

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SEARS AUTHORIZED HOMETOWN STORES,
LLC, *et al.*,¹

Debtors.

Chapter 11

Case No. 22-11303 (BLS)

Jointly Administered

Related to Docket Nos. 217, 219, 220 and 237

**ORDER (I) CONVERTING CASES
FROM CHAPTER 11 TO CHAPTER 7 OF THE BANKRUPTCY CODE,
(II) SETTING BAR DATE FOR FILING FINAL CHAPTER 11
FEE APPLICATIONS AND ESTABLISHING A HEARING THEREON;
AND (III) GRANTING RELATED RELIEF**

Upon the motion (the “**Motion**”)² of the Debtors for the entry of an order (i) converting these chapter 11 cases to cases under chapter 7 of the Bankruptcy Code effective as of the date of this Order, (ii) setting a date that is at least thirty (30) days after the Conversion Date as the date by which all chapter 11 professionals retained in these cases must file Final Fee Applications and establishing a date for a hearing on such Final Fee Applications, and (iii) granting related relief; and it appearing that the relief sought in the Motion and the entry of this Order is appropriate; and it appearing that this Court has jurisdiction to consider the Motion pursuant to 28 U.S.C. § 1334; and it appearing that venue of these cases and the Motion in this District is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and it appearing that this matter is a core proceeding pursuant to 28 U.S.C. § 157(b); and this Court having determined that the relief requested in the Motion is

¹ The Debtors in the above-captioned chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are Sears Authorized Hometown Stores, LLC (9641) and Sears Hometown Stores, Inc. (8358). The Debtors’ mailing address is 5500 Trillium Blvd. Suite 501, Hoffman Estates, IL 60192.

² Capitalized terms not otherwise defined herein shall have the meanings given to them in the Motion.

reasonable and in the best interests of the Debtors, their estates, their creditors and other parties in interest; and it appearing that proper and adequate notice of the Motion has been given and that no other or further notice is necessary; and after due deliberation thereon; and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED THAT:

1. The Motion is GRANTED as provided herein.
2. Effective as of the date of this Order, pursuant to section 1112(a) of the Bankruptcy Code, the Debtors' Chapter 11 Cases are converted to cases under chapter 7 of the Bankruptcy Code.
3. The following Conversion Procedures are hereby approved:
 - (a) **Professional Fees.** Professionals shall submit Final Fee Applications in accordance with the Bankruptcy Code, Bankruptcy Rules, Local Rules, and orders of this Court by no later than thirty (30) days after the Conversion Date (the "**Final Fee Application Deadline**"). Objections, if any, to the Final Fee Applications shall be filed and served by no later than twenty-one (21) days after the Final Fee Application Deadline. A hearing to consider all timely filed Final Fee Applications shall be held on April 18, 2023 at 10:00 a.m. (ET).
 - (b) **Books and Records.** As soon as reasonably practicable, but in no event more than fourteen (14) days after the appointment of the chapter 7 trustee, the Debtors shall turn over or provide access to the chapter 7 trustee the books and records of the Debtors in the Debtors' possession and control or held by Transform, as required by Bankruptcy Rule 1019(4). For purposes hereof, the Debtors may provide copies (including electronic copies) of such books and records to the chapter 7 trustee, or instructions for locating and accessing such books and records, and may retain copies of such books and records to the extent necessary to complete the reports required herein.
 - (c) **Schedule of Unpaid Debts.** Within thirty (30) days of the Conversion Date, the Debtors shall file a schedule of unpaid debts incurred after commencement of the Debtors' Chapter 11 Cases, including the name and address of each creditor, as required by Bankruptcy Rule 1019(5)(A) (as modified herein).

- (d) **Final Report.** Within thirty (30) days after the Conversion Date, the Debtors shall file and transmit to the chapter 7 trustee a final report and account in accordance with Bankruptcy Rule 1019(5)(A).
- (e) **Claims.** Within fourteen (14) days of the Conversion Date, Stretto, Inc. shall (i) forward to the Clerk of this Court an electronic version of all imaged claims; (ii) upload the consolidated creditor mailing list into CM/ECF and, notwithstanding Local Rule 2002-1(f)(x), file the consolidated matrix in each jointly administered case in lieu of a separate matrix for each Debtor; (iii) docket a final claims register in the Debtors' Chapter 11 Cases.

