UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re	:	Chapter 11
BOSCOV'S, INC., *et al.*,[1]	:	Case No. 08-______ (____)
Debtors.	:	(Jointly Administered)

DECLARATION OF MICHAEL J.
HUGHES IN SUPPORT OF FIRST-DAY PLEADINGS

1. I am the Executive Vice President-Capital Development of both Boscov's, Inc. ("Parent"), a Pennsylvania corporation, and Boscov's Department Stores, LLC ("Boscov's Department Stores"), a Pennsylvania limited liability company. I have held these positions since April 17, 2008. Prior to accepting my current positions, I served as Chief Operating Officer of Griffin Financial LLC, Chief Financial Officer of Specialty Productions & Insulation, Managing Director of Berwind Financial, and Senior Vice President of Corporate Development for Meridian Bancorp. I received a bachelors degree from Penn State University and am a Certified Public Accountant.

2. On the date hereof (the "Petition Date"), each of the above-captioned debtors (collectively, the "Debtors") filed with this Court voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), as well as certain

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1 The Debtors are the following eight entities (the last four digits of their respective taxpayer identification numbers, if any, follow in parentheses): Boscov's, Inc. (1589); Boscov's Department Store, LLC (9789); Boscov's Transportation Company LLC (6388); Boscov's PSI Inc. (1014); Boscov's Investment Company (4579); Boscov's Finance Company, Inc. (6389); SDS. Inc. (7075); and Retail Construction & Development, Inc. (3098). The address of each of the Debtors is 4500 Perkiomen Avenue, Reading, Pennsylvania 19606.

motions and other pleadings (the "First Day Pleadings"). I am authorized by the Debtors to submit this Declaration on their behalf in support of the First Day Pleadings.

3. The First Day Pleadings are intended to enable the Debtors to operate effectively and efficiently within these chapter 11 cases, as well as avoid certain adverse consequences that might otherwise result from the commencement of such cases. Among other things, the First Day Pleadings seek relief aimed at maintaining: (a) the loyalty of the Debtors' customers; (b) the confidence of the Debtors' various stakeholders; and (c) the morale of the Debtors' employees. Gaining and retaining the support of these key constituencies is critical to the Debtors' efforts to successfully reorganize. I have reviewed the First Day Pleadings, and it is my belief that the relief sought therein is necessary to: (a) avoid immediate and irreparable harm to, and ensure the uninterrupted operation of, the Debtors' business; and (b) maximize and preserve the value of the Debtors' chapter 11 estates recoverable to stakeholders.

4. In my capacity as Executive Vice President, I am familiar with the Debtors' day-to-day operations, financial condition, business affairs and books and records. Except as otherwise indicated, all facts set forth in this Declaration are based upon: (a) my personal knowledge; (b) my review of relevant documents; (c) information supplied to me by other members of the Debtors' management team or professionals retained by the Debtors; or (d) my opinion based upon my experience and knowledge of the Debtors' operations and financial condition. If I were called upon to testify, I could and would testify competently to the facts set forth herein.

5. Part I of this Declaration provides an overview of the Debtors' business. Part II provides a description of the Debtors' corporate and capital structures. Part III provides a discussion of the events that compelled the commencement of these chapter 11 cases, as well as

the Debtors' plan for these cases. Part IV affirms and incorporates the facts that support the relief requested in the First Day Pleadings.

Part I

Overview of the Debtors' Business

6. Parent, through Boscov's Department Stores and other subsidiaries, owns and operates the nation's largest family owned, full-service department store chain. Established in 1911 and having opened its first full-service department store in 1962, the Debtors currently operate 49 stores in Pennsylvania, New Jersey, Maryland, New York, Delaware and Virginia. The typical Boscov's store serves smaller, middle-market communities and relies extensively on years of customer goodwill derived from its family store background and commitment to the communities in which it operates. This, in turn, has lead it to be, in most instances, the leading department store retailer in those communities.

7. As a value-oriented, family-owned and operated "broadline" retailer, the Debtors' stores and website (for online purchases) feature a broad and deep mix of competitively-priced styles and national and private-label brands. The Debtors' business and their relationship with their customers are founded upon a strong reputation for providing such quality merchandise at exceptional value, supported by strong local and in-store promotions and an emphasis on customer service. The Debtors' stores offer a broad array of quality products, including: (a) women's wear and feminine accessories (e.g., shoes, jewelry, handbags, lingerie and cosmetics); (b) men's and children's wear; and (c) home products, housewares and gifts.

