VII.F. of the Plan.

**“Disbursing Agent”** means the Liquidating Trustee, or the entity or entities chosen by the Liquidating Trustee to make or facilitate distributions pursuant to the Plan.

**“Disclosure Statement”** means the written disclosure statement (including all exhibits and schedules thereto) that relates to the Plan, as the same may be amended, supplemented, revised or modified from time to time, as approved by the Bankruptcy Court pursuant to the Disclosure Statement Approval Order.

**“Disclosure Statement Approval Order”** means the Final Order approving, among other things, the adequacy of the Disclosure Statement pursuant to Bankruptcy Code section 1125.

**“Disputed . . . Claim”** means a Claim, or any portion thereof, that is neither an Allowed Claim nor a Disallowed Claim, and in relation to a Class, a Disputed Claim in the particular Class described.

**“Disputed Claims Reserve”** means a fund held by the Liquidating Trust for the payment of Disputed Claims that become Allowed Claims after the Effective Date, which fund shall be maintained by the Liquidating Trustee for the benefit of the Holders of Disputed Claims. The Disputed Claims Reserve need not be in a segregated account.

**“Distribution”** means the distributions to be made in accordance with the Plan of, as the case may be: (a) Cash or (b) any other consideration or residual value distributed to Holders of Allowed Claims under the terms and provisions of the Plan.

**“Distribution Record Date”** means the record date for the purpose of determining Holders of Allowed Claims entitled to receive Distributions under the Plan on account of Allowed Claims which date shall be ten (10) business days prior to the Confirmation Hearing Date originally scheduled by the Bankruptcy Court in the Disclosure Statement Approval Order.

**“Effective Date”** means that date following the Confirmation Date on which all conditions to consummation to the Plan shall have been satisfied or waived as provided in Article VIII.B. and Article VIII.C. hereof.

**“Entity”** means an “entity,” as defined in section 101(15) of the Bankruptcy Code.

**“Equity Interest”** means, with respect to a Debtor, as of the Petition Date, any capital stock or other ownership interest in such Debtor, whether or not transferable, and any option, call, warrant or right to purchase, sell or subscribe for an ownership interest or other equity security in such Debtor, and any redemption, conversion, exchange, voting, participation, dividend rights, and liquidation preferences relating to such capital stock or other ownership interest.

**“Estate”** means the estate of each of the Debtors created by section 541 of the Bankruptcy Code upon the commencement of the Bankruptcy Cases.

**“Exculpated Parties”** mean, collectively, each of the following parties in their respective capacities as such: (a) the Debtors, (b) each director, officer, financial advisor, restructuring advisor (including any AP Services representatives) or attorney employed by or serving the Debtors as of or after the Petition Date, (c) the Committee, and (d) each member and *ex officio* member only in their capacity as a member of the Committee, and (e) the Committee’s financial

advisors, attorneys and representatives (and their respective affiliates), provided, however, that Exculpated Parties shall not include Michael Edwards and any Pershing Square Affiliates.

**“File”** or **“Filed”** means file or filed on the Bankruptcy Court’s docket for the Bankruptcy Cases.

**“Final Order”** means an order of the Bankruptcy Court (x) as to which the time to appeal, petition for certiorari, or move for reargument, rehearing or new trial has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument, rehearing or new trial shall then be pending; (y) as to which any right to appeal, petition for certiorari, reargue, rehear or retry shall have been waived in writing; or (z) in the event that an appeal, writ of certiorari, reargument, rehearing or new trial has been sought, as to which (i) such order of the Bankruptcy Court shall have been affirmed by the highest court to which such order is appealed, (ii) certiorari has been denied as to such order, or (iii) reargument or rehearing or new trial from such order shall have been denied, and the time to take any further appeal, petition for certiorari or move for reargument, rehearing or new trial shall have expired without such actions having been taken.

**“General Unsecured Claim”** means any Claim against the Debtors that is not an Administrative Claim, a Secured Claim, a Priority Tax Claim or a Priority Non-Tax Claim.

**“Holder”** means any Entity holding a Claim, an Equity Interest or a Liquidating Trust Interest.

**“Impaired Class”** means a Class that is impaired within the meaning of section 1124 of the Bankruptcy Code.

**“Initial Distribution Date”** means the Effective Date or the date, occurring as soon as practicable after the Effective Date, on which the initial Distributions are made to Holders of Allowed Claims.

**“Internal Revenue Code”** means title 26 of the United States Code, as amended from time to time.

**“Intercompany Claims”** means any Claim, Cause of Action, remedy or Administrative Claim asserted by a Debtor against another Debtor, as applicable.

**“IRS”** means the Internal Revenue Service.

**“Liquidating Debtor”** means the Debtor Borders Group, Inc. after the Effective Date.

**“Liquidating Trust”** means the trust described in Article IV.D. of the Plan to be established under New York trust law that will effectuate the wind down of the Debtors, and make distributions pursuant to the terms of the Plan and Liquidating Trust Agreement. With respect to any action required or permitted to be taken by the Liquidating Trust, the term includes the Liquidating Trustee or any other person authorized to take such action in accordance with the Liquidating Trust Agreement.

“**Liquidating Trust Agreement**” means the agreement, substantially in the form annexed hereto as **Exhibit A**, establishing the Liquidating Trust in conformity with the provisions of the Plan, which shall be approved in the Confirmation Order and entered into by the Debtors, on behalf of the beneficiaries, and the Liquidating Trustee on the Confirmation Date pursuant to the terms of the Plan.

“**Liquidating Trust Assets**” means all property and assets of the Debtors that have neither been previously abandoned nor sold, including without limitation, all Cash and Cash equivalents, all Claims and Causes of Action, all executory contracts and unexpired leases that are assumed pursuant to Article V.A of the Plan, any and all books and records including computer generated or computer maintained books and records and computer data, as well as electronically generated or maintained books and records or data, along with books and records of any Debtor maintained by or in the possession of third parties, wherever located, and other remaining assets of the Debtors; provided, however, that the Retained Assets shall vest in the Liquidating Debtor and shall not constitute Liquidating Trust Assets; provided further, however, at all times the proceeds of Retained Assets shall constitute Liquidating Trust Assets and shall be treated in the same manner as proceeds of Liquidating Trust Assets, including, without limitation, for purposes of making Distributions on account of Liquidating Trust Interests.

“**Liquidating Trust Committee**” means the five (5) member committee along with three (3) *ex officio* members created hereunder and appointed by the Committee in consultation with the Debtors that shall provide oversight and direction to the Liquidating Trustee in accordance with the terms of the Liquidating Trust Agreement. The members and *ex officio* members of the Liquidating Trust Committee shall be the same members and *ex officio* members that currently constitute the Committee.

“**Liquidating Trust Interests**” means the uncertificated beneficial interests in the Liquidating Trust representing the right of each Holder of an Allowed Claim thereof to receive distributions from the Liquidating Trust in accordance with Article IV of this Plan.

“**Liquidating Trustee**” means the person appointed by the Committee in consultation with the Debtors in accordance to Article IV.D. hereof to administer the Liquidating Trust in accordance with the terms of the Liquidating Trust Agreement.

“**Official Bankruptcy Forms**” means the Official Bankruptcy Forms, prescribed by the Judicial Conference of the United States, the observance and use of which is required pursuant to Bankruptcy Rule 9009, as such forms may be amended, revised or supplemented from time to time.

“**Pershing Square Affiliates**” means, collectively, Pershing Square Capital Management, L.P., its affiliates and all Entities owned, managed or controlled thereby, including its principal William Ackman.

“**Person**” means a “person,” as defined in section 101(41) of the Bankruptcy Code.

“**Petition Date**” means February 16, 2011.



**“Plan”** means this first amended chapter 11 plan, including all exhibits and schedules annexed hereto or otherwise incorporated herein, either in its present form or as it may be altered, amended, modified, revised or supplemented from time to time.

**“Priority Non-Tax Claim”** means any Claim accorded priority in right of payment under section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim or an Administrative Claim.

**“Priority Tax Claim”** means a Claim of a “governmental unit” (as such term is defined in section 101(27) of the Bankruptcy Code) of the kind specified in, and entitled to priority under sections 502(i) and 507(a)(8) of the Bankruptcy Code.

**“Professional”** means a Person or Entity (a) employed by the Debtors or the Committee pursuant to a Final Order in accordance with sections 327, 328 or 1103 of the Bankruptcy Code and to be compensated for services rendered prior to the Effective Date pursuant to sections 327, 328, 330 or 331 of the Bankruptcy Code, for whom or for which compensation and reimbursement of expenses has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b) of the Bankruptcy Code or (b) for whom or for which compensation and reimbursement has been allowed by the Bankruptcy Court or is sought pursuant to section 503(b)(4) of the Bankruptcy Code.

**“Professional Fees”** means the fees for professional services rendered and expenses incurred in connection with such services by Professionals on and after the Petition Date and prior to and including the Effective Date.

**“Proof of Claim”** means a proof of Claim Filed against any of the Debtors in the Bankruptcy Cases.

**“Proponents”** means the Debtors and the Committee.

**“Pro Rata Share”** means, with reference to any Distribution on account of any Allowed Claim or Allowed Interest, as applicable, in any Class, the ratio (expressed as a percentage) that the amount of such Allowed Claim or Allowed Interest bears to the aggregate amount of Allowed Claims (and to the extent required for an interim Distribution, any reserve for Disputed Claims) or Allowed Interests of the same Class.

**“Releasing Parties”** mean, collectively, each of the following parties in their respective capacities as such: (a) the Debtors, (b) each director, officer, and/or employee employed by or serving the Debtors on or after the Petition Date, (c) all financial advisors, restructuring advisors and attorneys of the Debtors employed by and serving on or after the Petition Date, (d) the Committee, (e) each member and *ex officio* member of the Committee only in their capacity as a member of the Committee, (f) the Committee’s financial advisors, attorneys and representatives (and their respective affiliates) and (g) each Holder of a Claim in Class 3 that does not “opt-out” of being included as a Releasing Party pursuant to the procedures set forth in the Disclosure Statement Approval Order, provided, however, that Releasing Parties shall not include (i) any Holder of a Claim in Class 3 that does not vote to accept or reject the Plan, (ii) Michael Edwards or (iii) any Pershing Square Affiliates and shall not be a waiver of any defense, offset or objection to any Claim filed against the Debtors and their Estates by any Person.

**“Retained Assets”** means specific assets of the Debtors, if any, designated jointly by the Debtors and the Committee prior to the Effective Date to be retained by the Liquidating Debtor, but only to the extent and for so long as such assets are retained by the Liquidating Debtor; provided, however, that the proceeds of such assets are deemed Liquidating Trust Assets.

**“Schedules”** mean the schedules of assets and liabilities, schedules of executory contracts, and the statements of financial affairs Filed by each Debtor pursuant to section 521 of the Bankruptcy Code, Bankruptcy Rule 1007 and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements have been or may be supplemented or amended from time to time through the Confirmation Date in accordance with Bankruptcy Rule 1009.

**“Scheduled”** means an entry that appears on the Schedules.

**“Secured”** means when referring to a Claim: (a) secured by a Lien on property in which the applicable Estate has an interest, which Lien is valid, perfected and enforceable under applicable law or by reason of a Final Order, or that is subject to setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Holder’s interest in the Estate’s interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to section 506(a) of the Bankruptcy Code or (b) otherwise Allowed pursuant to the Plan as a Secured Claim.

**“Secured Claim”** means a Claim against the Debtors to the extent it is Secured.

**“Securities Act”** means the Securities Act of 1933, as amended.

**“Security”** means a “security,” as defined in section 101(49) of the Bankruptcy Code.

**“Tax”** or **“Taxes”** means all income, gross receipts, sales, use, transfer, payroll, employment, franchise, profits, property, excise or other similar taxes, estimated import duties, fees, stamp taxes and duties, value added taxes, assessments or charges of any kind whatsoever (whether payable directly or by withholding), together with any interest and any penalties, additions to tax or additional amounts imposed on the Debtors or the Estates by any taxing authority with respect thereto.

**“Trust Claims”** means any and all Causes of Action against any Person, officer, director, shareholder, lender, attorney, law firm, auditor, accounting firm, accountant or other Person, including, without limitation, all Avoidance Actions.

**“Unimpaired”** means a Claim or Equity Interest that is unimpaired within the meaning of section 1124 of the Bankruptcy Code.

**“Unimpaired Class”** means a Class that is unimpaired within the meaning of section 1124 of the Bankruptcy Code.

**“United States Trustee”** means the United States Trustee appointed under 28 U.S.C. § 591 to serve in the Southern District of New York.

## ARTICLE II.

### PAYMENT OF ADMINISTRATIVE CLAIMS AND PRIORITY TAX CLAIMS

#### A. Administrative Claims

On, or as soon as reasonably practicable after (i) the Initial Distribution Date, if such Administrative Claim is an Allowed Administrative Claim as of the Effective Date or (ii) the date on which such Administrative Claim becomes an Allowed Administrative Claim or as otherwise determined by the Debtors or Liquidating Trustee, as applicable, each Holder (other than a Professional) of an Allowed Administrative Claim shall receive, in full settlement, satisfaction and release of, and in exchange for, such Allowed Administrative Claim, (a) Cash in an amount equal to the unpaid amount of such Allowed Administrative Claim or (b) such other treatment as may be agreed upon in writing by such Holder and the Debtors or the Liquidating Trustee, as applicable; provided, however, that the Liquidating Trustee shall be authorized to pay Allowed Administrative Claims that arise in the ordinary course of the Debtors' business, in full, in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to, such transactions, post-confirmation.

By order dated October 11, 2011, the Bankruptcy Court set November 21, 2011 at 5:00 p.m. (prevailing Eastern Time) as the deadline for all holders of Administrative Claims (except for Professional Fees and Claims under section 503(b)(9) of the Bankruptcy Code) accruing on or after the Petition Date through and including October 21, 2022, to file proofs of such Administrative Claims with the Claims Agent. Any Holder of an Administrative Claim that is required to file a Proof of Claim for such Administrative Claim and that does not file a Proof of Claim for such Administrative Claim so as to be received by the Claims Agent by the aforesaid bar date, or, by thirty (30) days after the Effective Date for Administrative Claims accruing between October 22, 2011 and the Effective Date pursuant to Article XII. Q. hereof, shall be forever barred from asserting such Administrative Claim against a Debtor, an Estate, their respective successors or their respective property, and such Administrative Claim shall be deemed discharged and released as of the Effective Date. Objections to such Administrative Claims must be Filed and served on the requesting party by no later than sixty (60) days after the Effective Date. Unless the Debtors or Liquidating Trustee, as applicable, or another party in interest objects to a Proof of Claim for such Administrative Claim within such time period, such Administrative Claim shall be deemed Allowed in the amount asserted. In the event that the Debtors, the Liquidating Trustee or another party in interest objects to a Proof of Claim for such Administrative Claim, the Bankruptcy Court shall determine the Allowed amount of such Administrative Claim.

#### B. Professional Fees

Notwithstanding any other provision of this Plan concerning Administrative Claims, any Professional seeking an award by the Bankruptcy Court of an Allowed Administrative Claim on account of Professional Fees incurred from the Petition Date through and including the Effective Date (i) shall, no later than forty-five (45) days after the Effective Date, File a final application for allowance of compensation for services rendered and reimbursement of expenses incurred

through and including the Effective Date and (ii) shall receive, as soon as reasonably practicable after such claim is Allowed, in full settlement, satisfaction and release of, and in exchange for, such Allowed Administrative Claim, Cash in an amount equal to the unpaid amount of such Allowed Administrative Claim in accordance with the Order relating to or allowing any such Administrative Claim.

### **C. Priority Tax Claims**

On, or as soon as reasonably practicable after (i) the Initial Distribution Date, if such Priority Tax Claim is an Allowed Priority Tax Claim as of the Effective Date or (ii) the date on which such Priority Tax Claim becomes an Allowed Priority Tax Claim, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive, (1) Cash in an amount equal to the amount of such Allowed Priority Tax Claim, (2) Cash in an amount agreed to by such Holder and agreed to and paid by the Debtors or the Liquidating Trust, as applicable, provided that such parties may further agree for the payment of such Allowed Priority Tax Claim to occur at a later date without any further notice to or action, order, or approval of the Bankruptcy Court or (3) at the sole discretion of the Debtors or Liquidating Trustee, as applicable, Cash paid by the Liquidating Trust in the aggregate amount of such Allowed Priority Tax Claim, payable in installment payments over a period not more than five years from the Petition Date with payment of interest at a fixed annual rate to be determined by the Bankruptcy Court, all in accordance with section 1129(a)(9)(C) of the Bankruptcy Code.

## **ARTICLE III.**

### **CLASSIFICATION AND TREATMENT OF CLASSIFIED CLAIMS AND EQUITY INTERESTS**

#### **A. Summary**

The categories of Claims and Equity Interests listed below classify Claims and Equity Interests that are required to be designated in classes pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims have not been classified and their treatment is set forth in Article II hereof. Classification of Claims and Equity Interests in this Plan is for all purposes, including voting, confirmation and distribution pursuant to the Plan.

A Claim or Equity Interest shall be deemed classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and shall be deemed classified in a different Class only to the extent that any portion of such Claim or Equity Interest qualifies within the description of such different Class. A Claim or Equity Interest is placed in a particular Class only to the extent that such Claim or Equity Interest is Allowed in that Class and has not been paid, released or otherwise settled prior to the Effective Date. Notwithstanding any Distribution provided for in the Plan, no Distribution on account of any Claim or Equity Interest is required or permitted unless and until such Claim or Equity Interest becomes an Allowed Claim or Allowed Equity Interest, as the case may be, which might not occur, if at all, until after the Effective Date.

