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7 Bankruptcy Counsel for eStyle, Inc.  
Debtor and Debtor in Possession

8  
9 **UNITED STATES BANKRUPTCY COURT**  
10 **CENTRAL DISTRICT OF CALIFORNIA, LOS ANGELES DIVISION**

11 In re

12 ESTYLE, INC., a Delaware corporation,  
13 dba babystyle, Cadeau, and Cadeau  
Designs,

14 Debtor.  
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Case No. 2:08-bk-13518-SB

Chapter 11

**DEBTOR'S REPLY TO OBJECTION OF  
WACHOVIA CAPITAL FINANCE  
CORPORATION (WESTERN) TO  
DEBTOR'S THIRD MOTION FOR  
INTERIM AND FINAL ORDERS  
AUTHORIZING DEBTOR (a) TO  
CONDUCT STORE CLOSING SALES (b)  
TO DISCONTINUE OPERATIONS AT  
CERTAIN STORES, AND (c) GRANTING  
ANCILLARY AND OTHER RELIEF**

19 Tax Id. # 95-4712564  
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DATE: May 27, 2008  
TIME: 11:00 a.m.  
PLACE: U.S. Bankruptcy Court  
Courtroom 1575  
255 East Temple Street  
Los Angeles, CA 90012

1 eStyle, Inc. (the "Debtor"), debtor in possession, responds to the objection  
2 (the "Objection") of Wachovia Capital Finance Corporation (Western) ("Wachovia") to the  
3 Debtor's third motion for interim and final orders with regard to store closing sales (the  
4 "Motion"), received on May 22, 2008 from Wachovia, as follows:

5 1. The Debtor is submitting the declarations of Richard Alston,  
6 Alexander B. Kasdan, and Emilia Fabricant in support of this Reply.

7 2. The Objection is procedurally defective. In the Objection, Wachovia  
8 requests that the Court prematurely direct the Debtor to close all 15 of its remaining retail  
9 stores. The Objection is not a proper means of presenting such a request. Further, in  
10 the Objection, Wachovia seeks to condition and limit the Debtor's continued use of cash  
11 collateral. The Objection is also an inappropriate vehicle for presenting that request. The  
12 Court has already authorized the Debtor's use of cash collateral through and including  
13 June 24, 2008, pursuant to the Court's order (the "Cash Collateral Order") entered on  
14 April 25, 2008. The relief requested in the Motion does not in any way violate the Cash  
15 Collateral Order.

16 3. Wachovia fails to acknowledge in the Objection that since the day of  
17 the commencement of the Debtor's chapter 11 case (March 19, 2008), Wachovia has  
18 been paid approximately \$660,185 of the Debtor's funds.

19 4. Wachovia's interest in property of the estate has been, is, and will  
20 continue to be adequately protected following the granting of the relief requested in the  
21 Motion. As set forth in the Declaration of Richard Alston filed in connection with this  
22 Reply, in and of itself, the closing of additional stores does not pose a risk to adequate  
23 protection for Wachovia. The collateral equity cushion that has existed throughout the  
24 Debtor's chapter 11 case, continues to exist, and will remain following the store closing  
25 sales that are the subject of the Motion (at this time, subject to Court approval, the Debtor  
26 intends to commence, store closing sales at four (4) stores – Atrium, Burlington, North  
27 Park and Westchester – on or about June 1, 2008). Despite the adequate protection  
28 which continues to exist without additional debt reduction, the Debtor proposes to make

1 additional payments to Wachovia from the proceeds of the store closing sales as set forth  
2 below. Such payments and the adequacy of the ongoing equity cushion in the Debtor's  
3 inventory above and beyond the amount owed to Wachovia by the Debtor (approximately  
4 \$1,740,421 as of this time, down \$660,084 since the day the chapter 11 case was  
5 commenced) are reflected in the updated cash collateral budget model attached to the  
6 Alston Declaration as Exhibit 1 and incorporated herein by this reference. Despite the  
7 fact that the Debtor believes that Wachovia, without any loan repayment above and  
8 beyond what is called for in the governing cash collateral order, would remain adequately  
9 protected following the sale of the inventory from the proposed four stores to be closed  
10 commencing June 1, 2008, the Debtor is prepared and proposes to pay Wachovia 35%  
11 of the gross proceeds from such closing stores during the eight week sale process on  
12 account of its lien. Over the term of the eight week contemplated closing store sales,  
13 based upon the planned divestiture of inventory, this proposed repayment plan would  
14 provide Wachovia with an estimated \$330,518 of principal repayment beyond the  
15 amounts set forth in the governing cash collateral order, resulting in an estimated loan  
16 balance of \$1,390,403 at the end of June, 2008, and an estimated \$1,169,484 at the end  
17 of July, 2008, following completion of the four closing store sales. Based on the  
18 assumptions used in the updated budget, Debtor believes that approximately \$3,793,285  
19 of inventory liquidation value will remain at July 27, 2008 to serve as collateral for  
20 Wachovia's then outstanding loan balance of \$1,169,484. The updated budget attached  
21 as Exhibit 1 to the Alston Declaration depicts the estimated cash flow results for the  
22 Debtor's operations through the end of fiscal July, 2008. Included in this forecast is the  
23 Debtor's planned closing and sale of inventory related to four stores (Atrium, Burlington,  
24 NorthPark and Westchester). For purposes of the budget analysis and adequate  
25 protection assessment, liquidation sale proceeds have been estimated at 35% of  
26 inventory retail value which is less than the 37% previously estimated for recovery related  
27 to the first group of closed stores and 39% actual recovery rate that was achieved for the  
28 sale of inventory in the Debtor's first group of closed stores. Additionally, the updated