8. Unlike the typical "big box" retailer, the Debtors' stores feature a variety of specialized departments (including beauty salons, eye care outlets, Ticketmaster outlets and travel centers), an in-store restaurant called The Greenery (at eight locations) and merchandise

not normally seen in modern department stores, such as toys, greeting cards and candy. Through the provision of these ancillary and customer oriented services, the Debtors strive to give their customers a more personalized shopping experience than that found at other retail chains. The Debtors' stores generally compete with those of other broadline retailers, discount/value retailers and specialty stores, such as Macy's, Wal-Mart, Bon-Ton, Kohl's, J.C. Penney's, Sears and KMart.

9. The Debtors currently employ approximately 9,500 employees and have relationships with over 3,000 vendors worldwide. For their fiscal year ended February 2, 2008, the Debtors generated approximately $1.25 billion in sales. For the subsequent three months ending May 3, 2008, the Debtors generated sales of approximately $263 million. As of May 3, 2008, the Debtors had approximately $538 million in assets and $479 million in liabilities on a GAAP basis.

Part II

Corporate and Capital Structure of the Debtors

Corporate Structure

10. The Parent is a holding company that owns, directly or indirectly, each of the other Debtors. In general, the Parent's stock is owned, directly or indirectly, by members of, or persons affiliated with, the Boscov and Lakin families. The Debtors' largest shareholders include Kenneth Lakin, Chief Executive Officer of the Parent, and other members of the Lakin and Boscov families, either through various trusts or in their individual capacities.

11. The Parent holds a 100% interest in each Debtor except Boscov's Department Stores, which is owned 99% by the Parent and 1% by Debtor Boscov's PSI Inc. Boscov's Department Stores operates all the department stores. The following is a brief description of the other Debtors:

(a) ***Boscov's Finance Company, Inc.*** holds receivables and loans funds to Debtor affiliates.

(b) ***Boscov's Investment Company*** holds trademarks and trade name for the Parent, collects royalties from Boscov's Department Stores and pays interest on debt to Boscov's Finance Company, Inc.

(c) ***SDS. Inc.*** owns two store locations (Monmouth, NJ and Toms River, NJ) and collects rent from Boscov's Department Stores at those locations.

(d) ***Boscov's Transportation Company LLC*** transports merchandise to the Debtors' retail stores using equipment owned by the company.

(e) ***Retail Construction and Development, Inc.*** originally was created to provide contracting activities for store development, but currently is inactive.

Capital Structure

12. The Debtors' primary liabilities consist of: (a) a senior secured credit facility; (b) a junior secured term loan agreement; (c) unsecured trade debt; and (d) lease obligations. These liabilities are described in more detail below.

Senior Secured Credit Facility

13. Boscov's Department Stores and SDS. Inc. are borrowers under a certain five-year revolving credit facility dated January 27, 2006 with Bank of America, N.A., as agent, and various lenders thereto (as amended from time to time, the "BofA Facility"). Each of the other Debtors is a guarantor under the BofA Facility.

14. Pursuant to its original terms, the BofA Facility included (a) a last-in, first-out revolving credit facility of up to $340 million (the "Tranche A Subfacility"); (b) a first-in, last-out revolving credit facility of up to $30 million (the "Tranche A-1 Subfacility"); and (c) a $50 million sublimit for letters of credit.[2] Borrowings under the BofA Facility are limited by a borrowing base calculation based on, among other things, percentages of eligible inventory as

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[2] The Tranche A Subfacility subsequently was amended to have a limit of $320 million.

reduced by applicable reserves. The BofA Facility is secured by a first-priority lien on substantially all of the Debtors' assets. As of the Petition Date, the principal amount owing under the BofA Facility was approximately $122 million, in addition to approximately $35 million of letters of credit that were outstanding thereunder.

