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JUL - 8 2008

ENVIRONMENTAL PROTECTION

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

----- X  
In re: : Chapter 11  
: :  
NATIONAL DRY CLEANERS INC. : Case No. 08-11382 (CSS)  
a Delaware corporation, et al.,<sup>1</sup> : :  
: Joint Administration Pending  
Debtors. :  
----- X

**NOTICE OF HEARING TO CONSIDER FIRST DAY PLEADINGS**

PLEASE TAKE NOTICE that on July 7, 2008, National Dry Cleaners Inc., a Delaware corporation, and certain of its direct and indirect affiliates and subsidiaries, the debtors and debtors in possession in the above cases (collectively, the "Debtors"), filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code") with the Clerk of the United States Bankruptcy Court for the District of Delaware. The Debtors continue to operate their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that the Debtors will present the following pleadings on July 8, 2008 at 11:00 a.m. (ET) before the Honorable Brendan L. Shannon, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Delaware, 824 N. Market Street, 6<sup>th</sup> Floor, Courtroom No. 1, Wilmington, Delaware 19801:

<sup>1</sup> The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: National Dry Cleaners Inc. (6722), DCI USA, Inc. (3721), DCI Management Group, Ltd. (a California corporation) (2299), DCI Management Group, Ltd. (an Arizona corporation) (7724), Al Phillips The Cleaner, Inc. (0976), Capitol Varsity, Inc. (9357), DryClean USA of South Carolina, Inc. (3822), DryClean U.S.A. Coastal, Inc. (3612), DryClean USA of Georgia, Inc. (1817), Tuchman Cleaners, Inc. (5121), DCI Management Group, Inc. (0277), and Pride Cleaners, Inc. (9852). The address for the Debtors is 11811 N. Tatum Blvd., #3031, Phoenix, Arizona 85028.

## **MOTIONS AND APPLICATIONS**

1. Motion for Order Authorizing Joint Administration Pursuant to Bankruptcy Rule 1015 and Local Rule 1015-1 [Docket No. 4]
2. Application for Order Approving Debtors' Retention of EPIQ Bankruptcy Solutions, LLC as Claims, Notice and Balloting Agent Pursuant to 28 U.S.C. § 156(c), Bankruptcy Rule 2002(f) and Local Rule 2002-1(f) [Docket No. 5]
3. Motion of the Debtors for an Order (I) Approving Continued Use of Cash Management System, (II) Authorizing Use of Prepetition Bank Accounts and Existing Checks, (III) Waiving the Requirements of 11 U.S.C. § 345(b) on an Interim Basis; and (IV) Granting Administrative Expense Status to Postpetition Intercompany Claims [Docket No. 6]
4. Motion for Interim and Final Orders Pursuant to Section 366 of the Bankruptcy Code (I) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Utility Services, (II) Deeming Utility Companies Adequately Assured of Future Performance, and (III) Establishing Procedures for Determining Adequate Assurance of Payment [Docket No. 7]
5. Debtors' Motion for Order Pursuant to Sections 105(a), 363(b), 541, and 507(a)(8) of the Bankruptcy Code Authorizing (I) Payment of Certain Prepetition Taxes, and (II) Financial Institutions to Process and Cash Related Checks and Transfers [Docket No. 8]
6. Motion for an Order (A) Authorizing, But Not Directing, the Debtors to Pay Certain Pre-Petition Wages, Compensation and Employee Benefits and Continue Payment of Wages, Compensation and Employee Benefits in the Ordinary Course of Business; and (B) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay all Checks Presented for Payment and to Honor All Funds Transfer Requests Made by the Debtors Relating to the Foregoing [Docket No. 9]
7. Debtors' Motion for Order Authorizing Debtors to Honor Certain Prepetition Obligations to Customers and to Continue Customer Programs [Docket No. 10]

8. Motion of the Debtors Pursuant to Sections 105(a), 361, 362, 363 and 552 of the Bankruptcy Code and Bankruptcy Rule 4001(b) for Entry of Interim and Final Orders (A) Authorizing Use of Cash Collateral (B) Granting Adequate Protection; and (C) Scheduling a Final Hearing on the Motion [Docket No. 11]

Dated: Wilmington, Delaware  
July 7, 2008

YOUNG CONAWAY STARGATT & TAYLOR, LLP



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Joel A. Waite (No. 2925)  
Matthew B. Lunn (No. 4119)  
Nathan D. Grow (No. 5014)  
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Proposed Counsel for the Debtors and  
Debtors in Possession

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**NOTICE OF AGENDA OF MATTERS SCHEDULED  
FOR HEARING ON JULY 8, 2008 AT 11:00 A.M. (ET)<sup>2</sup>**

**RELATED PLEADINGS**

1. Voluntary Chapter 11 Petition for National Dry Cleaners Inc. [Docket No. 1]
2. Declaration of Kevin M. Lyng in Support of Chapter 11 Petitions and First Day Relief [Docket No. 3]

**MATTERS GOING FORWARD**

3. Motion for Order Authorizing Joint Administration Pursuant to Bankruptcy Rule 1015 and Local Rule 1015-1 [Docket No. 4]

Status: This matter will be going forward.

4. Application for Order Approving Debtors' Retention of EPIQ Bankruptcy Solutions, LLC as Claims, Notice and Balloting Agent Pursuant to 28 U.S.C. § 156(c), Bankruptcy Rule 2002(f) and Local Rule 2002-1(f) [Docket No. 5]

Status: This matter will be going forward.

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<sup>2</sup> Please note that the hearing will be held before The Honorable Brendan L. Shannon, United States Bankruptcy Court for the District of Delaware, 824 N. Market Street, 6<sup>th</sup> Floor, Courtroom No. 1, Wilmington, Delaware 19801.

Date Filed

7/7/08

Docket No.

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5. Motion of the Debtors for an Order (I) Approving Continued Use of Cash Management System, (II) Authorizing Use of Prepetition Bank Accounts and Existing Checks, (III) Waiving the Requirements of 11 U.S.C. § 345(b) on an Interim Basis; and (IV) Granting Administrative Expense Status to Postpetition Intercompany Claims [Docket No. 6]

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8. Motion for an Order (A) Authorizing, But Not Directing, the Debtors to Pay Certain Pre-Petition Wages, Compensation and Employee Benefits and Continue Payment of Wages, Compensation and Employee Benefits in the Ordinary Course of Business; and (B) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay all Checks Presented for Payment and to Honor All Funds Transfer Requests Made by the Debtors Relating to the Foregoing [Docket No. 9]

Status: This matter will be going forward.

9. Debtors' Motion for Order Authorizing Debtors to Honor Certain Prepetition Obligations to Customers and to Continue Customer Programs [Docket No. 10]

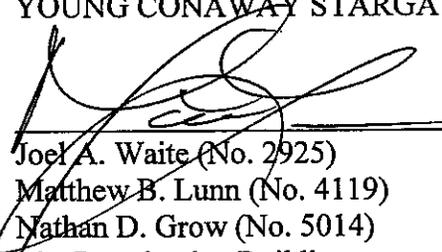
Status: This matter will be going forward.

