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7 Proposed Counsel for Debtors
and Debtors-in-Possession
8

9 **UNITED STATES BANKRUPTCY COURT**
10 **SOUTHERN DISTRICT OF CALIFORNIA**

11 In re:
12 STEAKHOUSE PARTNERS, INC., a Delaware
corporation,
13 Debtor.

Case No. 08-04147-11
Chapter 11

14 In re:
15 PARAGON STEAKHOUSE RESTAURANTS, a
16 Delaware corporation,
17 Debtor.

Case No. 08-04152-11
Chapter 11

18 In re:
19 PARAGON OF MICHIGAN, INC., a Wisconsin
20 corporation,
21 Debtor.

Case No. 08-04153-11
Chapter 11

**MOTION FOR ORDER APPROVING
REJECTION OF REAL & PERSONAL
PROPERTY LEASES; DECLARATION OF
SUSAN SCHULZE-CLAASEN**

[NO HEARING REQUESTED]

The Honorable James W. Meyers

26 **Location of Potentially Affected Leases:** Sacramento, California; Troy, Michigan

27 **Potentially Affected Landlords:** Al and Clara Giannini; L.Dave and Kathleen Cunningham

28

1 TO THE HONORABLE JAMES W. MEYERS, THE CLASS 4 CREDITOR TRUST, LANDLORD AL AND
2 CLARA GIANNINI, LANDLORD L.DAVE AND KATHLEEN CUNNINGHAM, THE TWENTY LARGEST
3 UNSECURED CREDITORS AND THE UNITED STATES TRUSTEE:

4 Steakhouse Partners, Inc.; Paragon Steakhouse Restaurants, Inc.; and Paragon of Michigan, Inc.,
5 debtors and debtors-in-possession (the "Debtors") in the above captioned bankruptcy cases hereby move the
6 Court for an order pursuant to section 365(a) authorizing Paragon Steakhouse Restaurants, Inc. ("Paragon
7 Steakhouse") to reject a written lease of real and personal property relating to its restaurant in Sacramento,
8 California and authorizing Paragon of Michigan, Inc. ("Paragon of Michigan") to reject a written lease of real
9 and personal property relating to its restaurant in Troy, Michigan.

10 The three Debtors are related corporations engaged in the operation of 21 full service steakhouse
11 restaurants located in the seven states of Arizona, California, Indiana, Michigan, North Carolina, Ohio and
12 Utah. These restaurants principally operate under the brand names of Hungry Hunter, Hunter Steakhouse,
13 Mountain Jack's and Carvers.

14 Paragon Steakhouse is the tenant under that Restaurant Lease dated June 30, 2000 with respect to a
15 restaurant located in Sacramento, California and operated as a Hungry Hunter (the "Sacramento Lease").
16 Paragon of Michigan is the tenant under that Restaurant Lease dated June 30, 2000 with respect to a
17 restaurant located in Troy, MI and operated as a Mountain Jack's Steakhouse (the "Troy Lease"). Under both
18 the Sacramento Lease and the Troy Lease the respective Debtors lease both the building in which the
19 restaurant is operated and certain furniture, fixtures and equipment owned by the landlord and used by the
20 Debtor in the operation of the restaurant.

21 On May 20, 2008, debtors Paragon Steakhouse and Paragon of Michigan each closed the above
22 described restaurant; neither was operating profitably, and the Debtor believes in its business judgment that
23 neither can be operated profitably based on the leases and income generation potential.

24 **WHEREFORE**, pursuant to 11 U.S.C. § 365(a), the Debtors respectfully request that this Court enter
25 an order:

- 26 1. Authorizing Paragon Steakhouse to reject the Sacramento Lease;
- 27 2. Authorizing Paragon of Michigan to reject the Troy Lease; and
- 28 3. For such other and further relief as may be deemed necessary.

1 Dated: May 23, 2008

LINER YANKELEVITZ
SUNSHINE & REGENSTREIF LLP

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3
4 By: /s/ Enid M. Colson

Julia W. Brand

Enid M. Colson

Proposed Counsel for Debtors and Debtors-In-
Possession

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1 **MEMORANDUM OF POINTS & AUTHORITIES**

2 I.

3 **SUMMARY OF RELIEF REQUESTED**

4 By this Motion the Debtor Paragon Steakhouse seeks to reject the unexpired lease of real and
5 personal property for its restaurant location in Sacramento, California and Debtor Paragon of Michigan seeks
6 to reject the unexpired lease of real and personal property for its restaurant location in Troy, Michigan. The
7 Debtor Steakhouse Partners originally guaranteed the obligations of the tenant Debtors under their respective
8 leases. Out of an abundance of caution, Steakhouse Partners joins in the Motion and seeks to reject any
9 residual or secondary obligations it may have under the two leases. The Debtors request that the rejection of
10 the Leases be effective as of the date this Motion was filed.