1 budget model has moved \$25,000 for each of May and June from the corporate/home  
2 base category and added that sum to the administrative fee expense category in order to  
3 allow for payment to the Debtor's investment banker, Alexander B. Kasdan Company  
4 Limited ("ABKC"), without increasing the total budgeted expense amount. This  
5 modification was agreed to by Wachovia several weeks ago and, subsequently,  
6 Wachovia sought to retract its agreement. In the early part of May, 2008, Richard Alston  
7 had discussions with Wachovia's representative where he was specifically advised by  
8 such representative that Wachovia did not object to the Debtor's retention or payment of  
9 ABKC for the months of May and June. See Alston Declaration submitted with this  
10 Reply, ¶ b, pp. 3-4.

11           5.       The United States Supreme Court in United Savings Ass'n of Texas  
12 v. Timbers of Inwood Forest Assocs., 484 U.S. 365, 108 S.Ct. 626, 630, 98 L.Ed. 2d 740  
13 (1988), determined that the property interest that a debtor must adequately protect is the  
14 lien that secures the creditor's claim. Moreover, the value of the lien may not exceed the  
15 allowed amount of the secured claim. Accordingly, the property interest of an over -  
16 secured creditor (Wachovia in this case) that the Debtor must adequately protect, namely  
17 the lien value, is the allowed amount of the secured claim (as of this time, Wachovia is  
18 owed approximately \$1,740,421, down approximately \$659,000 from the day that the  
19 Debtor's chapter 11 case was filed just 9 weeks ago), and does not include the equity  
20 cushion. An equity cushion is not a requirement of adequate protection because a  
21 secured creditor is only entitled to protection against the decline in value of its lien. In re  
22 Alyucan Interstate Corp., 12 B.R. 803 (Bankr. D. Utah 1983). The existence of an equity  
23 cushion (the value of the property above the lien) is not a necessary component of  
24 adequate protection. Section 361 speaks not in terms of preserving equity, but in terms  
25 of compensating for any "decrease in the value of [an] interest in property". Id., at 803.  
26 The Supreme Court's decision in Timbers confirms this proper interpretation of Section  
27 361.  
28

1           6.       The Declaration of Lester Friedman and the "Written Valuation  
2 Report" (the "Report") referenced as Exhibit "G" filed by Wachovia with the Objection  
3 should be disregarded or otherwise given no weight. The Report specifically states that  
4 "the values provided in this analysis do not constitute an appraisal and should be used  
5 only as guidance in determining advance rates". Accordingly, the Report is irrelevant  
6 since Wachovia is not making any advances to the Debtor. Moreover, at the last page of  
7 the Report, it is further stated that "[w]e believe that you understand that the scope of our  
8 engagement and our procedures described above do not constitute an attest service of  
9 an inventory appraisal." Thus, the Report is clearly of no value and should be given no  
10 weight. Moreover, the Report completely ignores the most significant indication of  
11 inventory value in this case -- the results of store closing sales that have already been  
12 conducted by the Debtor and proposes a much more costly method of conducting the  
13 sales apparently in order to depress the net results. See the Alston Declaration  
14 submitted with this Alston Declaration.