10. Motion of the Debtors Pursuant to Sections 105(a), 361, 362, 363 and 552 of the Bankruptcy Code and Bankruptcy Rule 4001(b) for Entry of Interim and Final Orders (A) Authorizing Use of Cash Collateral (B) Granting Adequate Protection; and (C) Scheduling a Final Hearing on the Motion [Docket No. 11]

Status: This matter will be going forward.

Dated: Wilmington, Delaware  
July 7, 2008

YOUNG CONAWAY STARGATT & TAYLOR, LLP



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: Joint Administration Pending  
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**MOTION OF THE DEBTORS PURSUANT TO  
SECTIONS 105(a), 361, 362, 363 AND 552 OF THE BANKRUPTCY CODE AND  
BANKRUPTCY RULE 4001(b) FOR ENTRY OF INTERIM AND FINAL ORDERS (A)  
AUTHORIZING USE OF CASH COLLATERAL (B) GRANTING ADEQUATE  
PROTECTION; AND (C) SCHEDULING A FINAL HEARING ON THE MOTION**

National Dry Cleaners Inc. ("NDCI"), a Delaware corporation, and certain of its direct and indirect affiliates and subsidiaries, the debtors and debtors in possession in the above cases (collectively, the "Debtors"),<sup>1</sup> submit this motion (the "Motion") for the entry of (i) an interim order, substantially in the form of Exhibit A hereto (the "Interim Order"), (a) authorizing the Debtors to use Cash Collateral (as defined below), pursuant to sections 105(a), 361, 362, 363 and 552 of title 11 of the United States Code (the "Bankruptcy Code"), Rule 4001(b) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Local Rule 4001-2 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the "Local Rules"), in connection with their business operations, (b) granting adequate protection to the Lender (as defined below), and (c) scheduling a final hearing on the Motion (the "Final Hearing") and (ii) a final order (the "Final Order") on substantially the

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same terms as the Interim Order. In support of this Motion, the Debtors rely upon and incorporate by reference the Declaration of Kevin M. Lyng in Support of Chapter 11 Petitions and First Day Relief. In further support of this Motion, the Debtors respectfully represent as follows:

### **JURISDICTION**

1. The Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2). Venue is proper in this Court pursuant to 28 U.S.C. §§ 1408 and 1409. The statutory and legal predicates for the relief sought herein are sections 105(a), 361, 362, 363 and 552 of the Bankruptcy Code, Bankruptcy Rule 4001(b) and Local Rule 4001-2.

### **BACKGROUND**

#### *A. Introduction.*

2. On the date hereof (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. On the Petition Date, the Debtors also jointly filed motions or applications seeking certain typical "first day" relief, including entry of an order to have the Debtors' chapter 11 cases jointly administered.

3. The Debtors have continued in possession of their respective properties and have continued to operate their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

4. No request has been made for the appointment of a trustee or examiner, and no official committee has yet been established in these cases.

#### *B. Recapitalization and Primary Debt Structure.*

5. DELIA'S Cleaners Inc. (n/k/a NDCI) ("DELIA'S") was a party to a Securities Purchase and Revolving Credit Agreement with The Prudential Company of America

(“Prudential” or the “Lender”) dated as of April 21, 1999 (the “Credit Agreement”). In early 2001, DELIA’S defaulted under the terms of the Credit Agreement when it failed to make a principal payment under the Credit Agreement that was due on April 21, 2001. In addition to the failure to make the principal payment, DELIA’S was in violation of certain financial covenants under the Credit Agreement.

6. DELIA’S and Prudential agreed to a recapitalization of the company and restructuring of the indebtedness under the Credit Agreement which included an agreement to extend the time period for the payment of the amounts owed to Prudential and to cure the existing defaults under the Credit Agreement. As a result, on September 30, 2001, DELIA’S and Prudential entered into a recapitalization agreement (the “Recapitalization Agreement”) whereby, among other things, the Credit Agreement was terminated and DELIA’S agreed to enter into a new secured credit facility with Prudential as the lender.

7. As embodied in the terms of the Recapitalization Agreement, DELIA’S and Prudential entered into a new credit facility consisting of that certain Senior Note and Revolving Credit Agreement dated as of September 30, 2001 by and between Prudential and DELIA’S (as amended, the “Senior Note Agreement”) and that certain Subordinated Note Agreement dated as of September 30, 2001 by and among Prudential and DELIA’S (as amended, the “Subordinated Note Agreement”) and together with the Senior Note Agreement, as amended, the “Prepetition Credit Agreements”).

8. The Senior Note Agreement is comprised of (i) a 10.91% Senior Secured Term A Note in the principal amount of \$16,000,000 due November 30, 2008; (ii) a Senior Floating Rate Secured Term B Note in the principal amount of \$6,000,000 due November 30, 2008; and (iii) a Senior Floating Rate Secured Revolving Credit Note in the principal amount of

\$3,900,000 due November 30, 2006. The Subordinated Note Agreement is comprised of a 11% Senior Secured Subordinated Note in the principal amount of \$11,500,000 due November 30, 2008. On April 13, 2007, NDCI and Prudential agreed to certain limited waivers and amended the terms of the Prepetition Credit Agreements (the "Credit Facility Amendment") to, among other things, extend the due dates for the 10.91% Senior Secured Term A Note, the Senior Floating Rate Secured Term B Note, the Senior Floating Rate Secured Revolving Credit Note, and the 11% Senior Secured Subordinated Note to December 31, 2010. The Credit Facility Amendment, in addition to other waivers, reduced the revolver commitment under the Senior Floating Rate Secured Revolving Credit Note to \$1,000,000.

9. NDCI is the primary obligor under the Prepetition Credit Agreements and the indebtedness under the Prepetition Credit Agreements is guaranteed by each of the other Debtors. Pursuant to the terms of the Prepetition Credit Agreements, Prudential holds 100% of the nonvoting Class A Preferred Stock of NDCI and 61.04% of the voting Common Stock of NDCI, which represent 49.98% of the eligible voting stock of NDCI. Prudential additionally has the ability to exercise warrants that could elevate the percentage of eligible voting stock to 72.88%. In addition, one of Prudential's employees is a member of the board of directors of NDCI (the "Board"), but was excluded from the Board's deliberation and approval of the terms of the agreement with Prudential for the use of cash collateral. Prudential has asserted a lien on substantially all of the Debtors' assets. Prudential has not received principal or interest payments under the Prepetition Credit Agreements from the Debtors since September 2007. As of June 30, 2008, the amount owed to Prudential under the Prepetition Credit Agreements was not less than \$34,606,278.

10. For the year ending December 28, 2007, the net sales of the Debtors' operations, on a consolidated basis, was \$70.2 million.

*C. Events Leading to the Debtors' Bankruptcy Filing.*

11. A variety of factors have led to the Debtors' current liquidity crisis and thus, the commencement of these chapter 11 cases. The dry cleaning industry is a highly competitive industry marked by over capacity with numerous competitors operating in virtually the same geographic location. Over the past few years, the Debtors have attempted to stay competitive, but have suffered from certain operational difficulties and lack of liquidity caused by, among other things, increased energy costs, landlord indemnification claims for legacy environmental remediation costs, claims asserted by state environmental agencies related to clean-up costs, the costs associated with environmental-related litigation, a decline in discretionary spending among the Debtors' core customers, and the general economic downturn. These issues have significantly hampered the Debtors' ability to service the debt under the Prepetition Credit Agreements and manage their trade debt.

