

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION**

<b>In re:</b>	)	<b>Chapter 11</b>
	)	
<b>Quality Stores, Inc., et al.,<sup>1</sup></b>	)	<b>Case No. GG-01-10662</b>
	)	<b>(Jointly Administered)</b>
<b>Debtors.</b>	)	
	)	<b>Hon. James D. Gregg</b>

**MOTION OF THE DEBTORS FOR ENTRY OF AN ORDER PURSUANT TO SECTIONS 503(b) AND 546(c)(2) OF THE BANKRUPTCY CODE FOR THE ENTRY OF AN ORDER (1) FIXING THE DOLLAR AMOUNT OF VALID RECLAMATION CLAIMS, (2) FINDING THAT ANY SUCH CLAIMS ARE SUBJECT TO AND JUNIOR IN PRIORITY TO PRE-EXISTING LIENS ON THE DEBTORS' ASSETS, AND (3) IF ALLOWED, DETERMINING THAT ANY SUCH CLAIMS ARE NOT ENTITLED TO ADMINISTRATIVE EXPENSE PRIORITY STATUS**

The above-captioned debtors and debtors-in-possession (collectively, the "Debtors") hereby move this Court for entry of an order pursuant to sections 503(b) and 546(c)(2) of title 11 of the United States Code (as amended, the "Bankruptcy Code") ordering that, as a matter of law, reclamation claims deemed valid are subject to and junior in priority to all liens of certain secured lenders on the Debtors' assets and are not entitled to administrative expense priority (the "Motion"). In support of this Motion, the Debtors respectfully state as follows:

**Jurisdiction**

1. This Court has jurisdiction over this Motion under 28 U.S.C. § 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2). Venue of this proceeding and this Motion is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.
2. The statutory predicates for the relief requested are sections 503(b) and 546(c)(2) of the Bankruptcy Code.

**Background**

3. On October 20, 2001 (the "Involuntary Date"), an involuntary petition (the "Involuntary Petition") was filed against QSI by Century Funding Ltd., Century Funding Corp., Triton CBO III Limited, Triton CBO IV Limited and Pacholder High Yield Fund, Inc. (collectively, the "Petitioning Creditors").
4. On November 1, 2001 (the "Commencement Date"), (i) QSI answered the Involuntary Petition and consented to the entry of an order for relief and (ii) the remaining

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<sup>1</sup> The Debtors are the following entities: QSI Holdings, Inc. (f/k/a CT Holdings, Inc.); Quality Stores, Inc. (f/k/a Central Tractor Farm & Country, Inc.); Country General, Inc.; F and C Holding, Inc.; FarmandCountry.com, LLC.; QSI Newco, Inc.; QSI Transportation, Inc.; Quality Farm & Fleet, Inc.; Quality Investments, Inc.; Quality Stores Services, Inc; and Vision Transportation, Inc.

Debtors commenced voluntary chapter 11 cases before this Court. Contemporaneously herewith, the Debtors filed a motion seeking to procedurally consolidate their chapter 11 cases for administrative purposes only.

5. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

6. No trustee or examiner has been appointed in these chapter 11 cases. The Office of the United States Trustee has appointed an Official Committee of Unsecured Creditors (the "Creditors' Committee").

#### **Events Arising Before the Commencement Date**

7. Pursuant to that certain Second Amended and Restated Credit Agreement, dated as of May 7, 1999 (as amended from time to time, the "Pre-Petition Credit Agreement") among QSI as Borrower, QSI Holdings, Inc. ("Holdings"), the Fleet National Bank, for itself and as Administrative Agent (the "Pre-Petition Agent"), Nationsbank, N.A., as Syndication Agent, DLJ Capital Funding, Inc., as Documentation Agent, U.S. Bank National Association, First Union National Bank and The Huntington National Bank, as Co-Agents, and the lenders and the financial institutions party thereto (the "Pre-Petition Lenders"). The Pre-Petition Lenders made loans and other financial accommodations to or for the benefit of QSI and the Guarantors. As of the Commencement Date, the aggregate principal amount due and owing to the Pre-Petition Lenders under the Pre-Petition Credit Agreement was \$336,817,367.40, as follows: (i) \$64,663,638.63 in respect of Tranche A Term Advances,<sup>2</sup> (ii) \$113,155,782.72 in respect of Tranche B Term Advances, (iii) \$158,997,946.05 in respect of Revolving Credit Advances, plus interest, commitment, agents' and other fees, and costs, charges and expenses (including professionals' fees and disbursements) (collectively, the "Pre-Petition Lenders' Claim"), and (iv) contingent liabilities in the amount of \$600,000 in respect of Letter of Credit Advances<sup>3</sup> (all liabilities and contingent liabilities set forth in this Paragraph, collectively, the "Pre-Petition Obligations").

