IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	**§**	**Chapter 11**
	§	
THE PENN TRAFFIC COMPANY, *ET AL.*[1]	**§**	**Case No. 09-14078 (PJW)**
	§	
Debtors.	**§**	**Joint Administration Requested**

STATEMENT OF BACKGROUND INFORMATION AND DECLARATION OF RONALD F. STENGEL IN SUPPORT OF FIRST DAY RELIEF

Ronald F. Stengel, hereby declares under penalty of perjury as follows:

1. I am the Chief Restructuring Officer of The Penn Traffic Company, Sunrise Properties, Inc., Pennway Express, Inc., Penny Curtiss Baking Company, Inc., Big M Supermarkets, Inc., Commander Foods Inc., P and C Food Markets Inc. of Vermont, P.T. Development, LLC, and P.T. Fayetteville/Utica, LLC (collectively, "Penn Traffic" or the "Debtors"). I am authorized to submit this statement of background information and declaration (the "Declaration") in support of the petitions for relief filed by the Debtors.

2. I submit this Declaration in support of the Debtors' petitions and various contemporaneously filed requests for relief in the form of motions and applications (the "First-Day Pleadings"), as well as to assist the Court and other interested parties in understanding the circumstances that compelled these chapter 11 cases.

3. Except as otherwise indicated, the facts set forth in the Declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by employees working under my supervision, or my opinion based upon experience, knowledge,

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's tax identification number, are: The Penn Traffic Company (6800), Sunrise Properties, Inc. (4868), Pennway Express, Inc. (0863), Penny Curtiss Baking Company, Inc. (6750), Big M Supermarkets, Inc. (8022), Commander Foods Inc. (8023), P and C Food Markets Inc. of Vermont (5531), P.T. Development, LLC (8594), and P.T. Fayetteville/Utica, LLC (8582). The mailing address for all Debtors is: P.O. Box 4737, Syracuse, NY 13221-4737.

and information concerning the operations of the Debtors and their industry. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

I. Information Concerning the Debtors' Business and Statement of the Circumstances Leading to the Debtors' Chapter 11 Cases

A. General Background

4. On this day (the "Petition Date"), the Debtors commenced with this Court voluntary cases under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtors are authorized to operate its businesses and manage its properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

5. Penn Traffic intends to file several motions on or promptly after the Petition Date (collectively, the "First Day Motions"). This statement is submitted as general background in connection with the First Day Motions. Through the use of this general background statement, Penn Traffic intends to avoid a detailed recitation of similar information in each of the First Day Motions.

B. The Debtors' Business

(1) Penn Traffic's Operations

6. Penn Traffic, a publicly-traded Delaware corporation, is one of the leading food retailers in the Northeastern United States, with annual revenues of approximately $872 million. Penn Traffic operates approximately 79 supermarkets located throughout upstate New York, Pennsylvania, Vermont and New Hampshire operating under the "Bi-Lo," "P&C," and "Quality" trade names. In addition to its retail operations, Penn Traffic provides transportation, warehousing, distribution, and retail support services for a certain portion of a wholesale grocery distribution business owned by C&S Wholesale Grocers, Inc. ("C&S"). Penn Traffic's corporate offices are located at 1200 State Fair Blvd, Syracuse, New York 13221.

7. Each of the Debtors serves a different function in the Debtors' present overall business structure, or is the corporate shell of discontinued operations. Sunrise Properties, Inc. is a Pennsylvania corporation that owns and leases real property, primarily in connection with the Debtors' supermarket operations. Pennway Express, Inc. is a Pennsylvania corporation that operates a trucking and freight business serving the Debtors' supermarket operations and third-party customers. Penny Curtiss Baking Company, Inc. is a New York corporation that formerly operated the Debtors' commercial bakery business but presently is an inactive corporation. Big M Supermarkets, Inc., a New York corporation, was a franchisor, wholesaler and service provider for various independent retail grocers, but is now an inactive corporation. Commander Foods Inc. is a New York corporation that formerly was involved in the Debtors' private label business but presently is an inactive corporation. P and C Food Markets Inc. of Vermont is a Vermont corporation that holds certain Vermont state licenses. P.T. Development, LLC is a New York limited liability company that holds a 1% interest in P.T. Fayetteville/Utica, LLC. P.T. Fayetteville/Utica, LLC is a the New York limited liability company that owns the real and personal property for a supermarket in Fayetteville, New York.

8. Penn Traffic's retail food business dates back to 1854. Through a series of acquisitions and mergers, Penn Traffic, and its debtor subsidiaries (collectively, the "Debtors"), have grown to become a leader in the Northeastern United States retail food industry.

9. Penn Traffic maintains its corporate offices at 1200 State Fair Blvd, Syracuse, New York 13221.

10. The Debtors employ approximately 5,700 persons in their grocery stores, distributions centers, trucking services, and corporate offices. Approximately 5,300 employees are hourly workers while approximately 450 employees are salaried. Of its 5,700 employees,

approximately eighty-seven percent (87%) of the employees belong to a union. Ninety-three percent of unionized employees belong to locals of the United Food and Commercial Workers union ("UFCW"), while seven percent belong to local units of the International Brotherhood of Teamsters union ("Teamsters"). The Debtors are party to fourteen collective bargaining agreements with locals of the UFCW and Teamsters. Approximately 12.7% of the Debtors' employees are not members of a collective bargaining unit. I believe that the Debtors' relations with their employees and their unions are generally good.

11. The Debtors' supermarkets offer a broad selection of grocery, meat, poultry, seafood, dairy, fresh produce, delicatessen, bakery, and frozen food products. The stores also offer non-food products and services such as heath and beauty care products, housewares, general merchandise, and pharmacy and floral items. The retail store sizes and formats vary depending on the demographic conditions in each location. Conventional, smaller store formats serve lower density populations, while full-service supermarkets of up to 75,000 square feet serve larger populations.

(2) Previous Chapter 11 Cases

12. Penn Traffic has undergone two reorganizations under chapter 11 in the last ten (10) years. The first bankruptcy was initiated in March 1999. The bankruptcy was a pre-negotiated financial restructuring of the Debtors which was commenced in the United States Bankruptcy Court for the District of Delaware. Penn Traffic emerged from bankruptcy in June 1999.

13. The second bankruptcy was commenced in the Southern District of New York in May 2003. During the second bankruptcy case, the Debtors reorganized their business operations and implemented cost reduction and cost containment initiatives, including the

cessation of the retail grocery business in Ohio and West Virginia under the Big Bear name, disposing non-core real estates properties, consolidating and closing certain warehouses and unprofitable stores, and the rejection of certain executory contracts and unexpired leases. Upon emergence from chapter 11 protection, the Debtors incurred a new debt facility for the principal amount of $164,000,000, which consisted of an exit financing facility term loan of $6,000,000, a revolver of $130,000,000 and a supplemental real estate facility of $28,000,000. In addition, the Debtors sold its five owned distribution centers located in New York and Pennsylvania to Equity Industrial Partners Corp. for $37,000,000 and entered into a fifteen (15) year lease with the purchaser. In April 2005, the Debtors emerged from chapter 11 protection.