Junior Secured Term Loan Agreement

15. Boscov's Department Stores and SDS. Inc. also were borrowers under a term loan credit facility dated March 20, 2008 with Bear Stearns Corporate Lending Inc., as agent, and various lenders thereto (the "Second Lien Facility"). Subsequent to entry into the Second Lien Facility, Bear Stearns Corporate Lending, Inc. was acquired by J.P. Morgan Chase ("J.P. Morgan") and J.P. Morgan became the agent under the Second Lien Facility. GB Merchant Partners LLC ("Gordon Brothers"), one of the lenders under the Second Lien Facility, acquired a one-hundred percent (100%) interest in the Second Lien Facility and is now also the Agent thereunder. Finally, I am informed that Gordon Brothers has since sold a fifty percent (50%) interest in the Second Lien Facility to Silverpoint Capital. Each of the other Debtors is a guarantor under the Second Lien Facility. The Second Lien Facility also is guaranteed by certain non-Debtor real estate entities owned or controlled by members of the Boscov and Lakin families (collectively, the "Real Estate Guarantors"). The entities lease certain store locations to the Debtors. The guaranties are partially secured by the assets of some but not all of the Real Estate Guarantors.

16. The Second Lien Facility had an original principal amount of $60 million. Since its inception, the Debtors have made principal payments on the Second Lien Facility in the approximate amount of $21.9 million from funds provided to the Debtors by real estate entities owned or controlled by the Boscov and Lakin families that lease store locations to the Debtors.

As such, as of the Petition Date, the principal amount owing under the Bear Sterns Facility was approximately $38 million. In exchange for such funds, the Debtors amended their store leases with such entities to provide for the payment of increased rent during the lease term.

17. The Second Lien Facility is secured by a second-priority lien on substantially all of the Debtors' assets junior to the lien under the BofA Facility. B-L Income Investments-I LP, an entity owned by members of the Boscov and Lakin families, also has provided a letter of credit (the "B-L Letter of Credit") in the amount of $10 million as third party collateral for the Second Lien Facility in the event of a default thereunder.

Trade Debt

18. As an operator of 49 department stores, the Debtors purchase inventory from over 3,000 vendors located throughout the world. The Debtors purchase merchandise under normal purchase commitments in the ordinary course of business. The Debtors' commitments for purchasing merchandise generally do not extend beyond six months and may be cancelable several weeks prior to the vendor shipping the merchandise. As of the Petition Date, the Debtors estimate that they owe approximately $90 million for merchandise and other unsecured obligations for goods and services. Because their support is critical to Boscov's Department Stores, the Debtors have taken the extraordinary step of entering into many non-disclosure agreements with an ad hoc group of their trade creditors and provided them with confidential financial and business information. The Debtors have also provided the ad hoc committee's counsel with drafts of key first day pleadings.

Lease Obligations

19. The Debtors lease all of their retail department stores, with the exception of the two stores owned by Debtor SDS. Inc. and leased by that company to Boscov's

Department Stores. SDS. Inc. is the obligor on an $8 million dollar mortgage on the two Boscov's owned stores and that mortgage is also guaranteed by Parent.

Part III

Events Leading to the Commencement of These Cases and the Debtors' Chapter 11 Plans and Strategies

20. Several internal and external factors recently have severely impacted the Debtors, ultimately prompting the near-term liquidity pressures that precipitated the decision to commence these chapter 11 cases. The collapse in the housing market (and the attendant mortgage crisis), skyrocketing energy and gasoline prices and steadily increasing food costs, among other things, have resulted in a decline in the discretionary spending by consumers upon which the Debtors' business depends. This is particularly the case in many of the core markets served by the Debtors, which are dependent to a great extent on car travel and have seen property values plummet and suffer from unemployment rates greater than the national average.

21. The recent tightening in the credit markets has likewise negatively impacted the Debtors' operations and cash position, causing many of their trade vendors to tighten credit terms. The recent addition of these pressures and constraints to a broadline retailing industry that already operated on thin profit margins has forced the Debtors into inadequate liquidity levels.

22. It is well known that the Debtors here are not the only retailers to struggle in the current environment, one of the most difficult experienced in the U.S. for many years. In fact, over the last year, retailers such as: The Bombay Company, Levitz Furniture, Sofa Express, Harvey Electronics, Domain's Furnishings, Buffets, Friedman's Jewelers, Fortunoff, Wickes, Sharper Image, Lillian Vernon, Linens N Things, Goody's, Steve & Barry's, Mervyn's and Shoe Pavilion have all sought relief under chapter 11. In addition, recent attempts by the

Debtors to expand their business — primarily, the 2006 acquisition of 10 new locations from Federated Department Stores[3] — have not generated the increases in profit and cash flow anticipated by the Debtors.