15           7.       To the detriment of other creditors (and, as discussed above,  
16 ignoring procedural requirements), in the Objection, Wachovia seeks to force the  
17 immediate, complete, premature liquidation of the Debtor. While the Debtor has closed  
18 certain stores pursuant to Court authorization and while the Debtor plans to close  
19 additional stores upon Court authorization, this case was only commenced 9 weeks ago.  
20 As set forth in the Kasdan Declaration submitted with the Reply, there are various  
21 interested parties who appear likely to make proposals for an acquisition of the Debtor's  
22 business on a going concern basis in the near future. Further, the Debtor is evaluating  
23 other reorganization alternatives that may be feasible involving the Debtor's online  
24 business and continued operation of a limited, core group of the Debtor's best retail  
25 stores. Even if the request for relief set forth in the Objection were not procedurally  
26 defective, it would be premature and inappropriate at this time to grant the relief sought  
27 by Wachovia designed to require a complete liquidation of the Debtor's assets through  
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1 store closing sales all to be conducted contemporaneously with respect to the Debtor's  
2 remaining stores.

3           8.     As set forth in the Declaration of Richard Alston submitted with the  
4 Reply, the liquidation value of inventory as a result of store closing sales has exceeded  
5 what was projected. However, cannibalization as a result of online discounted sales and  
6 store closing sales at certain locations has negatively impacted sales at the Debtor's  
7 ongoing stores. Such sales were also significantly negatively impacted as a result of  
8 business disruption that occurred in connection with and following the Debtor's chapter  
9 11 filing. The Debtor believes that it has now navigated through this period of business  
10 disruption and that sales at ongoing stores will likely improve as a result. See Fabricant  
11 Declaration.

12           9.     In the Objection, Wachovia asserts that the Debtor should move  
13 immediately to a complete liquidation of its retail stores through store closing sales. If the  
14 Debtor were to agree that such an approach was appropriate at this time and was not  
15 premature in light of pending sale discussions and ongoing discussions and evaluations  
16 that are in process with regard to alternatives for reorganization, the most effective  
17 means of liquidating the Debtor's inventory would be through store closing sales.  
18 Accordingly, even if Wachovia's arguments were found to be correct (and the Debtor

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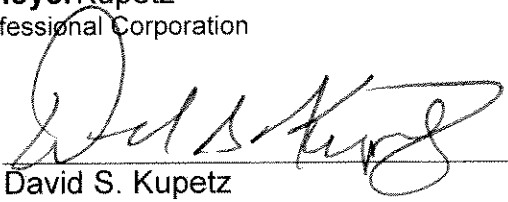
believes that they are incorrect), the Debtor's pending Motion requesting authorization to commence store closing sales at the beginning of June should be granted.

**WHEREFORE**, the Debtor respectfully requests that the Court overrule Wachovia's Objection and grant the Motion.

DATED: May 23, 2008

Respectfully submitted,

**SulmeyerKupetz**  
A Professional Corporation

By:   
David S. Kupetz  
Attorneys for Debtor, eStyle, Inc.

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1 PROOF OF SERVICE

2 STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

3 At the time of service, I was over 18 years of age and **not a party to this action.** I  
4 am employed in the County of Los Angeles, State of California. My business address is  
333 South Hope Street, Thirty-Fifth Floor, Los Angeles, California 90071-1406.

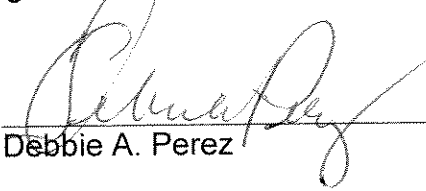
5 On May 23, 2008, I served the following document(s) described as **DEBTOR'S**  
6 **REPLY TO OBJECTION OF WACHOVIA CAPITAL FINANCE CORPORATION**  
7 **(WESTERN) TO DEBTOR'S THIRD MOTION FOR INTERIM AND FINAL ORDERS**  
8 **AUTHORIZING DEBTOR (a) TO CONDUCT STORE CLOSING SALES (b) TO**  
9 **DISCONTINUE OPERATIONS AT CERTAIN STORES, AND (c) GRANTING**  
10 **ANCILLARY AND OTHER RELIEF** on the interested parties in this action as follows:

11 **SEE ATTACHED SERVICE LIST**

12 **BY E-MAIL OR ELECTRONIC TRANSMISSION:** I caused the document(s) to be sent  
13 from the e-mail address dperez@sulmeyerlaw.com to the persons at the e-mail  
14 addresses listed in the Service List, I did not receive, within a reasonable time after the  
15 transmission, any electronic message or other indication that the transmission was  
16 unsuccessful.

17 I declare under penalty of perjury under the laws of the United States of America  
18 that the foregoing is true and correct and that I am employed in the office of a member of  
19 the bar of this Court at whose direction the service was made.

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

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Debbie A. Perez

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