(3) Strategic Initiatives and Asset Sale to C&S

14. Between July 2006 and May 2007, the Debtors took a number of steps to streamline their business and address legacy issues unresolved in their prior restructurings. In January 2008, the Debtors exited the unprofitable Penny Curtiss commercial bakery business. The Debtors implemented the outsourcing of its warehouse inventory purchases to C&S, which has reduced procurement costs and enhanced the Debtors' flexibility to product access.

15. In May 2008, Penn Traffic engaged an outside consulting firm to assist in re-engineering certain processes in the finance and operational accounting departments, which led to improved efficiencies through the introduction of technology and cost savings from a rightsizing of personnel. Cost savings and other opportunities for financial performance improvement were implemented throughout the organization.

16. In October 2008, the Debtors entered into an expanded procurement agreement with C&S. Pursuant to the agreement, C&S procures the Debtors' requirements for grocery, bakery, produce, candy, spices, store supplies, deli, seafood, dairy, floral, frozen (mainline),

frozen bakery, ice cream, fresh and frozen meat, frozen seafood, ice, and certain other merchandise, subject to certain limited exceptions. Under the procurement agreement, the Debtors retain responsibility for the warehousing, transportation and distribution of product from its Syracuse, New York and DuBois, Pennsylvania warehouse facilities to its retail stores and independent customer locations. The term of the expanded procurement agreement is from October 2008 to October 2016, with options for renewal.

17. In December 2008, the Debtors and their wholly-owned subsidiary, Big M Supermarkets, Inc. ("Big M"), entered into an Asset Purchase Agreement (the "C&S Asset Purchase Agreement") with C&S pursuant to which C&S purchased substantially all of the assets owned by the Debtors and Big M relating to their wholesale grocery business (subject to certain exceptions). The C&S Asset Purchase Agreement was consummated for a purchase price of approximately $43 million.

18. As part of the asset sale transaction, the Debtors and C&S entered into a third party logistics agreement pursuant to which the Debtors continue to handle all transportation, warehousing and distribution services to the Debtors' former wholesale accounts for the benefit of C&S. The Debtors and C&S also entered into a transition services agreement whereby the Debtors provide various support services to the wholesale accounts during a transition period.

(4) Shareholder Information

19. After emerging from its second bankruptcy in April 2005, the Debtors issued 8,279,800 shares of common stock to satisfy senior note claims, trade claims and other unsecured claims identified in the second bankruptcy. In December 2007, the Debtors issued 10,000 shares of $.01 par value Series A Convertible Preferred Stock to entities affiliated with certain principal common shareholders for an aggregate purchase price of $10 million. The

Series A Convertible Preferred Stock shares are convertible into shares of the Debtors' common stock after certain date and dividend requirements. As of the Petition Date, no shares have been converted to common stock.

20. In December 2006, the Debtors established the 2006 Omnibus Award Plan, in which the Debtors can grant stock options, restricted stock, phantom stock and stock appreciation rights. The number of shares of common stock that can be granted is limited to 902,268 in the aggregate.

21. As of May 4, 2009, the Debtors' largest shareholders beneficially owning 5% or more of any class of voting securities are as follows (each shareholder's respective approximate percentage equity ownership by voting power is noted): Bay Harbour Management, L.L.C. (23.7%); Pension Benefit Guaranty Corporation, held by JP Morgan Investment Management, Inc. as agent (21.7%); King Street Capital Management, L.P. (15.6%); Southpost Partners, L.P. (.8%).

(5) Financial Structure

22. The Debtors are borrowers and guarantors under two different secured credit facilities and, as of the Petition Date, have total outstanding secured debt in the approximate principal sum of $63.2 million, plus accrued interest thereon. First, The Penn Traffic Company, Penny Curtiss Banking Company, Inc. and Big M Supermarkets, Inc., as borrowers (the "Borrowers"), and Sunrise Properties, Inc., Pennway Express, Inc., Commander Foods Inc., P and C Food Markets Inc. of Vermont, P.T. Development LLC and P.T. Fayetteville/Utica, LLC, as guarantors (the "Guarantors"), are party to that certain Credit Agreement, dated as of April 13, 2005 (as amended from time to time, and together with all related loan and security documents, including, without limitation, any guarantees given by the Guarantors, the "Prepetition Senior

Credit Facility"), with General Electric Capital Corporation, as agent (the "Prepetition Senior Agent") and as lender along with the other lenders which are signatories to the Prepetition Senior Credit Facility (the "Prepetition Senior Lenders"). The Prepetition Senior Credit Facility provided the Borrowers with, inter alia, revolving and term credit facilities in an amount not to exceed $136,000,000.

23. As of the Petition Date, the outstanding principal amount owed by the Borrowers to the Prepetition Senior Lenders under the Prepetition Senior Credit Facility was $41,847,395 plus accrued interest, costs and fees. This is comprised of $35,847,395 million under the revolver facility used to back-stop letters of credit and a $6 million term loan. Substantially all of the outstanding indebtedness constitutes letters of credit issued under the Credit Agreement, primarily to support certain of the Debtors' insurance obligations.

24. As collateral security for all of the obligations under the Prepetition Senior Credit Facility, the Prepetition Senior Agent was granted (i) a first priority security interest in and lien upon substantially all of its existing and after-acquired personal property and fee owned interest in real property and (ii) a security interest in and lien upon a substantial portion of its existing and after-acquired leasehold interests in real property which is second in priority only to the security interest in and lien upon such leaseholds granted to the Supplemental Real Estate Facility Agent to secure the obligations under the Supplemental Real Estate Facility.

25. Second, the Borrowers and Guarantors are party to that certain Supplemental Real Estate Credit Facility, dated April 13, 2005 (as amended from time to time, and together with all related loan and security documents, including, without limitation, any guarantees given by the Guarantors, the "Supplemental Real Estate Credit Facility," and together with the Prepetition Senior Credit Facility, the "Prepetition Credit Facilities"), with Kimco Capital Corp., as agent

(the "Supplemental Real Estate Facility Agent," and together with the Prepetition Senior Agent, the "Prepetition Agents") and as lender along with the other lenders which are signatories to the Supplemental Real Estate Credit Facility (the "Supplemental Real Estate Credit Facility Lenders," and together with the Prepetition Senior Lenders, the "Prepetition Lenders"). The Supplemental Real Estate Credit Facility provided the Borrowers with a supplemental real estate credit facility in an amount not to exceed $28,000,000. As of the Petition Date, the outstanding principal amount owed by Borrowers to the Supplemental Real Estate Credit Facility Lenders under the Supplemental Real Estate Credit Facility was $10,000,000 plus accrued interest, costs and fees.

26. As collateral security for all of the obligations under the Supplemental Real Estate Credit Facility, the Supplemental Real Estate Facility Agent was granted (i) a first priority security interest in and lien upon a substantial portion of its existing and after-acquired leasehold interests in real property (including Assigned Lease Proceeds)[2] and (ii) a security interest and lien upon all or substantially all of its existing and after-acquired personal property and fee owned interests in real property which is second in priority only to the security interest in and lien upon such interests granted to the Prepetition Senior Agent to secure the obligations under the Prepetition Senior Credit Facility.