8. In March 1997, QSI issued certain 10 5/8% Senior Notes Due 2007 in the aggregate principal amount of \$105 million (the "Senior Notes") pursuant to that certain Indenture dated March 27, 1997, between QSI, as issuer, and Marine Midland Bank, n/k/a HSBC, as trustee.

9. In the fall of 2000, the Debtors experienced a liquidity crisis arising from their long-term debt obligations. In the spring of 2001, the Debtors undertook a comprehensive review of their financial condition and business operations. As a result of that review, the Debtors determined that it was necessary to engage JA&A Services LLC ("JAS") to assist them in their restructuring efforts and to provide general crisis management services. Shortly thereafter, JAS and the Debtors developed a strategic plan, which provided, among other things, that performance and profitability would be improved by identifying and closing or divesting

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<sup>2</sup> Capitalized terms used in this paragraph and not otherwise defined in this Motion shall be used as defined in the Pre-Petition Credit Agreement.

<sup>3</sup> The approximate amount of contingent liabilities in respect of Letter of Credit Advances is current as of February 28, 2002.

sub-performing stores and concentrating the Debtors' business around a core group of 178 stores with strong operations (the "Remaining Stores").

10. The Debtors identified 35 stores, primarily in the Southeast, for sale, and after being unable to sell them, determined it was in their best interests to close the stores to alleviate the expenses of their continued operation. In October 2001, the Debtors identified an additional 106 under-performing stores to be closed (the "106 Stores").

#### **Salient Events After the Commencement Date**

11. After the Commencement Date, the Debtors obtained Court authority to retain Hilco Merchant Resources, LLC to conduct store closing sales in the 106 Stores (the "GOB Sales").

12. Shortly after the Commencement Date, the Debtors negotiated a debtor-in-possession financing facility (the "DIP Credit Facility") with certain of the Pre-Petition Lenders (the "DIP Lenders"), and filed a motion seeking approval thereof (the "DIP Financing Motion"). A fundamental element of the proposed DIP Credit Facility was the Debtors' obligation thereunder to seek a sale of all or substantially all of the Remaining Stores on an expedited basis and, with respect to any store as to which such efforts were unsuccessful by the beginning of December 2001, to commence "going out of business" sales at all such stores. On November 8, 2001, the Creditors' Committee filed an objection to the DIP Financing Motion. On November 9, 2001, an evidentiary hearing was held before the Court on the DIP Financing Motion. Following a subsequent hearing held on November 13, 2001, the Court issued an order sustaining the objection of the Creditors' Committee and denying the relief requested in the DIP Financing Motion, including the Debtors' request for an accelerated sale process for the Remaining Stores.

13. On March 5, 2002, the Court approved the Final Order Authorizing Temporary Use of Cash Collateral and Granting Adequate Protection Pursuant to Bankruptcy Code Sections 361, 362(d) and 363 (the "Final Order")<sup>4</sup>. In the Final Order, the Debtors have admitted (subject to a full reservation of rights in favor of the Creditors' Committee and the U.S. Trustee) that, pursuant to the Pre-Petition Collateral Documents (as defined in the Cash Collateral Orders), the Pre-Petition Obligations are secured by security interests in, and liens on (the "Liens"), substantially all of the Debtors' real and personal property as more particularly described in, and evidenced by, the Pre-Petition Credit Agreement and the Pre-Petition Collateral Documents, including, without limitation, certain accounts, inventory, equipment, general intangibles, investment property, fee owned real estate, and the proceeds, products, rents and profits thereof to the extent permitted under section 552 of the Bankruptcy Code (collectively, the "Pre-Petition Collateral").