12. The Debtors have been actively attempting to address their financial and operating issues for the past several years. As the Debtors reviewed their financial issues and the available alternatives, it became apparent that the liquidation of their assets through orderly sales within chapter 11 was the best option for the Debtors to maximize the value of their businesses. The Debtors have commenced these chapter 11 cases in order to maintain and preserve their assets and to market their businesses and consummate sales of assets, as soon as practicable, to maximize recoveries. Prior to commencing these cases, the Debtors marketed their assets which has resulted in certain expressions of interest for various assets and components of their businesses. The marketing efforts are continuing with the assistance of the Debtors' investment

banker. However, due to their liquidity constraints, the contemplated sale transactions could not be consummated prior to the Petition Date. Accordingly, the Debtors have filed these chapter 11 cases to maximize the value of their assets through orderly sales for the benefit of their stakeholders.

**DEBTORS' REQUEST TO USE CASH COLLATERAL**

13. It is essential to the Debtors' efforts to preserve and maximize the value of their assets through orderly sales that they obtain the authority to use the cash derived from operating the businesses claimed as collateral by the Lender (the "Cash Collateral"). The Cash Collateral will be used to pay for expenses identified in the budget attached as Exhibit A to the Interim Order (the "Budget"). Such expenses include, but are not limited to, employee payroll and other benefits, rent, and other expenses related to the Debtors' business operations. The Budget prepared by the Debtors, with the assistance of their financial advisor, shows the Debtors' projected expenditures during the period from the Petition Date to October 3, 2008 and estimates the period in which such cash expenditures will need to be paid. While the Debtors believe that the use of Cash Collateral will be sufficient to fund their operations in the short term, they have requested and are in discussions with the Lender about providing postpetition financing to the extent additional liquidity is required to fund their operations through the contemplated sales process.

14. The reasons supporting the Debtors' need to use Cash Collateral during the course of the Debtors' cases are compelling. As the Debtors have extremely limited funds, use of Cash Collateral is required to fund the day-to-day operating expenses, including payments to employees and sustaining the going concern value of the Debtors' businesses. Unless the Court authorizes use of the Cash Collateral, the Debtors will be unable to pay for services and

expenses necessary to preserve and maximize the value of the Debtors' assets while negotiating and pursuing orderly sales. Indeed, absent sufficient funds to support the Debtors' business operations, the value of the Debtors' assets may quickly erode. Therefore, authorization to use Cash Collateral pending the Final Hearing is in the best interests of the Debtors' estates and creditors.

15. The Debtors and the Lender have reached an agreement with respect to the Debtors' use of Cash Collateral upon the terms and conditions set forth in the Interim Order and summarized below. The Debtors' consensual use of the Cash Collateral is subject to the terms and conditions stated in the Interim Order, which include the following key provisions:<sup>2</sup>

- (a) Term. The Debtors' ability to use Cash Collateral automatically expires upon the earlier of (i) August 15, 2008 at 5:00 p.m. (Eastern time), or (ii) regardless of whether the Debtors have expended the entire amount set forth in the Budget, the failure by the Debtors to comply with any provision of the Interim Order or the Final Order, which failure is not remedied within three business days after such failure.
- (b) Budget. The use Cash Collateral shall be solely for the purposes of funding the types and corresponding amounts of itemized expenditures contained in the Budget. For each period set forth in the Budget (on a cumulative basis), the Debtors' actual cash disbursements for such period shall not exceed the total cumulative amount for such periods as set forth in the Budget by more than 10%, (expenditures of the Debtors under any line item of the Budget for any period may exceed the expenditure amount budgeted for such line item so long as aggregate total expenditures during the term of this order do not exceed the total cumulative amount budgeted for such periods by more than 10%).
- (c) Reporting. On Wednesday of each week beginning on July 16, 2008 through the Termination Date, the Debtors shall provide the Lender with a written accounting for (i) all Cash Collateral in their possession, custody or control, including the sources thereof and

<sup>2</sup> The summary of key provisions of the Interim Order is qualified by the terms of the Interim Order. In the event of an inconsistency, the terms of the Interim Order shall control. Unless otherwise defined herein, all capitalized terms shall have the meanings ascribed to them in the Interim Order.

(ii) any Cash Collateral expended and the purposes for which it was expended pursuant to this Order through Friday of the prior week.

- (d) Replacement Liens. As adequate protection, the Debtors will grant Replacement Liens to the Lender on all property and assets of the Debtors, and all proceeds, rents or profits thereof that were either subject to the Prepetition Liens or acquired as a result of the Debtors' use and/or expenditure of Cash Collateral.
- (e) 507(b) Priority Claim. As additional adequate protection, the Lender shall have a priority claim to the fullest extent permitted under section 507(b) of the Bankruptcy Code and such claim shall have priority over, and be senior to, all other administrative claims, subject to the Carve Out.
- (f) Carve-out. The Lender agreed to carve out the following amounts, which will be payable and chargeable against the Cash Collateral: (a) amounts payable pursuant to 28 U.S.C. § 1930(a)(6) and any fees payable to the clerk of the Court; (b) payments due under the Debtors' Non-Executive Severance Plan Dated July 2, 2008 and the Debtors' Executive Incentive Plan Dated July 2, 2008; (c) fees and expenses owing to Hilco from the proceeds of sales of the Debtors' assets pursuant to the terms of the engagement letter dated July 1, 2008 between the Debtors and Hilco; and (d) allowed fees and expenses of attorneys, accountants, and other professionals retained in the Chapter 11 Cases pursuant to sections 327 and 1103 of the Bankruptcy Code (other than Hilco), in an amount not to exceed \$250,000 outstanding in the aggregate at any time with respect to the professionals retained by the Debtors in these chapter 11 cases and \$50,000 outstanding in the aggregate at any time with respect to the professionals retained by any Committee in these Chapter 11 cases, provided that such amounts will not be reduced by interim payments made prior to an event of default.
- (g) Remedies. The Lender will have the right, notwithstanding the provisions of section 362 of the Bankruptcy Code and without any further order of, or application or motion to, the Court, in the event of the occurrence of an Event of Default, and at all times thereafter, and without any restriction or restraint by any stay under section 362 of the Bankruptcy Code against the enforcement of the liens and security interests or any other rights granted to the Lender pursuant to the Interim Order, upon written notice to the Debtors as provided in this Interim Order: (i) terminate the Lender's agreement to allow the Debtors to use all or any portion of the Cash Collateral, (b) declare the Prepetition Indebtedness to

be immediately due and payable, and (c) take any and all actions and exercise any and all rights and remedies allowed under the Prepetition Credit Agreements, which the Lender may deem appropriate.

16. The Interim Order additionally contains certain acknowledgements and stipulations by the Debtors concerning the amount due and owing under the Prepetition Credit Agreements and the validity and perfection of the Lender's prepetition liens in the Debtors' assets. The Interim Order further provides that those stipulations and acknowledgments (which appear in paragraph E), shall be binding on any committee and all other parties in interest unless an appropriate complaint or objection is filed prior to 75 days after entry of the Interim Order (or if a committee is appointed at the Committee Formation Meeting, within 60 days of its appointment).