27. The respective rights, obligations and priorities of the Prepetition Senior Lender and the Supplemental Real Estate Credit Facility Lenders with respect to their interests in the collateral securing the obligations owed to them are governed by that certain Intercreditor

[2] Assigned Lease Proceeds shall mean the proceeds of any assignment, sale, lease or sublease or any other conveyance or transfer of any of the Leases. For the avoidance of doubt, "Assigned Lease Proceeds" specifically includes any proceeds from any future assignment, sale, lease or sublease or any other conveyance or transfer of any such Leases whether assigned, sold, leased or subleased individually or as a package with other assets, whether assigned, sold lease or subleased as part of a merger or consolidation or "going concern" sale of Borrowers or any of Borrowers' assets, and whether assigned, sold, leased or subleased or otherwise conveyed or transferred pursuant to section 363 or 365 of the Bankruptcy Code or otherwise in any future or subsequent bankruptcy filing by the Borrowers under chapter 7 or 11 of the Bankruptcy Code and in any bankruptcy court.

Agreement, dated as of April 13, 2005, among the Prepetition Agents and Wayne R. Walker as collateral trustee and that certain Intercreditor and Subordination Agreement dated April 13, 2005 among the Prepetition Agents.

(6) Intellectual Property

28. Penn Traffic owns a number of the trademarks, service marks, and copyright registrations used in its business, including United States and foreign trademark registrations. The Debtors' federal trademarks include: Appletree Supermarkets, Bakery Fresh Now That's Fresh! (and design), Big Bear, Big Bear Plus, Big Smiles. Fresh Food. Low Prices., Garden Fresh Produce Now, That's Fresh! (and design), Give Em a Bear Hug, Gloucester Pier, P&C (and designs), P&C Foods (and design), Perfect Choice, and That's My Bear. The Debtors also maintain certain trademarks and service marks under state law.

C. Circumstances Leading to the Debtor's Chapter 11 Case

(1) Global Economic Downturn

29. The Debtors' business has been hurt by the impact of the national economic downturn on their geographic footprint – Northern and Central Pennsylvania, Northern and Central New York, New Hampshire and Vermont – and their core customers in these areas. Sales, revenues and gross profit all have decreased in Fiscal Year 2010[3] compared to Fiscal Year 2009 even though cost control efforts and store closings have enabled the Debtors to slash overhead costs by $6.2 million in the last year. Moreover, the Debtors' net loss for Fiscal Year 2009 was $18.3 million, 2.2% of revenue, as compared to a Fiscal Year 2008 net loss of $41.7 million, 4.7% of revenue. Nevertheless, despite the cost reductions and operational efficiencies implemented through 2008, the Debtors have continued to be adversely affected by higher

[3] The Company's current fiscal year is FY 2010, which began February 1, 2009 and ends January 30, 2010.

operational costs than most of its retail grocery competitors, including its labor costs, and a decline in both the number of customers and the number of items purchased per customer.

30. In addition, the Credit Facility's maturity date is April 13, 2010. As that date approaches, the Prepetition Senior Agent and Lenders have been increasingly focused on current liquidation value of their collateral, which has resulted in the Prepetition Senior Agent and Lenders taking significant steps over the past several months that have seriously have restricted the Debtors' liquidity. In addition, the current lending climate indicates that the Debtors' ability to refinance or satisfy its remaining outstanding obligations under the Credit Facility likely will be problematic unless the credit markets improve quickly and significantly. As a result, while the Debtors have explored the prospects of refinancing the secured debt or obtaining additional capital or equity in sufficient amounts, the Debtors have been unable to attract substantial interest from new lenders and from private or public debt or equity sources.

(2) Recent Litigation and Investigations

31. In 2005 while the Debtors were emerging from its second bankruptcy case, the United States Attorney Office for the Northern District of New York (the "USAO") and the Securities and Exchange Commission ("SEC") initiated an expanded phase of investigations relating to certain of the Debtors' accounting practices and policies prior to the Debtors' emergence from bankruptcy in April 2005. In September 2007, the SEC filed formal charges of civil fraud against the Debtors' former Chief Marketing Officer and former Vice President, Non-Perishables Marketing, alleging they had engaged in fraudulent activity from approximately 2001 through 2003. The officers subject to the SEC charges were terminated by the Debtors in February 2006. In addition, the USAO pursued a criminal indictment against the above-mentioned individuals on related criminal charges.

32. On September 30, 2008, the Debtors reached a settlement with the SEC with respect to its ongoing investigation into the Debtors' role in the conduct. Without admitting or denying the allegations in the SEC's complaint, the Debtors agreed to settle the charges by consenting to a permanent injunction against any future violations of the federal securities laws. The SEC imposed no fines or monetary penalties on the Debtors. As part of the settlement, the Debtors hired an independent examiner to serve for three years and who provides annual reports to the SEC, the USAO and the Debtors' board on, among other things, the Debtors' promotional-allowance internal controls and financial reporting.

33. In October 2008, the Debtors entered into a non-prosecution agreement with the USAO. Under the agreement, the USAO has agreed not to prosecute the Debtors for any crimes committed by its employees between 2001 and 2004 relating to the matters that were the subject of the USAO's previously announced investigation of, among other things, the Debtors' accounting policies, practices and related conduct. The USAO's obligations under the agreement are subject to a number of conditions, including the Debtors':

- acceptance of responsibility for the conduct of its employees between 2001 and 2004;
- adoption of the remedial measures required under, and compliance with the terms of, the previously announced settlement of the SEC's investigation of the Debtors, including its compliance with specified federal securities laws; and
- provision of full cooperation to the USAO and Federal Bureau of Investigation with respect to their ongoing investigations through the conclusion of any and all related criminal trials.

34. In August 2009, the former officers of the Debtors entered guilty pleas in the criminal matters brought against them. Their sentencing is scheduled for January 2010.

35. Throughout these investigations, the Debtors have incurred significant legal and increased audit costs and may continue to do so.

36. Accordingly, while these issues are now almost entirely behind the Debtors, the effects of the significant legal and auditing costs continue to date. These substantial non-operational costs exacerbated the Debtors' already problematic liquidity and diverted capital resources away from the retail grocery business of the Debtors.

(3) Additional Factors Contributing to Penn Traffic's Financial Difficulties

37. In addition to the problems described above, the very nature of the food retailing business is highly competitive, generally characterized by narrow profit margins, and subject to the effects of general economic conditions and trends. The number of competitors and the degree of competition encountered by the Debtors' stores vary by location. Increasingly over the last few years, competition for consumers' food dollars has intensified due to the addition of and increases in food offerings by many types of retailers, including specialty grocers, drug and convenience stores, gas stations, national general merchandisers and discount retailers, warehouse stores, and super centers. The Debtors compete with several multi-regional, regional and local supermarket chains, convenience stores, stores owned and operated and otherwise affiliated with large food wholesalers, unaffiliated independent food stores, warehouse clubs, discount drug store chains, discount general merchandise chains, "supercenters" (combination supermarket and general merchandise stores), and other retailers. Moreover, the dramatic increase in unemployment rates within the communities where the Debtors operate, has had a negative effect on the Debtors' businesses.

