

BIDDING PROCEDURES

Set forth below are the bidding procedures (the “Bidding Procedures”) to be employed in connection with an auction (the “Auction”) for the sale of substantially all of the Debtors’ assets, either to a purchaser or purchasers or through entry into one or more agency agreements for the liquidation of some or all of the Debtors’ assets. At a hearing following the Auction (the “Sale Approval Hearing”), the Debtors will seek entry of an order (the “Sale Order”) of the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) authorizing and approving the Sales (as defined below) to the Qualified Bidder(s) (as defined below) that the Debtors determine to have made the highest or otherwise best bid(s) (the “Successful Bidder(s)”).

Assets to be Sold

The Debtors are soliciting bids for any and all of their assets. The Debtors will consider bids for all of their assets, distinct lots of assets and individual assets, including bids for store leases, and will consider bids to enter into one or more agency agreements for the liquidation of some or all of their assets. The Debtors, in their business judgment, and after review of all bids submitted in consultation with the Prepetition Secured Lenders (as defined below) will determine the proposed transaction or transactions that generate the maximum value for their estates.

The Stalking Horse Agreement

In order to maximize the value received pursuant to the Auction, the Debtors have entered into an Agency Agreement substantially in the form attached hereto as Exhibit “1” (the “Stalking Horse Agreement”) with Gordon Brothers Retail Partners, LLC (“Gordon Brothers” or the “Stalking Horse Bidder”) for the sale (the “Sale”) of all of the Merchandise (as defined in the Stalking Horse Agreement) located in 106 of its specialty retail store locations (the “Stores”), as well as the potential disposition, at the Debtors’ option, of the Debtors’ owned furniture, fixtures and equipment located at the Stores.

The Bidding Process

The Debtors shall (i) determine whether any person is a Qualified Bidder (as defined below), (ii) provide reasonable assistance to Qualified Bidders in conducting their due diligence investigations, (iii) receive offers from Qualified Bidders and (iv) negotiate any offers made to purchase the Assets. Neither the Debtors nor their representatives shall be obligated to furnish any information of any kind to any person who is not determined to be a Qualified Bidder.

Bid Deadline

Any person or entity wanting to participate in the Auction must submit a Qualified Bid (as defined below) on or before **September 17, 2009 at 4:00 p.m. (prevailing Eastern Time)** (the “Bid Deadline”) in writing, to (i) Arthur E. Reiner and Bonni G. Davis, Finlay Enterprises, Inc., 529 Fifth Avenue, 5th Floor, New York, NY 10017; (ii) the attorneys for the Debtors, Lori R. Fife (lori.fife@weil.com) and Shai Y. Waisman

(shai.waisman@weil.com), Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, Telephone: (212) 310-8000, Facsimile: (212) 310-8007; (iii) Paul Traub (paultraub@aol.com) and Maura I. Russell (moruss@aol.com), Asset Disposition Advisors, LLC, 2485 Matterhorn Drive, Wexford, PA 15090, Telephone: (742) 413-5783; (iv) David J. Coles (dcoles@alvarezandmarsal.com), Alvarez & Marsal North America, LLC, 600 Lexington Avenue, New York, New York 10021, Telephone (212) 759-4433, Facsimile: (631) 614-4342; (v) the attorneys for General Electric Capital Corporation (“GECC”), as agent under that certain Fourth Amended and Restated Credit Agreement dated as of November 9, 2007, Mark Ramsey (mark.ramsey@lw.com), Latham & Watkins LLP, Sears Tower, Suite 5800, Chicago, IL 60606, Telephone: (312) 876-7700, Facsimile: (312) 993-9767; (vi) the attorneys for Harbinger Capital Partners Special Situations Fund, LP and Harbinger Capital Partners Master Fund I, Ltd. (collectively, “Harbinger”), Alan W. Kornberg (akornberg@paulweiss.com) and Diane Meyers (dmeyers@paulweiss.com), Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019, Telephone: (212) 373-3000, Facsimile: (212) 757-3990; (vii) the attorneys for HSBC Bank USA (“HSBC” and together with GECC, the “Prepetition Secured Lenders”), as trustee under that certain second lien indenture dated as of November 26, 2008 and that certain third lien indenture dated as of November 26, 2008, Pryor Cashman LLP, 7 Times Square, New York, New York 10036 (Attn: Michael Fruchter); (viii) U.S. Bank, N.A., as successor trustee under that certain senior note indenture dated as of June 3, 2004, 100 Wall Street, Suite 1600, New York, New York 10005 (Attn: James E. Murphy, Corporate Trust Services); and (ix) the attorneys for the official committee of unsecured creditors (the “Creditors’ Committee”), Lawrence L. Ginsburg (lginsburg@mosessinger.com), Mark N. Parry (mparry@mosessinger.com), and Christopher J. Caruso (ccaruso@mosessinger.com), Moses & Singer LLP, 405 Lexington Avenue, New York, New York 10174, Telephone: (212) 554-7800, Facsimile: (212) 554-7700 (collectively, the “Bid Notification Parties”).