4. Subject to its compliance with Local Rules 2002-1(f)(x)-(xi), on the Conversion Date, Stretto, Inc. shall be relieved of its responsibilities as the Debtors' claims and noticing agent in the Debtors' Chapter 11 Cases and will have no further obligations to the Court, the Debtors, the chapter 7 trustee (once appointed), or any party in interest with respect to the Debtors' Chapter 11 Cases or the chapter 7 cases.

5. Effective upon the date of this Order, pending the qualification of a permanent trustee under section 702 of the Bankruptcy Code, all contested matters pending in the Debtors' bankruptcy cases as of the date of this Order, including pending adversary proceedings, are stayed unless otherwise ordered by this Court.

6. The Debtors are hereby authorized and directed to transfer from SHS bank account number *4888 at PNC (the "UST Fee Account") amounts sufficient to pay any outstanding quarterly fees to the Office of the United States Trustee for the period January 1, 2023 through the Conversion Date, which amounts (i) shall be administered outside of the chapter 7 estates and shall not be subject to administration by, or turnover to, a chapter 7 trustee, and (ii) as of the date of this Order, have been, or are in the process of being, released by ACH transfer to the Office of the United States Trustee, and Ms. Darla Ramirez is hereby authorized to take any and all further action required to effectuate the ACH transfer contemplated herein.

7. With respect to sales and use taxes resulting from the Debtors' sale of products and services for the period of January 1, 2023 through February 12, 2023 (the "**Sales Taxes**"), the Debtors are hereby authorized and directed to segregate in SHS bank account number *5944 at PNC (the "**Sales Tax Account**") \$200,725.00, which includes the Transform Fee (as defined below), and such funds shall be used exclusively to pay the Sales Taxes and the Transform Fee. These segregated funds shall be administered outside of the chapter 7 estates and shall not be subject to administration by, or turnover to, a chapter 7 trustee. Each applicable Transform entity is hereby authorized, but not directed, to prepare and submit returns related to such Sales Taxes and perform such other tasks as the Debtors may reasonably request in connection therewith, all for the account of the Debtors, for which the applicable Transform entities shall be paid a flat fee of \$5,000 (the "**Transform Fee**"), in advance of beginning any such work. For the avoidance of doubt, neither PNC nor any Transform entity shall have any liability for such Sales Taxes or the associated returns. Any payments or returns made to taxing authorities on account of the Sales Taxes shall be released from the Sales Tax Account or filed only upon the advance written approval of Ms. Darla Ramirez, who shall be the sole authorized signatory on the Sales Tax Account; provided, however, that the Transform Fee shall be earned and paid in advance of the applicable Transform entity performing any of the tasks described above. To the extent that there are funds remaining in the Sales Tax Account after payment of all appropriate Sales Taxes, PNC shall have a first priority lien on any such funds, and the funds shall be remitted to PNC pursuant to the terms of the Final Cash Collateral Order.

8. Saul Ewing LLP is authorized to retain the funds in the Carve-Out Reserve Account for distribution to the Chapter 11 Professionals pursuant to the Final Cash Collateral Order, the Interim Compensation Order and, after approval of the Final Fee Applications in accordance with

the Interim Compensation Order, any orders on the Final Fee Applications. To the extent the funds in the Carve-Out Reserve Account are insufficient to fund the Carve-Out Cap, as that term is defined in the Final Cash Collateral Order, PNC shall promptly fund the Carve-Out Reserve up to the Carve-Out Cap. For the avoidance of doubt, the Carve-Out Reserve Account shall be administered outside of the chapter 7 estates and not subject to administration by, or turnover to, a chapter 7 trustee. To the extent that the Carve-Out Reserve is insufficient to cover such fees and expenses, the Professionals shall be paid the remainder from the chapter 7 estates as soon as practicable thereafter. To the extent that there are funds remaining in the Carve-Out Reserve after payment to the Chapter 11 Professionals, such amount shall be paid by Saul Ewing to PNC pursuant to written wire transfer instructions provided by PNC. Any excess retainers held by Professionals upon payment and satisfaction of allowed professional fees shall be remitted to PNC.

9. Ms. Darla Ramirez is authorized to use any funds held by her on retainer, plus any additional amounts funded to her in advance for post-conversion work and related expenses. Any excess retainers held by Ms. Ramirez at the conclusion of her retention shall be remitted to PNC.

10. Nothing in this Order or the conversion of these Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code shall affect or modify the terms of the Final Cash Collateral Order, prejudice any person or entity's rights thereunder or relieve any person or entity of obligations thereunder. All rights, claims, remedies, defenses and obligations under and in connection with the Final Cash Collateral Order shall be reserved and preserved in their entirety.