38. On October 30, 2009, the Debtors were notified by the Prepetition Senior Agent that, because of alleged issues respecting the Debtors' borrowing base, it was declaring an event of default under the Credit Agreement. This resulted in an immediate reduction in cash availability, which further distressed the Debtors' finances. In addition, as a result of the alleged

default, the Debtors' principal cash management bank required the Debtors to fund all of its ACH transactions in advance, which resulted in an even greater strain on the Debtors' cash flow.

D. Turnaround Initiatives

39. As a result of its increasingly problematic financial and liquidity positions, in early November 2009, Penn Traffic engaged Conway Del Genio Gries & Co., LLC ("CDG") to advise Penn Traffic regarding restructuring alternatives. CDG advised the Debtors that, as a result of various contributing factors including continued operating losses, the lease expenses of inoperative stores, falling same-store sales, reduction of the Debtors' borrowing base of collateral, and sizeable one-time expenses, the Debtors did not have sufficient time to benefit from its cost savings and pricing initiatives before facing a substantial liquidity shortfall.

40. On November 3, 2009, the Debtors entered into a forbearance agreement with the Prepetition Senior Agent and certain lenders (the "Prepetition Senior Credit Facility Forbearance Agreement") by which the Prepetition Senior Lenders agreed to forbear from exercising any rights or remedies under the Prepetition Senior Credit Facility arising out of the event of default created by the alleged overstatements of collateral value until the earlier of (i) November 25, 2009, (ii) any breach or default other than the events of default specified under the Prepetition Senior Credit Facility, or (iii) the taking of any action by the lenders under the Supplemental Real Estate Credit Facility against the collateral under the Prepetition Senior Credit Facility. Under the Prepetition Senior Credit Facility Forbearance Agreement, the Lenders have agreed to make certain amounts of the cash collateral used to collateralize the Lenders' letter of credit obligations available to the Borrowers during the forbearance period. As of the Petition Date, the Prepetition Senior Agent is holding cash collateral of approximately $19 million.

41. As a result of the event of default under the Prepetition Senior Credit Facility, the agent for the Supplemental Real Estate Facility also declared an event of default under that facility. On November 12, 2009, the Borrowers entered into a forbearance agreement with the Supplemental Real Estate Facility Agent and the Supplemental Real Estate Facility Lenders (the "Real Estate Facility Forbearance Agreement") by which the lenders agreed to forbear from exercising any of their rights or remedies under the Supplemental Real Estate Facility and related agreements arising solely out of the events of default specified in the Supplemental Real Estate Facility, until the earlier of: (i) November 25, 2009, (ii) any breach or default by any Borrower, other than the event of default identified in the Prepetition Senior Agent's letter of October 30, 2009, under the Supplemental Real Estate Credit Facility, the Real Estate Facility Forbearance Agreement, or the Senior Lender Forbearance Agreement, or (iii) the taking of any action by the lenders under the senior revolving credit agreement against the collateral thereunder.

E. Penn Traffic's Objectives in Chapter 11

42. The two events of default and increasingly constricted liquidity has resulted in the Debtors' immediate need for sufficient liquidity to fund ongoing operations including inventory purchases (including those necessary for the critically important sales over the Thanksgiving holiday), as well as regular payroll to approximately 5,700 employees and other operating expenses critical to maintaining the Debtors as going concerns.

43. The Debtors have sought and explored their options in obtaining replacement or additional financing, as well as alternative sources of capital or equity, and no source of liquidity is available other than agreed use of cash collateral offered to the Debtors by the Prepetition Senior Agent and the Lenders. On a daily basis, the consensual use of cash collateral arrangement for which relief is being requested, on an emergency and final basis, will provide

the Debtors with access to a portion of the $19 million cash collateral being held by the Prepetition Senior Agent, as cash collateral to secure letters of credit issued by the Lenders. The negotiated cash collateral arrangement, which will enable the Debtors to fund budgeted expenses (including payroll and inventory purchases) is conditioned on the Debtors filing the chapter 11 petitions on the Petition Date and immediately pursuing the sale of their businesses and assets through a sale process overseen by the Bankruptcy Court pursuant to Bankruptcy Code section 363.

44. Accordingly, integral to their continuing efforts to market the Debtors and their assets through a section 363 sale process, the Debtors are immediately requesting emergency and final approval to use up to $2,000,000 of cash collateral on an interim basis and the balance to be available pursuant to a final cash collateral order. The Debtors intend to continue operating their businesses while pursuing efforts to finalize a definitive agreement or agreements for the sale of all or a party of the Debtors and their assets, or portions of the business and assets, either as a going concern or in liquidation. In the weeks ahead, the Debtors will utilize the section 363 process and other rights and protections provided by the Bankruptcy Code to accomplish these paramount efforts.

45. The Prepetition Lenders' agreement to let the Debtors use cash collateral is expressly conditioned on the Debtors engaging in an expedited section 363 sale process. The Debtors expect that the prompt sale of their businesses and assets through the section 363 process will maximize the value of their estates by allowing the assets to be sold to going concern and/or liquidation buyers and in a variety of asset groups. The only alternative to the consensual cash collateral / section 363 sale arrangement with the Prepetition Senior Agent and the Lenders would be the immediate cessation of all business, closing all 79 retail stores and 4

warehouse facilities, terminating the employment of approximately 5,700 workers and immediately disposing of all remaining inventory and the Debtors' other assets. Accordingly, the Debtors submit that the sale process proposed in their first-day pleadings, financed through an agreement on the use of cash collateral with the Prepetition Lenders, is the only viable option for the Debtors to pursue to preserve and optimize the value of their estates and assets for the benefit, and in the best interests, of all creditors.

II. First Day Pleadings

46. The Debtors intend to file several First Day Pleadings. Approval of each of the First Day Pleadings is important and, in some cases, critical element in the Debtors' successful bankruptcy. I have reviewed each of the First Day Pleadings (including the attached exhibits) and can attest to the veracity of the facts set forth therein. Additionally, I believe that the relief sought in each First Day Pleading is necessary to enable the Debtors to operate in chapter 11 within minimal disruption to its businesses and to prevent a material loss of productivity or value. Factual information in support of the First Day Pleadings is provided below and in the applications and motions filed concurrently herewith.

A. Administrative Motions

47. The Debtors have filed several "Administrative Motions." As set forth in more detail below, its is my belief that the relief requested in these Administrative Motions is necessary for the Debtors to commence their bankruptcy cases in an orderly fashion and with the least amount of disruption to their businesses.

(1) Motion for Joint Administration

48. The Debtors have requested that the bankruptcy case of The Penn Traffic Company be jointly administered with the bankruptcy cases of Sunrise Properties, Inc., Pennway

Express, Inc., Penny Curtiss Baking Company, Inc., Big M Supermarkets, Inc., Commander Foods Inc., P and C Food Markets Inc. of Vermont, P.T. Development, LLC, and P.T. Fayetteville/Utica, LLC. The Penn Traffic Company is the direct or indirect parent of each of the other Debtors. I believe that the joint administration of these cases and other relief requested in this motion will avoid the unnecessary time and expense of duplicative pleadings and result in substantial savings for the Debtors' estates.

