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UNITED STATES BANKRUPTCY COURT

Southern District of California

In re NO FEAR RETAIL STORES, INC., a California corporation, SIMO HOLDINGS, INC., a California corporation, and NO FEAR MX, INC., a California corporation, Related Debtors. Employer ID Nos. 20-5238208, 93-1037856, 26-0432196	Case No. 11-02896-MM11 (Jointly Administered with Case Nos. 11-02897-MM11; 11-02898-MM11) Chapter 11 Cases **JOINT CONSOLIDATED DISCLOSURE STATEMENT FOR JOINT CONSOLIDATED CHAPTER 11 PLAN** **<u>Disclosure Statement Hearing</u>:** Date: March 22, 2012 Time: 2:00 p.m. Place: U.S. Bankruptcy Court 325 West "F" Street Department 1—Room 218 San Diego, CA 92101

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I.

INTRODUCTION

A. Overview of Plan of Reorganization

No Fear Retail Stores, Inc. ("NFRS"), Simo Holdings, Inc. ("SHI"), and No Fear MX, Inc. ("NFMX", and together NFRS, SHI, and NFMX are collectively referred to as the "Debtors" or the "Company") filed voluntary bankruptcy petitions (the “Petitions”) on February 24, 2011 (the “Petition Date”), commencing the above-captioned jointly administered chapter 11 cases (the “Cases”). The Cases are pending before the United States Bankruptcy Court for the Southern District of California (the "Bankruptcy Court" or the "Court"). The Cases are being jointly administered under Case No. 11-02896-MM11. The Debtors are managing their affairs as debtors in possession pursuant to Bankruptcy Code sections 1107 and 1108.

Under chapter 11, debtors in possession (such as the Debtors) and, under some circumstances, creditors and other parties in interest, may propose a plan providing for the disposition of the debtors' assets and the treatment of claims of creditors and interests of equity holders of the debtors. Chapter 11 plans may provide for debtors to reorganize by continuing to operate their businesses, or for liquidation of debtors by selling assets of their bankruptcy estates, or for a combination of reorganization and liquidation. The Debtors, together with the official unsecured creditors' committees appointed in the NFRS case (the "NFRS Committee") and the SHI case (the "SHI Committee"), are co-proposing the Joint Consolidated Chapter 11 Plan (the “Plan” and the "Plan Proponents," respectively) provided to you with this document. THE DOCUMENT YOU ARE READING IS THE DISCLOSURE STATEMENT FOR THE PLAN. UNLESS OTHERWISE DEFINED HEREIN, ALL CAPITALIZED TERMS CONTAINED IN THIS DISCLOSURE STATEMENT SHALL HAVE THE SAME MEANING ASCRIBED TO THEM IN THE PLAN. THE PLAN IS BEING PROVIDED TO YOU ALONG WITH THIS DISCLOSURE STATEMENT.

The Plan is a liquidating plan. Pursuant to prior orders of the Bankruptcy Court, the Debtors have sold substantially all of their assets and have paid substantial Claims of Secured Creditors and administrative expenses from the proceeds of such sales. The Plan provides for the allocation and the distribution of the remaining proceeds from the Debtors' sales transactions and the creation of a Liquidating Trust that will administer and liquidate all remaining property of the Debtors, including Causes of Action, not sold, transferred or otherwise waived or released before the Effective Date of the Plan.

The Plan further provides for the substantive consolidation of the Debtors, subject to, and in accordance with, a settlement arrangement between the Estates providing that General Unsecured Creditors holding Allowed Claims against SHI will receive a distribution which, when expressed as a percentage of the total Allowed Claims held by such creditors against SHI (the "Recovery Percentage"), will be three times (3x) the Recovery Percentage that is to be realized by General Unsecured Creditors holding Allowed Claims against each of NFRS and NFMX. In other words, for every three percent (3%) recovery that is received by the holder of an Allowed General Unsecured Claim against SHI, the holder of an Allowed General Unsecured Claim against each of NFRS and NFMX will receive a one percent (1%) recovery. The Distributions to General Unsecured Creditors on account of their Allowed Claims will always be made in accordance with this 3:1 Recovery Percentage ratio, irrespective of the total amount of Allowed Claims against each of the respective Estates. Examples illustrating how this Recovery Percentage would be calculated are included on Exhibit 3 hereto.

