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:	**Chapter 11**
BORDERS GROUP, INC., *et al.*,[1]	**Case No. 11-10614 (MG)**
Debtors.	**(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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Attorneys for the Official Committee of Unsecured Creditors

~~October 3,~~November 2, 2011

[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: Borders Group, Inc. (4588); Borders International Services, Inc. (5075); Borders, Inc. (4285); Borders Direct, LLC (0084); Borders Properties, Inc. (7978); Borders Online, Inc. (8425); Borders Online, LLC (8996); and BGP (UK) Limited.

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1	Index of Defined Terms

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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 ~~NECESSARILY~~ 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. A PACER password is required to access case information, which can be obtained at 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.

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 ~~19,~~20, 2011, at ~~2~~10:00 ~~p~~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,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
65 Livingston Avenue
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~~Causes of ~~action~~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~~Distribution of the remaining assets of the Liquidating Trust. The Holders of Intercompany Claims and Equity Interests shall not receive any ~~distributions~~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 ~~based on the Bankruptcy Code~~. 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.[2]

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~~Cash, of the allowed amount of such ~~claim~~Claim (or as otherwise agreed).	No.	N/A[3]	100%
Not classified	Priority Tax Claims	Unimpaired; payment in full, in ~~cash~~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~~Cash, of the allowed amount of such ~~claim~~Claim (or as otherwise agreed).	No.	$~~[________]~~0.3 to $~~[________]~~0.4 million	100%
2	Secured Claims	Unimpaired; payment in full, in ~~cash~~Cash, of the allowed amount of such ~~claim~~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~~Pro Rata Share of ~~[_______]~~proceeds remaining after payment of administrative, priority and secured claims.	Yes.	$~~[________]~~812.0 to $~~[________]~~850.0 million[4]	~~[_____]~~4% to 10%
4	Equity Interests	Impaired; shall receive no ~~distribution~~Distribution	No.	N/A	0%
5	Intercompany Claims	Impaired; shall receive no ~~distribution~~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

[2] 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~~Claims and recoveries.

[3] 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.

[4] Estimated recovery excludes any proceeds from Avoidance Actions and the costs of pursuing such actions.

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,[45] 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.

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.[56] No dividends were paid to holders of BGI common stock in 2010 or in the period from January 1, 2011 to the Petition Date.

[45] 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.

[56] *See* Form 10-K for the fiscal year ended January 29, 2011, filed with the SEC on April 29, 2011.

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 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. ~~Lowenstein Sandler PC represented a number of substantial unsecured creditors prior to the Petition Date.~~

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. ~~On September 26,~~By order dated October 11, 2011, the ~~Debtors filed an application to~~Bankruptcy Court set November 21, 2011, at 5:00 p.m. (prevailing Eastern Time) as the deadline for all ~~Holders~~holders of Administrative ~~Expense Claims to file Administrative Expense Claims in these cases~~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 ~~has~~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.

~~M. Estimated Value of Debtors' Assets~~

~~After receiving input from their advisors, including counsel, Jefferies, DJM Realty Services, LLC and Streambank, LLC, the Debtors have performed a preliminary analysis of the value of the Debtors' assets. This analysis assumes certain results from the sale of the Debtors' leases and intellectual property assets. In addition, the Debtors have estimated the value of their remaining assets, including possible litigation claims. The Debtors' assets include cash, the Kobo Stock, causes of action (including avoidance actions), certain intellectual property assets and certain notes.~~

~~The Debtors estimate that the range of value of the Debtors' assets is $[________] million to $[__________] million.[6] The valuation is for informational purposes only and relates only to the value of the Debtors' assets as of [____________] 2011 and does not apply to any other period. The valuation is only an estimate of the range of values for the Debtors' assets and is not a guarantee that (1) any particular value within the valuation range ultimately will be realized or (2) a value that is higher or lower than the valuation range will not be realized.~~

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[6] ~~Due to ongoing sales efforts at the time this proposed Disclosure Statement was filed for approval, the Debtors have not yet filled in this figure. The Debtors will file a modified Disclosure Statement prior to the hearing to approve the Disclosure Statement in which this figure is filled in.~~

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~~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~~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 ~~would~~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~~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~~Confirmation and ~~distribution~~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 ~~the Holders~~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 ~~Bankruptcy Court~~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~~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~~, and calculating post-confirmation quarterly fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930.~~. 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 ~~Debtors~~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~~, or (c) sold~~.

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, ~~those~~remaining transactions and sales of property, if any~~, set forth in the Plan Supplement~~.

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~~Causes of ~~action~~Action upon ~~their~~the assignment and ~~Transfer~~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

~~As of~~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~~, the Plan Supplement~~ and ~~all of the~~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~~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~~, 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 ~~thereof~~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 or any of their' 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 (ia) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (iib) 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 (iiic) 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 actionsaction specifically enumerated in the Plan Supplementany 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, the Plan Supplement, 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; and (iii) Creditors to avoid and recover Avoidance Actions. 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 ~~of~~ 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 PLAN SUPPLEMENT,~~ 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 ~~the~~ 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 PENALITIES 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 ~~Debtors~~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 ~~Debtors~~Proponents make a material change to the terms of the Plan or~~ if the Debtors~~ 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 ~~19,~~20, 2011 at ~~2~~10:00 ~~p~~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 older 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 ~~Debtors~~Proponents have concluded that the Plan provides greater potential recoveries for Creditors than any feasible alternative.

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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: ~~October 3,~~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.

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Holly Felder Etlin

BORDERS ONLINE, LLC

By: /s/ Holly Felder Etlin
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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