#### **RELIEF REQUESTED**

17. The Debtors seek: (a) authority pursuant to sections 105(a), 361, 362, 363, 364 and 552 of the Bankruptcy Code for use of the Cash Collateral pursuant to the terms of the Interim Order; (b) to grant to the Lender adequate protection in respect of their interests in the Prepetition Collateral and for claims arising from the diminution of value of the Lenders' collateral from the Debtors' use of the Cash Collateral, and (c) a final hearing on this motion (the "Final Hearing").

18. Bankruptcy Rule 4001(d) provides that the Court may fix the time within which objections to the approval of an agreement relating to cash collateral and adequate protection pursuant to section 363 of the Bankruptcy Code must be filed. In addition, the Court is empowered to conduct an expedited preliminary hearing on the motion and authorize the use of cash collateral to the extent necessary to avoid immediate and irreparable harm to the debtor's estate.

## ARGUMENT

19. The Lender asserts that the cash received by the Debtors generated from the operation of their businesses in the ordinary course constitutes cash collateral. The Debtors' use of the Cash Collateral is necessary to maintain and maximize the value of the Debtors' assets while pursuing, negotiating and consummating the sales of assets. Absent the use of Cash Collateral, the Debtors will be unable to operate businesses in a manner necessary to maintain and maximize the value of the assets pending the anticipated sales.

20. Unless the Debtors have access to the Cash Collateral, the value of the Lender's collateral will be seriously diminished. Simply stated, without the use of the Cash Collateral as requested by this Motion, the Debtors will suffer immediate and irreparable harm, their business operations will cease and the operational value of the business will not be realized.

21. Bankruptcy Rule 4001(b) permits a court to approve a debtor's request for use of cash collateral during the 15-day period following the filing of a motion requesting authorization to use cash collateral, "only . . . as is necessary to avoid immediate and irreparable harm to the estate pending a final hearing." Bankruptcy Rule 4001(b)(2). In examining requests for interim relief under this rule, courts apply the same business judgment standard applicable to other business decisions. *See, e.g., In re Simasko Production Co.*, 47 B.R. 444, 449 (D. Co. 1985), 47 B.R. at 449; *see also In re Ames Dep't Stores Inc.*, 115 B.R. 34, 38 (Bank S.D.N.Y. 1990) 115 B.R. at 38. After the 15-day period, the request for use of cash collateral is not limited to those amounts necessary to prevent destruction of the debtor's business. A debtor is entitled to use cash collateral that it believes prudent in the operation of its business. *See, e.g., Simasko*, 47 B.R. at 449; *Ames Dep't Stores*, 115 B.R. at 36.

22. Section 363(c)(2) of the Bankruptcy Code provides that a debtor may not use cash collateral unless "(A) each entity that has an interest in such cash collateral consents; or

(B) the court, after notice and hearing, authorizes such use, sale, or lease in accordance with the provisions of this section.” 11 U.S.C. § 363(c)(2). Further, Bankruptcy Code section 363(e) provides, in pertinent part, that “on request of an entity that has an interest in property . . . proposed to be used, sold, or leased, by the trustee, the court, with or without a hearing, shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest.” 11 U.S.C. § 363(e). Examples of adequate protection are provided in section 361 of the Bankruptcy Code and include, but are not limited to: (a) lump sum or periodic cash payments to the extent that such use will result in a decrease in value of such entity’s interest in the property; (b) provisions for an additional or replacement lien to the extent that the use of the property will cause a decrease in the value of such entity’s interest in the property; and (c) such other relief as will result in the realization by the entity of the indubitable equivalent of such entity’s interest in the property. 11 U.S.C. § 361.

23. Courts have found a secured creditor adequately protected where either a sufficient equity cushion in the collateral exists to protect the secured creditor, or the level of the secured creditor’s collateral is not decreasing over time. *In re Dynaco Corp.*, 162 B.R. 389, 394 (Bankr. D. N.H. 1993) (secured creditor was adequately protected and debtor was authorized to use cash collateral where level of collateral was not declining). *In re May*, 169 B.R. 462 (Bankr. S.D. Ga. 1994) (equity cushion in property may provide creditor with adequate protection of its interest, sufficient to permit the debtor to use cash collateral). *In re Southwest Assocs.*, 140 B.R. 360 (Bankr. S.D.N.Y. 1992) (same). Even in those instances where its equity cushion is fluctuating, a secured creditor is adequately protected so long as an adequate cushion remains over and above its secured claim. *Dynaco Corp.*, 162 B.R. at 394 (Bankr. D. N.H. 1993).

24. Nevertheless, adequate protection must be determined on a case-by-case basis, in light of the particular facts and circumstances presented, the focus being that which is required to protect a secured creditor from diminution in the value of its interest in the particular collateral during the use period. *In re Ledgmere Land Corp.*, 116 B.R. 338, 343 (Bankr. D. Mass. 1990); *Delbridge v. Production Credit Assoc. & Federal Land Bank*, 104 B.R. 824, 827 (E.D. Mich. 1989); *In re Kain*, 86 B.R. 506, 513 (Bankr. W.D. Mich. 1988); *In re Beker Indus. Corp.*, 58 B.R. 725, 736 (Bankr. S.D.N.Y. 1986).

25. As more fully set forth in the Interim Order, as adequate protection for the use of Cash Collateral, the Debtors will be providing the Lender with, *inter alia*, replacement liens on all property and assets of the Debtors, of any kind or nature whatsoever, whether now owned or hereafter acquired by any of the Debtors, and all proceeds, rents or profits thereof that were either subject to the Prepetition Liens or acquired as a result of the Debtors' use and/or expenditure of Cash Collateral, subject only to nonavoidable, valid, enforceable and perfected liens and security interests in the assets of Debtors, as prepetition debtors, that existed on the Petition Date and that are not subject to avoidance pursuant to the Bankruptcy Code, in favor of third parties, that are superior in priority, after giving effect to any existing subordination or intercreditor arrangements, to the Prepetition Liens.

26. The terms and conditions on which the Debtors may use Cash Collateral have been carefully designed to meet the dual goals of sections 361 and 363 of the Bankruptcy Code. If the Interim Order is entered, the Debtors will have working capital to operate their businesses and thus, maximize the value of the assets for the benefit of their stakeholders. At the same time, the Lender will be adequately protected in a manner that it has agreed to for consenting to Debtors' use of Cash Collateral. Therefore, the Debtors respectfully submit that

the use of Cash Collateral on the terms set forth in the attached proposed Interim Order provides the Lenders with adequate protection and is in the best interest of the Debtors, their estates, their creditors and all parties in interest and therefore should be authorized by this Court.