(2) Motion Authorizing the Debtors to File a Consolidated List of Creditors, a Consolidated List of the Debtors' Top Thirty Creditors and to Provide Notices, Including Notices of Commencement of Cases and Section 341 Meeting

49. The Debtors have filed a Motion for an Order Authorizing the Debtors to (i) File (a) a Consolidated List of Creditors and (b) Consolidated List of Debtors' Top Thirty Creditors and (ii) Provide Notices, Including Notices of Commencement of Cases and Section 341 Meeting.

50. The Debtors presently maintain various computerized lists of the names and addresses of their respective creditors that are entitled to receive the notices and other documents in these cases. The Debtors believe that the information, as maintained in computer files (or those of their agents), may be consolidated and utilized efficiently to provide interested parties with the notices and other similar documents. The Debtors also submit that a single consolidated list of their combined thirty (30) largest unsecured creditors in these cases would be more reflective of the body of unsecured creditors that have the greatest stake in these cases than separate lists for each of the Debtors.

51. With respect to the Debtors' request to (or have their agent) complete the mailings, the Debtors believe that allowing the Debtors (or their agent) to complete their own mailings will save significant time, cost and expense.

(3) Motion to Extend Deadline to File Schedules and Statements

52. As set forth in the background information above, the Debtors operate approximately 79 supermarkets in four different states. Due to the substantial size, scope and complexity of these chapter 11 cases and the volume of material that must be compiled and reviewed by the Debtors, the Debtors are requesting that the Court extend the date by which the Schedules and Statements are to be filed for 45 days beyond the time period provided in the Bankruptcy Rules and the Local Rules, such that the Statements and Schedules must be filed on the 75th day after the Petition Date. At this time, I believe that this extension will be sufficient to complete and file the Statements and Schedules. However, the motion to extend the deadline also reserves the right to seek further extensions, if such extensions prove necessary.

B. Retention of Professionals

53. The Debtors are requesting Court approval of several professionals to aid in the administration of these chapter 11 cases and to assist the Debtors in the operation of their businesses. It is my belief that the continued representation of the Debtors by each of these professionals (as set forth below) is essential to the success of the Debtors' reorganization efforts. In addition, the Debtors have taken steps to coordinate the efforts of the various professionals to minimize and avoid any duplication of efforts by such professionals.

(1) Haynes and Boone, LLP

54. The Debtors have filed an Application for an Order to Approve the Employment of Haynes and Boone, LLP ("Haynes and Boone") as Attorneys for the Debtors (the "Haynes and Boone Employment Application"). The Debtors engaged Haynes and Boone to provide advice concerning financial restructuring and pre-bankruptcy planning. Haynes and Boone has expended significant resources over the past few weeks working with the Debtors to prepare for

the possibility that these cases might be filed. I am aware that, through this process, Haynes and Boone has become extremely familiar with the Debtors' business operations and financial affairs and many of the legal issues that will likely arise in the context of these chapter 11 cases. It is my belief that if the Debtors are forced to retain counsel other than Haynes and Boone, the Debtors would incur additional expenses and delays associated with the intricacies of the Debtors' financial affairs and businesses.

55. I am aware that Haynes and Boone is a full-service law firm and has extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code. It is my belief that Haynes and Boone is well suited to assist in guiding the Debtors through the chapter 11 process.

56. To the best of my knowledge, information, and belief, and as set forth in more detail in the Haynes and Boone Employment Application and the supporting declaration of Michael E. Foreman, Haynes and Boone is a "disinterested person" within the meaning of section 101(14) of the Bankruptcy Code. Furthermore, it is my belief that the compensation plan set forth in the Application is appropriate and is necessary to retain Haynes and Boone.

(2) Morris, Nichols, Arsht & Tunnell LLP

57. The Debtors have filed an Application for Entry of an Order Authorizing Retention and Employment of Morris, Nichols, Arsht & Tunnell LLP ("Morris, Nichols") as Delaware Co-Counsel to the Debtors (the "Morris Nichols Employment Application"). The Debtors engaged Morris Nichols to act as Delaware co-counsel and to provide advice concerning local filing practices and procedures. Morris Nichols has expended significant resources over the past few weeks working with Haynes and Boone and the Debtors to prepare for the possibility that these cases might be filed. I am aware that, through this process, Morris Nichols has

become extremely familiar with the Debtors' business operations and financial affairs and many of the legal issues that will likely arise in the context of these chapter 11 cases. It is my belief that if the Debtors are forced to retain counsel other than Morris Nichols, the Debtors would incur additional expenses and delays associated with the intricacies of the Debtors' financial affairs and businesses.

58. I am aware that Morris Nichols is a full-service law firm and has extensive experience and knowledge in the field of debtors' and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code. It is my belief that Morris Nichols is well suited to assist in guiding the Debtors through the chapter 11 process.

59. To the best of my knowledge, information, and belief, and as set forth in more detail in the Morris Nichols Employment Application and the supporting declaration of Gregory W. Werkheiser, Morris Nichols is a "disinterested person" within the meaning of section 101(14) of the Bankruptcy Code. Furthermore, it is my belief that the compensation plan set forth in the Application is appropriate and is necessary to retain Morris Nichols.

(3) Conway, Del Genio, Greis & Co., LLC

60. The Debtors have also filed a Motion for an Order Authorizing the Employment and Retention of Conway, Del Genio, Greis & Co., LLC to Perform Restructuring Management Services for the Debtors and of Ronald F. Stengel as Chief Restructuring Officer of the Debtors (the "CDG Employment Motion"). The Debtors retained CDG to perform restructuring management services during the pendency of the Debtors' bankruptcy cases. The Debtors need sophisticated executives who will guide them through a successful resolution of their chapter 11 cases. It is my understanding that the Debtors selected CDG and me because of our vast experience in providing restructuring management services to financially troubled organizations.

61. To the best of my knowledge, information, and belief, and as set forth in more detail in the CDG Employment Motion and the supporting declaration of Ronald F. Stengel, CDG is a "disinterested person" within the meaning of section 101(14) of the Bankruptcy Code. Furthermore, it is my belief that the compensation plan set forth in the Motion is appropriate and is necessary to retain CDG.

(4) Donlin, Recano & Company, Inc.

62. The Debtors have filed an Application for Entry of an Order Appointing Donlin, Recano & Company, Inc. ("Donlin Recano") as Claims, Noticing, and Balloting Agent of the Bankruptcy Court (the "Donlin Recano Employment Application"). The Debtors intend to retain Donlin Recano as claims administrator and noticing agent as of the Petition Date to, among other things (a) serve as the Court's noticing agent to mail notices to the estate's creditors and parties in interest, (b) provide computerized claims, objection and balloting database services, and (c) provide expertise, consultation and assistance in claim and ballot processing and other administrative information and (d) provide disbursement services with respect to the Debtors' bankruptcy cases, if requested.

63. I aware that Donlin Recano has assisted and advised numerous chapter 11 debtors in connection with noticing, claims administration and reconciliation of plan votes. This includes providing such services in the prior two chapter 11 filings for certain of these Debtors. I believe that Donlin Recano is well-qualified to serve as the claims and noticing agent in these chapter 11 cases. Furthermore, I believe that the compensation plan set forth in the Donlin Recano Agreement is appropriate and necessary to retain Donlin Recano.