The classification of Claims and Equity Interests set forth herein shall apply separately to each of the Debtors. All of the potential Classes for the Debtors are set forth herein. Certain of the Debtors may not have Holders of Claims or Equity Interests in a particular Class or Classes, and such Classes shall be treated as set forth in Article III.D. hereof. For all purposes under the Plan, each Class will contain sub-Classes for each of the Debtors (i.e., there will be eight (8) sub-Classes in each Class and many of such sub-Classes may be vacant).

<b>Summary of Classification and Treatment of Classified Claims and Equity Interests</b>			
<b>Class</b>	<b>Claim</b>	<b>Status</b>	<b>Voting Rights</b>
1	Priority Non-Tax Claims	Unimpaired	Deemed to Accept
2	Secured Claims	Unimpaired	Deemed to Accept
3	General Unsecured Claims	Impaired	Entitled to Vote
4	Equity Interests	Impaired	Deemed to Reject
5	Intercompany Claims	Impaired	Deemed to Reject

**B. Classification and Treatment of Claims and Equity Interests**

1. Class 1 – Priority Non-Tax Claims

(a) *Classification:* Class 1 consists of Priority Non-Tax Claims.

(b) *Treatment:* On or as soon as practicable after the Effective Date, each Holder of an Allowed Priority Non-Tax Claim shall receive, in full and final satisfaction of such Claim, one of the following treatments, in the sole discretion of the Debtors or the Liquidating Trustee, as the case may be: (a) full payment in Cash of its Allowed Priority Non-Tax Claim or (b) treatment of its Allowed Priority Non-Tax Claim in a manner that leaves such Claim Unimpaired.

(c) *Voting:* Class 1 is Unimpaired and Holders of Priority Non-Tax Claims are conclusively deemed to have accepted the Plan.

2. Class 2 – Secured Claims

(a) *Classification:* Class 2 consists of Secured Claims.

(b) *Treatment:* Each Holder of an Allowed Secured Claim will be placed in a separate subclass, and each subclass will be treated as a separate class for Distribution purposes. Except to the extent that a Holder of an Allowed Secured Claim agrees to a different treatment, on or as soon as practicable after the Effective Date, each Holder of an Allowed Secured Claim shall receive, in full and final satisfaction of such Claim, in the sole discretion of the Debtors or the Liquidating Trustee, as the case may be:

- (i) the collateral securing such Allowed Secured Claim;
- (ii) Cash in an amount equal to the value of the collateral securing

such Allowed Secured Claim; or

(iii) such other treatment required under section 1124(2) of the Bankruptcy Code for such Claim to be rendered Unimpaired.

(c) *Voting:* Class 2 is Unimpaired and Holders of Secured Claims are conclusively deemed to have accepted the Plan.

3. Class 3 – General Unsecured Claims

(a) *Classification:* Class 3 consists of General Unsecured Claims.

(b) *Treatment:* Each Holder of an Allowed General Unsecured Claim shall receive, in full and final satisfaction of such Claim, its Pro Rata Share of the Liquidating Trust Interests.

(c) *Voting:* Class 3 is Impaired, and Holders of General Unsecured Claims are entitled to vote to accept or reject the Plan.

4. Class 4 – Equity Interests

(a) *Classification:* Class 4 consists of Equity Interests.

(b) *Treatment:* Holders of Equity Interests shall neither receive nor retain any property under the Plan. All Equity Interests shall be cancelled and of no further force or effect and all Claims filed on account of Equity Interests shall be deemed disallowed by operation of the Plan.

(c) *Voting:* Class 4 is Impaired and Holders of Equity Interests are conclusively deemed to reject the Plan.

5. Class 5 – Intercompany Claims

(a) *Classification:* Class 5 consists of Intercompany Claims.

(b) *Treatment:* Holders of Intercompany Claims shall neither receive nor retain any property under the Plan. All Intercompany Claims shall be released and of no further force or effect.

(c) *Voting:* Class 5 is Impaired and Holders of Intercompany Claims are conclusively deemed to reject the Plan.

**C. Non-Consensual Confirmation**

In the event that any Impaired Class of Claims entitled to vote does not accept the Plan by the requisite majorities required by section 1126(c) of the Bankruptcy Code, the Proponents reserve the right to (i) modify the Plan in accordance with Article XI.B. hereof and/or (ii) request that the Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code

notwithstanding such lack of acceptance.

**D. Elimination of Vacant Classes**

Any Class or sub-Class of Claims or Equity Interests that is not occupied as of the date of the commencement of the Confirmation Hearing by at least one Allowed Claim or Allowed Equity Interest, as applicable, or at least one Claim or Equity Interest, as applicable, temporarily Allowed under Bankruptcy Rule 3018, shall be deemed deleted from the Plan for purposes of (i) voting on the acceptance or rejection of the Plan and (ii) determining acceptance or rejection of the Plan by such Class under section 1129(a)(8) of the Bankruptcy Code.

**ARTICLE IV.**

**MEANS FOR IMPLEMENTATION OF THE PLAN**

**A. Substantive Consolidation**

1. Voting on the Plan shall be conducted on an entity-by-entity basis to assure that the requirements for confirmation have been met. Entry of the Confirmation Order shall constitute approval, pursuant to Sections 105(a) and 1123(a)(5) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of the Estates of the Debtors for the purposes of confirming and consummating the Plan, including but not limited to voting, confirmation and Distribution. Accordingly, (a) the assets and liabilities of the Debtors will be deemed to be the assets and liabilities of a single, consolidated entity, (b) each and every Claim filed or to be filed in the Bankruptcy Cases against any Debtor shall be considered filed against the consolidated Debtors and shall be considered one Claim against and obligation of the consolidated Debtors on and after the Effective Date, (c) all joint obligations of two or more Debtors, and all multiple Claims against such entities on account of such joint obligations, are considered a single claim against the Debtors and (d) all guaranties by any of the Debtors of the obligations of any Debtor arising prior to the Effective Date shall be deemed eliminated under the Plan so that any Claim against any Debtor and any guaranty thereof executed by any other Debtor and any joint and several liability of any of the Debtors shall be deemed to be one obligation of the deemed consolidated Debtors.

2. Such deemed consolidation, however, shall not (other than for purposes related to funding Distributions under the Plan) affect (a) the legal and organizational structure of the Debtors, (b) executory contracts or unexpired leases that were entered into during the Bankruptcy Case or that have been or will be assumed or rejected, (c) any agreements entered into by the Liquidating Trust on the Effective Date and (d) the Debtors' or the Liquidating Trust's ability to subordinate or otherwise challenge Claims on an entity by entity basis. Moreover, the Proponents reserve the right to seek confirmation of the Plan on an entity-by-entity basis.

3. In the event the Bankruptcy Court authorizes the Debtors to substantively consolidate less than all of the Debtors' Estates: (a) the Plan shall be treated as a separate plan of

liquidation for each Debtor not substantively consolidated and (b) the Debtors shall not be required to resolicit votes with respect to the Plan.

**B. Vesting of Assets and Dissolution**

1. On the Effective Date, the Liquidating Trust Assets shall vest in the Liquidating Trust free and clear of all Claims, Equity Interests, liens, charges or other encumbrances, except as set forth in this Plan.

2. On the Effective Date, the Retained Assets, if any, will vest in the Liquidating Debtor free and clear of all Claims, Equity Interests, liens, charges or other encumbrances. For so long as any Retained Assets exist, the Liquidating Debtor will continue to exist and the Liquidating Trustee on the Effective Date will be appointed the sole shareholder, member, director and officer of the Liquidating Debtor. The Liquidating Trustee is authorized, without the need for any further action or formality which might otherwise be required under applicable non-bankruptcy laws, to dissolve the Liquidating Debtor or to merge the Liquidating Debtor into the Liquidating Trust.

3. As of the Effective Date, or as soon as practicable thereafter, and without the need for any further order of the Bankruptcy Court, action or formality which might otherwise be required under applicable non-bankruptcy laws, the Debtors may be (a) dissolved without the need for any filings with the Secretary of State or other governmental official in each Debtors' respective state of incorporation, (b) merged into or with the Liquidating Debtor or the Liquidating Trust, or (c) sold.

4. On the Effective Date or as soon as practicable thereafter, the Liquidating Debtor or the Liquidating Trustee, as applicable, shall consummate, pursuant to section 1123(a)(5)(D) of the Bankruptcy Code, all remaining transactions and sales of property, if any.

5. On the Effective Date, any provision in any operating agreements, partnership agreements, limited liability company agreements or any other organizational document (as the same may be amended or restated from time to time) of any Debtor requiring dissolution, liquidation, or withdrawal of a member upon insolvency, bankruptcy or the filing of Bankruptcy Cases:

(a) is deemed waived and of no further force and effect and

(b) any action taken to prevent or revoke such potential dissolution or liquidation by the Debtors or Liquidating Debtor or potential withdrawal of any such Debtor or Liquidating Debtor from the applicable limited liability company or partnership is ratified and deemed effective to prevent such dissolution or liquidation and each such Debtor or Liquidating Debtor shall continue its existence regardless of any such provision.

**C. Reservation of Rights Regarding Causes of Action**

1. The Debtors and, after the Effective Date, the Liquidating Trustee, on behalf of the Liquidating Trust, reserve the rights to pursue any and all Causes of Action not relinquished, released, compromised or settled in this Plan, or any Final Order, and the Debtors hereby reserve



the rights of the Liquidating Trust and the Liquidating Trustee, on behalf of the Liquidating Trust, to pursue, administer, settle, litigate, enforce and liquidate consistent with the terms and conditions of the Plan and the Liquidating Trust Agreement such Causes of Action. The Liquidating Trustee shall, pursuant to Section 1123 and all applicable law, have the requisite standing to prosecute, pursue, administer, settle, litigate, enforce and liquidate any and all Causes of Action.

2. Except for Causes of Action against a Person or Entity expressly waived, relinquished, released, compromised or settled in this Plan, or any Final Order, (a) the Debtors (before the Effective Date) and the Liquidating Trustee, on behalf of the Liquidating Trust (after the Effective Date), expressly reserve all Causes of Action for later adjudication and, therefore, no preclusion doctrine or other rule of law, including, without limitation, the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise) or *laches*, shall apply to such Causes of Action upon, after, or as a result of the confirmation or Effective Date of the Plan, or the Confirmation Order, (b) all Causes of Action held by the Debtors' Estates shall survive Confirmation of the Plan and the commencement and prosecution of any Causes of Action shall not be barred or limited by any estoppels (judicial, equitable or otherwise), (c) the Liquidating Trust and Liquidating Trustee's right to commence and prosecute Causes of Action shall not be abridged, limited or altered in any manner by reason of Confirmation of the Plan, (d) no defendant party to any Cause of Action (including Avoidance Actions) shall be permitted or entitled to assert any defense based, in whole or in part, upon Confirmation of the Plan, and Confirmation of the Plan shall not have any *res judicata* or collateral estoppels or preclusive effect upon the commencement and prosecution of Causes of Action, and (e) the Debtors and the Liquidating Trustee, on behalf of the Liquidating Trust and any successors in interest thereto, expressly reserve the right to pursue or adopt any Causes of Action that are alleged in any lawsuit in which the Debtors are a defendant or an interested party, against any Person or Entity, including, without limitation, the plaintiffs and co-defendants in such lawsuits.

#### **D. The Liquidating Trust**

##### 1. Establishment and Administration of the Liquidating Trust

(a) On the Effective Date, the Liquidating Trust shall be established pursuant to the Liquidating Trust Agreement for the purpose of, among other things, (i) investigating and, if appropriate, pursuing Trust Claims and Causes of Action, (ii) administering and pursuing the Liquidating Trust Assets, (iii) resolving all Disputed Claims and (iv) making all Distributions from the Liquidating Trust as provided for in the Plan and the Liquidating Trust Agreement. The Liquidating Trust Agreement is incorporated herein in full and is made a part of this Plan as if set forth herein.

(b) Upon execution of the Liquidating Trust Agreement, the Liquidating Trustee shall be authorized to take all steps necessary to complete the formation of the Liquidating Trust; provided, that, prior to the Confirmation Date, the Debtors, the Committee or the Liquidating Trustee, as applicable, may act as organizers of the Liquidating Trust and take such steps in furtherance thereof as may be necessary, useful or appropriate under applicable law to ensure that the Liquidating Trust shall be formed and in existence as of the Confirmation Date.

The Liquidating Trust shall be administered by the Liquidating Trustee in accordance with the Liquidating Trust Agreement. From and after the Effective Date, the Liquidating Trustee shall be vested with the powers of the sole shareholder, member, officer and director of the Liquidating Debtor. The Liquidating Trust shall have authority to incur indebtedness in furtherance of its objectives.

(c) It is intended that the Liquidating Trust be classified for federal income tax purposes as a “liquidating trust” within the meaning of Treasury Regulations Section 301.7701-4(d) and as a “grantor trust” within the meaning of Sections 671 through 679 of the Internal Revenue Code. In furtherance of this objective, the Liquidating Trustee shall, in its business judgment, make continuing best efforts not to unduly prolong the duration of the Liquidating Trust. All assets held by the Liquidating Trust on the Effective Date shall be deemed for federal income tax purposes to have been distributed by the Debtors on a Pro Rata Share basis to Holders of Allowed General Unsecured Claims and then contributed by such Holders to the Liquidating Trust in exchange for the Liquidating Trust Interests. All Holders have agreed to use the valuation of the assets transferred to the Liquidating Trust as established by the Liquidating Trustee for all federal income tax purposes. The beneficiaries under the Liquidating Trust will be treated as the deemed owners of the Liquidating Trust. The Liquidating Trust will be responsible for filing information on behalf of the Liquidating Trust as grantor trust pursuant to Treasury Regulation Section 1.671-4(a).

## 2. Assets of the Liquidating Trust

On the Effective Date, or as soon as reasonably practicable thereafter, the Debtors will transfer and assign to the Liquidating Trust the Liquidating Trust Assets, which shall be deemed vested in the Liquidating Trust. On and after the Effective Date, the Liquidating Trustee shall have discretion with respect to the timing of the transfers of Liquidating Trust Assets. Any checks of the Debtors issued prior to the Effective Date that remain un-cashed three (3) months after the Confirmation Date shall revert to the Liquidating Trust. The Liquidating Trust will hold and administer, among other things, (i) Cash in bank account(s) and (ii) the Disputed Claims Reserve.

## 3. Rights and Powers of the Liquidating Trust and the Liquidating Trustee

(a) The Liquidating Trustee shall be deemed the Estates’ representative in accordance with section 1123 of the Bankruptcy Code and shall have all the rights and powers set forth in the Liquidating Trust Agreement, including, without limitation, the powers of a trustee under sections 704 and 1106 of the Bankruptcy Code and Rule 2004 of the Bankruptcy Rules (including without limitation, the right to (i) effect all actions and execute all agreements, instruments and other documents necessary to implement the provisions of the Plan and the Liquidating Trust Agreement; (ii) prosecute, settle, abandon or compromise any Trust Claims or Causes of Action; (iii) make Distributions contemplated by the Plan and the Liquidating Trust Agreement, (iv) establish and administer any necessary reserves for Disputed Claims that may be required; (v) object to Disputed Claims and prosecute, settle, compromise, withdraw or resolve in any manner approved by the Bankruptcy Court such objections; (vi) employ and compensate professionals (including professionals previously retained by the Debtors and/or the Committee) , provided, however, that any such compensation shall be made only out of the Liquidating Trust

Assets; and (vii) file all federal, state and local tax returns if necessary.

(b) The Liquidating Trust shall assume any outstanding responsibility of the Debtors under the Plan.

(c) The Liquidating Trustee has full authority to take any steps necessary to administer the Liquidating Trust Agreement, including without limitation, the duty and obligation to liquidate Liquidating Trust Assets, to make Distributions therefrom in accordance with the provisions of this Plan and to pursue, settle or abandon any Trust Claims all in accordance with the Liquidating Trust Agreement.

(d) The Debtors shall transfer to the Liquidating Trustee the Debtors' evidentiary privileges, including the attorney/client privilege, solely as they relate to Trust Claims. The Plan shall be considered a motion pursuant to sections 105, 363 and 365 of the Bankruptcy Code for such relief. Upon such transfer, the Debtors and the Estates shall have no other further rights or obligations with respect thereto. Privileged communications may be shared among the Liquidating Trustee and the Liquidating Trust Committee without compromising the privileged nature of such communications, in accordance with the "joint interest" doctrine.

#### 4. Liquidating Trust Interests

(a) On the Effective Date, each Holder of an Allowed General Unsecured Claim shall, by operation of the Plan, receive its Pro Rata Share of the Liquidating Trust Interests. Liquidating Trust Interests shall be reserved for Holders of Disputed General Unsecured Claims and issued by the Liquidating Trust to, and held by the Liquidating Trustee in, the Disputed Claims Reserve pending allowance or disallowance of such Claims. No other entity, shall have any interest, legal, beneficial, or otherwise, in the Liquidating Trust, its assets or Causes of Action upon the assignment and transfer of such assets to the Liquidating Trust.

(b) The Liquidating Trust Interests shall be uncertificated and shall be non-transferable except upon death of the Holder or by operation of law. Holders of Liquidating Trust Interests, in such capacity, shall have no voting rights with respect to such interests. The Liquidating Trust shall have a term of five (5) years from the Effective Date, without prejudice to the rights of the Liquidating Trust Committee to extend such term conditioned upon the Liquidating Trust not becoming subject to the Securities Exchange Act of 1934 (as now in effect or hereafter amended).