Qualified Bids

To qualify as a “Qualified Bidder,” a bidder must submit a “Qualified Bid” by the Bid Deadline. To constitute a Qualified Bid, a bid must: (i) identify the target assets, (ii) have a value greater than or equal to the sum of (x) \$105,500,000, which is the value determined by the Debtors of the Stalking Horse Agreement, plus (y) \$850,000, which is the amount of the Break-Up Fee that would be payable to the Stalking Horse Bidder under the Stalking Horse Agreement if the Debtors were to consummate the transaction(s) contemplated by the Qualified Bid, plus (z) an initial overbid amount of \$100,000; *provided, however*, that bidders for discrete lots of assets or individual assets (e.g. leases) shall not be disqualified for failure to comply with this requirement; (iii) contain a mark-up of the Stalking Horse Agreement or the Asset Purchase Agreement attached to the motion seeking approval of these Bidding Procedures as Exhibit “E” that reflects the bidder’s proposed changes thereto, including any proposed minimum initial or guaranteed payments; (iv) identify the potential bidder and the officer(s) or authorized agent(s) who will appear at the Auction on behalf of such bidder; (v) provide evidence, satisfactory to the Debtors in their reasonable discretion (after consultation with their Prepetition Secured Lenders and the Creditors’ Committee), of the bidder’s financial wherewithal and operational ability to consummate the proposed transaction; (vi) provide that the bid shall not be conditioned on the outcome of unperformed due diligence by the bidder, board approval, or any financing contingency; (vii) include the Qualified Bidder’s Good Faith Deposit (as defined below); (viii)

identify any executory contracts (“Contracts”) or unexpired leases (“Leases”) to be assumed and assigned in connection with the contemplated transaction; (ix) include, with respect to any Contracts and Leases to be assumed and assigned, an Adequate Assurance Package (as defined below); and (x) provide that the bidder’s offer is irrevocable until consummation of a transaction involving any other bidder for the same assets.

All Qualified Bids will be considered, but the Debtors reserve their right to reject any or all bids. Bids will be evaluated on numerous grounds, however, bids that are unconditional and contemplate sales that may be consummated on or soon after the Sale Approval Hearing, which will be conducted on September 25, 2009 (subject to adjournment as announced in open Court or on the docket of the Debtors’ chapter 11 cases), will be preferred.

Good Faith Deposits

Bidders will be required to submit good faith deposits (the “Good Faith Deposits”) with the Debtors on or before the Bid Deadline. Such Good Faith Deposits shall be equal to ten percent (10%) of the cash purchase price contained in such bid, subject to the Debtors’ right to modify such requirement. Good Faith Deposits of all Qualified Bidders shall be held in a separate interest-bearing account for the Debtors’ benefit until consummation of a transaction involving any other bidder for the same Assets. If a Successful Bidder fails to consummate a transaction because of a breach or failure to perform on the part of such Successful Bidder, the Debtors will not have any obligation to return the Good Faith Deposit deposited by such Successful Bidder, and such Good Faith Deposit shall irrevocably become property of the Debtors without affecting or reducing any of the Debtors’ other rights or claims against such party.

Due Diligence

The Debtors may afford any potential bidder the opportunity to conduct a reasonable due diligence review in the manner determined by the Debtors in their discretion. The Debtors shall not be obligated to furnish any due diligence information after the Bid Deadline.

The Debtors either have provided or will provide to all parties that have either expressed an interest in purchasing or liquidating their assets or who the Debtors believe may have an interest in purchasing or liquidating their assets (each an “Interested Party” and, collectively, the “Interested Parties”), certain information, including, among other things, these Bidding Procedures. Should any Interested Party desire additional or further information, such Interested Party will be required to enter into a confidentiality agreement satisfactory to the Debtors in their business judgment. Upon execution of the confidentiality agreement, the Interested Party will be given access (through a virtual data room or otherwise the “Data Room”), to various financial data and other relevant and confidential information, subject to the Debtors right to exclude such access for competitive concerns.

Each bidder shall be deemed to acknowledge and represent that it has had an opportunity to conduct any and all due diligence regarding Debtors’ assets prior to making any such bids; that it has relied solely upon its own independent review, investigation and/or

inspection of any documents and/or the assets in making its bid; and that it did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express, implied, by operation of law or otherwise, regarding the Debtors' assets, or the completeness of any information provided in connection therewith.

The Auction

The Auction will be conducted at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 on **September 23, 2009, commencing at 10:00 a.m. (prevailing Eastern Time)** to determine the highest or otherwise best bid with respect to the Assets. Any bidder submitting a Qualified Bid may appear and submit its highest or best bid at the Auction. The Auction may be adjourned without further notice by announcement at the Auction.