64. To the best of my knowledge, information, and belief, and as set forth in more detail in the Donlin Recano Employment Application and the supporting affidavit of Louis A.

Recano, Donlin Recano is a "disinterested person" within the meaning of section 101(14) of the Bankruptcy Code. Furthermore, it is my belief that the compensation plan set forth in the Application is appropriate and is necessary to retain Donlin Recano.

C. Cash Management System, Bank Accounts, and Business Forms

65. The Debtors have filed a Motion for Entry of an Order (i) Authorizing Continued Use of Existing (a) Bank Accounts, (b) Cash Management System and (c) Business Forms, Books and Records and (ii) Waiving on an Interim Basis Debtors' Compliance with Investment Guidelines (the "Cash Management Motion").

66. Because of the complex nature of the Debtor's business, including the flow of funds related to its cash management system, it is imperative that the current system go on uninterrupted. If disruption were to occur, the Debtors, its employees, vendors and creditors would be unnecessarily and severely harmed. In addition, because of the complexity of the Debtors' bank accounts and cash management system, the Debtors request a waiver of compliance with the investment guidelines set forth in Bankruptcy Code section 345(b). Because of the nature of the banks with which the Debtors' maintain their depository and disbursement accounts, the Debtors need not comply with such guidelines.

67. In order to maintain their business as going concerns pending the sale process through which the Debtors seek to maximize the value of their estates for creditors, by the motion, the Debtors request relief sought to maintain their existing cash management system, maintain use of existing books and records and seek a waiver of the Debtor's compliance with the investment guidelines set forth in Bankruptcy Code section 345(b).

68. I have been informed of operating guidelines for chapter 11 debtors-in-possession (the "Operating Guidelines") established by the United States Trustee. I believe that the

circumstances of these cases warrant against imposition of the Guidelines upon the Debtors' postpetition operations, and that strict enforcement of the Guidelines would cause significant disruption of the Debtors' businesses and harm the Debtors' estates. Moreover, the Debtors' estates will benefit from the continuity and efficiencies associated with the relief sought in the motion.

D. Prepetition Wages and Other Employee Benefit Claims

69. The Debtors have filed a Motion for Authority to Pay Prepetition Wages, Compensation and Employee Benefits (the "Employee Wages and Benefits Motion"). The continued loyalty of the Debtors' approximately 5,700 employees is essential to a successful reorganization. I believe that if the relief requested in the Employee Wages and Benefits Motion is not granted, the morale of the Debtors' employees will suffer significantly and the Debtors will risk losing a significant portion of their current workforce. This type of employee disruption would cause the Debtors significant financial hardship and would negatively affect the Debtors' chances for a successful reorganization. In order to preserve the value of the Debtors' labor force, the Employee Wages and Benefits Motion seeks authority to make payments pursuant to the following employee wage and bonus programs.

(1) Wages and Salaries

70. The Debtors' employees (the "Employees") are paid on a weekly basis, their hourly wages or salaries, and any amounts owed to the Employees for days off pursuant to the Debtors' various policies for paid time off,[4] holidays, overtime, and jury duty service (collectively, the "Gross Wages & Salaries"). The Gross Wages & Salaries are made in arrears, current through the date that is one week prior to the applicable pay day. Employee payments

[4] Full-Time Employees are eligible to take days off with full pay out of a paid time off bank, which accrues on a monthly basis. These days include sick leave, vacation, and bereavement leave. In the ordinary course of business, the Employees may take their accrued vacation if approved by the Debtors.

are administered by the Debtors. On Thursday following the end of a pay period, the Debtors transfer funds to the appropriate bank in the amount of the total net payroll for the applicable pay period. The Debtors deduct certain amounts and direct those amounts to pay the appropriate taxes to the federal, state, and local taxing authorities, and make employee-directed deductions. On Thursday, the Debtors process checks or effectuate direct deposits to the Employees in the amount of their net wages earned for the preceding week. The Debtors issued the most recent payroll to the Employees on November 13, 2009 for the period ending November 8, 2009. The total gross amount paid to Employees on November 13, 2009 was approximately $2.5 million. Employees are scheduled to be paid next on November 20, 2009. I believe that honoring the Debtors' prepetition wage obligations is absolutely essential for continued employment of the Debtors' personnel, and the Debtors request to pay such amounts in full.

(2) Temporary Staffing and Independent Contractors

71. In addition to the Employees, the Debtors also from time to time require the assistance of temporary employees (the "Temporary Workers") and independent contactors (the "Independent Contractors"). The Debtors do not directly compensate their Temporary Workers. Rather, the Temporary Workers are paid directly by agencies. However, the Debtors' failure to pay for these services could severely hamper their ability to obtain temporary staffing as needed during the course of these chapter 11 cases. In addition, while Independent Contractors are not considered employees of the Debtors, it is the Debtors' practice to pay Independent Contractors upon the receipt of an invoice for fees and expenses.

72. The Employees, Temporary Workers and Independent Contractors are reliant on the timely payment of their compensation to cover their monthly living expenses. The Debtors' failure to allow full payment of any amounts which may be owed as prepetition payment

obligations to the Employees, Temporary Workers and Independent Contractors would inflict great hardship on these parties and would seriously damage morale at a time when the Debtors can ill afford to be without the full commitment of such workers. For these reasons, the Debtors should be permitted to honor any unpaid prepetition obligations owed to the Employees, Temporary Workers and Independent Contractors.

(3) Reimbursable Employee Business Expenses

73. Before the Petition Date, certain of the Employees and the Debtors' directors regularly incurred business expenses, which, consistent with ordinary practice, are reimbursable by the Debtors (the "Reimbursable Expenses"). The Reimbursable Expenses include, without limitation, expenses for work-related travel, lodging, auto expenses, telephone charges and meals. It would be inequitable to require the Employees to bear these expenses, all of which were incurred on behalf of the Debtors with the expectation that they would be reimbursed promptly. Accordingly, the Debtors seek to pay the prepetition Reimbursable Expenses in the ordinary course of their businesses.

(4) Employee Benefits

74. In the ordinary course of their businesses, and as is customary for most large corporations, the Debtors maintain various employee benefit plans and policies that provide eligible employees with medical, dental, prescription drugs, disability and life insurance, employee savings, and other similar benefits (collectively, the "Health and Welfare Benefits"). The Health and Welfare Benefits include (i) plans sponsored by the Debtors for its non-union Employees (with a few exceptions for long-term and short-term disability benefits) (the "Company Sponsored Health and Welfare Plans"), and (ii) plans sponsored by multiple employers for the unionized Employees (the "Multi-Employer Health and Welfare Plans").

75. I believe that the continuation of the Health and Welfare Benefits is necessary to retain the Debtors' Employees and to maintain Employee morale during this critical period for the Debtors. Accordingly, the Debtors seek to continue the Health and Welfare Benefits in the ordinary course of their businesses.