Under the Plan, all Equity Interests in the Debtors are terminated and extinguished, the Debtors are to be dissolved and their affairs wound-up, and all Assets are transferred to the Liquidating Trust. The Plan also provides for Distributions to Holders of Allowed Claims. The Effective Date of the Plan is 30 days after entry of the Court's order confirming the Plan.

As stated above, the Plan provides for the substantive consolidation of the Debtors and their Estates, subject to the settlement arrangement described above and discussed in detail below. Substantive consolidation is the pooling of assets and liabilities of the entities sought to be consolidated. Upon such consolidation, the intercompany claims among the entities are eliminated, and all of the assets of, and all of the claims against, each of the debtor entities are treated as assets of, or claims against, the consolidated entity. Under the Plan, each of the three affiliated Debtors and their Estates will be substantively consolidated. The Debtors' assets and claims will be pooled, the Debtors' liabilities satisfied from a common fund, and Intercompany Claims among the Debtors eliminated. For the reasons discussed in Section V below, however, distributions to General Unsecured Creditors of the Debtors will not be on a pro rata basis. Rather, such distributions will be made in accordance with the 3:1 Recovery Percentage ratio described above and illustrated in Exhibit 3 hereto.

The Plan Proponents believe that Confirmation of the Plan is in the best interests of Creditors and the Debtors. Given that the Estates have been substantially liquidated and there is insufficient justification or resources to resolve the disputes described in Section V below via litigation, the Plan Proponents believe that no feasible alternatives to the Plan exist. Under the Plan, compared to other alternatives, the Plan Proponents believe that the recoveries for holders of Allowed Claims will be maximized under the circumstances and the administrative cost and delay will be far less than any other alternative.

B. <u>The NFRS and SHI Creditors' Committees are Plan Proponents and the NFMX Committee Also Supports the Plan</u>

The unsecured creditors' committees appointed in the NFRS and SHI chapter 11 cases are jointly presenting the Plan with the Debtors. Further, the official unsecured creditors' committee appointed in the NFMX case (the "NFMX Committee") supports approval of the Plan (the members of the NFMX Committee have unanimously expressed to the Debtors their approval of substantive consolidation of the Debtors and the related settlement arrangement and their support for the Plan). Accordingly, the Creditors' Committees appointed in each of the Debtors' cases support the Plan. A solicitation letter from the NFRS and SHI Creditors' Committees and the Debtors requesting that unsecured creditors vote in favor of the Plan is included in the materials transmitted with this Disclosure Statement.

C. Summary of Treatment of Claims and Equity Interests Under the Plan

Under the Plan, subject to the Unsecured Creditor recovery compromise described above and in Section V below, Claims and Equity Interests are treated according to the priority rules set forth in the Bankruptcy Code. The Plan does not classify Administrative Claims, Administrative Priority Reclamation Claims, or priority Tax Claims. In accordance with the Bankruptcy Code, the Plan provides that Allowed Administrative Claims, Priority Administrative Reclamation Claims, if any, and priority Tax Claims are to be paid in full on or, as soon as reasonably practicable after, the Effective Date of the Plan (or thereafter with respect to Claims that do not become Allowed Claims until after the Effective Date) or, for ordinary course Administrative Claims (Administrative Claims incurred in the ordinary course of the Debtors' business after the Petition Date), when such Claims ordinarily become due.

Only Allowed Claims will receive Distributions under the Plan. The table below summarizes the Classification and treatment of Claims and Equity Interests under the Plan. The table below also contains an estimate of the percentage recoveries that the Plan Proponents project may ultimately be available to each Class of Claims. These estimates are based on a number of assumptions, which may or may not prove to be accurate.