#### 5. Appointment of a Liquidating Trustee and the Liquidating Trust Committee

(a) The Liquidating Trustee shall be designated by the Committee, in consultation with the Debtors. The Committee shall file a notice on a date that is not less than ten (10) days prior to the hearing to consider confirmation of the Plan designating the Person who it has selected as Liquidating Trustee. The Person designated as Liquidating Trustee shall file an affidavit demonstrating that such Person is disinterested as defined by section 101(14) of the Bankruptcy Code. The Liquidating Trustee shall have and perform all of the duties, responsibilities, rights and obligations set forth in the Liquidating Trust Agreement. The Liquidating Trustee shall not be required to post a bond.

(b) On or prior to the Confirmation Date, the Committee, in consultation with the Debtors, shall appoint the Liquidating Trust Committee. Each member of the Liquidating Trust Committee will be entitled to vote on all matters in accordance with the Liquidating Trust Agreement except for the three (3) *ex officio* members of the Liquidating Trust Committee. Members of the Liquidating Trust Committee will serve without compensation, but will be entitled to reimbursement of reasonable expenses. Members of the Liquidating Trust Committee shall be the remaining members of the Committee on the Effective Date and the *ex officio* members of the Liquidating Trust Committee shall be the *ex officio* members of the Committee.

(c) The Liquidating Trustee shall serve at the direction of the Liquidating Trust Committee as set forth in the Liquidating Trust Agreement, provided, however, the Liquidating Trust Committee may not direct the Liquidating Trustee or the members of the Liquidating Trust Committee to act in a manner inconsistent with their duties under the Liquidating Trust Agreement, the Plan and the Confirmation Order. The Liquidating Trust Committee may terminate the Liquidating Trustee at any time in accordance with the provisions of the Liquidating Trust Agreement or upon the determination of the Bankruptcy Court on a motion for cause shown.

(d) The Liquidating Trustee, the members of the Liquidating Trust Committee and their professionals shall be exculpated and indemnified pursuant to and in accordance with the terms of the Liquidating Trust Agreement.

#### 6. Liquidating Trust Distributions

(a) Initial Distributions. On the Initial Distribution Date, the Liquidating Trustee shall make, or shall make adequate reserves in the Disputed Claims Reserve for, the Distributions required to be made under the Plan to Holders of Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed Unsecured Claims and Allowed Secured Claims. The Trustee shall not make any distributions of Trust Assets to the Trust Beneficiaries unless the Trustee retains and reserves in the Disputed Claims Reserve such amounts as are reasonably necessary to satisfy amounts that would have been distributed in accordance with Article IV of the Litigation Trust Agreement in respect of Disputed Claims if the Disputed Claims were determined to be Allowed Claims immediately prior to such proposed distribution to the Beneficiaries.

(b) Interim Distributions. The Liquidating Trustee shall make interim Distributions of Cash (i) to Holders of the Liquidating Trust Interests at least once each calendar year, but solely in accordance with the Liquidating Trust Agreement and (ii) from the Disputed Claims Reserve in accordance with Article VII.D. hereof.

(c) Final Distributions. The Liquidating Trust shall be dissolved and its affairs wound up and the Liquidating Trustee shall make the Final Distributions, upon the earlier of (i) the date which is five (5) years after the Effective Date, and (ii) that date when, (A) in the reasonable judgment of the Liquidating Trustee, substantially all of the assets of the Liquidating Trust have been liquidated and there are no substantial potential sources of additional Cash for Distribution; and (B) there remain no substantial Disputed Claims. Notwithstanding the foregoing, on or prior to a date not less than six (6) months prior to such termination, the

Bankruptcy Court, upon motion by a party in interest, may extend the term of the Liquidating Trust for one or more finite terms based upon the particular facts and circumstances present at that time, if an extension is necessary to the liquidating purpose of the Liquidating Trust. The date on which the final Distributions are made is referred to as the “**Trust Termination Date**”. On the Trust Termination Date, the Liquidating Trustee shall

(i) distribute all Cash held by the Liquidating Trust to the Holders of Liquidating Trust Interests in accordance with the Plan and the Liquidating Trust Agreement; and

(ii) promptly thereafter, request that the Bankruptcy Court enter an order closing the Bankruptcy Cases (unless this has already been done).

After Final Distributions have been made in accordance with the terms of the Plan and the Liquidating Trust Agreement, if the amount of remaining cash is less than \$50,000, the Liquidating Trustee, after consultation with the Liquidating Trust Committee, may donate such amount to a charity approved by the Liquidating Trust Committee.

#### 7. Reporting Requirement of Liquidating Trust

The Liquidating Trust’s formation documents will require that bi-annual financial statements or similar reports of the Liquidating Trust be filed with the Bankruptcy Court and made available to any Holder of Liquidating Trust Interests that so requests such statements and/or reports.

#### **E. Directors/Officers/Equity Interests/Professionals of the Debtors on the Effective Date**

1. On the Effective Date, the authority, power and incumbency of the Persons then acting as directors and officers of the Debtors shall be terminated and such directors and officers shall be deemed to have resigned.

2. On the Effective Date, all the Equity Interests in the Debtors (including all instruments evidencing such Equity Interests) shall be canceled and extinguished without further action under any applicable agreement, law, regulation or rule. On the Effective Date, the Liquidating Debtor shall issue one share of stock in the Liquidating Debtor to the Liquidating Trust which will hold such share of stock for the benefit of the Holders of Liquidating Trust Interests, and such share of stock will remain outstanding until the Liquidating Debtor is dissolved in accordance with the Plan.

3. On the Effective Date, the Professionals for the Debtors shall be deemed to have completed their services unless they are retained by the Liquidating Trustee, but they shall be able to file final applications for reasonable compensation and reimbursement of expenses through the Effective Date as permitted by this Plan.

**F. Operations of the Debtors Between the Confirmation Date and the Effective Date**

During the period from the Confirmation Date through and until the Effective Date, the Debtors shall continue to operate their businesses as debtors in possession, subject to the oversight of the Bankruptcy Court as provided in the Bankruptcy Code, the Bankruptcy Rules, and all orders of the Bankruptcy Court that are then in full force and effect.

**G. Term of Injunctions or Stays**

Unless otherwise provided, all injunctions or stays provided for in the Bankruptcy Cases pursuant to sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Bankruptcy Cases are closed.

**H. Corporate Action**

The entry of the Confirmation Order shall constitute the approval of the authorization for the Debtors to take or cause to be taken all corporate actions necessary or appropriate to implement all provisions of, and to consummate, the Plan and any documents contemplated to be executed therewith, prior to, on and after the Effective Date, and all such actions taken or caused to be taken shall be deemed to have been authorized and approved by the Bankruptcy Court without further approval, act or action under any applicable law, order rule or regulation.

**I. Cancellation of Existing Agreements and Existing Common Stock**

On the Effective Date, except to the extent otherwise provided herein, all notes, stock, instruments, certificates, and other documents evidencing any Claims or Equity Interests shall be canceled, shall be of no further force, whether surrendered for cancellation or otherwise, and the obligations of the Debtors thereunder or in any way related thereto shall be discharged.

**J. Authorization of Plan-Related Documentation**

1. All documents, agreements and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of the Plan and any other agreement or document related to or entered into in connection with the Plan, shall become, and shall remain, effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person (other than as expressly required by such applicable agreement).

2. A responsible officer or director of the Debtors shall be authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

**K. Dissolution of Committee**

The Committee shall continue in existence through and including the Effective Date to

exercise those powers and perform those duties specified in section 1103 of the Bankruptcy Code and shall perform such other duties as it may have been assigned by the Bankruptcy Court or in this Plan or the Confirmation Order prior to the Effective Date. On the Effective Date, the Committee shall be deemed dissolved, and its members shall be deemed released of all their duties, responsibilities and obligations in connection with the Bankruptcy Cases or the Plan and its implementation, and the retention or employment of the Committee's Professionals shall terminate; provided, however, that the Committee shall continue to exist after the Effective Date for the limited purpose of any matter expressly provided by this Plan or the Confirmation Order. The Professionals for the Committee shall be entitled to reasonable compensation and reimbursement of actual, necessary and reasonable expenses for post-Effective Date activities authorized hereunder ten (10) days following the submission of invoices to the Liquidating Trustee for the applicable period, to be no less than monthly, without further order of the Bankruptcy Court, provided, however, the Liquidating Trustee may object to the reasonableness of the amounts in such invoices prior to the expiration of such ten (10) day period. If the parties do not resolve such dispute consensually, the Committee may seek approval from the Bankruptcy Court upon no less than fourteen (14) days written notice to the Liquidating Trustee and the Office of the United States Trustee.

**L. Exclusivity Period.**

Subject to further order of the Bankruptcy Court, the Proponents shall retain the exclusive right to amend the Plan and solicit acceptances thereof through and including the Effective Date.

**M. Exemption from Certain Fees and Taxes.**

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property pursuant to this Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment in the United States, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation instruments or other documents pursuant to such transfers of property without the payment of any such tax or governmental assessment.

**ARTICLE V.**

**TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

**A. Assumption and Rejection of Executory Contracts and Unexpired Leases**

1. Any executory contracts and unexpired leases that are listed as executory contracts or unexpired leases to be assumed in an exhibit hereto, or to be filed at least ten (10) business days prior to the Confirmation Hearing Date and incorporated herein, or are to be assumed pursuant to the terms hereof, shall be deemed assumed by the Debtors as of immediately prior to the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of any such assumptions pursuant to sections 365(a) and 1123 of the Bankruptcy Code.

2. Any executory contract or unexpired lease which has not expired by its own terms on or prior to the Effective Date, which has not been assumed, assumed and assigned, or rejected with the approval of the Bankruptcy Court, or which the Debtors have obtained the authority to reject but have not rejected as of the Effective Date, or which is not the subject of a motion to assume the same pending as of the Effective Date, shall be deemed rejected by the Debtors on the Confirmation Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejection pursuant to sections 365(e) and 1123(b)(2) of the Bankruptcy Code.

### **B. Rejection Damages Claims**

Proofs of all Claims arising out of the rejection of an executory contract or an unexpired lease pursuant to the Plan shall be filed with the Claims Agent and served upon the Liquidating Trust not later than thirty (30) days after notice of the occurrence of the Confirmation Date has been served. Any such Claims covered by the preceding sentence not filed within such time shall be forever barred from assertion against the Debtors, their Estates, the Liquidating Trust, and their respective properties and interests.

### **C. Indemnification Obligations**

Any obligations of the Debtors pursuant to their corporate charters and bylaws or agreements, including amendments, entered into any time prior to the Effective Date, to indemnify, reimburse, or limit the liability of any Covered Persons pursuant to the Debtors' certificates of incorporation, bylaws, policy of providing employee indemnification, applicable state law, or specific agreement in respect of any claims, demands, suits, causes of action, or proceedings against such Covered Persons based upon any act or omission related to such Covered Persons' service with, for, or on behalf of the Debtors prior to the Effective Date with respect to all present and future actions, suits, and proceedings relating to the Debtors shall continue as obligations of the Liquidating Trust, and shall, in any event, survive confirmation of the Plan and except as set forth herein, remain unaffected thereby, and shall not be discharged, irrespective of whether such defense, indemnification, reimbursement, or limitation of liability accrued or is owed in connection with an occurrence before or after the Petition Date, provided, however, that all monetary obligations under this Article V.C. shall be limited solely to available insurance coverage and neither the Liquidating Trust, the Liquidating Trustee nor any of their assets shall be liable for any such obligations. Any Claim based on the Debtors' obligations set forth in this Article V shall not be a Disputed Claim or subject to any objection in either case by reason of section 502(e)(1)(B) of the Bankruptcy Code. This provision for Indemnification Obligations shall not apply to or cover any Claims, suits or actions against a Covered Person that result in a final order determining that such Covered Person is liable for fraud, willful misconduct, gross negligence, bad faith, self-dealing or breach of the duty of loyalty.



## ARTICLE VI.

### PROVISIONS GOVERNING DISTRIBUTIONS

#### A. Manner of Payment under the Plan

At the option of the Debtors or the Liquidating Trustee, as applicable, any Cash payment to be made hereunder may be made by a check or wire transfer or as otherwise required or provided in applicable agreements. Cash payments made pursuant to this Plan in the form of checks issued by the Debtors or Liquidating Trustee shall be null and void if not cashed within 120 days of the date of the issuance thereof. Requests for reissuance of any check shall be made directly to the Liquidating Trustee.

#### B. Timing of Distributions

Except as otherwise provided herein or as may be ordered by the Bankruptcy Court, Distributions to be made on account of Claims that are Allowed Claims as of the Effective Date and that are entitled to receive Distributions under the Plan shall be made on the Initial Distribution Date. If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date. Distributions on account of Claims that become Allowed after the Effective Date shall be made pursuant to Article VII.D. of the Plan.

#### C. Distributions by Disbursing Agent

3. The Liquidating Trustee, or its agent, shall serve as disbursing agent on behalf of each of the Estates (on and after the Effective Date) under the Plan and shall make all Distributions required under the Plan.

4. The Disbursing Agent shall be empowered to (a) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (b) make all distributions contemplated hereby, (c) employ professionals to represent it with respect to its responsibilities, and (d) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions hereof.

5. Except as otherwise ordered by the Bankruptcy Court, any reasonable fees and expenses incurred by the Disbursing Agent (including taxes and reasonable attorneys' fees and expenses) on or after the Effective Date shall be paid in Cash by the Liquidating Trust.

#### D. Delivery of Distributions and Undeliverable or Unclaimed Distributions

Except as otherwise provided in the Plan, subject to Bankruptcy Rule 9010, all distributions to any Holder of an Allowed Claim shall be made at the address of such Holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtors or their agents, as applicable, unless the Debtors have been notified in writing of a

change of address, including, without limitation, by the filing of a Proof of Claim by such Holder that contains an address for such Holder different from the address reflected on the Schedules. In the event that any Distribution to any Holder is returned as undeliverable, the Liquidating Trustee shall use commercially reasonable efforts to determine the current address of such Holder, but no Distribution to such Holder shall be made unless and until the Liquidating Trustee has determined the then-current address of such Holder, at which time such distribution shall be made to such Holder without interest; provided that such Distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code upon the expiration of the later of three (3) months from the Effective Date and the date such Distribution was returned undeliverable. After such date, all unclaimed property or interest in property shall revert to the Liquidating Trust for distribution on account of other Allowed Claims, and the Claim of the Holder originally entitled such unclaimed property or interest in property shall be discharged and forever barred.

**E. Record Date for Distributions**

As of the close of business on the Distribution Record Date, the transfer register for any Claims or Equity Interests, for the purposes of Distributions shall be closed, and there shall be no further changes in the record Holders of any Claims or Equity Interests. The Debtors shall have no duty to recognize the transfer of, or the sale of any interest in, any Claims or Equity Interests occurring after the close of business on the Distribution Record Date and shall be entitled for all purposes relating to this Plan to recognize, distribute to and deal with only those record Holders of Claims or Equity Interests stated on the transfer books and records as maintained by the Debtors or their agent, as the case may be, as of the close of business on the Distribution Record Date.

**F. Allocation of Plan Distributions between Principal and Interest.**

To the extent that any Allowed Claim entitled to a Distribution under the Plan is comprised of indebtedness and accrued but unpaid interest thereon, such Distribution shall, for federal income tax purposes, be allocated to the principal amount of the Claim first and then, to the extent the Distribution exceeds the principal amount of the Claim, to the portion of such Claim representing accrued but unpaid interest.

**G. Fractional Dollars; De Minimis Distributions**

Notwithstanding any other provision of the Plan to the contrary, (a) the Disbursing Agent shall not be required to make Distributions or payments of fractions of dollars, and whenever any Distribution of a fraction of a dollar under the Plan would otherwise be required, the actual Distribution made shall reflect a rounding of such fraction to the nearest whole dollar (up or down), with half dollars being rounded down and (b) the Disbursing Agent shall have no duty to make a Distribution on account of any Allowed Claim (i) if the aggregate amount of all Distributions authorized to be made on such date is less than \$50,000, in which case such Distributions shall be deferred to the next Distribution date, (ii) if the amount to be distributed to that Holder on the particular Distribution date is less than \$100.00, unless such Distribution constitutes the final Distribution to such Holder, or (iii) the amount of the final Distribution to such Holder is less than \$50.00, in which case such Distribution shall revert to the Liquidating

Trust for distribution on account of other Allowed Claims.

**H. No Distribution in Excess of Allowed Amount of Claim**

Notwithstanding anything to the contrary herein, no Holder of an Allowed Claim shall receive in respect of such Claim any Distributions, which individually or in the aggregate, exceed of the Allowed amount of such Claim.

**I. Setoffs**

The Debtors or the Liquidating Trust may, but shall not be required to, set-off against, or recoup from, any Claim (for purposes of determining the Allowed amount of such Claim on which a distribution shall be made), any claims of any nature whatsoever that the Debtors or the Liquidating Trust may have against the Holder of such Claim, but neither the failure to do so nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtors or the Liquidating Trust of any such claim the Debtors or the Liquidating Trust may have against the Holder of such Claim.

**J. Compliance with Tax Requirements**

In connection with the Plan and all Distributions hereunder, to the extent applicable, the Debtors and the Liquidating Trustee are authorized to take any and all actions that may be necessary or appropriate to comply with all tax withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, and all Distributions pursuant to the Plan shall be subject to any such withholding and reporting requirements. The Liquidating Trustee shall be authorized to require each Creditor to provide it with an executed Form W-9 or similar tax form as a condition precedent to being sent a Distribution. If a Holder of an Allowed Unsecured Claim does not provide the Liquidating Trustee with an executed Form W-9 or similar form within 90 days of written request, said Creditor shall be deemed to have forfeited their Distribution.