(5) Designated Withholdings

76. The Debtors withhold money from the Employee payroll pursuant to certain Employees' instructions or orders by judicial or administrative authorities (collectively, the "Designated Withholdings") for remittance to various programs and funds including, without limitation, certain supplemental insurance programs, savings plans, child support, garnishments, and for other purposes. Failure to remit the Designated Withholding funds to the appropriate programs or funds will be regarded by the Employees as a misappropriation of their wages or salaries and the cessation of certain benefits to which they reasonably believe they are entitled as a result of the deductions. Accordingly, the Debtors seek authority to pay the Designated Withholdings in the ordinary course of their businesses.

(6) Incidental Costs

77. In addition, the Debtors request that they be permitted, but not directed, to pay all costs incident to the payment of the Prepetition Employee Claims and Heath and Welfare Benefits, such as processing costs (the "Incidental Costs"). Payment of the Incidental Costs is also necessary and appropriate in the ordinary course of the Debtors' businesses.

E. Prepetition Sales, Use, Trust-Fund and Other Taxes and Related Obligations

78. The Debtors have filed a Motion for an Order (i) Authorizing the Debtors to Pay Certain Prepetition Taxes and (ii) Authorizing and Directing Banks and Other Financial Institutions to Honor All Related Checks and Electronic Payment Requests for Payment of Such

Amounts (the "Tax Motion"). In connection with the normal operation of their businesses, the Debtors incur certain taxes which are payable directly to various federal, state and local taxing authorities (each, a "Taxing Authority," and collectively, the "Taxing Authorities") or to certain of Debtors' vendors on behalf of the Taxing Authorities, such as use, cigarette and tobacco taxes.

79. By the Tax Motion, the Debtors seek the entry of an order authorizing, but not directing, the Debtors, in their business judgment and sole discretion, to pay all state and federal income, payroll, sales and use, franchise, school, property, mercantile, and cigarette and tobacco tax obligations owed to the Taxing Authorities during the Debtors' prepetition operations (the "Prepetition Taxes") in the ordinary course of the Debtors' businesses, regardless of whether the debts were incurred prior to or following the Petition Date. Additionally, the Debtors seek an order authorizing all banks and other financial institutions to receive, process, honor and pay any and all checks presented for payment and electronic transfers with respect to payments authorized by this Motion, whether presented before or after the Petition Date, upon receipt by each bank and financial institution of notice of such authorization, provided that sufficient funds are on deposit in the applicable accounts to cover such payments.

80. I believe that Court should authorize the payment of the Prepetition Taxes because: (a) certain of the Prepetition Taxes do not constitute property of the Debtors' chapter 11 estates; (b) the failure to pay certain of the Prepetition Taxes may impact the Debtors' ability to conduct business in certain jurisdictions and their ability to perform under their postpetition agreements; and (c) the Debtors' officers may face personal liability if certain of the Prepetition Taxes are not paid. Absent payment of these amounts, the Debtors may face serious disruptions and distractions as they seek to maximize the value of their business and assets. Accordingly, the Debtors seek authority to pay the Prepetition Taxes and to

F. Workers' Compensation Insurance and General Insurance Liability Policies

81. The Debtors have filed a Motion for Authority (i) to Pay Prepetition Insurance Policy Obligations, (ii) Continue to Administer Insurance Policies, and (iii) Continue to Pay Claims to the Extent They Become Due and Payable (the "Insurance Motion"). I believe that the relief sought in the Insurance Motion is necessary to protect injured employees and maintain general employee morale. In addition, continuance of the generally liability, automobile, umbrella, property, Director & Officer, environmental, special risk insurance polices – as well as the maintenance of certain non-collateralized surety bonds – will minimize liability for the Debtors and their estates for covered events.

G. Customer Programs and Practices

82. The Debtors have filed a Motion for Authority to Continue Certain Customer Programs and Practices (the "Customer Program Motion"). I believe that the success of the Debtors' businesses are dependent upon the patronage of the Debtors' customers. The programs set forth in the Customer Program Motion are crucial to maintaining the Debtors' current customer base, and any delay in honoring the Debtors' obligations will irreparably impair customer relations. Accordingly, I believe that the Debtors should be permitted to pay prepetition claims in connection with such obligations in the ordinary course of their businesses.

H. Prepetition Obligations to Common Carriers and Related Obligations

83. The Debtors have filed a Motion Authorizing the Payment of Certain Prepetition Common Carrier and Related Obligations (the "Common Carrier Motion"). In the ordinary course of its business, Penn Traffic leases and operates four distribution warehouses, which supply groceries to its 79 retail grocery stores. The majority of the inventory housed at the warehouses is owned by C&S Wholesale Grocers, Inc. ("C&S"), the procurement manager for

Penn Traffic. Each retail store places orders for certain inventory, and the distribution warehouses prepare and load trucks for shipment to the individual stores. The inventory is owned by C&S until it is loaded for transport to Penn Traffic's retail grocery stores. Inventory is delivered to the Debtors' individual warehouses by one of four ways: (i) on trucks hired by the individual vendor, at that vendor's expense (i.e. vendor direct deliveries to each store); (ii) on trucks owned by the Debtors; (iii) on trucks owned by independent third-parties (the "Common Carriers") hired by the Debtors, which are paid for by the Debtors' directly; or (iv) on trucks owned by Common Carriers, for which invoices are presented to C&S Wholesale Grocers, Inc. and are passed on to the Debtors.

84. By the Common Carrier Motion, the Debtors seek authority to pay the undisputed amounts owed to the Common Carriers (the "Common Carrier Charges") and to the extent of, and conditioned on the release of, any liens that Common Carriers have on the goods in their possession. Payment of the Common Carrier Charges is justified because the Common Carriers likely have a possessory lien on the goods in the Common Carriers' possession. Moreover, payment of the Common Carrier Charges will ensure that inventory is delivered, thus preventing any disruption in the Debtors' businesses. Accordingly, the Debtors seek authority to pay the Common Carrier Charges under the terms set forth in the Common Carrier Motion.

I. Adequate Assurance of Utility Payments

85. The Debtors have filed a Motion for Entry of a Bridge and Final Order (i) Prohibiting Utilities from Altering, Refusing, or Disconnecting Services on Account of Prepetition Invoices, (ii) Deeming Utilities Adequately Assured of Future Performance, and (iii) Establishing Procedures for Determining Adequate Assurance of Payment (the "Utility Motion"). In the ordinary course of their businesses, the Debtors regularly incur utility expenses

for water, sewer, electricity, gas, local telephone service, long-distance telephone service, cellular phone service, and internet service. By the Utility Motion, the Debtors seek the entry of an order authorizing, but not directing, the Debtors, in their business judgment and sole discretion, to pay utility providers identified in the Utility Motion (the "Utility Providers").

86. Access to utility services is critical to the Debtors' ongoing operations pending the sale of some or all of the Debtors' business and assets and thereafter during the transition period. Should any Utility Provider refuse or discontinue a utility service even for a brief period of time, the Debtors' manufacturing operations, distribution capabilities and administrative functions would be severely disrupted. Any such disruption would diminish the value of the Debtors' estates. In this regard, it is in the best interest of the Debtors, their estates and their creditors to maintain continuous and uninterrupted utility services during these chapter 11 cases. Accordingly, the Debtors are seeking the relief requested as set forth in the Utility Motion.