Summary of Treatment Under the Plan of Claims Against, and Equity Interests in, the Debtors

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
N/A	Administrative Claims	$300,000	Except as otherwise specifically set forth below, the holders of Allowed Administrative Claims entitled to priority under section 507(a)(2) of the Bankruptcy Code, and entities entitled to payment of administrative expenses pursuant to sections 503 and 507(a) of the Bankruptcy Code shall receive on account of such Allowed Claims or administrative expenses cash in the amount of such Allowed Claims or administrative expenses on or before the Effective Date of the Plan or as soon thereafter as is practicable. Notwithstanding the foregoing, professionals employed at the expense of the Estate, and entities holding a Substantial Contribution Claim, if any, entitled to an allowance of fees and expenses from the Estate pursuant to sections 503(b)(2) through (6) of the Bankruptcy Code, shall receive cash in the amount awarded to such professionals and entities as soon as practicable after an order is entered by the Court approving such award pursuant to sections 330 or 503(b)(2) through (6) of the Bankruptcy Code, unless any such professional or other entity consents prior to Confirmation to other treatment. Estimated Projected Payment: 100% Unclassified; not entitled to vote

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
N/A	Administrative Priority Reclamation Claims	-0-	Holders of Allowed Administrative Priority Reclamation Claims entitled to priority under sections 503(b)(9) and 507(a)(2) of the Bankruptcy Code, if any, will be paid in full on account of such Allowed Claims as soon as practicable following the Effective Date. Estimated Projected Payment: 100% Unclassified: not entitled to vote
N/A	Tax Claims		Holders of Allowed Tax Claims entitled to priority under section 507(a)(8) of the Bankruptcy Code will receive on account of such Allowed Claims payment in the full amount of such Allowed Claims on the Effective Date, or as soon thereafter as practicable. Estimated Projected Payment: 100% Unclassified; not entitled to vote
1	Miscellaneous Secured Claims		The Plan leaves unaltered the legal, equitable, and contractual rights of the Holders of Allowed Miscellaneous Secured Claims. The Liens securing such Allowed Miscellaneous Secured Claims, as of the Effective Date, with respect to Assets are not affected by the Plan. To the extent that pursuant to Pre-Confirmation Sales, property subject to a Lien was sold, any such Lien attached to the Pre-Confirmation Sale Proceeds with the same validity, priority, and perfection as existed prior to the Pre-Confirmation Sale. To the

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
			extent any Allowed Miscellaneous Secured Claim secured by any such Lien has not been fully paid prior to the Effective Date, any such Allowed Miscellaneous Secured Claim shall be paid in Cash in the full amount of such Lien on the Effective Date, or as soon thereafter as is practicable. To the extent that any Allowed Secured Miscellaneous Claim is secured by a valid, perfected, Lien on Assets, other than Pre-Confirmation Sale Proceeds, as of the Effective Date, except to the extent that the Holder of an Allowed Miscellaneous Secured Claim agrees to other treatment, any such Asset shall be transferred by the Liquidating Trustee to the Holder of any such Allowed Miscellaneous Secured Claim, or the Holder of such Allowed Miscellaneous Secured Claim shall be paid in Cash in the amount of the value of such asset (with the value of such asset to be either agreed upon by the Plan Proponents and the Holder of the Lien on such asset or determined by the Bankruptcy Court after notice and hearing), on the Effective Date, or as soon thereafter as is practicable, in full and final satisfaction of such Allowed Miscellaneous Secured Claim. Estimated Projected Payment: 100% Unimpaired; Deemed to accept
2	FMF/Emler	$38,800	The Plan leaves unaltered the legal, equitable, and contractual rights with respect to any Allowed Secured Claim held by