11. Nothing in this Order or the conversion of these Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code shall affect or modify the terms of the Inventory Sale Order, and, consistent with such Order, any remaining amounts owed to the Consultant in connection with the Court-approved inventory sales to American Freight, LLC [D.I. 211] and Mountain Top

Alliances, LLC [D.I. 231] along with any additional expenses of the Consultant to the extent consistent with the Consultant Expense Budget (as modified), shall be earmarked from Gross Proceeds in accordance with the Consulting Agreement (as defined in the Inventory Sale Order) and PNC shall be authorized to remit same to the Consultant.

12. For the avoidance of doubt, with respect to cash and cash equivalents in the possession, custody or control of any Debtor as of the date of entry of this Order, neither the entry of this Order, nor any relief granted hereunder, nor the occurrence of the Conversion Date for any Debtor's Chapter 11 Case shall have any effect on whether such cash or cash equivalents (i) are or are not funds collected on account of "trust fund taxes" and held in trust for the benefit of taxing authorities or other governmental units (as defined in section 101(27) of the Bankruptcy Code) or (ii) are or are not property of any Debtor's bankruptcy estate pursuant section 541 of the Bankruptcy Code.

13. All orders entered by the Court in the Chapter 11 Cases shall remain in full force and effect in the Chapter 7 Cases.

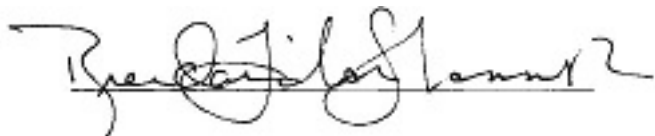
14. Nothing in this Order or the conversion of these Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code shall affect the Texas Tax Account as defined in paragraph 22 of the Final Cash Collateral Order, which account, following the entry of this Order, shall be administered by the chapter 7 trustee appointed in these cases. The funds that comprise the Texas Tax Account (which is SHS bank account number *5936 at PNC) are the cash collateral of Wichita County, Wichita County, City of Wichita Falls, Wichita Falls ISD, Hale County Appraisal District, Gray County Tax Office, Potter County Tax Office, Randall County Tax Office, Dallam County Tax Office, Dallam County Appraisal District, Cass County, Nacogdoches County, Mineola ISD, Uvalde County Appraisal District, Maverick County, Maverick County Hospital, Humble

ISD, Pasadena ISD, Brazoria County, Clear Creek ISD, Sealy ISD, Austin County, Austin County ESD2, City of Sealy, Austin County Farm/Market, Austin County SPC Rd/Bridges, Fort Bend ISD, First Colony MUD 10, Fort Bend LID2, Liberty ISD, City of Cleveland, Austin County Appraisal District, Bay City ISD, and Kerrville ISD, Atascosa County, Bexar County, Cypress-Fairbanks Independent School District, Fort Bend County, Harris County, Liberty County, Matagorda County, Montgomery County, Navarro County, Pecos County, City of Pleasanton, Hidalgo County, Jim Wells CAD, Van Zandt CAD and Tarrant County (collectively, the “**Texas Taxing Authorities**”) and shall remain segregated upon conversion of these Chapter 11 Cases. The Texas ad valorem tax liens asserted by the Texas Taxing Authorities, if any, shall remain attached to the Texas Tax Account to the same extent and with the same priority as the liens the Texas Taxing Authorities held against such assets of the Debtors prior to the filing of this bankruptcy case. The Texas Tax Account shall be maintained solely for the benefit of the Texas Taxing Authorities and such proceeds may not be distributed to any other creditor or used for administrative expenses of the chapter 7 estate except upon agreement by the Texas Taxing Authorities or upon order of the Court. These segregated funds shall constitute neither the allowance of the claims of the Texas Taxing Authorities, nor a floor or cap on the amounts the Texas Taxing Authorities may be entitled to receive. All parties’ rights to object to the priority, validity, amount, and extent of the claims of the Texas Taxing Authorities and their asserted liens are fully preserved. To the extent excess proceeds remain in the Texas Tax Account after the payment of all appropriate taxes to the Texas Taxing Authorities, PNC shall have a first priority lien on any such excess proceeds and such excess proceeds shall be remitted to PNC pursuant to the terms of the Final Cash Collateral Order.

15. The Court shall retain jurisdiction over disputes pertaining to this Order.

Dated: February 22nd, 2023
Wilmington, Delaware

BRENDAN L. SHANNON
UNITED STATES BANKRUPTCY JUDGE

A handwritten signature in black ink, appearing to read "Brendan L. Shannon", written over a horizontal line.