11 II.

12 **FACTUAL BACKGROUND**

13 A. **The Debtors**

14 The three Debtors are related corporations engaged in the operation of 21 full service steakhouse
15 restaurants located in the seven states of Arizona, California, Indiana, Michigan, North Carolina, Ohio and
16 Utah. These restaurants principally operate under the brand names of Hungry Hunter, Hunter Steakhouse,
17 Mountain Jack's and Carvers.

18 Debtor Steakhouse Partners, Inc. ("Steakhouse Partners") is publicly traded over the counter under
19 the symbol "STKP." In December, 1998, Steakhouse Partners acquired its wholly owned subsidiary, Debtor
20 Paragon Steakhouse Restaurants, Inc. ("Paragon Steakhouse"), which owns and operates the restaurant
21 businesses. Paragon Steakhouse has one wholly owned subsidiary, Debtor Paragon of Michigan, Inc.,
22 ("Paragon of Michigan") through which it conducts its restaurant operations in the state of Michigan and holds
23 its intellectual property and trade names.

24 The Debtors typically lease the restaurants and real property upon which they are situated from a
25 variety of landlords under long-term leases, with initial terms ranging from 10 to 35 years, with renewal options
26 ranging from 5 to 25 years. Certain properties that were company-owned were transferred in a sale-
27 leaseback transaction in 2000, and presently no restaurants are owned in fee.

1 All of the Debtors' leases provide for a minimum annual rent and some leases provide for additional
2 rent based on sales volume at the particular location over specified minimum levels. Generally the leases are
3 so-called "triple net" leases, which require the Debtor to pay the costs of insurance, property taxes and
4 maintenance. Some restaurant leases are treated as capital leases for accounting purposes.

5 **B. The Leases To Be Rejected**

6 Paragon Steakhouse is the tenant under that Restaurant Lease dated June 30, 2000 with respect to a
7 restaurant located in Sacramento, California and operated as a Hungry Hunter (the "Sacramento Lease"). A
8 copy of the Sacramento Lease is attached to the declaration of Susan Schulze-Claasen (the "Schulze-
9 Claasen Declaration") as exhibit 1. The original landlord, P.S. Realty Partners, L.P., assigned this lease to the
10 Urban Housing Partners, LLC, who in turn assigned it to Al and Clara Giannini, ("Sacramento Landlord"), in
11 care of PAC Investments 786 Ulloa Street, San Francisco, CA 94127 effective March, 2004.

12 Paragon of Michigan is the tenant under that Restaurant Lease dated June 30, 2000 with respect to a
13 restaurant located in Troy, MI and operated as a Mountain Jack's Steakhouse (the "Troy Lease"). A copy of
14 the Troy Lease is attached to the Schulze-Claasen Declaration as exhibit 2. The original Landlord, P.S.
15 Realty Partners, L.P., assigned this lease to the L. Dave and Kathleen Cunningham ("the Troy Landlord"), of
16 1556 Siskiyou Drive in Walnut Creek, CA 94598 effective May 23, 2005.

17 Under both the Sacramento Lease and the Troy Lease (collectively, the "Leases") the respective
18 Debtors lease both the building in which the restaurant is operated and certain furniture, fixtures and
19 equipment owned by the landlord and used by the Debtor in the operation of the restaurant.

20 At the time the Debtors originally entered into the Leases, Steakhouse Partners guaranteed the
21 obligations of each Debtor under the respective Leases. However, the Debtors believe that those guaranties
22 were extinguished in the Debtors' prior bankruptcy cases described below.