#### **The Sale of the Remaining Stores and the Commencement of Settlement Efforts**

14. Notwithstanding the denial of the relief requested in the DIP Financing Motion, the Debtors determined that it was in the best interests of their estates to effectuate a prompt sale of the Remaining Stores. Accordingly, the Debtors, through their investment

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<sup>4</sup> On November 1, 2001, November 16, 2001, November 29, 2001, December 17, 2001, January 4, 2002, January 11, 2002, January 22, 2002 and February 22, 2002, the Court approved previous interim orders regarding the use of cash collateral (collectively, the "Cash Collateral Orders").

banker, Peter J. Solomon & Company (“PJS”), continued to market the Remaining Stores aggressively for sale either as a going concern or through an orderly liquidation.

15. As a result of this marketing effort, the Debtors began negotiating an agreement with Hartwick Quality II LLC (“Hartwick”) to sell most of the Remaining Stores for \$72.5 million. Due to the negotiations of the Creditors’ Committee, Hartwick raised its offer from \$72.5 million to \$73.5 million (the “Initial Hartwick Sale Price”). On December 14, 2001, the Debtors filed a motion (the “Sale Motion”) with the Court seeking, among other things, to sell most of the Remaining Stores to Hartwick, or another party that submitted a higher or better offer at an auction to be conducted thereafter (the “Sale”). On December 20, 2001, the Court approved the proposed deal with Hartwick, subject to the opportunity of other parties to appear and bid at the auction to be conducted on December 27, 2001 (the “Auction”). The Auction was held as scheduled, and at the conclusion thereof, the highest and best offer was deemed to be a bid to liquidate the Remaining Stores (the “Liquidation Bid”) submitted by a joint venture formed by Tractor Supply Company, Great American Group, Gordon Brothers Retail Partners, LLC, and DJM Asset Management (the “Joint Venture”).

16. In order to effectuate the Sale as expeditiously as possible, the Debtors sought the consent and agreement of their key creditor constituencies – the Pre-Petition Lenders and the Creditors’ Committee (as representatives of the Debtors’ unsecured creditors). It quickly became clear that such consents would be contingent upon the existence of a full and final settlement of the disagreement between the Creditors’ Committee and the Pre-Petition Lenders regarding the most effective course of action for maximizing the value of the Debtors’ estates, and the proper allocation of such value between the Pre-Petition Lenders and unsecured creditors in these Cases. The Debtors accordingly expended a significant amount of effort attempting to broker such a settlement.

17. For the Pre-Petition Lenders, a fundamental condition of any settlement was that it reflect the practical reality that it is in the best interests of the Debtors’ estates for the Debtors to consummate the Sale by December 31, 2001. For the Creditors’ Committee, a fundamental condition of any settlement was that the Pre-Petition Lenders agree to permit the use of cash collateral to fund wind-down costs of the Debtors’ estates for a sufficient period of time following the Sale to permit a plan of reorganization to be filed, confirmed and substantially consummated in these Cases.

### **The Settlement**

18. After the filing of the Sale Motion and before the hearing thereon, the Debtors, the Pre-Petition Lenders and the Creditors’ Committee agreed to a settlement (the “Settlement”), the terms of which were stated on the record at the hearing before the Court on December 20, 2001 and affirmed by counsel for each of the parties thereto. In addition to providing for a consummation of the Sale by December 31, 2001, the Pre-Petition Lenders’ agreement regarding use of cash collateral to fund certain agreed upon wind-down costs following the Sale and a full and final resolution of the dispute between the Pre-Petition Lenders and the Creditors’ Committee regarding the allocation of value between the Pre-Petition Lenders and the unsecured creditors in these Cases, the Settlement required that the Pre-Petition Lenders and the Creditors’ Committee would not object to the Debtors’ request for the implementation of a severance program with respect to certain of their employees and the retention of JAS and PJS. The Settlement was approved by the Court on March 5, 2002.

## **Reclamation Procedures Order**

19. On the Commencement Date, the Debtors filed a motion for an order under 11 U.S.C. §§ 105(a), 503(b), 546(c) and 546(g) (a) establishing a procedure for the treatment of valid reclamation claims, and (b) prohibiting third parties from interfering with delivery of the Debtors' goods (the "Reclamation Procedures Motion"). The order approving the Reclamation Procedures Motion was entered by the Court on December 18, 2001 (the "Reclamation Procedures Order," a copy of which is attached hereto as Exhibit A).