23. In contrast to the "big box" or national retail chain, Boscov's has always been a family owned and operated department store with deep roots in the Mid-Atlantic region. As such, Boscov's has always emphasized customer service, strong community ties and loyalty to its employees and other stakeholders. Thus, despite its current financial difficulties, Boscov's is well positioned to restructure its balance sheet and emerge from Chapter 11 as a profitable department store chain. Its increase in profitably will be significantly facilitated by the closing of approximately 10 unprofitable stores.

24. Notwithstanding the diligent pursuit of out-of-court alternatives, including attempts to refinance prepetition secured debt, add working capital availability, or locate new equity sponsors,[4] the Debtors were unable to conclude these efforts within the necessary timeframe. The Debtors ultimately determined that the commencement of these cases (a) was necessary to address their pressing liquidity and trade credit problems and (b) would provide the opportunity to, among other things, right-size the Debtors' business though (i) structural improvements and (ii) the evaluation and elimination of liabilities that only serve as a drain on the Debtors' profitability. The commencement of these cases provides the Debtors' management

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3 The stores acquired from Federated Department Stores ("Federated") in 2006 were acquired as part of an assurance agreement between the attorneys general for several states and Federated, whereby Federated was required to divest certain stores to a limited number of traditional department store operators. The Debtors believed that, because they were one of the few possible bidders for these locations, they were able to negotiate favorable terms.

4 The Debtors retained Lehman Brothers in furtherance of these efforts. The Debtors' attempts to raise new capital included, among other things, soliciting new financing from financial and strategic investors. The Debtors filed for protection under chapter 11 of the Bankruptcy Code only after exhausting all possible non-bankruptcy financing solutions.

with an opportunity to engage in a deliberative and comprehensive strategic planning process while weathering the economic storm currently buffeting domestic retailers.

25. The goal of this chapter 11 process will be the development of a business plan that will recast and streamline the Debtors' capital and expense structures to position the Debtors to compete successfully in the broadline retail industry and continue to provide superior merchandise and service to their valued customers. The Debtors plan to implement this strategy initially through the closing of approximately 10 unprofitable stores and the immediate liquidation of the inventory in those stores through going-out-of-business sales (the "GOBs"). This will result in immediate cost savings in respect of overhead, rent and other payments, and serve to reduce secured debt with the application of proceeds from the GOBs. At the same time, the Debtors will move swiftly to eliminate costs, while using Chapter 11 to restructure their balance sheet and create a viable capital structure for long term profitability. These immediate restructuring initiatives will allow the Debtors to focus their resources on (a) stabilizing and strengthening their core and historically profitable stores and (b) exploring strategies for exiting these chapter 11 cases in an expeditious and cost effective manner.

26. Prior to filing these chapter 11 cases, the Debtors had productive discussions with their major secured and unsecured creditor constituencies regarding the Debtors' restructuring strategies. The Debtors intend to continue this dialogue, and upon the creation of an official committee of unsecured creditors in these cases (the "Creditors' Committee") the Debtors intend to begin discussing potential exit strategies with their major creditor constituencies. As a result of this collaborative process, the Debtors intend to file a chapter 11 plan within 90 days after the Petition Date. In the interest of maximizing the value of their estates and the recovery by their creditors, the Debtors also intend to explore whether a third-

party sale for substantially all of the Debtors' assets (with the exception of the assets sold in the GOBs) is in the best interests of the Debtors' estates. It is the Debtors' hope, therefore, that they will prepare a plan of reorganization this fall and seek to have it confirmed during the first quarter of 2009.

27. The Debtors believe that the strategies and goals established during this process will provide the Debtors with the best opportunity for returning to financial and operational health. In other words, the Debtors view chapter 11 as an essential tool in reorganizing their business and emerging as healthier and more profitable company, capable of continuing the Boscov's tradition of customer service and value.

Part IV

Facts Relevant to the First Day Pleadings

28. Concurrently with the filing of these chapter 11 cases, the Debtors filed the First Day Pleadings requesting various forms of relief. Generally, the First Day Pleadings have been designed to meet the Debtors' goals of: (a) continuing their operations in chapter 11 with as little disruption and loss of productivity as possible; (b) maintaining the confidence and support of their customers, employees, vendors, suppliers and service providers during the Debtors' reorganization process; and (c) establishing procedures for the smooth and efficient administration of these chapter 11 cases.