**PROVISIONS THAT IMPLICATE LOCAL RULE 4001-2**

27. Local Rule 4001-2 requires that certain provisions contained in motions requesting use of cash collateral be highlighted. One such provision required to be highlighted is the disparate treatment of professionals retained by a statutory committee with respect to a professional fee carve out. Del. Bankr. LR 4001-2(a)(i)(F). Paragraph 10 of the Interim Order provides, among other things, that the Carve-Out Amount for the Debtors' professionals, other than Hilco, shall not exceed \$250,000 while the Carve-Out Amount for professionals retained by any Committee in the Debtors' chapter 11 cases shall not exceed \$50,000. Debtors submit that the disparate treatment is justified given the facts and circumstances of these chapter 11 cases and the size of carveout acceptable to the Lender. Specifically, these chapter 11 cases were filed to liquidate the Debtors' assets through an orderly sale processes. As a result, the Debtors' professionals will be required to expend significant time and resources pursuing, negotiating and consummating sales under a number of purchase agreements with different purchasers in order to maximize the value of the assets for the benefit of all stakeholders. The Committee, on the other hand, should have a substantially more limited role and will neither have the responsibility for nor the costs associated with the consummation of the numerous sales. Accordingly, the Debtors submit that the disparate treatment is justified by the facts and circumstances of these chapter 11 cases

28. Other than the Carve Out provision in paragraph 10 of the Interim Order, the Debtors do not believe that the Interim Order contains any other provisions requiring special

disclosure under Local Rule 4001-2. Nonetheless, the Debtors highlight that pursuant to paragraph 16 of the Interim Order, the Lender is requiring a waiver of rights under section 506(c) of the Bankruptcy Code in the Final Order.

### **REQUEST FOR FINAL HEARING**

29. Pursuant to Bankruptcy Rule 4001(b)(2), the Debtors request the Court to set a date for the Final Hearing.

### **NOTICE**

30. Notice of this Motion and the interim hearing will be given by hand delivery or facsimile to: (i) the United States Trustee for the District of Delaware; (ii) counsel to Prudential; and (iii) the Debtors' list of thirty (30) largest unsecured creditors on a consolidated basis. The Debtors submit that, under the circumstances, no other or further notice is required. Following entry of the interim order, notice of the final hearing will be given as provided for in the interim order.

WHEREFORE, the Debtors respectfully request entry of the Interim Order, in the form annexed hereto as Exhibit A, granting the Debtors the relief requested herein, and such other and further relief as is just.

Dated: Wilmington, Delaware  
July 7, 2008

YOUNG CONAWAY STARGATT & TAYLOR, LLP



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Joel A. White (No. 2925)  
Matthew B. Lunn (No. 4119)  
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Facsimile: (302) 571-1253

Proposed Counsel to the Debtors  
and Debtors in Possession

**EXHIBIT A**  
**INTERIM ORDER**

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF DELAWARE**

In re:	)	CHAPTER 11
	)	
NATIONAL DRY CLEANERS	)	Case Nos. 08-_____
INC., <i>et al.</i> ,	)	through 08-_____
	)	
Debtors.	)	(Jointly Administered
_____	)	Under Case No. 08-_____)

**INTERIM ORDER PURSUANT TO SECTIONS 105(a), 362, AND 363 OF THE  
BANKRUPTCY CODE AUTHORIZING USE OF  
CASH COLLATERAL AND GRANTING RELATED RELIEF**

Upon the Motion Pursuant to Sections 105(a), 361, 362, 363 and 552 of the Bankruptcy Code and Bankruptcy Rule 4001(b) for Entry of Interim and Final Orders (a) Authorizing Use of Cash Collateral, (b) Granting Adequate Protection; and (c) Scheduling a Final Hearing on the Motion, dated July 7, 2008 (the "Motion"), of the above-captioned debtors and debtors in possession (collectively, the "Debtors")<sup>1</sup> seeking, *inter alia*: (i) authorization to use Cash Collateral (as defined below) of the Lender<sup>2</sup> and grant Replacement Liens and the Superpriority Claim (as defined below) to and for the benefit of the Lender for (a) the use of Cash Collateral

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<sup>1</sup> The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: National Dry Cleaners Inc. (6722), DCI USA, Inc. (3721), DCI Management Group, Ltd. (a California corporation) (2299), DCI Management Group, Ltd. (an Arizona corporation) (7724), Al Phillips The Cleaner, Inc. (0976), Capitol Varsity, Inc. (9357), DryClean USA of South Carolina, Inc. (3822), DryClean U.S.A. Coastal, Inc. (3612), DryClean USA of Georgia, Inc. (1817), Tuchman Cleaners, Inc. (5121), DCI Management Group, Inc. (0277), and Pride Cleaners, Inc. (9852). The address for the Debtors is 11811 N. Tatum Blvd., #3031, Phoenix, Arizona 85028.

<sup>2</sup> Lender shall mean The Prudential Insurance Company of America ("Prudential") in its capacity as lender under the Prepetition Credit Agreements (as defined herein). As noted in the Motion, Prudential is an equity holder of National Dry Cleaners Inc. and has an employee that is a member of National Dry Cleaners Inc.'s Board of Directors. The Debtors represent, however, that the Prudential employee was excluded from the Board's deliberation and approval of the terms of the agreement with Prudential for the use of cash collateral.

and (b) diminution in value of Cash Collateral; and (ii) requesting that an interim hearing (the “**Interim Hearing**”), pursuant to Rules 2001 and 4001 of the Federal Rules of Bankruptcy Procedure, be held before the Court on an emergency basis to consider entry of this Interim Order, and further requesting that a final hearing (the “**Final Hearing**”) thereafter be held before the Court to consider entry of a final order (the “**Final Order**”) authorizing the use of Cash Collateral pursuant to the notice and other provisions set forth in the Motion.

The Interim Hearing having been held on July \_\_, 2008, and upon all of the pleadings filed with the Court and upon the record of the Interim Hearing, and after due deliberation and consideration, and sufficient cause appearing therefor;

**THE COURT HEREBY MAKES THE FOLLOWING FINDINGS:**

A. Commencement of Cases. On July 7, 2008 (the “**Petition Date**”), the Debtors filed petitions for relief (collectively, the “**Petitions**”) under Chapter 11 of the Bankruptcy Code commencing the above-captioned chapter 11 cases (the “**Chapter 11 Cases**”). The Debtors continue to operate their businesses and manage their assets as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

B. No Creditors’ Committee. No creditors’ committee has yet been appointed in the Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code. Any creditors’ committee subsequently appointed shall hereinafter be referred to as the “**Committee.**”

C. Jurisdiction and Venue. This Court has jurisdiction over these proceedings and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334 and this is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue for proceedings on the Motion is proper in this Court pursuant to 28 U.S.C. § 1409.

D. Notice. The Debtors gave notice of the Interim Hearing by facsimile to (a) the United States Trustee, (b) counsel for the Lender, and (c) the thirty (30) largest unsecured

creditors of the Debtors, determined on a consolidated basis. Such notice satisfies Bankruptcy Rule 4001(c) and (d).