20. The Reclamation Procedures Order prohibits holders of reclamation claims (each, a "Claimant") from demanding the return of inventory shipments subject to claims for reclamation (each, a "Reclamation Claim"). Instead, Claimants were directed to file and serve Reclamation Claims by following applicable bankruptcy and state laws.

21. Thereafter, Claimants were authorized to file a motion regarding the priority and allowed amount of such Reclamation Claims only after (a) the Debtors have failed to timely file a motion with a report (the "Reclamation Report") stating which of such Reclamation Claims the Debtors deem to be valid, and (b) the Claimant has waited ninety (90) days after the entry of the Reclamation Procedures Order.

22. The ninety-day period in which the Debtors may file a motion and a Reclamation Report expires on March 18, 2002. A summary of the Reclamation Claims that the Debtors deem valid is attached hereto as Exhibit B. As described below, however, none of these claims are entitled to administrative expense priority.

### **Relief Requested**

23. The Debtors respectfully request that the Court enter an order, pursuant to sections 503(b) and 546(c) of the Bankruptcy Code, (a) confirming the validity and amount of the Reclamation Claims set forth in Exhibit B, annexed hereto (the "Preliminary Valid Reclamation Claims"), (b) determining that Preliminary Valid Reclamation Claims against the Debtors are subject to and junior in priority to the Liens, and (c) thus, determining that the Preliminary Valid Reclamation Claims are not entitled to priority as administrative expense claims.

### **Basis for Relief Requested**

#### **A. Certain Reclamation Claims Are Deemed Valid**

24. The Debtors received purported demands and/or supporting documentation from 45 vendors (the "Vendors") asserting Reclamation Claims aggregating \$3,660,265.18. The Reclamation Report lists those Reclamation Claims that the Debtors, after good faith review and evaluation, have deemed to be valid in accordance with applicable law and which are subject to the Liens as discussed herein. The attached Reclamation Report states that, after their analysis of the alleged Reclamation Claims, the Debtors believe that the total amount of Preliminary Valid Reclamation Claims is \$967,561.84.<sup>5</sup>

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<sup>5</sup> The Debtors reserve the right to object to amounts listed in Exhibit B based on all applicable theories, whether at law, equity or otherwise, including without limitation, rights of offset and recoupment, and the existence of preference or other actions against the relevant Vendor. The Debtors also reserve the right to modify and/or supplement the Reclamation Report based on the receipt of new or corrected information by the Debtors.

25. In making their good faith determination as to the Preliminary Valid Reclamation Claims, the Debtors have taken into account (and hereby reserve the right to assert) the legal requirements set forth in section 546(c) of the Bankruptcy Code, section 2-702 of the Uniform Commercial Code (the “UCC”) and other applicable law.

26. The legal bases for reduction of an alleged Reclamation Claim, include, but are not limited to, the following:

- a) The Debtors received the goods more than ten days before receiving the Reclamation Claim.
- b) The Debtors received the goods more than twenty days before receiving the Reclamation Claim when the ten-day period for making a Reclamation Claim pursuant to section 2-702 of the UCC and section 546(c)(1) of the Bankruptcy Code (the “Ten Day Period”) expired after the Commencement Date.
- c) The Debtors received the goods after receiving the Reclamation Claim and the goods were thus not in the possession or control of the Debtors at the time the Reclamation Claim was received.
- d) The Debtors never received the goods and thus did not have possession or control of the goods at the time the Reclamation Claim was received.
- e) The Debtors paid for the goods that they received.
- f) The goods were delivered after the Involuntary Date (with respect to QSI) and are claims under section 502(f) of the Bankruptcy Code and are not governed by the Reclamation Procedures Order. Instead, such claims are governed by the Order Fixing Bar Date for Filing Proofs of Claims and Approving the Form and Manner of Notice of the Bar Date entered by the Court on January 30, 2002. These claims are listed on Exhibit B attached hereto.

**B. Each Preliminary Valid Reclamation Claim is Subject to and Junior in Priority to the Liens of the Pre-Petition Lenders**

27. The Debtors also respectfully request that the Court enter an order holding that the Preliminary Valid Reclamation Claims are subject to and junior in priority to the Liens of the Pre-Petition Lenders.