**K. Release of Liens**

Except as otherwise provided by Article III of the Plan or in any contract, instrument, release or other agreement or document created or assumed in connection with the Plan, on the Effective Date and concurrently with the applicable Distributions made pursuant to this Article VI, all mortgages, deeds of trust, liens, pledges or other security interests against the property of the Debtors' Estates shall be fully released and discharged, and all of the right, title and interest of any Holder of such mortgages, deeds of trust, liens, pledges or other security interests shall revert to the applicable Estate.

**L. Subordination**

1. Preservation of Subordination Rights by Estates

Except as otherwise provided herein, all subordination rights and claims relating to the subordination by the Debtors or the Liquidating Trustee of any Allowed Claim shall remain

valid, enforceable and unimpaired in accordance with section 510 of the Bankruptcy Code or otherwise.

2. Waiver by Creditors of all Subordination Rights

Except as otherwise ordered by the Bankruptcy Court, each Holder of a Claim shall be deemed to have waived all contractual, legal and equitable subordination rights that they may have, whether arising under general principles of equitable subordination, section 510(c) of the Bankruptcy Code or otherwise, with respect to any and all Distributions to be made under the Plan, and all such contractual, legal or equitable subordination rights that each Holder has individually and collectively with respect to any such Distribution made pursuant this Plan shall be discharged and terminated, and all actions related to the enforcement of such subordination rights will be permanently enjoined.

**ARTICLE VII.**

**PROCEDURES FOR RESOLVING DISPUTED CLAIMS**

**A. Prosecution of Objections to Claims on and after the Effective Date**

On and after the Effective Date, objections to, and requests for estimation of any Claims may be interposed and prosecuted only by the Liquidating Trust. Such objections and requests for estimation shall be served on the respective claimant and filed with the Bankruptcy Court on or before the later of (a) one hundred twenty (120) days after the Effective Date and (b) such other date as may be fixed by the Bankruptcy Court upon a motion filed by the Liquidating Trust served only on the Rule 2002 service list. On the Effective Date, all outstanding objections to, and requests for estimation of Claims will vest in the Liquidating Trust.

**B. Estimation of Claims**

The Liquidating Trustee may, at any time, request that the Bankruptcy Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtor or the Liquidating Trustee previously objected to such Claim or whether the Bankruptcy Court has ruled on any such objection. The Bankruptcy Court shall retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, such estimated amount will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Liquidating Trustee may elect to pursue any supplemental proceedings to object to any ultimate allowance of such Claim. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and not exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

**C. No Distributions Pending Allowance**

Notwithstanding any other provision hereof, if any portion of a Claim is a Disputed Claim, no payment or distribution provided hereunder shall be made on account of such Claim unless and until such Disputed Claim becomes Allowed. To the extent that all or a portion of a Disputed Claim is disallowed, the Holder of such Claim shall not receive any Distribution on account of the portion of such Claim that is disallowed and any property withheld pending the resolution of such Claim shall be reallocated pro rata to the Holders of Allowed Claims in the same Class.

**D. Distributions After Allowance**

To the extent that a Disputed Claim becomes an Allowed Claim, Distributions (if any) shall be made to the Holder of such Allowed Claim in accordance with the provisions of the Plan, Confirmation Order and Liquidating Trust Agreement. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing any Disputed Claim becomes a Final Order, the Liquidating Trustee shall provide to the Holder of such Claim the Distribution (if any) to which such Holder is entitled under the Plan.

**E. Preservation of Rights to Settle**

In accordance with section 1123(b) of the Bankruptcy Code, the Liquidating Trust shall retain and may enforce, sue on, settle, or compromise (or decline to do any of the foregoing) all claims, rights, Causes of Action, suits, and proceedings, whether in law or in equity, whether known or unknown, that the Debtors or their Estates may hold against any person or entity without the approval of the Bankruptcy Court (subject to the provisions of the Liquidating Trust Agreement, this Plan, the Confirmation Order, and any contract, instrument, release, indenture, or other agreement entered into in connection with the Plan). The Liquidating Trust and the Liquidating Trustee or their successor(s) may pursue such retained claims, rights, Causes of Action, suits, or proceedings, as appropriate, in accordance with the best interests of the Liquidating Trust, the Liquidating Trustee or their successor(s) who hold such rights.

**F. Disallowed Claims**

Any Claim held by a Person or Entity against whom any Debtor or the Liquidating Trust has commenced a proceeding asserting a Cause of Action under section 542, 543, 544, 545, 547, 548, 549, 550, 551 and/or 553 of the Bankruptcy Code, shall be deemed a Disallowed Claim pursuant to section 502(d) of the Bankruptcy Code and the Holder of such Claim shall not be entitled to vote to accept or reject the Plan. Claims that are deemed Disallowed Claims pursuant to this Article VII.F., shall continue to be Disallowed Claims for all purposes until such Cause of Action has been settled or resolved by Final Order and any sums due to the Debtors or the Liquidating Trust from such party have been paid.

## **ARTICLE VIII.**

### **CONDITIONS PRECEDENT TO CONFIRMATION AND EFFECTIVE DATE OF THE PLAN**

#### **A. Condition Precedent to Confirmation**

The Plan shall not be confirmed, and the Confirmation Date shall not be deemed to occur, unless and until the Confirmation Order, in form and substance satisfactory to the Proponents, has been entered on the docket maintained by the Clerk of the Bankruptcy Court.

#### **B. Conditions Precedent to the Effective Date**

The Effective Date shall not occur and the Plan shall not become effective unless and until the following conditions have been satisfied in full or waived by the Proponents in writing:

1. the Confirmation Order, in form and substance satisfactory to the Proponents, shall be entered by the Bankruptcy Court, shall become a Final Order, shall be in full force and effect and shall not be subject to a stay or an injunction which would prohibit the transactions under the Plan;

2. the Confirmation Order shall, among other things, provide that all transfers of property by the Debtors (a) to the Liquidating Trust (i) are or shall be legal, valid, and effective transfers of property, (ii) vest or shall vest the Liquidating Trust with good title to such property free and clear of all liens, charges, claims, encumbrances or interests, except as expressly provided in the Plan or Confirmation Order, (iii) do not and shall not constitute voidable transfers under the Bankruptcy Code or under applicable non-bankruptcy law, (iv) shall be exempt from any transfer, sales, stamp or other similar tax (which exemption shall also apply to the transfers by the Liquidating Trust) and (v) do not and shall not subject the Liquidating Trustee or Holders of Claims to any liability by reason of such transfer under the Bankruptcy Code or under applicable non-bankruptcy law, including, without limitation, any laws affecting successor or transferee liability and (b) to Holders of Claims under the Plan are for good consideration and value;

3. the final version of the Plan and any supplemental documents and exhibits contained therein shall have been Filed and in a form and substance satisfactory to the Proponents;

4. all actions and transfers and all agreements, instruments, or other documents necessary to implement the terms and provisions of the Plan, including all transfers to the Liquidating Trust, shall have been effected or executed and delivered, as applicable, in form and substance satisfactory to the Proponents; and

5. all authorizations, consents, and regulatory approvals, if any, required by the Proponents in connection with the consummation of the Plan shall have been obtained and not revoked.

**C. Waiver of Conditions**

Any of the conditions to Confirmation of the Plan and/or to the Effective Date set forth in Articles VIII.A. and VIII.B. hereof, other than entry of the Confirmation Order in form and substance satisfactory to the Proponents, may be waived with the express written consent of the Proponents without leave or order of the Bankruptcy Court, and without any formal action.

**D. Satisfaction of Conditions**

Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action. If the Proponents determine that one of the conditions precedent set forth in Articles VIII.A. and VIII.B. of the Plan cannot be satisfied and the occurrence of such condition is not waived or cannot be waived, then the Proponents shall file a notice of the failure of the Effective Date with the Bankruptcy Court.

**E. Effect of Nonoccurrence of Conditions**

If each of the conditions to occurrence of the Effective Date set forth in Article VIII.B. has not been satisfied or duly waived on or before the first Business Day that is 180 days after the Confirmation Date, or such later date as shall be determined by the Debtors, the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is so vacated, the Plan shall be null and void in all respects, and nothing contained in the Plan shall constitute a waiver or release of any Claims or Equity Interests against any of the Debtors or release of any claims or interests by the Debtors or the Estates.

**ARTICLE IX.**

**SETTLEMENT, RELEASE, INJUNCTION AND RELATED PROVISIONS**

**A. Compromise and Settlement of Claims, Equity Interests and Controversies**

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019 and in consideration for the classification, distributions, releases, and other benefits provided pursuant to the Plan, on the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims, Equity Interests, and controversies resolved pursuant to the Plan or relating to the contractual, legal, and subordination rights that a Holder of a Claim or Equity Interest may have with respect to any Claim or Equity Interest, or any Distribution to be made on account of such Claim or Equity Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Equity Interests, and controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtors, their Estates, and Holders of Claims and Equity Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, pursuant to Bankruptcy Rule 9019, without any further notice to or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Liquidating Trustee may compromise and settle Claims against the Debtors and their Estates and Trust Claims against other Entities.

## **B. Discharge of the Debtors and Injunction**

1. Except as otherwise provided in the Plan or the Confirmation Order, the rights afforded in the Plan and the payments and Distributions to be made under the Plan shall be in exchange for, and in complete satisfaction, settlement, discharge, and release of, all Claims and Equity Interests in the Debtors' assets of any kind, nature, or description, whatsoever, or against any of the Debtors' assets or properties, to the full extent permitted by section 1141 of the Bankruptcy Code. Except as otherwise expressly provided in the Plan, entry of the Confirmation Order (subject to the occurrence of the Effective Date) shall act as a discharge to the full extent permitted by section 1141 of the Bankruptcy Code of all Claims against and debt of, liens on, and Equity Interests in any of the Debtors' assets and properties, arising at any time before the entry of the Confirmation Order, regardless of whether a Proof of Claim or proof of Equity Interest therefor was filed, whether the Claim or Equity Interest is Allowed, or whether the Holder thereof votes to accept the Plan or is entitled to receive a Distribution under the Plan. Upon entry of the Confirmation Order, and subject to the occurrence of the Effective Date, any Holder of such discharged Claim or Equity Interest shall be precluded from asserting against any of the Debtors' assets or properties any other or further Claim or Equity Interest based upon any document, instrument, act, omission, transaction, or other activity of any kind or nature that occurred before the Confirmation Date except as otherwise expressly provided in the Plan. The Confirmation Order shall be a judicial determination of discharge of all liabilities of the Debtors' assets or properties, subject to the occurrence of the Effective Date.

2. In accordance with section 524 of the Bankruptcy Code, and to the full extent permitted by section 1141 of the Bankruptcy Code, the discharge provided by this Article IX.B. shall act as an injunction against the commencement or continuation of any action, employment of process, or act to collect, offset, or recover a Claim and Equity Interest against the Debtors' assets and properties which are discharged hereby. Except as otherwise expressly provided in the Plan or the Confirmation Order, all Persons who have held, hold, or may hold Claims against, or Equity Interests in, any of the Debtors' assets or properties shall be permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (b) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against any of the Debtors' assets or properties on account of any such Claim or Equity Interest, and (c) creating, perfecting, or enforcing any encumbrance of any kind against any of the Debtors' assets or properties on account of any such Claim or Equity Interest. The foregoing injunction shall follow the Debtors' assets or properties upon any transfer (including, without limitation, to the Liquidating Trust).

## **C. Preservation of Causes of Action**

In accordance with section 1123(b) of the Bankruptcy Code, and except where such Causes of Action have been expressly released, the Liquidating Trustee shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in any supplemental documents, and the Liquidating Trustee's rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. The Liquidating Trustee may pursue such Causes of Action, as appropriate, in accordance with



the best interests of the Liquidating Trust beneficiaries. No Entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Liquidating Trustee, as applicable, will not pursue any and all available Causes of Action against them. Except with respect to Causes of Action as to which the Debtors have released any Entity on or prior to the Effective Date, the Debtors or the Liquidating Trustee, as applicable, expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan. Unless any Causes of Action against an Entity is expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Liquidating Trustee expressly reserves all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppels (judicial, equitable or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

#### **D. Releases**

##### **1. Releases by the Debtors**

As of the Effective Date, the Debtors, their Estates and, the Liquidating Trust will be deemed to forever release, waive, and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action, and liabilities whether direct or derivative, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity, or otherwise that are based in whole or in part on any act, omission, transaction, event, or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtors, the Bankruptcy Cases, the Plan, or the Disclosure Statement, that could have been asserted at any time, past, present, or future, by or on behalf of the Debtors, or their Estates, against (a) each director, officer or employee employed by or serving the Debtors on and after the Petition Date, in its capacity as such, (b) financial advisor, restructuring advisor or attorney of the Debtors, in its capacity as such employed by or serving on and after the Petition Date and (c) the Committee, and each member, financial advisor, and attorney of the Committee, in its capacity as such; provided, however, that the foregoing shall not affect the liability or release of any Person that otherwise would result from any such act or omission to the extent such act or omission is determined by a Final Order to have constituted fraud, willful misconduct, gross negligence, bad faith, self-dealing or breach of the duty of loyalty; provided further, however, that the foregoing shall not affect any liability of or release Michael Edwards or any Pershing Square Affiliates and shall not be a waiver of any defense, offset or objection to any Claim filed against the Debtors and their Estates by any Person.

##### **2. Releases among the Releasing Parties**

**NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, ON THE EFFECTIVE DATE, IN CONSIDERATION FOR THE GOOD AND VALUABLE CONSIDERATION PROVIDED BY THE RELEASING PARTIES, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, THE RELEASING PARTIES, TO THE MAXIMUM EXTENT PERMISSIBLE UNDER APPLICABLE LAW, DISCHARGE AND RELEASE AND SHALL BE DEEMED TO HAVE PROVIDED A FULL DISCHARGE AND RELEASE TO**

EACH OF THE OTHER RELEASING PARTIES (AND EACH OF THE OTHER RELEASING PARTIES SHALL BE DEEMED FULLY RELEASED AND DISCHARGED BY THE RELEASING PARTIES) AND THEIR RESPECTIVE PROPERTY FROM ANY AND ALL CLAIMS, INTERESTS, OBLIGATIONS, DEBTS, RIGHTS, SUITS, DAMAGES, REMEDIES, CAUSES OF ACTION, LIABILITIES WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, LIQUIDATED OR UNLIQUIDATED, CONTINGENT OR NON-CONTINGENT, EXISTING AS OF THE EFFECTIVE DATE IN LAW, EQUITY OR OTHERWISE, WHETHER FOR TORT, CONTRACT, VIOLATIONS OF FEDERAL OR STATE SECURITIES LAWS, OR OTHERWISE, ARISING FROM OR RELATED IN ANY WAY TO THE DEBTORS, THE TRANSACTIONS CONTEMPLATED BY THE PLAN, THE BANKRUPTCY CASES, THE PURCHASE, SALE OR RESCISSION OF ANY SECURITY OF THE DEBTORS, THE SUBJECT MATTER OF, OR THE TRANSACTIONS OR EVENTS GIVING RISE TO, ANY CLAIM OR EQUITY INTEREST THAT IS TREATED IN THE PLAN, THE BUSINESS OR CONTRACTUAL ARRANGEMENTS BETWEEN ANY OF THE DEBTORS AND ANY OF THE OTHER RELEASING PARTIES, THE RESTRUCTURING OF CLAIMS AND EQUITY INTERESTS PRIOR TO OR IN THE BANKRUPTCY CASES, THE NEGOTIATION, FORMULATION, OR PREPARATION OF THE PLAN, THE DISCLOSURE STATEMENT, THE AGENCY AGREEMENTS, THE LIQUIDATING TRUST AGREEMENT, OR RELATED AGREEMENTS, INSTRUMENTS, OR OTHER DOCUMENTS RELATED TO THE BANKRUPTCY CASES, OR ANY OTHER ACT OR OMISSION, TRANSACTION, AGREEMENT, EVENT, OR OTHER OCCURRENCE TAKING PLACE ON OR BEFORE THE EFFECTIVE DATE, INCLUDING THOSE THAT ANY OF THE RELEASING PARTIES WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT IN THEIR OWN RIGHT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR THAT ANY HOLDER OF A CLAIM OR AN EQUITY INTEREST OR OTHER ENTITY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT ON BEHALF OF ANY OF THE RELEASING PARTIES; PROVIDED, HOWEVER, THE FOREGOING SHALL NOT AFFECT THE LIABILITY OF ANY PERSON THAT OTHERWISE WOULD RESULT FROM ANY SUCH ACT OR OMISSION TO THE EXTENT SUCH ACT OR OMISSION IS DETERMINED BY A FINAL ORDER TO HAVE CONSTITUTED FRAUD, WILLFUL MISCONDUCT, GROSS NEGLIGENCE, BAD FAITH, SELF-DEALING OR BREACH OF THE DUTY OF LOYALTY; PROVIDED FURTHER, HOWEVER, THAT THE FOREGOING SHALL NOT RELEASE ANY CAUSES OF ACTION AND/OR TRUST CLAIMS (WHICH FOR THE AVOIDANCE OF DOUBT INCLUDES, AMONG OTHER THINGS, AVOIDANCE ACTIONS NOT RELEASED UNDER THE PLAN) AND SHALL NOT BE A WAIVER OF ANY PROOF OF CLAIM FILED AGAINST ANY OF THE DEBTORS AND THEIR ESTATES BY ANY PERSON OR ANY DEFENSE, OFFSET OR OBJECTION TO ANY CLAIM FILED AGAINST THE DEBTORS AND THEIR ESTATES BY ANY PERSON; PROVIDED FURTHER, HOWEVER, THAT THE FOREGOING SHALL NOT AFFECT ANY LIABILITY OF MICHAEL EDWARDS OR ANY PERSHING SQUARE AFFILIATES.