E. Prepetition Indebtedness to the Lender and Security Therefor. Lender extended prepetition financing to the Debtors pursuant to the terms of those certain Senior Note and Revolving Credit Agreement, dated as of September 30, 2001 ( as amended, the “**Senior Note Agreement**”), Subordinated Note Agreement dated as of September 30, 2001 (as amended, the “**Subordinated Note Agreement**”), and Senior Guaranty Agreement, dated September 30, 2001 (as amended, the “**Guaranty Agreement**” and, collectively the “**Prepetition Credit Agreements**”) among Debtor National Dry Cleaning Inc. (“**NDCI**”), as borrower, and the remaining Debtors as guarantors, and Lender. The Debtors acknowledge that in connection with the Prepetition Credit Agreements, the Debtors granted Lender liens (the “**Prepetition Liens**”) on substantially all the Debtors’ assets, and that the Lender’s Prepetition Liens are valid, perfected, enforceable, nonavoidable liens and security interests in all assets of the Debtors existing as of the commencement of these cases other than (1) owned real property; (2) leasehold interests; (3) motor vehicles and similar equipment for which a notation on the certificate of title is required for perfection; and (4) cash (including amounts in deposit accounts), if any, that is not proceeds of Lenders’ collateral received by the Debtors within the twenty (20) days preceding the Petition Date (items (1), (2), (3), and (4) are collectively defined as the “**Unperfected Collateral**”) (all assets of the Debtors existing as of the commencement of these cases, other than the Unperfected Collateral, shall hereinafter be referred to as the “**Prepetition Collateral**”). The portion of the Prepetition Collateral in the form of cash and all cash proceeds of the Prepetition Collateral received after the commencement of these cases, shall be referred to hereinafter as the “**Cash Collateral**”. The Debtors have acknowledged that as of the Petition

Date they were indebted to the Lender in an amount of not less than \$34,606,278 (the "Prepetition Indebtedness") pursuant to the Prepetition Credit Agreements.<sup>3</sup> and the Prepetition Indebtedness is due and payable without counterclaim, setoff or defense of any kind or nature which would in any way affect the validity, enforceability and nonavoidability of the Lender's prepetition claims against the Debtors and the Estates, the Prepetition Indebtedness, the Prepetition Liens in the Prepetition Collateral or reduce or affect the Debtors' obligation to repay the Prepetition Indebtedness.

F. Necessity of Financing and Use of Cash Collateral. The ability of the Debtors to finance their operations requires immediate access to the Cash Collateral, the absence of which would immediately and irreparably harm the Debtors, the Estates, and their creditors. The ability to use the Cash Collateral will allow the Debtors to continue the operation of their businesses and administer and preserve the value of the Estates for the benefit of the Estates and creditors. Substantially all of the Debtors' cash on hand and cash flow from operations consists of proceeds of prepetition accounts or inventory that is subject to the Prepetition Liens. If the Debtors are not able to use Cash Collateral as provided herein they will be unable to fund payroll and other operating expenses that are necessary to maintain the value of the Estates and to enable Debtors to maximize recoveries for all parties in interest.

G. Property of the Estate. Each item of Cash Collateral constitutes property of the estate of at least one of the Debtors.

H. Cause. The entry of this order will minimize disruption of the Debtors' business and will preserve and maintain the assets of each Debtor's estate, will avoid immediate and irreparable harm to, and is in the best interest of, the Debtors, their creditors and the Estates.

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<sup>3</sup> This amount may not include all principal, interest, fees and expenses owed to the

**THEREFORE, IT IS HEREBY ORDERED THAT:**

1. The Motion is granted in accordance with the terms of this Interim Order. Any objections to the Motion with respect to entry of this Interim Order that have not been withdrawn, waived, or settled are hereby denied and overruled.

**AUTHORIZING USE OF CASH COLLATERAL**

2. The Debtors are authorized to use Cash Collateral until the Termination Date (as defined below) solely to fund the types and corresponding amounts (subject to permitted variances) of itemized expenditures contained in the budget attached hereto as Exhibit "A" (the "Budget"). For each period set forth in the Budget (on a cumulative basis), the Debtors' actual cash disbursements for such periods shall not exceed the total cumulative amount for such periods as set forth in the Budget by more than 10%, (expenditures of the Debtors under any line item of the Budget for any period may exceed the expenditure amount budgeted for such line item so long as aggregate total expenditures during the term of this order do not exceed the total cumulative amount budgeted for such periods by more than 10%). Through the Termination Date, Lender and Debtors may, in their sole discretion, agree to increase cash disbursements and operating expenditures in the Budget, and upon written agreement by the Lender to so modify the Budget, Debtors will be authorized to use Cash Collateral in such amount without the need for any further order of the Court. It is understood that the Lender may assume that the Debtors will comply with this requirement and Lender shall have no duty to monitor such compliance.

3. The Debtors' authority to use Cash Collateral without further order of the Court issued after notice and hearing or the written consent of Lender shall automatically expire upon the earlier of (i) August 15, 2008 at 5:00 p.m. (Eastern time), or (ii) regardless of whether the

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Lender.

Debtors have expended the entire amount set forth in the Budget, the failure by the Debtors to comply with any provision of this Interim Order or the Final Order (such failure being an "Event of Default"), which failure is not remedied within three business days after such failure (the earlier of such date, the "Termination Date"). Upon the Termination Date, the Debtors' authority to use or spend any further Cash Collateral shall automatically terminate unless and until the Debtors obtain the written consent of Lender or a further order of this Court issued after notice and an opportunity for a hearing, provided, however, that notwithstanding the occurrence of the Termination Date, the Debtors shall be authorized to use Cash Collateral to pay those budgeted amounts that have been incurred prior to the Termination Date.

4. On Wednesday of each week beginning on July 16, 2008, through the Termination Date, the Debtors shall provide Lender with a written accounting for (i) all Cash Collateral in their possession, custody or control, including the sources thereof and (ii) any Cash Collateral expended and the purposes for which it was expended pursuant to this Order through Friday of the prior week. Debtors shall track and identify the proceeds of any Cash Collateral that are created after the Petition Date that is derived from proceeds of Cash Collateral and, therefore, subject to the replacement lien.

5. The Debtors shall not (i) compromise, adjust or modify the amount of any of Debtors' accounts receivable (by way of discount, offset or otherwise) or (ii) sell any item of Cash Collateral outside the ordinary course of business according to ordinary business terms without Lender's written permission or Court approval issued after notice to Lender and an opportunity for a hearing.

6. The stipulations and acknowledgements of the Debtors contained in paragraph E hereof shall be without prejudice to the right of the Creditors' Committee or any party in interest

to seek to disallow the Lender's claims, avoid any security or collateral interest of Lender in the Prepetition Collateral or Cash Collateral and to seek the disgorgement of all or any part of any payment made by the Debtors to the Lender prior to the Petition Date. The Creditors' Committee or other party in interest shall (i) have seventy-five (75) calendar days from the date of this Interim Order or (ii) if a Committee is formed at the Committee Formation Meeting, sixty (60) calendar days from the date of its appointment within which to file an objection or commence an adversary proceeding (as may be appropriate) with respect to the Lender's prepetition claims or security interest arising under the Prepetition Credit Agreements, payments made to the Lender on account of Prepetition Indebtedness, or any other claims or causes of action as to the Lender. In the event that no objection or complaint, as applicable, is timely filed, (i) the stipulations and acknowledgements of the Debtors set forth in Paragraph E hereof shall become final and binding on all parties (including the Creditors' Committee, any creditor, and any subsequently appointed trustee) and (ii) the Lender's liens in the Prepetition Collateral shall be valid, perfect, nonavoidable, and in full force and effect, not subject to any claims, counterclaims, setoffs, or defenses.