28. Courts have long held that secured creditors such as the Pre-Petition Lenders generally qualify as “good faith purchasers” to whom a seller’s right of reclamation is expressly subject under section 2-702(3) of the UCC. As the Court of Appeals for the Eighth Circuit observed in the leading case of In re Pester Refining Company, “[s]ince most secured creditors are good faith purchasers under the UCC, § [ ] 2-702 has the effect, in priority terms, of placing the reclaiming seller behind the insolvent buyer’s secured creditors who have security interests in the goods, but ahead of the buyer’s general unsecured creditors.” 964 F.2d 842, 845 (8th Cir. 1992); see also In re ARLCO, Inc. and HFO, Inc., 239 B.R. 261, 267-68 (Bankr. S.D.

N.Y. 1999) (“Most courts have treated ‘a holder of a prior perfected, floating lien on inventory . . . as a good faith purchaser with rights superior to those of a reclaiming seller”) (collecting cases).

29. As set forth above, the Liens of the Pre-Petition Lenders, were granted and perfected long before the Preliminary Valid Reclamation Claims arose. Thus, Preliminary Valid Reclamation Claims are subject to and junior in priority to Liens of the Pre-Petition Lenders.

### **C. Reclamation Claims Are Not Entitled To Priority As Administrative Claims**

30. “If senior secured lenders can be satisfied from the inventory, a reclamation claimant also can be satisfied from the residue. A reclamation claim is ‘subject to’ the interests of good faith purchasers under UCC §2-702(3) but is not extinguished by them.” In re Reliable Drug Stores, Inc., 70 F.3d 948, 950 (7th Cir. 1995). See also In re Pester, 964 F.2d at 846 (“In the UCC context, when the right to reclaim is ‘subject to’ the rights of secured creditors, that means the right is subordinate or inferior to the security interests, not that it is automatically and totally extinguished.”).

31. The value, if any, of reclamation claims that are subject to the claims of senior secured lenders depends on whether any residual funds remain after the proceeds from the inventory subject to reclamation have been used to satisfy the secured creditors’ claims. As the Eighth Circuit emphasized in Pester, under state UCC law, this reclamation value depends on whether there is any residual from the sale of the specific goods subject to the reclamation claims, not whether other assets of the estate remain after the secured creditors’ claims are satisfied:

Under the UCC, if an undersecured secured creditor forecloses on the goods to be reclaimed and uses the entire proceeds to pay down its secured debt, the seller’s reclamation right is extinguished. Even if the buyer has additional assets, the seller’s right to reclaim affords it no priority interest in those assets; it is relegated to its unsecured claim for the purchase price. See [UCC] § 9-504(4).

964 F.2d at 847 (emphasis added). See also In re Affiliated of Florida, Inc., 237 B.R. 495, 500 (Bankr. M.D. Fla. 1998) (“Under state law, the value of the seller’s right of reclamation is dependent upon whether the prior secured creditor relies on all of the particular goods sold by the seller to satisfy its secured claim.”); In re Victory Markets, Inc., 212 B.R. 738,743 (Bankr. N.D. N.Y. 1997) (“[A] reclaiming seller is also not automatically entitled to an administrative priority claim or substitute lien in the entire amount of its claim merely because the seller’s right of reclamation is subject to a superior perfected claim. Instead, the reclaiming seller retains a priority interest in any goods remaining and in any surplus proceeds remaining after the superior secured creditor’s interests have been satisfied or released.”)

32. Section 546(c)(2) of the Bankruptcy Code provides that the court may “deny reclamation to a seller with such a right of reclamation” only if the court grants an administrative priority claim or a substitute lien 11 U.S.C. § 546(c)(2) (emphasis added). But limiting a seller to the residual value in the goods, if any, to which he would have had recourse under state law is not to “deny” it any reclamation rights. As Judge (now Justice) Kennedy wrote for the Court of Appeals for the Ninth Circuit in In re Coast Trading Company, the right to an administrative priority claim provided by section 546(c)(2) of the Bankruptcy Code is “in lieu of, not in addition to, any right to reclaim” that would have existed absent the bankruptcy filing:

[The seller] would be entitled to an administrative priority to the funds owed to it only if it were entitled to reclaim the grain or its proceeds and the bankruptcy court prevents it from doing so. Section 546 of the Bankruptcy Act allows a seller

to reclaim goods only to the extent he has a statutory or common law right to do so. Section 546(c)(2)(A) mandates the award of an administrative expense priority to the seller if the court denies “reclamation to a seller with such right of reclamation.” The right to an administrative priority is therefore in lieu of, not in addition to any right to reclaim.