**E. Exculpation**

The Exculpated Parties shall neither have, nor incur, any liability to any Entity for any act taken or omitted to be taken in connection with, relating to, or arising out of, the Bankruptcy Cases, formulating, negotiating, soliciting, preparing, disseminating, implementing, confirming,

or effecting the Consummation of the Plan, the Agency Agreements, the Disclosure Statement, the administration of the Plan or the property to be distributed under the Plan or related to the issuance, distribution, and/or sale of any security, or any contract, instrument, release, or other agreement or document created or entered into in connection with the Plan through and including the Effective Date; provided, however, that the foregoing shall not affect the liability of any Person that otherwise would result from any such act or omission to the extent such act or omission is determined by a Final Order to have constituted fraud, willful misconduct, gross negligence, bad faith, self-dealing or breach of duty of loyalty.

## **ARTICLE X.**

### **RETENTION OF JURISDICTION**

#### **A. Retention of Bankruptcy Court Jurisdiction**

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under or related to the Bankruptcy Cases for, among other things, the following purposes:

(a) Allow, disallow, determine, liquidate, classify, estimate, or establish the priority, Secured or unsecured status, or amount of any Claim or Equity Interest, including the resolution of any request for payment of any Administrative Claim and the resolution of any and all objections to the Secured or unsecured status, priority, amount, or allowance of Claims or Equity Interests;

(b) Decide and resolve all matters related to the granting and denying, in whole or in part, any applications for allowance of compensation or reimbursement of expenses to Professionals authorized pursuant to the Bankruptcy Code, the Plan or the Liquidating Trust Agreement;

(c) Resolve any matters related to: (i) the assumption, assignment, or rejection of any executory contract or unexpired lease to which a Debtor is party or with respect to which a Debtor may be liable in any manner and to hear, determine, and, if necessary, liquidate, any Claims arising therefrom, including Claims related to the rejection of an executory contract or unexpired lease, cure obligations pursuant to section 365 of the Bankruptcy Code, or any other matter related to such executory contract or unexpired lease; (ii) any potential contractual obligation under any executory contract or unexpired lease that is assumed and/or assigned and (iii) any dispute regarding whether a contract or lease is or was executory or expired;

(d) Ensure that Distributions to Holders of Allowed Claims are accomplished pursuant to the provisions of the Plan;

(e) Adjudicate, decide, or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters, and grant or deny any applications involving a Debtor that may be pending on the Effective Date;

(f) Adjudicate, decide, or resolve any and all matters related to the Causes of

Action and/or the Trust Claims;

(g) Enter and implement such orders as may be necessary or appropriate to execute, implement, or consummate the provisions of the Plan and all contracts, instruments, releases, indentures, and other agreements or documents created in connection with the Plan or the Disclosure Statement or the Liquidating Trust Agreement;

(h) Enter and enforce any order for the sale of property pursuant to sections 363, 1123, or 1146(a) of the Bankruptcy Code;

(i) Resolve any cases, controversies, suits, disputes, or Causes of Action that may arise in connection with the Consummation, interpretation, or enforcement of the Plan or the Liquidating Trust Agreement, or any Entity's obligations incurred in connection with the Plan or the Liquidating Trust Agreement;

(j) Issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with Consummation or enforcement of the Plan or the Liquidating Trust Agreement;

(k) Resolve any cases, controversies, suits, disputes, or Causes of Action with respect to the settlements, compromises, releases, injunctions, exculpations, and other provisions contained in Article IX and enter such orders as may be necessary or appropriate to implement such releases, injunctions, and other provisions;

(l) Resolve any cases, controversies, suits, disputes, or Causes of Action with respect to the repayment or return of Distributions;

(m) Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;

(n) Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order, the Liquidating Trust Agreement or any contract, instrument, release, indenture, or other agreement or document created in connection with the Plan, the Disclosure Statement or Liquidating Trust Agreement;

(o) Adjudicate any and all disputes arising from or relating to Distributions under the Plan or any transactions contemplated therein;

(p) Consider any modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any Bankruptcy Court order, including the Confirmation Order;

(q) Determine requests for the payment of Claims and Interests entitled to priority pursuant to section 507 of the Bankruptcy Code;

(r) Hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, or the Confirmation Order or the Liquidating Trust Agreement, including disputes arising under agreements, documents, or instruments executed in connection with the Plan or the Liquidating Trust Agreement;

(s) Hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(t) Hear and determine all disputes involving the existence, nature, or scope of the Debtors' release, including any dispute relating to any liability arising out of the termination of employment or the termination of any employee or retiree benefit program, regardless of whether such termination occurred prior to or after the Effective Date;

(u) Enforce all orders previously entered by the Bankruptcy Court;

(v) Hear any other matter not inconsistent with the Bankruptcy Code;

(w) Enter an order concluding or closing the Bankruptcy Cases; and

(x) Enforce the injunction, release, and exculpation provisions set forth in Article IX.

## ARTICLE XI.

### MODIFICATION AND REVOCATION OF THE PLAN

#### A. Immediate Binding Effect

Notwithstanding Bankruptcy Rules 3020(e), 6004(h), or 7062 or otherwise, upon the occurrence of the Effective Date, the terms of the Plan, Liquidating Trust Agreement and the Confirmation Order shall be immediately effective and enforceable and deemed binding upon the Debtors and any and all Holders of Claims against or Equity Interests in the Debtors (regardless of whether such Claims or Equity Interests are deemed to have accepted or rejected the Plan), all Entities that are parties to or are subject to the settlements, compromises, releases, and injunctions described in the Plan, each Entity acquiring property under the Plan or the Confirmation Order, and any and all non-Debtor parties to executory contracts and unexpired leases with the Debtors. All Claims and debts shall be fixed, adjusted or compromised, as applicable, pursuant to the Plan regardless of whether any Holder of a Claim or debt has voted on the Plan.

#### B. Modification of the Plan

Subject to the limitations contained herein, the Proponents reserve the right to modify the Plan as to material terms and seek Confirmation consistent with the Bankruptcy Code and, as appropriate, not resolicit votes on such modified Plan. Subject to certain restrictions and requirements set forth in section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019 and those restrictions on modifications set forth in the Plan, the Proponents expressly reserve their rights to alter, amend, or modify materially the Plan one or more times after Confirmation and, to the extent necessary, may initiate proceedings in the Bankruptcy Court to so alter, amend, or modify the Plan, or remedy any defect or omission, or reconcile any inconsistencies in the Plan, the Disclosure Statement, the Liquidating Trust Agreement or the Confirmation Order, in such matters as may be necessary to carry out the purposes and intent

of the Plan. Any such modification or supplement shall be considered a modification of the Plan and shall be made in accordance with this Article XI.

Entry of a Confirmation Order shall mean that all modifications or amendments to the Plan occurring after the solicitation thereof and prior to the Confirmation Date are approved pursuant to section 1127(a) of the Bankruptcy Code and do not require additional disclosure or resolicitation under Bankruptcy Rule 3019.

### **C. Revocation or Withdrawal of the Plan**

The Proponents reserve the right to revoke or withdraw the Plan with respect to one or more of the Debtors prior to the Confirmation Date or the Effective Date and to file subsequent plans. If the Proponents revoke or withdraw the Plan with respect to any Debtor, or if Confirmation or Consummation does not occur, then: (1) the Plan shall be null and void in all respects; (2) any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount certain of any Claim or Equity Interest or Class of Claims or Equity Interests), assumption and assignment or rejection of executory contracts or unexpired leases effected by the Plan, and any document or agreement executed pursuant to the Plan, shall be deemed null and void and (3) nothing contained in the Plan shall: (a) constitute a waiver or release of any Claims or Equity Interests; (b) prejudice in any manner the rights of the Debtors or any other Entity; or (c) constitute an admission, acknowledgement, offer, or undertaking of any sort by the Debtors or any other Entity.

## **ARTICLE XII.**

### **MISCELLANEOUS PROVISIONS**

#### **A. Payment of Statutory Fees**

All fees payable pursuant to 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on or before the Effective Date. After the Effective Date, the Liquidating Trustee shall pay, in accordance with the Bankruptcy Code and the Bankruptcy Rules, all fees payable pursuant to 28 U.S.C. § 1930 that accrue before or after the Effective Date.

#### **B. Governing Law**

Except to the extent that the Bankruptcy Code, the Bankruptcy Rules or other federal law is applicable, or to the extent a schedule or exhibit hereto or instrument, agreement or other document executed under the Plan provides otherwise, this Plan, the rights, duties and obligations arising under this Plan, and any claim or controversy directly or indirectly based upon or arising out of this Plan or the transactions contemplated by this Plan (whether based on contract, tort, or any other theory), including all matters of construction, validity and performance, shall be governed by and interpreted, construed and determined in accordance with, the internal laws of the State of New York (without regard to any conflicts of law provision that would require the application of the law of any other jurisdiction).

**C. Corporate Action**

Prior to, on and after the Effective Date, all matters provided for under the Plan that otherwise would require approval of the shareholders or directors of any of the Debtors shall be deemed to have occurred and shall be in effect prior to, on and after the Effective Date pursuant to the applicable general corporation law of the jurisdiction in which the Debtors are organized without any requirement of further action by the shareholders or directors of the Debtors.

**D. Severability of Plan Provisions**

If, prior to Confirmation, any term or provision of this Plan is held by the Bankruptcy Court or other court of competent jurisdiction to be invalid, void or unenforceable, the Bankruptcy Court will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision then will be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order will constitute a judicial determination and will provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

**E. Successors and Assigns**

The Plan shall be binding on, and shall inure to the benefit of the Debtors, and their respective successors and assigns. The rights, benefits and obligations of any Person or Entity named or referred to in the Plan shall be binding upon, and shall inure to the benefit of, any heir, executor, administrator, successor or assign of such Person or Entity.

**F. Reservation of Rights**

Except as expressly set forth herein, this Plan shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order and the Effective Date shall have occurred. Neither the filing of this Plan, any nor statement or provision contained herein, nor the taking of any action by the Debtors with respect to this Plan shall be or shall be deemed to be an admission or waiver of any rights of the Debtors prior to the Effective Date. If the Plan is not confirmed by a Final Order, or if the Plan is confirmed and does not become effective, the rights of all parties in interest in the Bankruptcy Cases are and shall be reserved in full. Any concessions or settlements reflected herein, if any, are made for purposes of the Plan only, and if the Plan does not become effective, no party in interest in the Bankruptcy Cases shall be bound or deemed prejudiced by any such concession or settlement.

**G. Further Assurances**

The Debtors are authorized to execute, deliver, file or record such contracts, agreements, instruments, releases and other documents and take or cause to be taken such action as may be necessary or appropriate to effectuate, implement and further evidence the terms, provisions and intent of this Plan and to consummate the transactions and transfers contemplated by the Plan.

## **H. Notice and Service of Documents**

All notices, requests and demands required or permitted to be provided to the Debtors, Liquidating Debtor, the Committee or the Claims Agent under the Plan shall be in writing and shall be deemed to have been duly given or made (a) when actually delivered (i) by certified mail, return receipt requested, (ii) by hand delivery or (iii) by U.S. mail, postage prepaid or, (b) in the case of notice by facsimile transmission, when received and confirmed, addressed as follows:

### ***If to the Debtors or Liquidating Debtor:***

Kasowitz, Benson, Torres & Friedman LLP  
1633 Broadway  
New York, New York 10019  
Attn: Andrew K. Glenn, Esq.  
Jeffrey R. Gleit, Esq.  
Facsimile: (212) 506-1800

### ***If to the Committee:***

Lowenstein Sandler PC  
65 Livingston Avenue  
Roseland, NJ 07068  
Attn: Bruce Buechler, Esq.  
Paul Kizel, Esq.  
Facsimile: (973) 597-2400

and

Lowenstein Sandler PC  
1251 Avenue of the Americas  
New York, New York 10020  
Attn: Bruce Nathan, Esq.  
Facsimile: (212) 262-7402

### ***If to the Claims Agent:***

The Garden City Group, Inc.  
P.O. Box 9690  
Dublin, Ohio 43017-4990  
Attn: Borders Group, Inc.

## **I. Conflicts**

To the extent any provision of the Disclosure Statement or any instrument, document or agreement executed in connection with the Plan or the Confirmation Order (or any exhibits, schedules, appendices, supplements or amendments to the foregoing) conflicts with or is in any



way inconsistent with the terms of the Plan, the terms and provisions of the Plan shall govern and control.

**J. Section 1145 Exemption**

Under section 1145 of the Bankruptcy Code, the issuance of the Liquidating Trust Interests under the Plan shall be exempt from registration under the Securities Act of 1933, as amended, and all applicable state and local laws requiring registration of securities. If the Liquidating Trustee determines, with the advice of counsel, that the Liquidating Trust is required to comply with the registration and reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Investment Company Act of 1940, as amended, then the Liquidating Trustee shall take any and all actions to comply with such reporting requirements and file necessary periodic reports with the Securities and Exchange Commission.

**K. Determination of Tax Liability**

The Debtors are authorized, but not required, to request an expedited determination under section 505(b) of the Bankruptcy Code of the tax liability of the Debtors for all taxable periods ending after the Petition Date through and including the Effective Date.

**L. Post-Effective Date Fees and Expenses**

From and after the Effective Date, the Liquidating Trustee, on behalf of the Liquidating Trust, shall, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, pay the reasonable professional fees and expenses incurred by the Liquidating Trust, and any professionals retained by such Liquidating Trust, related to the consummation and to the implementation of this Plan, except as otherwise provided in the Liquidating Trust Agreement, after notice to the Liquidating Trust Committee.

**M. Entire Agreement**

This Plan supersedes all previous and contemporaneous negotiations, promises, covenants, agreements, understandings and representations on such subjects, all of which have become merged and integrated in to this Plan.

**N. Closing of Chapter 11 Cases**

The Confirmation Order shall authorize, pursuant to section 350 of the Bankruptcy Code, closing the Bankruptcy Cases and shall provide that upon the Effective Date the Bankruptcy Court will enter one or more order(s) directing the Clerk of the Bankruptcy Court to close such Chapter 11 Cases; provided, however, that the Bankruptcy Case of Borders Group, Inc. shall remain open until such time as the Liquidating Trustee files with the Bankruptcy Court such documents required by the Bankruptcy Rules and any applicable orders of the Bankruptcy Court to close such Bankruptcy Case. Upon entry of the Confirmation Order, counsel for the Debtors shall submit proposed forms of order to the Bankruptcy Court to enter on the docket of each individual Debtors' Bankruptcy Case to close said Bankruptcy Cases effective on the Effective Date, except for the Bankruptcy Case of Borders Group, Inc.

**O. Change of Control Provisions**

Any acceleration, vesting or similar change of control rights under any employment, benefit or other arrangements triggered by the consummation of this Plan shall be waived or otherwise cancelled under this Plan.

**P. Substantial Consummation**

On the Effective Date, the Plan shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

**Q. Administrative Claims Bar Date**

The bar date or last date for the filing any Proof of Claim for an Administrative Claim, *exclusive of* Professional Fee Claims (which are addressed in Article II.B. of this Plan), for Administrative Claims that have accrued between October 22, 2011 and the Effective Date of this Plan shall be thirty (30) days after the Effective Date. Such Administrative Claims must be filed with the Claims Agent, The Garden City Group, Inc., P.O. Box 9690, Dublin, Ohio 43017-4990, Attn: Borders Group, with a copy sent to counsel for the Committee at the address listed above. The failure to timely file such an Administrative Claim accruing between October 22, 2011 and the Effective Date as required by this provision shall bar the Administrative Claim from being paid.

**R. Change of Name**

On the Effective Date, the Liquidating Debtor's name shall change from Borders Group, Inc. to BGI, Inc. without the need for the filing of any documents with any state agencies or the Bankruptcy Court. In addition, the Liquidating Debtor's name on all pleadings filed with the Bankruptcy Court shall be changed to "BGI, Inc.".

**S. Substitution of the Liquidating Trust for the Debtors**

On the Effective Date, the Liquidating Trust shall be deemed to be substituted as the party in lieu of the Debtors in all pending matters including but not limited to (i) motions, contested matters and adversary proceeding pending in the Bankruptcy Court, and (ii) all matters pending in any courts, tribunals, forums or administrative proceedings outside of the Bankruptcy Court without the need or requirement for the Liquidating Trustee to file motions or substitutions of parties and counsel.

Dated: November 2, 2011

BORDERS GROUP, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS INTERNATIONAL SERVICES, INC.

By: /s/ Holly Felder Etlin

Holly Felder Etlin

BORDERS, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS DIRECT, LLC

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS PROPERTIES, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS ONLINE, INC.

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BORDERS ONLINE, LLC

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

BGP (UK) LIMITED

By: /s/ Holly Felder Etlin  
Holly Felder Etlin

THE OFFICIAL COMMITTEE OF UNSECURED  
CREDITORS OF BORDERS GROUP, INC., *et al.*

By: /s/ Alexander Gigante  
Alexander Gigante, Esq.  
Penguin Group (USA), Chair

**EXHIBIT A**

**BGI CREDITORS' LIQUIDATING TRUST AGREEMENT**

This BGI Creditors' Liquidating Trust Agreement (the "Agreement") dated as of December \_\_\_\_\_, 2011 by and between Borders Group, Inc.; Borders International Services, Inc.; Borders, Inc.; Borders Direct, LLC; Borders Properties, Inc.; Borders Online, LLC and BGP (UK) Limited (collectively, the "Settlor" or "Debtors"), and \_\_\_\_\_ (the "Trustee"), for the benefit of the Holders of Allowed General Unsecured Claims (the "Beneficiaries") under the terms of the Debtors' Joint Plan of Liquidation Pursuant to Chapter 11 of the Bankruptcy Code (the "Plan") confirmed by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in Chapter 11 Case No. 11-10614 (MG) by Order dated December \_\_\_\_\_, 2011.