23 **C. The Debtors' Prior Bankruptcy Cases and the Class 4 Creditor Trust's Lien on the Leases**

24 On February 15, 2002, Steakhouse Partners filed a voluntary petition for relief under Chapter 11 of
25 the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California (the
26 "Bankruptcy Court"). On February 19, 2002, Paragon Steakhouse and Paragon of Michigan also filed
27 voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court (together, the
28 "Initial Filing"). Effective December 31, 2003, the Debtors confirmed a Joint Plan of Reorganization (the "2003

1 Plan”), and on December 28, 2007 the Court entered an Order Regarding Final Report, Accounting and Final
2 Decree.

3 The 2003 Plan provided for the creation of the Class 4 Creditor Trust (the “Trust”) for general
4 unsecured claimants with claims in excess of \$4,000 with a trustee (the “Trustee”) for the purpose of
5 collecting, maintaining and distributing the Steakhouse Partners Class 4 Creditors Trust Assets. As part of
6 the Plan, the Trust was granted a lien on the Debtors’ leasehold interests, include the Sacramento Lease and
7 Troy Lease which are the subject of this Motion.

8 The Plan also discharged any obligations of Steakhouse Partners under the guaranties of the Leases.

9 **D. Basis for Rejection of the Leases**

10 The Debtors’ operating results have been hindered by unprofitable leases that the Debtors intend to
11 reject. The operating results of each restaurant are tracked individually and profit measured at the operating
12 level, before allocation of corporate overhead and taxes. On May 20, 2008, Paragon Steakhouse closed the
13 Sacramento Hungry Hunter restaurant and Paragon of Michigan closed the Troy Mountain Jack’s Steakhouse
14 restaurant. Neither was operating profitably, and the Debtor believes in its business judgment that neither can
15 be operated profitably based on the Leases and income generation potential.

16 The Sacramento Hungry Hunter lost about \$49,600 and \$186,000 fiscal year 2006 and 2007,
17 respectively, before allocation of overhead and other expenses. It has monthly lease payments of
18 approximately \$12,796, and the Debtor is required to pay annual property taxes of over \$29,000, utilities of
19 over \$67,000 plus other maintenance costs. The restaurant is in a poor, aging location, and has lost material
20 guest counts to the nearby downtown and river front projects which attract former Hunter guests. In the last
21 two years, Paragon Steakhouse has not been able to generate the revenue required to support its operating
22 costs. Despite marketing its leasehold interest, the declining area and the closures of nearby, older hotels
23 and other restaurants have made the area unattractive to buyers. Further, the city requires that extensive
24 sidewalk improvements (at a minimum cost of \$80,000) be completed before transfer, in order to comply with
25 changing ADA regulations.

26 Paragon of Michigan closed its location in Michigan in Troy which operated as a Mountain Jack’s
27 Steakhouse. It lost about \$195,000 and \$217,000 in fiscal 2006 and 2007, respectively, before allocation of
28 overhead and other expenses. It has monthly lease payments of approximately \$10,427, and the Debtor is

1 required to pay annual property taxes of over \$25,000, utilities of over \$65,000 plus other maintenance costs.
2 The restaurant is a changing community that no longer has the demographic population to generate the
3 revenue required to support its operating costs. The nearby residential communities have seen rising
4 unemployment rates as a result of the auto and relate industry challenges. Despite formal broker marketing of
5 this property for six months, the single offer generated by the sales efforts was terminated based on the Troy
6 Landlord's refusal to consent to assignment.

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8 **III.**

9 **LEGAL ARGUMENT**

10 **A. Jurisdiction**

11 This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This is a core
12 proceeding pursuant to 28 U.S.C. § 157(b)(2). The venue of the chapter 11 cases is proper pursuant to 28
13 U.S.C. §§ 1408 and 1409 as the Debtors' executive offices are located in San Diego County. The statutory
14 predicate for the relief sought herein is 11 U.S.C. § 365(a).

15 **B. The Bankruptcy Code Gives Great Deference to a Debtor-in-Possession's Decision to Reject**
16 **Unexpired Leases**

17 Section 365 of the Bankruptcy Code authorizes a trustee and, therefore, a debtor-in-possession,
18 subject to court approval, to reject any executory contract or unexpired lease of the debtor. Bankruptcy Code
19 section 365 states, in pertinent part, as follows:

20 (a) ...the trustee, subject to the court's approval, may assume or reject any
21 executory contract or unexpired lease of the debtor.

22 11 U.S.C. § 365(a).