744 F.2d 686, 692 (9th Cir. 1984). See also In re Reliable Drug Stores, 70 F.3d at 950 (“How much a particular reclamation claim is worth, once § 546(c)(2)(A) transmutes it into an administrative claim, is a question distinct from the validity of the reclamation claim. Given the finding that Reliable’s creditors were undersecured, the district court had no option other than to deem Bindley’s administrative claim worthless.”); In re Victory Markets, 212 B.R. at 743 (“Code § 546(c) does not give a seller any greater rights than it has outside of bankruptcy; rights that have no value in the non-bankruptcy context will similarly have no value in the bankruptcy context.”)

33. Limiting any administrative claim to the value, if any, of the residual proceeds (after the secured creditors’ claims are satisfied) to which the reclamation claimant would be otherwise entitled under section 702 of the UCC furthers the overriding Bankruptcy Code interests in (i) the uniform application of state law property rights and (ii) the avoidance of windfalls attributable to the mere filing of a bankruptcy action, which interests the Supreme Court has repeatedly recognized:

Property interests are created and defined by state law. Unless some federal interest requires a different result there is no reason why such interests should be analyzed differently simply because an interested party is involved in a bankruptcy proceeding. Uniform treatment of property interests by both state and federal courts within a State serves to reduce uncertainty, to discourage forum shopping, and to prevent a party from receiving “a windfall merely by reason of the happenstance of bankruptcy.” The justifications for application of state law...apply with equal force to security interests...

Butner v. United States, 440 U.S. 48, 55, 99 S. Ct. 914, 918 (1979) (quoting Lewis v. Manufacturers Nat. Bank, 364 U.S. 603, 609, 81 S. Ct. 347, 350 (1961)). Granting reclamation claimants an administrative claim or lien in excess of the residual proceeds from the goods subject to reclamation would in reality elevate them to the status of secured creditors with priority rights to all of the remaining assets of the estate, a position to which they could claim no entitlement under state law. In the Matter of Leeds Building Products, Inc., 141 B.R. 265, 269 (Bankr. N.D. Ga. 1992) (“If this Court granted a lien or administrative claim to a seller whose right to reclamation was worthless outside of bankruptcy, the seller would, in essence, be given more rights than it would otherwise have under state law, which is contrary to the ‘equal treatment of creditors’ concept of the Code.”).

34. Such a retroactive enhancement of the security interests held by reclamation claimants would be particularly inequitable in cases such as this because the purchase money financing provisions of sections 9-107, 9-312(c) and 9-312(d) of Article 9 of the UCC provide sellers with the means of defeating prior liens when negotiating the sale of goods. In the context of these cases, there is no reason why the Claimants could not have availed themselves of those UCC protections at the time they negotiated their sales of goods to the Debtors. See In the Matter of Samuels & Co., Inc., 526 F.2d 1238, 1247-48 (5th Cir. 1976) (“The Code favors purchase-money financing, and encourages it by granting to a seller of goods





**EXHIBIT A**  
Reclamation Procedures Order

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE WESTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

In re: ) Chapter 11  
          ) )  
Quality Stores, Inc., et al.,<sup>1</sup> ) Case No. GG-01-10662  
          ) (Jointly Administered)  
          ) )  
          ) Debtors. )  
          ) Hon. James D. Gregg

**ORDER UNDER 11 U.S.C. §§ 105(a), 503(b), 546(c)(2) AND 546(g),  
(A) ESTABLISHING PROCEDURE FOR TREATMENT OF VALID  
RECLAMATION CLAIMS AND (B) PROHIBITING THIRD PARTIES  
FROM INTERFERING WITH DELIVERY OF DEBTORS' GOODS**