7. As adequate protection for any Cash Collateral expended by the Debtors pursuant to this Interim Order, Lender is hereby granted, pursuant to Sections 361(1) and 363(e) of the Bankruptcy Code, a lien (the "**Replacement Lien**") to secure an amount of Lender's prepetition claims equal to the aggregate diminution in the value of Prepetition Collateral resulting from the Debtors' use of the Cash Collateral (whether as a result of physical deterioration, consumption, use, shrinkage, decline in market value or otherwise).<sup>4</sup> The Replacement Lien shall be subject only to nonavoidable, valid, enforceable and perfected liens and security interests in the assets of

Debtors, as prepetition debtors, that existed on the Petition Date and that are not subject to avoidance pursuant to the Bankruptcy Code, in favor of third parties, that are superior in priority, after giving effect to any existing subordination or intercreditor arrangements, to the Prepetition Liens. The Replacement Lien shall attach to all property and assets of the Debtors, of any kind or nature whatsoever, whether now owned or hereafter acquired by any Debtor, and all proceeds, rents or profits thereof that were either subject to the Prepetition Liens or acquired as a result of the Debtors' use and/or expenditure of Cash Collateral. Lender's Replacement Lien hereunder shall at all times be senior to the rights of the Debtors and any successor trustee or estate representative in these cases or any subsequent cases or proceedings under the Bankruptcy Code. Any security interest or lien upon the Prepetition Collateral or Cash Collateral that is avoided or otherwise preserved for the benefit of any Debtor's estate under Section 551 or any other provision of the Bankruptcy Code shall be subordinate to the Replacement Lien in such asset.

8. The Replacement Lien granted to Lender by this Interim Order shall be perfected by operation of law upon execution and entry of this Interim Order by the Court. Lender shall not be required to take any action, including, without limitation, the filing of financing statements, mortgages, deeds of trust or other documents, in order to validate or perfect such Replacement Lien. If the Lender, in its sole discretion, nonetheless chooses to file financing statements, mortgages, deeds of trust or other documents or otherwise confirm perfection of such security interests and liens, Lender is authorized to effect such filings and recordations, and all such financing statements, deeds of trust or similar documents shall be deemed to have been filed or recorded as of the Petition Date.

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<sup>4</sup> For purposes of the Interim Order and Final Order, the Prepetition Collateral is deemed to be segregated and sequestered.

9. In addition to the Replacement Lien, the Lender shall have a priority claim to the fullest extent permitted under Section 507(b) of the Bankruptcy Code (the “**Superpriority Claim**”), and such claim shall have priority over, and be senior to, all other administrative claims subject only to the Carve Out.

**CARVE OUT**

10. Notwithstanding the foregoing provisions of this Interim Order, the following amounts shall be payable from and chargeable against the Prepetition Collateral and Cash Collateral (and prior to the liens and superpriority claims granted to the Lender herein) (the “**Carve Out**”): (a) amounts payable pursuant to 28 U.S.C. § 1930(a)(6) and any fees payable to the clerk of the Court (collectively, the “**UST/Clerk Fees**”); (b) payments due under the Debtors’ Non-Executive Severance Plan Dated July 2, 2008 and the Debtors’ Executive Incentive Plan Dated July 2, 2008; (c) fees and expenses owing to Hilco Corporate Finance, LLC and Hilco Real Estate, LLC (collectively, “**Hilco**”) from the proceeds of sales of the Debtors’ assets pursuant to the terms of the engagement letter dated July 1, 2008 between the Debtors and Hilco; and (d) allowed fees and expenses of attorneys, accountants, and other professionals retained in the Chapter 11 Cases pursuant to sections 327 and 1103 of the Bankruptcy Code (other than Hilco), except to the extent such fees and expenses are incurred for services rendered in connection with the prosecution of or to finance in any way actions, claims, or causes of action against the Lender or in improperly preventing or hindering or unreasonably delaying, whether directly or indirectly, the Lender’s assertion or enforcement of its liens or realization upon Cash Collateral (the “**Priority Professional Expenses**”), but the amount entitled to priority under this sub-clause shall not exceed \$250,000 outstanding in the aggregate at any time with respect to the professionals retained by the Debtors in these chapter 11 cases and \$50,000

outstanding in the aggregate at any time with respect to the professionals retained by any Committee in these Chapter 11 cases, (the "Carve Out Amount"); provided, that after the Lender has provided notice to the Debtors pursuant to the terms of this Interim Order of the occurrence of an Event of Default by the Debtors in any of their obligations under this Interim Order or the Final Order, any payments actually made to such professionals after the occurrence of such Event of Default under sections 330 and 331 of the Bankruptcy Code or otherwise, to the extent allowed by final order of the Court, shall reduce the Carve Out Amount on a dollar for dollar basis. Nothing contained herein shall be construed as consent to the allowance of any fees and expenses referred to above and shall not affect any right of the Lender to object to the reasonableness of such amounts.

11. So long as no Event of Default shall have occurred, the Debtors shall be permitted to pay the Priority Professional Expenses of the kind specified in section 503(b) of the Bankruptcy Code allowed under sections 330 and 331 of the Bankruptcy Code, as the same may be due and payable, within the parameters of this Interim Order and the available Cash Collateral, without reduction of the Carve Out Amount; provided the aggregate of any such payments made to professionals on or after the Lender has given notice of the occurrence of an Event of Default hereunder shall not exceed the Carve Out Amount. The Debtors shall not be permitted under any circumstance to pay, from the Carve Out Amount or otherwise, any fees or expenses incurred by any party, including the Debtors or the Creditors' Committee, in connection with the filing and prosecution or defense of any claims, causes of action, adversary proceedings, or other litigation against the Lender, including, without limitation, challenging the amount, validity, priority or enforceability of, or asserting any defense, counterclaim, or offset to, the Prepetition Indebtedness or the liens granted to the Lender in respect thereof.

### REMEDIES

12. Notwithstanding the provisions of section 362 of the Bankruptcy Code and without any further order of, or application or motion to, the Court, in the event of the occurrence of an Event of Default, and at all times thereafter, and without any restriction or restraint by any stay under section 362 of the Bankruptcy Code against the enforcement of the liens and security interests or any other rights granted to the Lender pursuant to the Interim Order, the Lender may, by written notice to the Debtors as provided in this Interim Order: (i) terminate forthwith Lender's agreement to allow the Debtors to use all or any portion of the Cash Collateral, (b) declare the Prepetition Indebtedness to be immediately due and payable, and (c) take any and all actions and exercise any and all rights and remedies allowed under the Prepetition Credit Agreements, which the Lender may deem appropriate. Notwithstanding the foregoing, but without limiting any of the Lender's rights or remedies, the Lender shall not consummate foreclosure on Cash Collateral or otherwise seize control of any Prepetition Collateral or assets subject to the Replacement Lien absent five (5) business days' prior written notice of an Event of Default to the Debtors, counsel to the Debtors, counsel to any official committee appointed in the Chapter 11 Cases, and the United States Trustee.

13. The automatic stay imposed under section 362(a) of the Bankruptcy Code is hereby lifted to grant the Replacement Liens and security interests in Cash Collateral to the Lender contemplated by this Interim Order, and is further lifted to the extent of the exercise by the Lender of any rights or remedies under this Interim Order, subject only to the notice requirement set forth in the foregoing paragraph.

### MISCELLANEOUS PROVISIONS

14. All depository banks, blocked account banks, and credit card processors shall continue to comply for the benefit of the Lender, with the terms and conditions of any Locked

Account Agreement, DDA Notifications or Credit Card Notifications received or in existence as of the Petition Date whether or not, and as if, an additional agreement or notification is executed.