23 Rejection of an executory contract or unexpired lease is appropriate when the best interests of the
24 estate and its creditors will be served by such rejection because the contract or lease is a burden on the
25 estate. See, e.g., In re Robert Helms Construction, 110 F.3d 1470, 1474 (9th Cir. 1997), vacated and
26 superseded en banc on other grounds, 139 F.3d 702 (9th Cir. 1998) ("When a contract...is executory..., the
27 trustee may elect whether or not to perform, choosing the course of action that would best serve these
28 goals").

In determining whether to approve a debtor's decision to reject an executory contract under Section
365, courts generally apply the so-called "business judgment rule." This standard is a well-recognized one,

1 and has been applied to the proposed assumption and rejection of contracts in the bankruptcy context for
2 nearly sixty years. See, e.g., Group of Institutional Investors v. Chicago, Milwaukee, St. Paul and Pacific R.
3 Co., 318 U.S. 523, 550 (1943), reh'g. denied sub nom. Group of Institutional Investors v. Abrams, 318 U.S.
4 803 (1943) (United States Supreme Court definitively determined the "business judgment rule" is appropriate
5 standard for bankruptcy court approval of assumption or rejection of executory contracts); see also, In re
6 Minges, 602 F.2d 38, 42 (2d Cir. 1979); Matter of Tilco, Inc., 558 F.2d 1369, 1372 (10th Cir. 1977); In re
7 Huang, 23 B.R. 798, 800 (9th Cir. BAP 1982) (business judgment rule applicable in Ninth Circuit).

8 Under the "business judgment rule," a Court should approve the exercise of a debtor's "business
9 judgment" to reject an executory contract or unexpired lease if (1) the estate is benefited by such assumption
10 or rejection, and (2) the debtor's judgment is not clearly erroneous, too speculative or contrary to the
11 provisions of the Bankruptcy Code. This standard accords to the debtor a reasonable amount of discretion,
12 and courts generally defer to such discretion in the absence of any showing of bad faith or other, clear abuse.
13 In re G Survivor Corp., 171 B.R. 755, 757 (Bankr. S.D.N.Y. 1994), aff'd. sub nom. John Forsyth Co., Inc. v. G.
14 Licensing, Ltd., 187 B.R. 111 (Bankr. S.D.N.Y. 1995) ("Generally, absent a showing of bad faith, or an abuse
15 of business discretion, the debtor's business judgment will not be altered."). See also Allied Technology, Inc.
16 v. R.B. Brunemann & Sons, Inc., 25 B.R. 484, 495 (Bankr. S.D. Ohio 1982); AFL-CIO v. Hotel Circle, Inc., 419
17 F.Supp. 778, 789 (S.D. Cal. 1976), aff'd., 613 F.2d 210 (9th Cir. 1980); In re Bullet Jet Charter, Inc., 177 B.R.
18 593, 601 (Bankr. N.D. Ill. 1995) ("bankruptcy judge should have a deferential view of the debtor's business
19 judgment").

20 **C. REJECTION OF THE LEASES IS SUPPORTED BY THE DEBTORS' SOUND BUSINESS**
21 **JUDGMENT AND SHOULD BE APPROVED BY THE COURT**

22 As set forth in the attached Schulze-Claasen Declaration, the Debtors need to reject the Leases
23 because they have ceased operations of the two restaurants located on the premises as neither was
24 operating profitably. The Debtors believe, in their business judgment, that neither restaurant can be operated
25 profitably based on the Leases and the income generation potential.

26 Furthermore, the Debtors have attempted to market the Leases without success. The declining area
27 and closures of nearby, older hotels and restaurants, combined with city mandates for extensive sidewalk
28 improvements make the Sacramento Lease unattractive to buyers. The Debtors marketed the Troy Lease for

1 six months prepetition and the changing demographics and rising unemployment rates in Troy dissuaded
2 buyers. The Debtors received only one offer during that time and the Troy Landlord's refusal to consent to
3 assignment caused the prospective buyer to walk away. Despite the ability to assume and assign the Troy
4 Lease without the Landlord's consent under section 365(f), based on the single offer received during six
5 months of marketing the Lease prepetition, the Debtors believe that postpetition marketing of this Lease would
6 likely cost the estate more in postpetition rent than would be gained from any possible sale of the Lease.

7 Based on the foregoing, the Leases are a burden on the Debtors' estates and it is a sound exercise of
8 the Debtors' business judgment to reject the Leases.

9 **IV.**

10 **CONCLUSION**

11 The Debtors respectfully request that the Court enter an order authorizing the Debtors to reject the
12 Sacramento Lease and the Troy Lease effective as of the date on which this Motion is filed with the
13 Bankruptcy Court.