Auction Procedures

Prior to the start of the Auction, the Debtors will advise all Qualified Bidders of what they believe to be the highest or otherwise best Qualified Bid(s). Only Qualified Bidders are eligible to participate in the Auction. The Prepetition Secured Lenders and the Creditors' Committee and their respective counsel and advisors shall be permitted to attend the Auction. Bidding at the Auction shall begin initially with the highest or otherwise best bid and shall subsequently continue in such minimum increments as the Debtors determine.

Bidding will continue with respect to the Auction until the Debtors, in consultation with the Prepetition Secured Lenders, determine that they have received the highest or otherwise best bid(s) for the Debtors' assets. After the Debtors so determine, they will close the Auction. The Debtors, after consultation with their Prepetition Secured Lenders and the Creditors' Committee, will then determine and announce which sale or combination of sales has been determined to be the highest or otherwise best bid and, therefore, declared the Successful Bid(s). In determining which bid is a Successful Bid(s), the Debtors will consider the net return to their estates after the payment of the Break-Up Fee, provided, however, that economic considerations shall not be the sole criteria upon which the Debtors may base their decision and the Debtors shall take into account all factors they believe to be relevant in an exercise of their business judgment.

Adequate Assurance Package

If any Qualified Bid requires the assumption and assignment of Contracts or Leases, then such offeror must identify such Contracts and/or Leases to be assumed and assigned and provide evidence of its ability to provide adequate assurance of future performance of such Contracts or Leases along with the Qualified Bid (an "Adequate Assurance Package").

Reservation Of Rights

a. Determination of Highest and Best Bid

The Debtors reserve the right to (i) determine in their reasonable discretion (after consultation with their Prepetition Secured Lenders and the Creditors' Committee) which bid is

the highest or best bid and (ii) reject at any time prior to entry of a Court order approving an offer, without liability, any offer that the Debtors in their reasonable discretion (after consultation with their Prepetition Secured Lenders and the Creditors' Committee) deem to be (x) inadequate or insufficient, (y) not in conformity with the requirements of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, or procedures set forth therein or herein, or (z) contrary to the best interests of the Debtors and their estates.

Given that bidders will be permitted to submit bids for any asset or combination of assets, the Debtors may combine Qualified Bidders and Qualified Bids or implement such other arrangements at the Auction so as to compare bids and determine the highest or best return for these estates.

The selection of a Successful Bidder shall be within the reasonable business judgment of the Debtors (after consultation with their Prepetition Secured Lenders and the Creditors' Committee) and subject to the approval of the Bankruptcy Court. The presentation of a particular bid to the Bankruptcy Court for approval does not constitute the Debtors' acceptance of the bid. The Debtors will be deemed to have accepted a bid only when the bid has been approved by the Bankruptcy Court at the Sale Approval Hearing.

b. Modification of Bidding Procedures

The Debtors, after consultation with their Prepetition Secured Lenders and the Creditors' Committee, may modify any existing terms or impose such other terms and conditions on the Qualified Bidders as the Debtors may determine to be in the best interests of the Debtors, their estates, their creditors, and other parties in interest.

The Debtors, in consultation with their Prepetition Secured Lenders and the Creditors' Committee, reserve the right to (i) extend the deadlines set forth in the Bidding Procedures and/or adjourn the Auction at the Auction and/or the Sale Approval Hearing in open court without further notice, (ii) withdraw any asset(s) (the "Withdrawn Assets") from the Sale, including, without limitation, any assets held by the Debtors in connection with a valid consignment agreement, at any time prior to or during the Auction to make subsequent attempts to market the same, and to request separate hearing(s) by this Court to approve the sale(s) of some or all of the Withdrawn Assets, (iii) waive the requirement that a Qualified Bidder submit a Good Faith Deposit, and/or (iv) seek approval of any separate agreement to sell some or all of the Withdrawn Assets at the Sale Approval Hearing.

c. Closing with Backup Offeror(s)

If for any reason the entity or entities that submit(s) the highest or otherwise best bid(s) fails to consummate the transaction(s) contemplated thereby, or any part thereof, the offeror of the second highest or best bid will automatically be deemed to have submitted the highest or best bid and to the extent such offeror and the Debtors consent, the Debtors and such offeror are authorized to effect a transaction with such offeror(s) as soon as is commercially reasonable. If such failure to consummate the transaction is the result of a breach by the winning offeror, the Debtors reserve the right to seek all available damages from the defaulting offeror.

Sale Approval Hearing

The Sale Approval Hearing will be held on **September 25, 2009 at 10:00 a.m.** at the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004, before the Honorable James M. Peck, United States Bankruptcy Judge. The Sale Approval Hearing may be adjourned, from time to time, without further notice to creditors or parties in interest other than by announcement of the adjournment in open Court or on the Court's docket.

Dated: August 19, 2009

Exhibit 1

The Stalking Horse Agreement