Upon the Motion (the "Motion")<sup>2</sup> of the debtors and debtors in possession in the above-captioned chapter 11 cases (collectively, the "Debtors") seeking entry of an Order (A) Establishing Procedure for Treatment of Valid Reclamation Claims and (B) Prohibiting Third Parties from Interfering with Delivery of Debtors' Goods; and it appearing that the relief requested in the best interest of the Debtors, their estates, their creditors and other parties in interest; and it appearing that this proceeding is a core proceeding pursuant to 28 U.S.C. § 158(a) and due and proper notice having been given; and after due deliberation and cause appearing therefor; it is hereby:

ORDERED that the Motion is granted; and it is further

ORDERED that the procedures outlined in the Motion for the treatment and processing of valid claims, if any, including the following, are hereby approved:

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<sup>1</sup> The Debtors are the following entities: QSI Holdings, Inc. (f/k/a CT Holdings, Inc.); Quality Stores, Inc. (f/k/a Central Tractor Farm & Country, Inc.); Country General, Inc.; F and C Holding, Inc.; FarmandCountry.com, LLC.; QSI Newco, Inc.; QSI Transportation, Inc.; Quality Farm & Fleet, Inc.; Quality Investments, Inc.; Quality Stores Services, Inc; and Vision Transportation, Inc.

<sup>2</sup> Capitalized terms not defined herein are as defined in the Motion.

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a. Any vendor asserting a claim for reclamation should send the reclamation claim to Quality Sores, Inc., 445 E. Ellis Road, Muskegon, Michigan 49441, Attn: Thomas J. Reinebach;

b. The Debtors will file a motion, on notice to each party in interest setting forth for each individual creditor which of such creditor's reclamation claims, if any, the Debtors deem to be valid pursuant to this Order;

c. Absent further order of this Court, such motion shall be brought by the Debtors within ninety (90) days of the date of the Order;

d. If the Debtors fail to bring such a motion within the required period of time, any holder of a reclamation claim may bring such a motion on their own behalf, but may not bring such a motion earlier than ninety (90) days after this Court's ruling on this Motion;

e. All parties in interest shall have the right and opportunity to object to the inclusion or omission of any asserted reclamation claim in connection with such motion; and

f. All reclamation claims allowed by this Court subsequent to the filing of the above-described motion will be entitled to priority as administrative expenses or secured by a lien, as determined by subsequent court order in accordance with Section 546(c)(2) of the Bankruptcy Code; and it is further

ORDERED that the Debtors are hereby authorized, but not directed, to refuse all demands for actual reclamation and return of goods; and it is further

ORDERED that any right of reclamation for all such claims is hereby denied under the terms set forth in the Motion, effective as of the filing of the Debtors' chapter 11 petitions; and it is further

ORDERED that in accordance with section 362 of the Bankruptcy Code, vendors and all other third parties are not permitted to, and are hereby prohibited from, interfering in any way with the postpetition shipment or delivery of goods to the Debtors; and it is further

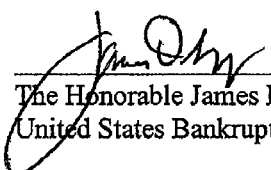
ORDERED that the Debtors, under the circumstances set forth in the Motion, are hereby authorized, but not directed, pursuant to section 546(g)<sup>3</sup> of the Bankruptcy Code, to return to vendors for appropriate credit, goods underlying reclamation demands, subject to any restrictions contained in the Debtors' postpetition financing documents and related orders; and it is further

ORDERED that this Order is without prejudice to the substantive rights of the Debtors and any interested party with respect to reclamation, except as set forth herein, including the right to object to any reclamation claim on any grounds available under applicable law; and it is further

ORDERED that the Debtors are authorized to execute such documents and take such further action as may be necessary to effectuate the relief granted in this Order; and it is

ORDERED that this Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

Dated: Grand Rapids, Michigan  
December 18, 2001

  
The Honorable James D. Gregg  
United States Bankruptcy Court

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<sup>3</sup> Section 546(g) referred to herein is the second section 546(g) in the Bankruptcy Code and should be referred to as section 546(h).