29. I have reviewed each of the First Day Pleadings filed contemporaneously herewith (including the exhibits thereto and supporting memoranda), and incorporate by reference the factual statements set forth in the First Day Pleadings. It is my belief that the relief sought in each of the First Day Pleadings is tailored to meet the goals described above and, ultimately, will be critical to the Debtors' ability to achieve a successful reorganization.

30. It is my further belief that, with respect to those First-Day Pleadings requesting the authority to pay discrete prepetition claims or continue selected prepetition programs (e.g., those First-Day Pleadings seeking relief related to the Debtors' obligations to their employees, customers, shippers and other distribution network providers, taxing authorities and insurers), the relief requested is essential to the Debtors' reorganization and necessary to avoid immediate and irreparable harm to the Debtors and their employees, customers and affected vendors. Impairment of the Debtors' business operations, or of their relationships with their employees, customers or vendors — at the very time when the smooth operation of those operations and the dedication, confidence and/or cooperation of those constituencies is most critical — would clearly imperil the Debtors' chances of a successful reorganization. The Debtors operate in one of the most highly competitive sectors of the domestic economy (i.e., broadline retailing). Any diminution in the Debtors' ability to maintain their operations in the ordinary course will have an immediate and irreparable harmful impact upon the going concern value of the estates to the detriment of all of the Debtors' stakeholder constituencies.[5] The Debtors believe that payment of those selected prepetition claims identified in the First Day Pleadings will forestall such irreparable harm and that all creditors of the Debtors will ultimately benefit from the relief requested therein.

31. The Debtors also have filed a motion seeking authority to enter into a post-petition financing facility (the "DIP Facility") to ensure that the Debtors have ample liquidity going forward to pay vendors and meet their other financial obligations. Court approval

[5] Furthermore, the immediate harm resulting from the Debtors' failure to obtain the authority to pay certain prepetition claims and continue certain prepetition programs would not be limited to the Debtors' estates. As one example, the employee-related payments the Debtors seek authority to make are needed to enable the Debtors' employees to meet their own personal obligations and they would suffer serious financial difficulties in the absence of the relief requested.

of the DIP Facility, which was the product of extensive arm's length negotiations between the Debtors and their advisors on the one hand, and the DIP Lenders on the other hand, is absolutely vital to the Debtors' efforts to reorganize and maximize value for their estates, employees and customers. I participated in the negotiation of the terms of the DIP Facility and it is my informed view as Executive Vice President that the financing package provided thereunder was the best the Debtors could receive given the current credit markets and the Debtors' financial position.

32. The Debtors' reorganization depends in large part on restoring vendor, customer and employee confidence and maintaining the operation of their business as they restructure. Accordingly, the Debtors have an immediate need to access the DIP Facility and to use Pre-Petition Collateral, including any Cash Collateral, in order to, among other things, permit the orderly operation of their business by securing goods and paying employees, preserve the going concern value of their estates by restoring vendor and customer confidence, and fund their reorganization, thereby maximizing recoveries for the Debtors' stakeholders. The Debtors believe that such financing and use of Cash Collateral will enable them to stabilize operations and ultimately, in conjunction with a reorganization, restore their profitability.

33. The Debtors retained Lehman Brothers in furtherance of its efforts to raise new capital and secure postpetition financing. The Debtors' attempts to raise new capital included soliciting new financing from financial and strategic investors. Substantially all of the Debtors' assets are encumbered by the liens and security interests securing the Debtors' obligations under the Pre-Petition First Lien Credit Facility, and none of the potential lenders approached by the Debtors was willing to extend credit on a junior priority basis.

34. In addition, the Debtors have also filed a motion seeking authority to enter into an agreement with a stalking horse bidder to facilitate the eventual sale of the liquidation

assets at 10 underperforming stores to be closed to the stalking horse bidder or the person or entity that submits the highest or otherwise best bid at an auction. The proposed sale will maximize recoveries to the Debtors' estates with respect to the liquidation assets at such stores and allow the Debtors to retire immediately a portion of their secured debt. Further, the proposed sales will dramatically reduce the administrative costs associated with the underperforming stores. The Debtors' business plan depends, in part, on eliminating unprofitable stores to deleverage their capital structure and increase working capital.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: August 4, 2008
Reading, Pennsylvania

Michael J Hughes

Michael J. Hughes