15. The Debtors and Lender may amend or waive any provisions of this Interim Order, provided that such amendment or waiver, in the judgment of the Debtors and the Lender is nonprejudicial to the rights of third parties and is not material. Except as otherwise provided herein, no waiver, modification, or amendment of any of the provisions hereof shall be effective unless set forth in writing, signed by the Debtors and the Lender and approved by the Court.

16. Subject to the entry of the Final Order, no costs or expenses of administration or other charge, lien, assessment or claim incurred between the Petition Date and the Termination Date of any person or entity shall be imposed against Lender, its claims or its collateral under section 506(c) of the Bankruptcy Code or otherwise, unless, prior to incurring such costs or expenses: (i) the party proposing to incur such costs or expense shall obtain the written consent of Lender allowing such charge to be imposed, or (ii) this Court enters an order allowing such charge to be imposed under section 506(c) of the Bankruptcy Code. Nothing in this Order shall constitute consent by Lender under the preceding sentence.

17. This Interim Order shall not be construed in any way as a waiver or relinquishment of any rights that the Lender may have to bring or be heard on any matter brought before this Court.

18. The terms of this Interim Order and any actions pursuant thereto, including but not limited to liens granted thereunder and the adequate protection granted hereby, shall survive the entry of any order: (i) confirming a plan of reorganization in this case; (ii) dismissing this case; (iii) converting this Chapter 11 case to any other Chapter under the Bankruptcy Code;

(iv) withdrawing the reference of this Chapter 11 Case from this Court; and (v) abstention from handling or retaining jurisdiction over this Chapter 11 case ion this Court.

19. The Debtors shall, on or before July, \_\_, 2008, serve by U.S. mail copies of the notice of entry of this Interim Order, together with a copy of this Interim Order to: (i) parties having been given notice of the Interim Hearing; (ii) any other party that has filed a request for special notice with this Court and served such request upon the Debtors' counsel; (iii) counsel to the Lenders, Alston & Bird LLP attn: Jason Watson, Esq.; (iv) counsel for any statutory committee; (v) all creditors who have recorded a UCC-1 Financing Statement on the Debtors' personal property or a lien on any of the Debtors' property; and (vi) the United States Trustee. The notice of the entry of this Interim Order shall state that any party in interest objecting to the entry of a Final Order on the Motion shall file written objections with the United States Bankruptcy Court Clerk for the District of Delaware no later than \_\_\_\_\_, 2008, which objections shall be served so that the same are received by no later than 4:00pm (Eastern Time) on such date by the United States Trustee, counsel for the Debtors, and counsel for the Lender.

20. The Motion is set for a further hearing on \_\_\_\_\_, 2008 at \_\_\_\_ . \_\_.m.

Dated: July \_\_, 2008

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UNITED STATES BANKRUPTCY JUDGE

**EXHIBIT A**

**Budget**

National Dry Cleaners, Inc.  
Cash Collateral Budget

	Week Ending 11-Jul-08	Week Ending 18-Jul-08	Week Ending 25-Jul-08	Week Ending 1-Aug-08	Week Ending 8-Aug-08	Week Ending 15-Aug-08	Week Ending 22-Aug-08
<b>Beginning Available Cash</b>	\$684,876	\$1,312,821	\$1,296,767	\$1,427,113	\$602,255	\$746,459	\$714,844
<b>Cash Receipts from Stores</b>	1,302,204	1,102,204	1,102,204	1,139,488	1,139,488	1,139,488	1,139,488
<b>Cash Disbursements</b>							
Payroll, Payroll Taxes, Union Health Ins & ADP Fees	466,500	743,500	466,500	700,500	466,500	751,500	466,500
Sales Taxes	-	-	132,000	-	-	-	41,000
Wright Express Delivery Van Fuel	-	70,000	-	-	70,000	-	-
Property & Casualty Insurance	-	-	-	-	-	-	-
Claims Agent Costs	-	25,000	-	-	-	25,000	-
U S Trustee Fees	-	-	-	-	-	-	-
Ch 11 Fees - Debtors' Professionals	-	-	-	-	-	-	-
Ch 11 Fees - Creditors' Committee Professionals	-	-	-	-	-	-	-
Occupancy, Rent, Taxes & Insurance	-	-	-	944,184	-	-	-
Environmental Testing Costs	-	31,400	-	62,800	-	-	-
Utilities & Utility Deposits	-	-	180,000	5,000	262,741	87,741	87,741
Supplies, Repairs & Maintenance	104,643	91,643	91,643	94,067	94,067	94,067	94,067
Admin, Acctg, MIS & Other Operating Costs	103,115	156,715	101,715	157,795	101,976	212,795	101,976
<b>Total Disbursements</b>	674,259	1,118,259	971,859	1,964,346	995,284	1,171,102	791,284
<b>Ending Available Cash</b>	<u>\$1,312,821</u>	<u>\$1,296,767</u>	<u>\$1,427,113</u>	<u>\$602,255</u>	<u>\$746,459</u>	<u>\$714,844</u>	<u>\$1,063,048</u>

National Dry Cleaners, Inc.  
Cash Collateral Budget

	Week Ending 29-Aug-08	Week Ending 5-Sep-08	Week Ending 12-Sep-08	Week Ending 19-Sep-08	Week Ending 26-Sep-08	Week Ending 3-Oct-08
<b>Beginning Available Cash</b>	\$1,063,048	\$106,936	\$493,827	\$205,518	\$596,691	\$565,582
<b>Cash Receipts from Stores</b>	1,149,696	1,149,696	949,696	1,249,696	1,149,696	1,233,766
<b>Cash Disbursements</b>						
Payroll, Payroll Taxes, Union Health Ins & ADP Fees	699,500	477,500	705,500	502,500	716,500	500,500
Sales Taxes	91,000	-	-	-	149,000	-
Wright Express Delivery Van Fuel	-	-	70,000	-	-	-
Property & Casualty Insurance	-	-	-	-	-	500,000
Claims Agent Costs	-	-	-	-	-	-
U S Trustee Fees	-	-	-	-	-	-
Ch 11 Fees - Debtors' Professionals	-	-	120,000	-	-	-
Ch 11 Fees - Creditors' Committee Professionals	-	-	32,000	-	-	-
Occupancy, Rent, Taxes & Insurance	944,184	-	-	-	-	944,184
Environmental Testing Costs	-	-	-	-	-	-
Utilities & Utility Deposits	118,527	88,527	73,127	96,227	118,527	95,000
Supplies, Repairs & Maintenance	94,730	94,730	81,730	101,230	94,730	100,195
Admin, Acctg, MIS & Other Operating Costs	157,866	102,048	155,648	158,566	102,048	158,455
<b>Total Disbursements</b>	<b>2,105,807</b>	<b>762,805</b>	<b>1,238,005</b>	<b>858,523</b>	<b>1,180,805</b>	<b>2,298,334</b>
<b>Ending Available Cash</b>	<b>\$106,936</b>	<b>\$493,827</b>	<b>\$205,518</b>	<b>\$596,691</b>	<b>\$565,582</b>	<b>(\$498,986)</b>