14
15 Dated: May 23, 2008

LINER YANKELEVITZ
SUNSHINE & REGENSTREIF LLP

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17
18 By: /s/ Enid M. Colson

Julia W. Brand
Enid M. Colson
Proposed Counsel for Debtors and Debtors-In-
Possession

DECLARATION OF SUSAN SCHULZE-CLAASEN

I, Susan Schulze-Claasen, hereby declare:

1. I am the President of Paragon Steakhouse Restaurants, Inc., a Delaware corporation ("Paragon Steakhouse"), wholly-owned by Steakhouse Partners, Inc., a Delaware corporation ("Steakhouse Partners"), and of Paragon of Michigan, Inc., a Wisconsin corporation ("Paragon Michigan"). I am also Vice President and General Counsel to Steakhouse Partners (each, a "Debtor" and collectively, the "Debtors"). I have been employed by the Debtors since October, 1979. My current duties for the Debtors include, among other things, coordination of the debtors' real estate matters, including managing and papering transactions regarding the restaurant properties and ground leases. I am generally familiar with the day-to-day operations of the Debtors.

2. I submit this declaration in support of the Motion for Order Approving Rejection of Real & Personal Property Leases filed by the Debtors (the "Declaration") in connection with their filing of voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). Except as otherwise indicated, I have personal knowledge of the facts set forth herein and, if called upon to testify, could and would testify competently thereto.

3. The three Debtors are related corporations engaged in the operation of 21 full service steakhouse restaurants located in the seven states of Arizona, California, Indiana, Michigan, North Carolina, Ohio and Utah. These restaurants principally operate under the brand names of Hungry Hunter, Hunter Steakhouse, Mountain Jack's and Carvers.

4. Debtor Steakhouse Partners, Inc. ("Steakhouse Partners") is publicly traded over the counter under the symbol "STKP." In December, 1998, Steakhouse Partners acquired its wholly owned subsidiary, Debtor Paragon Steakhouse Restaurants, Inc. ("Paragon Steakhouse"), which owns and operates the restaurant businesses. Paragon Steakhouse has one wholly owned subsidiary, Debtor Paragon of Michigan, Inc., ("Paragon of Michigan") through which it conducts its restaurant operations in the state of Michigan and holds its intellectual property and trade names.

1 5. The Debtors typically lease the restaurants and real property upon which they are situated
2 from a variety of landlords under long-term leases, with initial terms ranging from 10 to 35 years, with renewal
3 options ranging from 5 to 25 years. Certain properties that were company-owned were transferred in a sale-
4 leaseback transaction in 2000, and presently no restaurants are owned in fee.

5 6. All of the Debtors' leases provide for a minimum annual rent and some leases provide for
6 additional rent based on sales volume at the particular location over specified minimum levels. Generally the
7 leases are so-called "triple net" leases, which require the Debtor to pay the costs of insurance, property taxes
8 and maintenance. Some restaurant leases are treated as capital leases for accounting purposes.

9 7. On February 15, 2002, Steakhouse Partners filed a voluntary petition for relief under Chapter
10 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California (the
11 "Bankruptcy Court"). On February 19, 2002, Paragon Steakhouse and Paragon of Michigan also filed
12 voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court (together, the
13 "Initial Filing"). Effective December 31, 2003, the Debtors confirmed a Joint Plan of Reorganization (the "2003
14 Plan"), and on December 28, 2007 the Court entered an Order Regarding Final Report, Accounting and Final
15 Decree.

16 8. The 2003 Plan provided for the creation of the Class 4 Creditor Trust (the "Trust") for general
17 unsecured claimants with claims in excess of \$4,000 with a trustee (the "Trustee") for the purpose of
18 collecting, maintaining and distributing the Steakhouse Partners Class 4 Creditors Trust Assets. As part of
19 the Plan, the Trust was granted a lien on the Debtors' leasehold interests, include the Sacramento Lease and
20 Troy Lease which are the subject of this Motion.

21 9. The Debtors' operating results have been hindered by unprofitable leases that the Debtors
22 intend to reject. The operating results of each restaurant are tracked individually and profit measured at the
23 operating level, before allocation of corporate overhead and taxes. On May 20, 2008, debtors Paragon
24 Steakhouse and Paragon of Michigan each closed the above described restaurant; neither was operating
25 profitably, and the Debtor believes in its business judgment that neither can be operated profitably based on
26 the leases and income generation potential.