WITNESSETH

WHEREAS, the Trust is created pursuant to, and to effectuate, the Plan;

WHEREAS, the Trust is created on behalf, and for the sole benefit, of the Beneficiaries made pursuant to the Plan;

WHEREAS, the Trust is established for the purpose of collecting, distributing and liquidating the Assets (as defined below) for the benefit of the Beneficiaries in accordance with the terms of this Agreement and the Plan with no objective to continue or engage in the conduct of a trade or business, except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Trust;

WHEREAS, pursuant to the Plan, the Settlor, the Trustee, and the Beneficiaries are required to treat, for all federal income tax purposes, the transfer of the Assets to the Trust as a transfer of the Assets by the Settlor to the Beneficiaries in satisfaction of their Allowed General Unsecured Claims, followed by a transfer of the Assets by the Beneficiaries to the Trust in

exchange for the beneficial interest herein, and to treat the Beneficiaries as the grantors and owners of the Trust in accordance with Treasury Regulation § 301.7701-4;

WHEREAS, the Trust is intended to be treated as a grantor trust for federal income tax purposes;

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein and in the Plan, the Settlor and the Trustee agree as follows:

## **ARTICLE I**

### **DEFINITIONS AND INTERPRETATIONS**

#### 1.1 Definitions.

1.1.1 “Agreement” shall mean this BGI Creditors’ Liquidating Trust Agreement.

1.1.2 “Assets” shall mean the Liquidating Trust Assets, Causes of Action transferred to the Trust, and any Retained Assets.

1.1.3 “Available Trust Cash” shall mean the aggregate of the Assets and Causes of Action and proceeds thereof after paying, reserving against, or satisfying: (1) fees incurred due to the U.S. Trustee pursuant to 28 U.S.C. § 1930(a)(6); (2) incurred operating and administrative expenses of the Trust, including but not limited to all costs, expenses, and obligations incurred by the Trustee (or professionals who may be employed by the Trustee in administering the Trust) in carrying out their other responsibilities under this Agreement, or in any manner connected, incidental, or related thereto and payment of such fees; and (3) the Disputed Claims Reserve.

1.1.4 “Beneficiaries” shall collectively mean the Holders of Allowed General Unsecured Claims under the Plan, or any successors to such Holders’ Allowed General Unsecured Claims or interests in the Trust.

1.1.5 “Claim” shall have the meaning ascribed to it in the Plan.

1.1.6 “Effective Date” shall have the same meaning as set forth in the Plan.

1.1.7 “Settlor” shall mean the Debtors.

1.1.8 “Trust” shall mean the liquidating trust established pursuant to the terms of this Agreement and the Plan.

1.1.9 “Trustee” shall mean (x) initially, the person or corporation named herein, and (y) any successors or replacements duly appointed under the terms of this Agreement.

1.1.10 “Permitted Investments” shall include (a) short-term direct obligations of, or obligations guaranteed by, the United States of America, (b) short-term obligations of any agency or corporation which is or may hereafter be created by or pursuant to an act of the Congress of the United States as an agency or instrumentality thereof, (c) such other investments as the Bankruptcy Court may approve from time to time, or (d) demand deposits or certificates of deposit at any bank or trust company that has, at the time of the deposit, a capital stock and surplus aggregating at least \$1,000,000,000, provided, however, that the scope of any Permitted Investments shall be limited to include only those investments that a liquidating trust, within the meaning of Treas. Reg. § 301.7701-4(d), may be permitted to hold, pursuant to Treasury Regulations, or any modification in the IRS guidelines, whether set forth in IRS rulings, other IRS pronouncements, or otherwise.

1.2 Use of Plan Definitions. All terms which are used in this Agreement but not defined herein shall have the same meaning set forth in the Plan.

1.3 Interpretation. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the provisions of this Agreement. Words denoting the singular number shall include the plural number and vice versa, and words denoting one gender shall include the other gender.

1.4 Particular Words. Reference in this Agreement to any Section or Article is, unless otherwise specified, to that such Section or Article under this Agreement. The words “hereof,” “herein,” “herein,” and similar terms shall refer to this Agreement and not to any particular Section or Article of this Agreement.

## **ARTICLE II**

### **DECLARATION OF TRUST**

2.1 Creation and Name. There is hereby created the Trust, which shall be known as the “BGI Creditors’ Liquidating Trust,” and is the Trust referred to as the “Liquidating Trust” in the Plan. The Trustee may conduct the affairs of the Trust under the name of the “BGI Creditors’ Liquidating Trust.”

2.2 Purpose of Trust. The Settlor and the Trustee, pursuant to the Plan and in accordance with the “Bankruptcy Code, hereby create the Trust for the purpose of collecting, distributing, and liquidating the Assets for the benefit of the Beneficiaries in accordance with the terms of this Agreement and the Plan. The activities of the Trust shall be limited to those activities set forth in this Agreement and as otherwise contemplated by the Plan.

2.3 Transfer of Assets.

A. The Settlor hereby grants, releases, assigns, conveys, transfers and delivers, on behalf of the Beneficiaries, all of the Settler’s right, title and interest in the Assets to the Trustee as of the Effective Date in trust for the benefit of the Beneficiaries, pursuant to §§



1123(a)(5)(B) and 1123(b)(3)(B) of the Bankruptcy Code and in accordance with the Plan and Confirmation Order, and as of the Effective Date free and clear of any and all liens, claims, encumbrances, and interests (legal, beneficial, or otherwise) of all other Persons to the maximum extent contemplated by and permissible under § 1141(c) of the Bankruptcy Code for the uses and purposes as specified in this Agreement and the Plan, but subject to the following liabilities: (i) all fees payable pursuant to 28 U.S.C. §1930 until such time as the Bankruptcy Court enters a final decree closing each of the Debtor's Chapter 11 cases, (ii) any expenses incurred and unpaid, or to be incurred, by the Debtors, the Committee or the Trustee in the performance of their administrative duties in respect of winding up the Debtors' estates, and (iii) any obligations owing pursuant to the Plan.

B. The Trustee shall automatically, and without need for further notice or approval of the Bankruptcy Court or the Debtors, be designated as the representative of the Estates pursuant to § 1123(b)(3)(B) of the Bankruptcy Code to enforce or pursue any Cause of Action transferred to the Trust after the Effective Date in accordance with the terms of this Agreement, the Plan, and the Confirmation Order. Any proceeds of a Cause of Action shall be distributed pursuant to the terms of the Plan and this Agreement.

2.4 Securities Law. Under § 1145 of the Bankruptcy Code, the issuance of beneficial interests in the Trust to the Beneficiaries under the Plan shall be exempt from registration under the Securities Act of 1933, as amended, and all applicable state and local laws requiring registration of securities. If the Trustee determines, with the advice of counsel, that the Trust is required to comply with the registration and reporting requirements of the Securities and Exchange Act of 1934, as amended, or the Investment Company Act of 1940, as amended, then

the Trustee shall take any and all actions to comply with such reporting requirements and file necessary periodic reports with the Securities and Exchange Commission.

2.5 Appointment and Acceptance of Trustee. The Trustee shall be deemed to be appointed pursuant to § 1123(b)(3)(B) of the Bankruptcy Code. The Trustee accepts the Trust created by this Agreement and the grant, assignment, transfer, conveyance, and delivery to the Trustee, on behalf, and for the benefit, of the Beneficiaries, by the Debtors of all of their respective right, title, and interest in the Assets, upon and subject to the terms and conditions set forth in this Agreement, the Plan, and the Confirmation Order.

2.6 No Reversion to Debtors. In no event shall any part of the Assets be distributed to any of the Debtors.

### **ARTICLE III**

#### **ADMINISTRATION OF THE TRUST**

3.1 Rights, Powers, and Privileges. The Trustee shall have only the rights, powers, and privileges expressly provided in this Agreement and Plan. Subject to the terms of this Agreement, including Section 3.4 of this Agreement, the Trustee shall have the power to take the actions granted in this Section 3.1 and any powers reasonably incidental thereto, which the Trustee reasonably determines to be necessary or appropriate to fulfill the purpose of the Trust, including but not limited to:

A. Prosecuting, settling, assigning, or otherwise compromising or abandoning for the benefit of the Trust any and all Causes of Action transferred to the Trust or arising in favor of the Trust, including, without limitation, taking any action with respect to appeals, counterclaims, and defenses of or with respect to such claims and causes of action, including retaining counsel to pursue the Causes of Action;

B. Exercising all powers provided to the Trustee or the Trust under the Plan or Confirmation Order, including, without limitation, the right to allow, object to, or reconcile Unsecured Claims, Priority Claims (both tax and non-tax), Administrative Claims and Secured Claims and any other Claims asserted against the Debtors' Estates;

C. Liquidating, selling or abandoning the Assets or any portion thereof;

D. Executing any documents and taking any other actions related to, or in connection with, the liquidation of the Assets and the exercise of the Trustee's powers granted in this Agreement, the Plan, and Confirmation Order;

E. Holding legal title to any and all rights of the Beneficiaries in, to, or arising from the Assets;

F. Establishing a reserve for disputed claims (the "Disputed Claims Reserve"), as well as any other required reserves as may be necessary and appropriate for the proper operation of matters incident to the Trust;

G. Protecting and enforcing the rights to the Assets vested in the Trustee by this Agreement by any method reasonably determined to be appropriate, including, without limitation, by judicial proceedings or pursuant to any applicable bankruptcy, insolvency, moratorium, or similar law and general principles of equity;

H. Making distributions of the Assets to or on behalf of the Beneficiaries in accordance with this Agreement, the Plan, and the Confirmation Order;

I. Filing any and all tax returns with respect to the Trust and pay taxes properly payable by the Trust, if any; provided, however, that for the avoidance of doubt,

neither the Trust nor the Trustee shall have any authority or duty to file any tax returns for any Debtor;

J. Making all necessary filings in accordance with any applicable law, statute, or regulation;

K. Determining and satisfying from the Assets any and all taxes and ordinary course liabilities, including reasonable professional fees and expenses, incurred by or on behalf of the Trust;

L. Investing the Assets received by the Trust or Trustee or otherwise held by the Trust or Trustee in accordance with Section 3.5 of this Agreement;

M. In the event that the Trustee determines that the Beneficiaries or the Trust may, will or have become subject to different tax consequences than those described in this Agreement, taking such actions that will, or are intended to, address such different tax consequences;

N. Creating sub-trusts or title vehicles of which the Trust or the Beneficiaries hold the beneficial or ownership interests, as applicable;

O. Sending annually to each Beneficiary a separate statement stating the Beneficiary's share of income, gain, loss, deduction, or credit and instructing all such Beneficiaries to report such items on their federal tax returns;

P. Opening and maintaining bank accounts on behalf of or in the name of the Trust;

Q. Purchasing customary insurance coverage in accordance with Section 4.8 of this Agreement;

R. In reliance upon the official claims register maintained in the Bankruptcy Cases and any applicable court order, maintaining on the Trustee's books and records a register evidencing the beneficial interest in the Trust held by each Beneficiary;

S. Performing such functions and taking such actions as are provided for or permitted in this Agreement, the Plan, the Confirmation Order, or any other agreement executed pursuant to this Agreement, the Plan, or the Confirmation Order; and

T. Terminating this Trust and seeking to close the Debtors' Bankruptcy Cases pursuant to § 350(a) of the Bankruptcy Code.

3.2 Agents and Professionals. The Trustee may, but shall not be required to, consult with and retain attorneys, financial advisors, accountants or other professionals and employees as the Trustee deems appropriate in the reasonable exercise of his or her discretion, and who the Trustee reasonably determines to have qualifications necessary to assist the Trustee in the proper administration of the Trust. Subject to Section 7.8 of this Agreement, the Trustee may pay the reasonable fees, costs and expenses of such persons (including himself) out of the Assets in the ordinary course of business pursuant to the Plan and Confirmation Order. Subject to this Section 3.2 and the other terms and conditions of this Agreement, the Plan and Confirmation Order, the Trustee may retain professionals who previously were employed by the Committee and/or Debtors.

3.3 Safekeeping of Assets. All Assets shall, until distributed or paid over as herein provided or in the Plan, be held in trust for the benefit of the Beneficiaries in accordance with the Plan and this Agreement. The Trustee shall be under no liability for interest or producing income on any moneys received by it herein and held for distribution or payment to the Beneficiaries, except as such interest or income shall actually be received by the Trustee.

3.4 Limitations on Trustee. The Trustee shall not at any time, on behalf of the Trust or Beneficiaries, enter into or engage in any trade or business, and no part of the Assets or the proceeds, revenue, or income therefrom shall be used or disposed of by the Trust in furtherance of any trade or business.

3.5 Investment. The Trustee may only invest funds held in the Trust in Permitted Investments, in a manner consistent with the requirements of the Bankruptcy Code or any order of the Bankruptcy Court modifying such requirements and, provided that the Trustee does so, he or she shall have no liability in the event of insolvency of any institution in which he or she has invested any of the Assets or any proceeds, revenue, or income therefrom.

3.6 Trustee Action. The Trustee shall hold, collect, conserve, protect, and administer the Trust in accordance with the provisions of this Agreement and the Plan, and pay and distribute amounts as set forth herein for the purposes set forth in this Agreement. Any good faith determination by the Trustee as to what actions are in the best interests of the Trust shall be determinative.

3.7 Bankruptcy Court Approval of Trustee Actions. Except as provided in the Plan or otherwise specified in this Agreement, the Trustee need not obtain an order or approval of the Bankruptcy Court in the exercise of any power, rights, or discretion conferred hereunder, or account to the Bankruptcy Court. The Trustee shall exercise its business judgment for the benefit of the Beneficiaries in order to maximize the value of the Assets and distributions, giving due regard to the cost, risk, and delay of any course of action. Notwithstanding the foregoing in this Section 3.7, but subject to Section 3.4 of this Agreement, the Trustee may submit to the Bankruptcy Court any question or questions regarding which the Trustee may desire to have explicit approval of the Bankruptcy Court for the taking of any specific action proposed to be

taken by the Trustee with respect to the Assets, the Trust, the Agreement, the Plan, or the Debtors, including the administration and distribution of the Assets. The Bankruptcy Court shall retain jurisdiction for such purposes and shall approve or disapprove any such proposed action upon motion. In addition, subject to Section 3.4 of this Agreement, the Trustee shall have the authority, but not the obligation, to seek Bankruptcy Court approval to sell any Asset free and clear of any and all liens, claims, and encumbrances.

3.8 Confidentiality. The Trustee shall, during the period that it serves as Trustee under this Agreement and for a period of twelve (12) months following the termination of this Agreement or its removal or resignation hereunder, hold strictly confidential and not use for personal gain any material, non-public information of or pertaining to any entity to which any of the Assets relates or which it has become aware of in its capacity as Trustee.

#### **ARTICLE IV**

##### **DISTRIBUTIONS FROM THE TRUST**

4.1 Timing and Amount of Distributions. Distributions of Available Trust Cash shall be made no less frequently than once per twelve-month period, such period to be measured from the Effective Date (each a "Distribution Date"); provided, however, that the Trustee may defer a distribution to the next Distribution Date if the Trustee determines, in the reasonable exercise of the Trustee's discretion, that the amount available for distribution at such time is insufficient to justify the cost of effecting the distribution; provided further, however, that the Trustee may, in the reasonable exercise of the Trustee's discretion, cause the Trust to retain an amount of Available Trust Cash reasonably necessary to maintain the value of the Assets or to meet Trust liabilities, including any reserve for Disputed Claims. The Trustee shall not make any distributions of Trust Assets to the Trust Beneficiaries unless the Trustee retains and reserves in

the Disputed Claims Reserve such amounts as are reasonably necessary to satisfy amounts that would have been distributed in accordance with this Article IV in respect of Disputed Claims if the Disputed Claims were determined to be Allowed Claims immediately prior to such proposed distribution to the Beneficiaries.

4.2 Distributions. Holders of Allowed General Unsecured Claims against the Debtors shall receive, in full and final satisfaction of their allowed General Unsecured Claims, a Pro Rata share of the Available Trust Cash after the Trustee maintains appropriate reserves for Disputed Claims and the costs of administration of the Trust. The Trustee shall require any Beneficiary to furnish to the Trustee in writing his or its Employer or Taxpayer Identification Number as assigned by the IRS, and the Trustee may condition any Distribution upon receipt of such identification number.

4.3 Distributions After Allowance or Disallowance of a Disputed Claim. Within thirty (30) days of a Disputed Claim becoming an Allowed General Unsecured Claim, the Trustee shall distribute to the Holder thereof, from the Disputed Claim Reserve, such amount of Available Trust Cash as would have been distributed to such Holder if its Claim had been an Allowed General Unsecured Claim on the Effective Date. The Trustee shall no longer reserve for and shall distribute to the Beneficiaries, pursuant to this Agreement, their Pro Rata share of the funds held in the Disputed Claim Reserve on account of any Disputed General Unsecured Claim that becomes disallowed.

4.4 Undeliverable Property. If any distribution of Available Trust Cash to or on behalf of a Beneficiary is returned to the Trustee or its agent as undeliverable, no further distribution to such Beneficiary shall be made unless and until the Trustee is notified in writing of such Beneficiary's then-current address. Any Beneficiary that does not assert a claim for an



undeliverable distribution of Available Trust Cash within three (3) months after the last Distribution Date on which the relevant distribution became deliverable shall no longer have any claim to or interest in the Available Trust Cash represented by such undeliverable distribution, and in such cases, all title to and all beneficial interests in the Assets represented by any such undeliverable distributions shall revert to and/or remain in the Trust and shall be distributed in accordance with Article IV of this Agreement and the Plan.

4.5 Payments Limited to Assets. All payments to be made by the Trustee to or for the benefit of any Beneficiary shall be made only from the Assets or proceeds from Causes of Action.