*Copies returned to  
Curtin / esb / 12-19-01*

**EXHIBIT B**  
Reclamation Report

## Exhibit B

Company Name	Asserted Reclamation Claims	Preliminary Valid Reclamation Claim	Alleged Gap Claim
AMERICAN PANEL COMPANY INC	\$32,653.25	\$26,636.01	\$0.00
APLEGATE STEEL COMPANY	\$36,141.30	\$18,433.78	\$19.96
BERMO ENTERPRISES	\$18,712.80	\$0.00	\$0.00
BRAVE PRODUCTS INC	\$33,450.00	\$0.00	\$0.00
CARGILL-NUTRENA FEED	\$166,551.25	\$0.00	\$2,814.78
CDS (COOK)	\$16,646.09	\$0.00	\$0.00
COLLEGEWARE USA	\$18,648.00	\$17,115.29	\$0.00
DOANE PET CARE CO	\$334,410.44	\$309,031.40	\$321.60
DURA-VENT-SIMPSON	\$88,322.63	\$9,405.62	\$78,205.86
EASTERN MINERALS INC	\$46,100.00	\$13,681.42	\$0.00
EASY GARDENER	\$55,359.84	\$0.00	\$23,302.08
ELY & WALKER/CUMBERLAND OUTFITTERS	\$10,312.50	\$0.00	\$9,792.02
ENDLESS DESIGNS	\$28,818.00	\$28,818.00	\$0.00
ENGLANDER WOOD STOVES	\$274,732.50	\$0.00	\$0.00
ERTL/RACING-CHAMPIONS	\$218,528.70	\$0.00	\$0.00
EXIDE CORP	\$171,122.13	\$41,073.58	\$67,121.16
FARM INNOVATOR INC	\$298,565.91	\$253,685.00	\$0.00
GRABBER INTERNATIONAL EAST	\$21,953.04	\$0.00	\$18,291.62
GRACIOUS LIVING	\$11,455.29	\$0.00	\$0.00
HAVAHART WOODSTREAM	\$14,838.51	\$8,412.79	\$0.00
HEINZ NORTH AMERICA	\$16,508.16	\$15,975.44	\$0.00
HOWARD BERGER CO INC	\$11,592.00	\$8,416.11	\$0.00
IAMS COMPANY	Amount not specified	\$0.00	\$0.00
IMPERIAL MFG GROUP	Amount not specified	\$0.00	\$0.00
IOWA VET SUPPLY	\$96,994.94	\$0.00	\$12,945.86
KELLY SPRINGFIELD TIRE COMPANY	\$224,825.21	\$0.00	\$44,818.00
KEYSTONE STEEL & WIRE COMPANY	\$56,917.50	\$0.00	\$0.00
LIBERTY SAFE & SECURITY PRODUCTS	\$35,649.00	\$0.00	\$35,649.00
MARTINS FEED MILLS	\$6,204.80	\$0.00	\$0.00
MID WEST QUALITY GLOVES	\$39,599.64	\$0.00	\$0.00

MORGAN KNITTING	\$111,892.25	\$0.00	\$22,291.63
MORTON SALT COMPANY	Amount not specified	\$0.00	\$0.00
NEW BRAUNFELS SMOKER COMPANY	\$23,660.00	\$18,351.51	\$0.00
OSRAM SYLVANIA PRODUCTS	\$5,663.38	\$695.42	\$0.00
PREVUE PET PRODUCTS INC	\$33,075.40	\$0.00	\$0.00
RALSTON PURINA CO	Amount not specified	\$0.00	\$0.00
ROCKFORD PRODUCTS CORP	\$173,851.67	\$87,280.17	\$36,884.48
RUCKERS WHOLESale & SERVICE.	\$270,737.44	\$110,550.29	\$84,608.16
SCHMIDTY SILK INC	\$102,150.00	\$0.00	\$102,150.00
SWISHER MOWER CO	\$173,362.50	\$0.00	\$36,854.79
TRADING PLACES INC	\$7,394.40	\$0.00	\$0.00
WARREN DISTRIBUTION INC (OIL)	\$80,133.30	\$0.00	\$0.00
WORKSAVER INC	\$73,847.08	\$0.00	\$9,135.41
WORLD FAMOUS SPORTS	\$149,620.50	\$0.00	\$136,062.00
YENKIN MAJESTIC PAINT CORP	\$69,263.83	\$0.00	\$0.00
	\$3,660,265.18	\$967,561.84	\$721,268.39