27 10. Paragon Steakhouse is the tenant under that Restaurant Lease dated June 30, 2000 with
28 respect to a restaurant located in Sacramento, CA and operated as a Hungry Hunter (the "Sacramento

1 Lease”), a true and correct copy of which is attached hereto as exhibit 1. The original Landlord, P.S. Realty
2 Partners, L.P., assigned this lease to the Urban Housing Partners, LLC, who in turn assigned it to Al and
3 Clara Giannini, “Sacramento Landlord”, in care of PAC Investments 786 Ulloa Street, San Francisco, CA
4 94127 effective March, 2004.

5 11. The Sacramento Hungry Hunter lost about \$49,600 and \$186,000 fiscal year 2006 and 2007,
6 respectively, before allocation of overhead and other expenses. It has monthly lease payments of
7 approximately \$12,796, and the Debtor is required to pay annual property taxes of over \$29,000, utilities of
8 over \$67,000 plus other maintenance costs. The restaurant is in a poor, aging location, and has lost material
9 guest counts to the nearby downtown and river front projects which attract former Hunter guests. In the last
10 two years, Paragon has not been able to generate the revenue required to support its operating costs.
11 Despite marketing its leasehold interest, the declining area and the closures of nearby, older hotels and other
12 restaurants have made the area unattractive to buyers. Further, the city requires that extensive sidewalk
13 improvements (at a minimum cost of \$80,000) be completed before transfer, in order to comply with changing
14 ADA regulations.

15 12. Paragon of Michigan is the tenant under that Restaurant Lease dated June 30, 2000 with
16 respect to a restaurant located in Troy, MI and operated as a Mountain Jack’s Steakhouse (the “Troy Lease”),
17 a true and correct copy of which is attached hereto as exhibit 2. The original Landlord, P.S. Realty Partners,
18 L.P., assigned this lease to the L. Dave and Kathleen Cunningham “the Troy Landlord”, of 1556 Siskiyou
19 Drive in Walnut Creek, CA 94598 effective May 23, 2005.

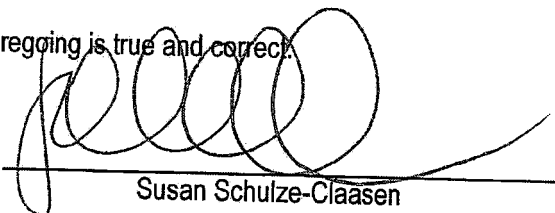
20 13. At the time the Debtors originally entered into the Sacramento Lease and the Troy Lease,
21 Steakhouse Partners guaranteed the Debtors obligations under those Leases. Steakhouse Partners
22 obligations under the guaranties were discharged in the prior bankruptcy cases and Steakhouse Partners
23 joins as a movant in this motion out of an abundance of caution only.

24 14. Paragon of Michigan closed its location in Michigan in Troy which operated as a Mountain
25 Jack’s Steakhouse. It lost about \$195,000 and \$217,000 in fiscal 2006 and 2007, respectively, before
26 allocation of overhead and other expenses. It has monthly lease payments of approximately \$10,427, and the
27 Debtor is required to pay annual property taxes of over \$25,000, utilities of over \$65,000 plus other
28 maintenance costs. The restaurant is a changing community that no longer has the demographic population

1 to generate the revenue required to support its operating costs. The nearby residential communities have
2 seen rising unemployment rates as a result of the auto and relate industry challenges. Despite formal broker
3 marketing of this property for six months, the single offer generated by the sales efforts was terminated based
4 on landlord refusal to consent assignment.

5 15. To minimize any loss of value to its business, the Debtors' immediate objective is to sell all of
6 its assets as quickly and as efficiently as possible; to maximize these values, the Debtor will continue to
7 operate the restaurants, with as little interruption to the Debtors' operations as possible. I believe that if this
8 Court grants the relief requested in each of the Motions to reject Leases, the prospect for achieving these
9 objectives, to the maximum benefit of the Debtors, the Debtors' estates and all parties in interest, will be
10 substantially enhanced.

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12 I declare, under penalty of perjury, that the foregoing is true and correct.