4.6 United States Trustee Fees and Reports. After the Effective Date, the Trustee shall pay as an expense of the Trust all fees incurred under 28 U.S.C. § 1930(a)(6) by reason of the Trust's disbursements as required under the Plan and Confirmation Order until the Debtors' Bankruptcy Cases are closed. After the Confirmation Date, the Trust shall prepare and serve on the Office of the U.S. Trustee such quarterly disbursement reports for the Trust as required by the U.S. Trustee for as long as the Bankruptcy Cases remain open.

4.7 Insurance. The Trustee may use Assets in the Trustee's reasonable business judgment to maintain customary insurance coverage, if available, for the protection of the Trust or Debtors' Assets.

## **ARTICLE V**

### **BENEFICIARIES**

5.1 Incidents of Ownership. The Beneficiaries shall be the sole beneficiaries of the Trust and the Assets, and the Trustee shall retain only such incidents of ownership as are

necessary to undertake the actions and transactions authorized in this Agreement, the Plan and the Confirmation Order.

5.2 Interest Beneficial Only. The ownership of a beneficial interest in the Trust shall not entitle any Beneficiary or the Settlor to any title in or to the Assets or to any right to call for a partition or division of such assets or to require an accounting, except as specifically provided herein or in the Plan.

5.3 Evidence of Beneficial Interest. Ownership of a beneficial interest in the Assets shall not be evidenced by any certificate, security, or receipt, or in any other form or manner whatsoever, except as maintained on the books and records of the Trust by the Trustee.

5.4 Notice of Transfer of Beneficial Interest. Any notice of a change of beneficial interest ownership as described in Section 11.2 of this Agreement shall be forwarded to the Trustee by registered or certified mail as set forth herein. The notice shall be executed by both the transferee and the transferor, and the signatures of the parties shall be acknowledged before a notary public and as required by Bankruptcy Rule 3001(e). The notice must clearly describe the interest to be transferred. The Trustee may rely upon such signatures and acknowledgments as evidence of such transfer without the requirement of any further investigation.

## ARTICLE VI

### THIRD PARTY RIGHTS AND LIMITATION OF LIABILITY

6.1 Reliance. Except as otherwise provided in this Agreement, the Plan, or the Confirmation Order, the Trustee may rely and shall be protected in acting upon any resolution, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document reasonably believed to be genuine and to have been signed or presented by the Trustee.

6.2 Parties Dealing With the Trustee. In the absence of actual knowledge to the contrary, any person dealing with the Trust or the Trustee shall be entitled to rely on the authority of the Trustee or any of the Trustee's agents to act in connection with the Assets. There is no obligation on any Person dealing with the Trustee to inquire into the validity, expediency, or propriety of any transaction by the Trustee or any agent of the Trustee.

6.3 Limited Recourse. Except as otherwise provided in this Agreement, the Plan, or the Confirmation Order, Persons (including any professionals retained by the Trustee in accordance with this Agreement) engaged in transactions with the Trust or the Trustee shall look only to the Assets to satisfy any liability incurred in connection with the carrying out the terms of this Agreement, the Plan, or the Confirmation Order.

6.4 Limitation of Liability. The Trustee and its agents, employees, officers, directors, professionals, attorneys, accountants, advisors, and representatives shall not be subject to any personal liability whatsoever, in tort, contract, or otherwise, to any Person in connection with the Assets or the affairs of the Trust, except for their own gross negligence, willful misconduct, fraud, bad faith, self-dealing or breach of the duty of loyalty. Other than as set forth in the Plan or Confirmation Order, nothing in this Agreement shall be deemed to release any Beneficiary from any actions or omissions occurring prior to the Effective Date.

6.5 Non-Liability for Acts of Others. Nothing contained in this Agreement, the Plan, or the Confirmation Order shall be deemed to be an assumption by the Trustee of any of the liabilities, obligations, or duties of the Debtors or Beneficiaries and shall not be deemed to be or contain a covenant or agreement by the Trustee to assume or accept any such liability, obligation, or duty. Any successor Trustee may accept and rely upon any accounting made by or on behalf of any predecessor Trustee hereunder, and any statement or representation made by a

predecessor Trustee or its agents as to the assets comprising the Trust Assets or as to any other fact bearing upon the prior administration of the Trust, so long as it has a good faith basis to do so. A Trustee shall not be liable for having accepted and relied in good faith upon any such accounting, statement, or representation if it is later proved to be incomplete, inaccurate, or untrue. A Trustee or successor Trustee shall not be liable for any act or omission of any predecessor Trustee, nor have a duty to enforce any claims against any predecessor Trustee on account of any such act or omission.

6.6 Indemnification. The Trustee and each of its agents, employees, officers, directors, professionals, attorneys, accountants, advisors and representatives (collectively, the “Indemnified Parties”) shall be indemnified and held harmless by the Trust, to the fullest extent permitted by law, solely from the Assets for any losses, claims, damages, liabilities and expenses, including, without limitation, reasonable attorneys’ fees, disbursements, and related expenses which the Indemnified Parties may incur or to which the Indemnified Parties may become subject in connection with any action, suit, proceeding, or investigation brought or threatened against one or more of the Indemnified Parties on account of the acts or omissions of an Indemnified Party solely in its capacity as such; provided, however, that the Trust shall not be liable to indemnify any Indemnified Party for any act or omission constituting gross negligence, willful misconduct, fraud, bad faith, self-dealing or breach of the duty of loyalty by such Indemnified Party. Notwithstanding any provision in this Agreement to the contrary, the Indemnified Parties shall be entitled to request advances from the Trust to cover reasonable fees and necessary expenses incurred in connection with defending themselves in any action brought against them as a result of the acts or omissions, actual or alleged, of an Indemnified Party in its capacity as such; provided, however, that the Trustee shall not be required to make any such

advances; provided further, however, that any Indemnified Parties receiving such advances shall repay the amounts so advanced to the Trust upon the entry of an order of a court of competent jurisdiction finding that such Indemnified Parties were not entitled to any indemnity under the provisions of this Section 6.6. This indemnification shall survive the death, dissolution, resignation, or removal, as may be applicable, of the Indemnified Parties, or the termination of the Trust, and shall inure to the benefit of the Indemnified Parties' heirs and assigns.

## ARTICLE VII

### SELECTION, REMOVAL AND COMPENSATION OF TRUSTEE

7.1 Initial Trustee. The initial Trustee shall be selected by the Committee in advance of the Confirmation Hearing.

7.2 Term of Service. The Trustee shall serve until (a) the completion of all the Trustee's duties, responsibilities and obligations under this Agreement and the Plan; (b) termination of the Trust in accordance with this Agreement; or (c) the Trustee's death or dissolution, incapacitation, resignation, or removal.

7.3 Removal of a Trustee. Any Person serving as Trustee may be removed at any time and for any reason by the Liquidating Trust Committee or upon the determination of the Bankruptcy Court on a motion for cause shown. Any Trustee so removed is entitled to payment of reasonable fees and necessary expenses accrued prior to removal subject to the terms of this Agreement.

7.4 Resignation of Trustee. The Trustee may resign at any time by giving the Liquidating Trust Committee at least thirty (30) days' written notice of the Trustee's intention to do so. In the event of a resignation, the resigning Trustee shall render to the Liquidating Trust Committee a full and complete accounting of monies and assets received, disbursed, and held

during the term of office of that Trustee. The resignation shall be effective on the later of (i) the date specified in the notice; (ii) the date that is thirty days (30) after the date the notice is delivered; or (iii) the date the accounting described in the preceding sentence is delivered.

7.5 Appointment of Successor Trustee. Upon the resignation, death, incapacity, or removal of a Trustee, the Liquidating Trust Committee shall, by a majority vote of those members voting, appoint a successor Trustee to fill the vacancy so created. Any successor Trustee so appointed shall consent to and accept in writing the terms of this Agreement and agree that the provisions of this Agreement shall be binding upon and inure to the benefit of the successor Trustee and all of the successor Trustee's heirs and legal and personal representatives, successors or assigns. Notwithstanding anything in this Agreement, in the event that a successor Trustee is not appointed within sixty (60) days of the occurrence or effectiveness, as applicable, of the prior Trustee's resignation, death, incapacity, or removal, the Liquidating Trust Committee shall be authorized to move the Bankruptcy Court for the appointment of a successor Trustee.

7.6 Powers and Duties of Successor Trustee. A successor Trustee shall have all the rights, privileges, powers, and duties of the predecessor Trustee under this Agreement and the Plan.

7.7 Trust Continuance. The death, incapacity, resignation or removal of the Trustee shall not terminate the Trust or revoke any existing agency created pursuant to this Agreement or invalidate any action theretofore taken by the Trustee.

7.8 Compensation and Costs of Administration. The Trustee may retain and compensate professionals (including himself) as provided for in Section 3.2 of this Agreement. The reasonable fees and actual and necessary expenses of such professionals and the Trustee shall be paid by the Trustee upon each monthly submission of a fee statement to the Trustee

and/or the Liquidating Trust Committee, as applicable, in accordance with the following procedures. The Trustee shall deliver his or her invoices or fee statements to the Liquidating Trust Committee before payment from the Trust Assets shall be allowed. Any professionals retained by the Trustee pursuant to this Agreement shall deliver their invoices or fee statements to the Trustee and the Liquidating Trust Committee before payment from the Trust Assets shall be allowed. The Trustee and Liquidating Trust Committee, as applicable, shall have twenty (20) days from the delivery of any invoice or fee statement to give notice of an objection to the fee statement to the professional seeking compensation or reimbursement (including the Trustee himself). For an objection to be valid, it shall be in writing and set forth in detail the specific fees objected to and the basis for the objection. The uncontested portion of each invoice shall be paid within twenty-five (25) days after its original delivery to the Trustee. Any objection that remains unresolved fifteen (15) days after it is made shall be submitted to the Bankruptcy Court for resolution.

7.9 Reporting and Filing Requirements.

A. Within 30 days after June 30 and December 31 of each calendar year in which the Trust shall remain in existence, the Trustee shall file a report with the Bankruptcy Court of all Assets received by the Trust, all Available Trust Cash disbursed to Beneficiaries, all Assets held by the Trust, and all fees, income, and expenses related to the Trust during the preceding calendar year. The Trustee's report shall be provided to the Liquidating Trust Committee upon filing with the Bankruptcy Court, and shall be available to any Beneficiary upon request.

B. The Trustee shall also timely prepare, file and distribute such additional statements, reports and submissions as may be necessary to cause the Trust and the Trustee to be in compliance with applicable law.

## **ARTICLE VIII**

### **TRUST OBLIGATIONS**

8.1 The Trustee shall file tax returns for the Trust as a grantor trust pursuant to Treasury Regulation Section 1.671-4(a) and any other applicable laws or regulations.

8.2 To the extent reasonably practicable unless otherwise ordered by the Bankruptcy Court, the Trustee shall, within seventy-five (75) days after the end of each calendar year, send to each Beneficiary a statement setting forth the Beneficiary's share or items of income, gain, loss, deduction, or credit and will instruct all such holders to report such items on their federal income tax returns. Such a statement shall also be sent to each Beneficiary within seventy-five (75) days of the dissolution of the Trust. The Trust's taxable income, gain, loss, deduction, or credit will be allocated (subject to provisions of the Plan and Confirmation Order relating to Disputed Claims) to the Beneficiaries in accordance with their relative beneficial interests in the Trust, as determined pursuant to this Agreement.

8.3 As soon as practicable after the Effective Date, the Trustee (to the extent that he or she deems it necessary or appropriate in the reasonable exercise of his or her discretion) shall, in good faith, value the Assets, and shall apprise the Beneficiaries of such valuation. The valuation shall be used consistently by all parties (including the Debtors, the Trustee, and the Trust Beneficiaries) for all federal income tax purposes. The Bankruptcy Court shall resolve any dispute regarding the valuation of the Assets.

## **ARTICLE IX**

### **MAINTENANCE OF RECORDS**

9.1 The Trustee shall maintain books and records containing a description of all property from time to time constituting the Assets and an accounting of all receipts and



disbursements. Said books and records shall be open to inspection by any Beneficiary at any reasonable time during normal business hours. The Trustee shall furnish to any Beneficiary upon written request an annual statement of receipts and disbursements, including a summary of all income and expenses of the Trust.

## **ARTICLE X**

### **DURATION OF TRUST**

10.1 Duration. The Trust shall become effective upon the Effective Date of the Plan, and the Trust and its provisions herein shall remain and continue in full force and effect until the Trust is terminated.

10.2 Termination. The Trust shall terminate upon the occurrence of the earlier of (a) the full liquidation, administration, and distribution of the Assets in accordance with this Agreement and the full performance of all other duties and functions of the Trustee set forth in this Agreement, the Plan, and the Confirmation Order, and (b) the fifth (5th) anniversary of the Effective Date. Such termination may be extended upon request of the Trustee if approved by the Bankruptcy Court for cause shown prior to the termination of the Trust on motion to the Bankruptcy Court filed no earlier than six (6) months prior to the scheduled termination of the Trust.

10.3 Continuance of Trust for Winding Up. After the termination of the Trust and for the purpose of liquidating and winding up the affairs of the Trust, the Trustee shall continue to act as such until the Trustee's duties have been fully performed, including, without limitation, such post-distribution tasks as necessary to windup the affairs of the Trust. After the termination of the Trust, the Trustee shall retain for a period of six (6) months the books, records, Beneficiary lists, and certificates and other documents and files which shall have been delivered

to or created by the Trustee. At the Trustee's discretion, all of such records and documents may, but need not, be destroyed at any time after six (6) months from the completion and winding up of the affairs of the Trust. Except as otherwise specifically provided herein, upon the discharge of all liabilities of the Trust and final distribution of the Trust, the Trustee shall have no further duties or obligations hereunder. For the avoidance of doubt, the limitations on liability contained in Sections 6.3, 6.4, 6.5 and 6.6 hereof shall apply to any actions taken by the Trustee during the course of winding up the affairs of the Trust.

## ARTICLE XI

### MISCELLANEOUS

11.1 Jurisdiction. The Bankruptcy Court shall have exclusive jurisdiction over (i) the Trust and the Trustee with respect to the administration of and activities relating to the Trust, as well as (ii) any issues or disputes arising out of this Agreement; provided, however, that notwithstanding the foregoing, the Trustee shall have the power and authority to bring any action in any court of competent jurisdiction to prosecute any Causes of Action assigned to the Trust.

11.2 Limitation on Transferability. A beneficial interest in the Trust shall be non-assignable and non-transferable except by operation of law. An assignment or transfer shall not be effective until appropriate notification and proof thereof is submitted to the Trustee, and the Trustee may continue to pay all amounts to or for the benefit of the assigning or transferring Beneficiary until receipt of proper notification and proof of assignment or transfer. The Trustee may rely upon such proof without the requirement of any further investigation.

11.3 Notices. All notices to be given to Beneficiaries may be given by ordinary mail, or may be delivered personally, to the holders at the addresses appearing on the books kept by Trustee. Any notice or other communication which may be or is required to be given, served, or

sent to the Trustee shall be in writing and shall be sent by registered or certified United States mail, return receipt requested, postage prepaid, or transmitted by hand delivery or facsimile (if receipt is confirmed) addressed as follows:

If to the Trust/Trustee:

With a copy to:

Lowenstein Sandler PC  
65 Livingston Avenue  
Roseland, New Jersey 07068  
Attn: Bruce Buechler, Esq.

or to such other address as may from time to time be provided in written notice by the Trustee.

11.4 No Bond. Notwithstanding any state law to the contrary, the Trustee (including any successor) shall be exempt from giving any bond or other security in any jurisdiction.

11.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflicts of law principles.

11.6 Successors and Assigns. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors and assigns.

11.7 Headings. The various headings of this Agreement are inserted for convenience only and shall not affect the meaning or understanding of this Agreement or any provision hereof.

11.8 No Execution. All funds in the Trust shall be deemed *in custodia legis* until such times as the funds have actually been paid to or for the benefit of a Beneficiary, and no Beneficiary or any other Person can bind, pledge, encumber, execute upon, garnish, or attach the Assets or the Trustee in any manner or compel payment from the Trust except by Final Order of the Bankruptcy Court. Payment will be governed solely by the Plan and this Agreement.

11.9 Plan and Confirmation Order. To the extent that the terms of this Agreement are inconsistent with the terms set forth in the Plan, then the terms of this Agreement shall govern and control. To the extent that the terms of this Agreement are inconsistent with the terms set forth in the Confirmation Order, then the terms of the Confirmation Order shall govern and control.

11.10 Intention of Parties to Establish Grantor Trust. This Agreement is intended to create a grantor trust for United States federal income tax purposes and, to the extent provided by law, shall be governed and construed in all respects as such a grantor trust.

11.11 Amendment. This Agreement may only be amended with the consent of the Liquidating Trust Committee or by order of the Bankruptcy Court.

11.12 Severability. If any term, provision, covenant, or restriction contained in this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void, unenforceable, or against its regulatory policy, the remainder of the terms, provisions, covenants, and restrictions contained in this Agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

IN WITNESS WHEREOF, the parties have executed this Agreement (or are deemed to have so executed this Agreement) as of the day and year written above.

Trustee

Borders Group, Inc.

By: \_\_\_\_\_

By: \_\_\_\_\_

Name:  
Title:

Name:  
Title:

Borders International Services, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Borders, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Borders Direct, LLC

By: \_\_\_\_\_  
Name:  
Title:

Borders Properties, Inc.

By: \_\_\_\_\_  
Name:  
Title:

Borders Online, Inc.