J. Rejection of Certain Unexpired, Nonresidential Real Property Leases and Abandon any Personal Property Located at Such Lease Premises

87. The Debtors have filed a Motion for Entry of an Order Authorizing the Debtors to Reject Certain Unexpired, Nonresidential Real Property Leases and Abandon any Personal Property Located at Such Lease Premises as of the Petition Date (the "Lease Rejection Motion"). The Debtors are parties to approximately 73 leases of nonresidential real property. The Debtors are currently in the process of evaluating these leases to determine which should be rejected because they are unnecessary and/or burdensome to the Debtors' ongoing business operations. To reduce costs, the Debtors have identified six (6) nonresidential real property leases, as listed on the schedule attached to the order that is attached to the Lease Rejection Motion (collectively, the "Schedule 1 Leases"), that are no longer integral to the Debtors' ongoing business operations

and present burdensome non-productive obligations. The Schedule 1 Lease locations are "dark" locations that have already been vacated by the Debtors.

88. By the Lease Rejection Motion, the Debtors intend to reject the Schedule 1 Leases because they are not useful to the Debtors efforts to reorganize their businesses and market their assets for sale. Accordingly, the Debtors seek to reject the Schedule 1 Leases, effective as of the Petition Date, as an exercise of their business judgment.

K. Interim Order Authorizing Use of Cash Collateral, Authorizing Postpetition Letter of Credit and Granting Adequate Protection

89. The Debtors have filed a Motion (a) Authorizing the Debtors' Use of Cash Collateral by Consent, (b) Authorizing Postpetition Letter of Credit Financing, (c) Granting Adequate Protection and (d) Scheduling a Final Hearing (the "Cash Collateral Motion"). The Cash Collateral Motion seeks an interim order (the "Interim Order"):

> (i) Authorizing the Debtors the interim use of cash collateral (the "Cash Collateral") for the purposes identified in the budget attached to the Cash Collateral Motion (the "Cash Collateral Budget"), pursuant to the specific terms set forth in the Cash Collateral Motion;
>
> (ii) Authorizing the Debtors to use Cash Collateral to obtain postpetition letters of credit, or renewals of prepetition letters of credit, pursuant to the terms of the First Lien Credit Agreement (as defined in the Cash Collateral Motion) (the "Postpetition Letters of Credit"), pursuant to the specific terms set forth in the Cash Collateral Motion;
>
> (iii) Granting the First Lien Agent and First Lien Lenders (as defined in the Cash Collateral Motion) a valid, perfected and enforceable security interest (the "First Lien Adequate Protection Liens") equivalent to a lien granted under sections 364(c) and (d) of the Bankruptcy Code in and upon all assets of the Debtors in existence prior to the Petition Date and created after the Petition Date, pursuant to the specific terms set forth in the Cash Collateral Motion;
>
> (iv) Granting to the First Lien Agent, on behalf of itself and the First Lien Secured Lenders, an administrative claim (the "First

Lien Adequate Protection Superpriority Claim"), pursuant to the specific terms set forth in the Cash Collateral Motion;

(v) Directing the Debtors to pay the First Lien Agent, for the benefit of itself and the First Lien Secured Lenders, cash payments of interest at the default rate and at times required under the First Lien Credit Agreement (as defined in the Cash Collateral Motion) (the "First Lien Interest Payments"). In addition, the Debtors shall pay to any bank issuing postpetition letters of credit ("Postpetition Issuing Bank") and First Lien Agent, for the benefit of itself and the First Lien Secured Lenders, the professional fees and expenses (whether incurred before or after the Petition Date) of the First Lien Agent and any First Lien Secured Lender, including, without limitation, the reasonable fees and expenses of legal counsel, financial advisors, auditors, appraisers' and other consultants, ten (10) business' days (if no written objection is received within such ten (10) business' day period) after such professional has delivered a summary invoice detailing such professional fees and expenses, with a copy of such summary invoices to the U.S. Trustee and official committee of unsecured creditors ("Committee") (if appointed) (collectively, the "First Lien Adequate Protection Expense Payments," and together with the First Lien Interest Payments, the "First Lien Adequate Protection Payments"), pursuant to the specific terms set forth in the Cash Collateral Motion;

(vi) Granting to the Second Lien Agent (as defined in the Cash Collateral Motion), for itself and on behalf of the Second Lien Secured Lenders (as defined in the Cash Collateral Motion) a valid, perfected and enforceable security interest (the "Second Lien Adequate Protection Liens" together with the First Lien Adequate Protection Liens, the "Adequate Protection Liens"), pursuant to the specific terms set forth in the Cash Collateral Motion;

(vii) Granting to the Second Lien Agent, on behalf of itself and the Second Lien Secured Lenders, an administrative claim (the "Second Lien Adequate Protection Superpriority Claim" together with the First Lien Adequate Protection Superpriority Claim, the "Adequate Protection Superpriority Claim"), pursuant to the specific terms set forth in the Cash Collateral Motion;

(viii) Directing the Debtors to pay the Second Lien Agent, for the benefit of itself and the Second Lien Secured Lenders, the professional fees and expenses (whether incurred before or after the Petition Date) of the Second Lien Agent and any Second Lien Secured Lender, including, without limitation, the reasonable fees and expenses of legal counsel, financial advisors, auditors,

appraisers' and other consultants, ten (10) business' days (if no written objection is received within such ten (10) business' day period) after such professional has delivered a summary invoice detailing such professional fees and expenses, with a copy of such summary invoices to the U.S. Trustee and Committee (if appointed) (collectively, the "Second Lien Adequate Protection Payments", and together with the First Lien Adequate Protection Payments, the "Adequate Protection Payments"), pursuant to the specific terms set forth in the Cash Collateral Motion;

(ix) Providing that each of the Agents, Secured Lenders (as defined in the Cash Collateral Motion) and the Debtors ("Intercreditor Parties") shall continue to be bound by and subject to the terms, provisions and restrictions of the Intercreditor Agreement (as defined in the Cash Collateral Motion), and the Intercreditor Agreement shall apply and govern the Intercreditor Parties (as defined in the Cash Collateral Motion) in these cases, pursuant to the specific terms set forth in the Cash Collateral Motion.

90. By the Cash Collateral Motion, the Debtors seek, through approval of the Interim Order, authorization to obtain the interim use of Cash Collateral and the proceeds of the Postpetition Letters of Credit to provide the Debtors with the liquidity necessary to operate during chapter 11. It is imperative that the Debtors receive such liquidity in order to ensure that the Debtors are able to operate in bankruptcy and preserve value for their creditors. With access to the liquidity provided by the Cash Collateral, the Debtors will have the ability to maintain their businesses as going concerns, retain the ability to operate, maintain business relationships with their vendors, suppliers, and customers and pay their employees. As demonstrated in the Cash Collateral Motion, the Debtors have met the Bankruptcy Code's standards for approval of the use of Cash Collateral, on the terms set forth in the Cash Collateral Motion. Accordingly, the Cash Collateral Motion should be approved.

Dated: November 18, 2009
Wilmington, Delaware

By: Ronald F. Stengel
Ronald F. Stengel