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14 
15 Susan Schulze-Claasen

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1 **PROOF OF SERVICE**

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3 I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a
4 party to the within action. My business address is 1100 Glendon Avenue, 14th Floor, Los Angeles, California
90024-3503. On May 23, 2008, I served the within document(s) described as:

5 **MOTION FOR ORDER APPROVING REJECTION OF REAL & PERSONAL PROPERTY LEASES;**
6 **DECLARATION OF SUSAN SCHULZE-CLAASEN**

7 on the interested parties in this action as stated on the attached mailing list.

8 (BY MAIL) By placing a true copy of the foregoing document(s) in a sealed envelope addressed as
9 set forth on the attached mailing list. I am readily familiar with this firm's practice for collection and
10 processing of correspondence for mailing. Under that practice it would be deposited with the U.S.
11 Postal Service on that same day with postage thereon fully prepaid in the ordinary course of
12 business. I am aware that on motion of the party served, service is presumed invalid if postal
13 cancellation date or postage meter date is more than one day after date of deposit for mailing
14 contained in affidavit.

15 I declare that I am employed in the offices of a member of the State Bar of this Court at whose
16 direction the service was made. I declare under penalty of perjury under the laws of the United States of
17 America that the foregoing is true and correct.

18 Executed on May 23, 2008, at Los Angeles, California.

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Christine Tapia
(Type or print name)

/s/ Christine Tapia


(Signature)

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SERVICE LIST

*In re Steakhouse Partners, Inc., In re Paragon Steakhouse Restaurants, Inc.,
and In re Paragon of Michigan Inc.*

Debtors in Possession Via E-Mail

Susan Schulze-Claasen
Steakhouse Partners, Inc.
10200 Willow Creek Road
San Diego, California 92131

United States Trustee

United States Trustee
United States Department of Justice
402 West Broadway, Suite 600
San Diego, CA 92101

Secured Creditor Class 4 Creditor Trust -

Sharon Weiss, Esq.
Weinstein, Weiss & Ordubegian LLP
1925 Century Park East, Suite 1150
Los Angeles, CA 90067
Facsimile: 310-203-8110
Email: sweiss@wwolawyers.com

Class 4 Creditor Trust Trustee

Scott Avila Trustee c/o
Corp Revitalization Partners LLC
One Park Plaza, Sixth Floor
Irvine, CA 92514

Landlord for Sacramento

Al and Clara Giannini
c/o PAC Investments
786 Ulloa Street
San Francisco, CA 94127

Landlord for Troy

L. Dave and Kathleen Cunningham
1556 Siskiyou Drive
Walnut Creek, A 94598

20 Largest Unsecured Creditors - In re Steakhouse Partners

Mason Matthies
RR Donnelley Recievables, Inc.
4350 La Jolla Village Drive, Suite 300
San Diego, CA 92122

Chief Executive Officer
Corporate Trust Center
Delaware Secretary of State
1209 Orange Street
Wilmington, DE 19801

Officer, Managing or General Agent
PR Newswire
GPO Box 5897
New York, NY 10087

**20 Largest Unsecured Creditors Common to In re Steakhouse Partners,
Paragon Steakhouse Restaurants & Paragon of Michigan**

Christopher Forrester
Morrison / Foerster LLP
PO Box 60000
San Francisco, CA 94160-2497

Mitchell C. Littman
Littman Krooks LLP
655 Third Avenue
New York, NY 10017

1 **20 Largest Unsecured Creditors of Paragon Steakhouse Restaurants & Paragon of Michigan**

2 Charles L. Robinson
3 Critical Capital Growth Fund, LP
4 90 Park Avenue, 31st Floor
5 New York, NY. 10016

Richard L. Sandler
Rewards Network (f/n/a Idine)
Two North Riverside Plaza, Suite 950
Chicago, IL 60606

5 Bob Kulkin
6 Central Meat & Provision
7 1603 National Ave
8 San Diego, CA 92113

Froehlich, Richard J.
Froehlich, Richard J. Trs
5411 Muirfield Dr
Bakersfield, CA. 93306-0000

8 Melissa DePonte
9 Realty Income Corporation
10 Department 2428
11 Los Angeles, CA 90084-2428

Attention: Joan
US Foodservice, Inc. Chicago
Box 98612
Chicago, IL. 60693-8612

11 Jack Star
12 1405 Fuerte Heights Lane
13 El Cajon, CA. 92019

Peter M. Gilhuly
Latham & Watkins
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