By: \_\_\_\_\_  
Name:  
Title:

BGP (UK) Limited

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT B**

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

*Attorneys for Debtors  
and Debtors in Possession*

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

**In re:**

**BORDERS GROUP, INC., *et al.*,<sup>1</sup>**

**Debtors.**

**Chapter 11**

**Case No. 11-10614 (MG)**

**(Jointly Administered)**

**ORDER APPROVING THE DISCLOSURE STATEMENT; APPROVING  
THE SOLICITATION AND VOTING PROCEDURES; SCHEDULING  
THE PLAN CONFIRMATION PROCESS; AND GRANTING RELATED RELIEF**

A hearing having been held on November 10, 2011 (the "Hearing"), to consider the motion, dated October 3, 2011 (the "Motion"),<sup>2</sup> of Borders Group, Inc. and its affiliated debtors, as debtors and debtors in possession (collectively, the "Debtors"), for entry of an order (i) approving the Disclosure Statement Relating to the Joint Plan of Liquidation Pursuant to Chapter 11 of the Bankruptcy Code Proposed by the Debtors and the Official Committee of Unsecured Creditors, dated October 3, 2011 (as the same has been or may be amended, the "Disclosure Statement"), (ii) fixing a voting record date, (iii) approving solicitation packages and

<sup>1</sup> 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.

<sup>2</sup> Capitalized terms used but not defined herein shall have the meanings assigned to them in the Motion.

procedures for distribution thereof, (iv) approving forms of ballots and establishing procedures for voting on the Joint Plan of Liquidation Pursuant to Chapter 11 of the Bankruptcy Code Proposed by the Debtors and the Official Committee of Unsecured Creditors, dated October 3, 2011 (as the same has been or may be amended, the "Plan"), (v) approving forms of notice to non-voting classes, (vi) shortening the seven (7)-day time period for filing the certification of acceptance or rejection of the Plan, (vii) shortening the seven (7)-day time period for filing objections to Plan confirmation, (viii) scheduling a hearing on confirmation of the Plan and establishing notice and objection procedures in respect thereof, and (ix) granting related relief, all as more fully set forth in the Motion; and the Court having jurisdiction to consider the Motion and the relief requested therein being a core proceeding pursuant to 28 U.S.C. §§ 157 and 1334 and the Standing Order of Referral of Cases to Bankruptcy Court Judges of the District Court for the Southern District of New York, dated July 19, 1984 (Ward, Acting C.J.); and venue being proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409; and notice of the Motion and the Hearing being adequate under the circumstances; and the Disclosure Statement Hearing Notice constituting good and sufficient notice to all interested parties and no other or further notice need be provided; and the Court having reviewed the Motion, the papers in support thereof, and the responses thereto, if any; and upon the Motion, the papers in support thereof and the responses thereto, if any, the record of the Hearing; and the Court having found and determined that the legal and factual bases set forth in the Motion and at the Hearing establish just cause for the relief granted herein; and that the relief requested in the Motion is in the best interests of the Debtors, their estates, and creditors; and upon all of the proceedings had before the Court; and after due deliberation and sufficient cause appearing therefor;



IT IS HEREBY FOUND THAT:

- A. The form of the ballot (the “Ballot”) for Class 3 (General Unsecured Claims) (the “Voting Class”) annexed hereto as Exhibit A is hereby approved.
- B. Ballots need not be provided to the holders of claims in Class 1 (Priority Non-Tax Claims) and Class 2 (Secured Claims) because the Plan provides that such classes are unimpaired and, therefore, deemed to accept the Plan.
- C. Ballots need not be provided to the holders of claims and interests in Class 4 (Equity Interests) and Class 5 (Intercompany Claims) because the Plan provides that they will not receive or retain any property under the Plan in respect of such claims or interests and, therefore, are deemed to reject the Plan.
- D. The Voting Deadline as defined below and set forth in the Motion, during which the Debtors may solicit acceptances to the Plan is a reasonable and adequate period of time for creditors to make an informed decision to accept or reject the Plan.
- E. The procedures for the solicitation and tabulation of votes to accept or reject the Plan (as more fully set forth in the Motion and below) provide for a fair and equitable voting process and are consistent with section 1126 of the Bankruptcy Code.
- F. The notice substantially in the form annexed hereto as Exhibit “D” (the “Confirmation Hearing Notice”) and the procedures set forth below for providing such notice to all voting creditors and equity security holders of the time, date, and place of the hearing to consider confirmation of the Plan (the “Confirmation Hearing”) and the contents of the Solicitation Packages (as defined below) comply with Rules 2002 and 3017 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and constitute sufficient notice to all interested parties.

NOW, THEREFORE, IT IS:

ORDERED that the Motion is GRANTED; and it is further

ORDERED that the Disclosure Statement is APPROVED; and it is further

ORDERED that November 10, 2011 is established as the record date (the "Voting Record Date") for purposes of this Order and determining which creditors are entitled to vote on the Plan, provided, however, that for purposes of the Voting Record Date, no transfer of claims pursuant to Bankruptcy Rule 3001 shall be recognized unless (i) documentation evidencing such transfer was filed with the Court on or before twenty-one (21) days prior to the Voting Record Date, and (ii) no timely objection with respect to such transfer was filed by the transferee; and it is further

ORDERED that on or before November 16, 2011 (the "Solicitation Date") the Debtors are directed to distribute or cause to be distributed solicitation packages (the "Solicitation Packages") containing a copy of (A) the Confirmation Hearing Notice and a Ballot together with a pre-addressed return envelope or (B) a Notice of Non-Voting Status (as defined below), as applicable, by the Solicitation Date, to (a) all persons or entities identified in the Debtors' schedules of liabilities filed pursuant to section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, and all amendments and modifications thereto through and including the Record Date, (the "Schedules") as holding liquidated, noncontingent, and undisputed claims, in an amount greater than zero, (b) all parties having filed proofs of claims in an amount greater than zero in the Debtors' chapter 11 cases, (c) the registered holders of the Debtors' debt and equity securities as of the Record Date, and (d) any other known holders of claims against or equity interests in the Debtors as of the Record Date; provided, however, that the Debtors are not required to distribute copies of the Plan, Ballot, Confirmation Hearing Notice or Disclosure

Statement to any holder of a claim or interest in Class 1 (Priority Non-Tax Claims), Class 2 (Secured Claims), Class 4 (Equity Interests) and Class 5 (Intercompany Claims) unless such party makes a specific request in writing for the same; and it is further

ORDERED that the Solicitation Packages are not required to include copies of the Disclosure Statement or Plan, but rather the Debtors are directed to give notice of a website, [www.bordersdisclosurestatement.com](http://www.bordersdisclosurestatement.com) (the “Website”), where all holders of claims and equity interests can access copies of this Order, the Disclosure Statement and the Plan; and it is further

ORDERED that notice of such Website, as well as the manner in which a copy of the Plan and the Disclosure Statement may be obtained, will be given to all holders of claims and equity interests and other parties in interest in the Confirmation Hearing Notice, in the Ballot, and in the Notice of Non-Voting Status, as applicable; and it is further

ORDERED that the Debtors are directed to distribute, or cause to be distributed by the Solicitation Date, a copy of this Order (without the exhibits annexed hereto) and the Confirmation Hearing Notice to (i) the United States Trustee for the Southern District of New York, (ii) the attorneys for the Creditors’ Committee, (iii) the Securities and Exchange Commission, (iv) the Internal Revenue Service, and (v) all parties listed on the Debtors’ Case Management Order in these cases; and it is further

ORDERED that Solicitation Packages, which shall include a Ballot and a pre-addressed return envelope, shall be distributed to holders, as of the Voting Record Date, of claims in Class 3 (General Unsecured Claims), which class is designated under the Plan as entitled to vote to accept or reject the Plan; and it is further

ORDERED that notices of non-voting status, substantially in the forms annexed hereto as Exhibit B and Exhibit C (the “Notices of Non-Voting Status”), shall be distributed to

(i) holders, as of the Record Date, of unimpaired claims in Class 1 (Priority Non-Tax Claims) and Class 2 (Secured Claims), and (ii) all holders, as of the Record Date, of claims or interests in Class 4 (Equity Interests) and Class 5 (Intercompany Claims), as applicable, which classes are designated under the Plan as not entitled to vote to accept or reject the Plan; and it is further

ORDERED that, the Debtors do not need to serve a copy of the Disclosure Statement and the Plan on those parties receiving Notices of Non-Voting Status; and it is further

ORDERED that the Debtors are directed to distribute, or cause to be distributed by the Solicitation Date, the Confirmation Hearing Notice on all parties in the creditor matrix maintained by the Voting Agent that are not otherwise entitled to receive a Solicitation Package; and it is further

ORDERED that, with respect to any creditor who has filed duplicate claims against the same Debtor or claims that have amended or superseded previously filed claims which are classified under the Plan in the same class, the Debtors shall provide to such creditor only one Solicitation Package and one Ballot for voting a single claim in such class; and it is further

ORDERED that the Debtors are not required to distribute Solicitation Packages to creditors who have timely filed proofs of claim if the claims have already been paid in the full claimed amount; provided, however, if, and to the extent that, any such creditor would be entitled to receive a Solicitation Package for any reason other than by virtue of the fact that its claim had been scheduled by the Debtors, such creditor will be sent a Solicitation Package; and it is further

ORDERED that the Debtors are not required to distribute Solicitation Packages to a party to an executory contract who does not hold either an allowed filed or a scheduled claim or who holds a claim listed on the Schedules as contingent, unliquidated, or disputed, unless such party makes a specific request in writing for the same; and it is further

ORDERED that, with respect to addresses from which Disclosure Statement Hearing Notices were returned by the United States Postal Service as undeliverable without a forwarding address, the Debtors are excused from distributing Solicitation Packages to those entities listed at such addresses unless the Debtors are provided with accurate addresses for such entities before the Solicitation Date and failure to distribute Solicitation Packages to such entities will not constitute inadequate notice of the Confirmation Hearing or the Voting Deadline, or violation of Bankruptcy Rule 3017(d), and the Debtors are further excused from attempting to find better addresses for entities as to whom a Solicitation Package was returned by the United States Postal Service as undeliverable without a forwarding address; and it is further

ORDERED that all Ballots must be properly executed, completed, and the original thereof shall be delivered to the Debtors' Voting Agent, The Garden City Group, Inc., at either of the following addresses:

Via first class mail:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
P.O. Box 9690  
Dublin, OH 43017-4990

Via overnight courier or hand-delivery:

The Garden City Group, Inc.  
Attn: Borders Group, Inc.  
5151 Blazer Parkway, Suite A  
Dublin, OH 43017-4887

so as to be actually received no later than December 9, 2011 at 5:00 p.m. (prevailing Eastern Time) (the "Voting Deadline"). Ballots will not be accepted by facsimile transmission, email or any other electronic method; and it is further

ORDERED that, solely for purposes of voting to accept or reject the Plan and not for the purpose of the allowance of, or distribution on account of, a claim and without prejudice to the rights of the Debtors in any other context, each claim within a class of claims entitled to vote to accept or reject the Plan shall be entitled to vote the amount of such claim as set forth in the Schedules unless such holder has timely filed a proof of claim, in which event such holder would be entitled to vote the amount of such claim as set forth in such proof of claim. If a holder of a claim holds multiple claims within a class of claims entitled to vote to accept or reject the Plan, whether as set forth in the Schedules or in a proof of claim, such holder's respective amounts will be aggregated so that such holders will vote the total amount of their claims on a single ballot; provided that:

- (a) If a claim is deemed allowed under the Plan or in an order of the Court entered prior to the Voting Record Date, such claim is allowed for voting purposes in the deemed allowed amount set forth in the Plan or such order;
- (b) If a claim for which a proof of claim has been timely filed is, by its terms, contingent or unliquidated, the Debtors propose that such claim be temporarily allowed for voting purposes only, and not for purposes of allowance or distribution, at \$1.00;
- (c) If a claim for which a proof of claim has been timely filed is, by its terms, partially liquidated, such liquidated amount of such claim is temporarily allowed for voting purposes only, and not for purposes of allowance or distribution;
- (d) If a claim has been estimated or otherwise allowed for voting purposes by order of the Court, such claim is temporarily allowed in the amount so estimated or allowed by the Court for voting purposes only, and not for purposes of allowance or distribution;
- (e) If a claim is listed in the Schedules as undetermined contingent, unliquidated, or disputed, or in a zero or unknown amount, and a proof of claim was not (i) filed by the applicable bar date for the filing of proofs of claim established by the Court or (ii) deemed timely filed by an order of the Court prior to the Voting Deadline, unless the Debtors have consented in writing, the Debtors propose that such claim be disallowed for voting

purposes and for purposes of allowance and distribution pursuant to Bankruptcy Rule 3003(c); and

- (f) If the Debtors have served an objection to a claim at least twenty (20) days before the Voting Deadline, such claim is temporarily disallowed for voting purposes only and not for purposes of allowance or distribution, except to the extent and in the manner as may be set forth in such objection; and it is further

ORDERED that if any claimant seeks to challenge the allowance of its claim for voting purposes in accordance with the above procedures, such claimant is directed to serve on the Debtors and file with the Court, on or before the tenth (10<sup>th</sup>) day after the later of (i) service of the Confirmation Hearing Notice and (ii) service of notice of an objection, if any, to such claim, a motion for an order pursuant to Bankruptcy Rule 3018(a) temporarily allowing such claim in a different amount for purposes of voting to accept or reject the Plan; and it is further

ORDERED that as to any creditor filing a motion pursuant to Bankruptcy Rule 3018(a), such creditor's Ballot shall not be counted unless temporarily allowed by the Court for voting purposes after notice and a hearing, prior to or at the hearing on confirmation of the Plan; and it is further

ORDERED that if a creditor casts more than one Ballot voting the same claim(s) before the Voting Deadline, the last valid Ballot received before the Voting Deadline is deemed to reflect the voter's intent and, thus, to supersede any prior Ballots; and it is further

ORDERED that creditors must vote all of their claims within a particular class under the Plan, whether or not such claims are asserted against the same or multiple Debtors, either to accept or reject the Plan and may not split their vote(s), and thus a Ballot that partially accepts and partially rejects the Plan will counted as an acceptance of the Plan; and it is further

ORDERED that any Ballot received after the Voting Deadline shall not be counted unless the Debtors granted an extension of the Voting Deadline with respect to such Ballot; and it is further

ORDERED that each Ballot shall provide the holder of a claim in the Voting Class an option to elect to consent or to withhold consent to the releases in the Plan including, without limitation, the third-party releases, by specifically checking a box that indicates such holder's election to "opt out" of the third party releases; any such holder that submits a Ballot, but does not indicate if it consents or "opts out" of third party releases, shall be deemed to consent; and any such holder that does not submit a Ballot is deemed to "opt out" of third party releases; and it is further

ORDERED that any Ballot that is illegible or contains insufficient information to permit the identification of the claimant or interest holder shall not be counted; and it is further

ORDERED that any Ballot cast by a person or entity that does not hold a claim in a class that is entitled to vote to accept or reject the Plan shall not be counted; and it is further

ORDERED that any Ballot cast for a claim identified as unliquidated, contingent, or disputed for which no proof of claim was timely filed shall not be counted; and it is further

ORDERED that any unsigned Ballot or signed but unoriginal Ballot shall not be counted; and it is further

ORDERED that any Ballot that does not indicate either an acceptance or rejection of the Plan shall not be counted; and it is further

ORDERED that any Ballot that indicates both an acceptance and rejection of the Plan shall not be counted; and it is further



ORDERED that any Ballot transmitted to the Debtors' Voting Agent by facsimile, email or any other electronic means shall not be counted; and it is further

ORDERED that the seven (7)-day period prescribed in Local Rule 3018-1 is hereby shortened and the Plan Certification may be filed no later than December 14, 2011; and it is further

ORDERED that the Voting Agent is authorized, but not directed, to attempt to cure invalid Ballots; and it is further

ORDERED that the Confirmation Hearing Notice is APPROVED; and it is further

ORDERED that the Confirmation Hearing will be held on December 19, 2011 at 2:00 p.m. (prevailing Eastern Time); provided, however, that the Confirmation Hearing may be adjourned from time to time by the Court or the Debtors without further notice to parties other than an announcement in Court at the Confirmation Hearing or any adjourned Confirmation Hearing; and it is further

ORDERED that the Debtors shall publish the Confirmation Hearing Notice on or before November 16, 2011 in *The New York Times*; and it is further

ORDERED that the seven (7)-day period prescribed in Local Rule 3020-1 is hereby shortened and objections to confirmation of the Plan must be filed and served no later than December 14, 2011; and it is further

ORDERED that objections to confirmation of the Plan, if any, must (i) be in writing, (ii) state the name and address of the objecting party and the amount and nature of the claim or interest of such party, (iii) state with particularity the basis and nature of any objection, and (iv) be filed, together with proof of service, with the Court and served so that they are actually received no later than December 14, 2011 by each of the parties identified in paragraph

six (6) of the Confirmation Hearing Notice at the respective addresses set forth therein; and it is further

ORDERED that objections to confirmation of the Plan not timely filed and served in the manner set forth above shall not be considered and shall be overruled; and it is further

ORDERED that the Debtors are authorized to take or refrain from taking any action necessary or appropriate to implement the terms of and the relief granted in this Order without seeking further order of the Court; and it is further

ORDERED that the Debtors and the Committee are authorized to make non-substantive changes to the Disclosure Statement, Plan, Ballot, Confirmation Hearing Notice, and related documents without further order of the Court, including, without limitation, changes to correct typographical and grammatical errors and to make conforming changes among the Disclosure Statement, the Plan, and any materials in the Solicitation Package prior to their distribution; and it is further

ORDERED that the requirement under Rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York for the filing of a memorandum of law is waived.

Dated: November \_\_, 2011  
New York, New York

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UNITED STATES BANKRUPTCY JUDGE