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
			FMF/Emler. To the extent that FMF/Emler hold Allowed Secured Claims secured by a Lien on any Asset, as of the Effective Date, FMF/Emler shall receive on the Effective Date, or as soon thereafter as is practicable, except to the extent that FMF/Emler agrees otherwise, payment in Cash in the amount of the value of such Asset, with such value to be either agreed upon by the Plan Proponents and FMF/Emler or determined by the Bankruptcy Court after notice and hearing, or any such Asset may be transferred to FMF/Emler by the Liquidating Trustee in full and final satisfaction of FMF/Emler's Allowed Secured Claims. Estimated Projected Payment: 100% Unimpaired; Deemed to accept
3	Priority Claims		The holders of Allowed Priority Claims will be paid in full in Cash on the Effective Date, or as soon thereafter as is administratively practicable. Estimated Projected Payment: 100% Unimpaired; Deemed to accept
4	General Unsecured Claims Against SHI		Provided that all Allowed Administrative Claims, Administrative Priority Reclamation Claims, Professional Fee Claims, Tax Claims, Secured Claims, and Priority Claims have been paid in full or funds sufficient to satisfy all such Claims have been adequately reserved, upon the later of (a) the Distribution Date

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
			immediately following the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (b) the date that is sixty (60) days after the date on which such General Unsecured Claim becomes an Allowed General Unsecured Claim, each holder of an Allowed General Unsecured Claim against SHI shall receive, in full and final satisfaction, settlement and release and in exchange for such Allowed General Unsecured Claim, its Pro Rata share of the Initial Net Distributable Proceeds paid to Holders of Allowed Claims in Class 4, if any, and, on each Periodic Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the Periodic Net Distributable Proceeds to be paid to the Holders of Allowed General Unsecured Claims in Class 4, if any. Pursuant to a settlement arrangement between the Estates, General Unsecured Creditors holding Allowed Claims against SHI will receive a distribution which, when expressed as a percentage of the total Allowed Claims held by such Creditors against SHI (the "Recovery Percentage"), will be three times (3x) the Recovery Percentage that is to be realized by General Unsecured Creditors holding Allowed Claims against each of NFRS and NFMX. Estimated Projected Payment: 6% Impaired; Entitled to vote
5	General Unsecured		Provided that all Allowed Administrative Claims,

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
	Claims Against NFRS		Administrative Priority Reclamation Claims, Professional Fee Claims, Tax Claims, Secured Claims, and Priority Claims have been paid in full or funds sufficient to satisfy all such Claims have been adequately reserved, upon the later of (a) the Distribution Date immediately following the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (b) the date that is sixty (60) days after the date on which such General Unsecured Claim becomes an Allowed General Unsecured Claim, each holder of an Allowed General Unsecured Claim against NFRS shall receive, in full and final satisfaction, settlement and release and in exchange for such Allowed General Unsecured Claim, its Pro Rata share of the Initial Net Distributable Proceeds paid to the Holders of Allowed Claims in Class 5, if any, and, on each Periodic Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the Periodic Net Distributable Proceeds to be paid to the Holders of Allowed General Unsecured Claims in Class 5, if any. Pursuant to a settlement arrangement between the Estates, General Unsecured Creditors holding Allowed Claims against NFRS will receive a distribution which, when expressed as a percentage of the total Allowed Claims against NFRS (the "Recovery Percentage"), will be one-third (1/3) the Recovery Percentage that is to be realized by General Unsecured Creditors holding Allowed Claims against SHI.

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
			Estimated Projected Payment: 2% Impaired; Entitled to vote
6	General Unsecured Claims Against NFMX		Provided that all Allowed Administrative Claims, Administrative Priority Reclamation Claims, Professional Fee Claims, Tax Claims, Secured Claims, and Priority Claims have been paid in full or funds sufficient to satisfy all such Claims have been adequately reserved, upon the later of (a) the Distribution Date immediately following the date a General Unsecured Claim becomes an Allowed General Unsecured Claim or (b) the date that is sixty (60) days after the date on which such General Unsecured Claim becomes an Allowed General Unsecured Claim, each holder of an Allowed General Unsecured Claim against NFMX shall receive, in full and final satisfaction, settlement and release and in exchange for such Allowed General Unsecured Claim, its Pro Rata share of the Initial Net Distributable Proceeds paid to the Holders of Allowed Claims in Class 6, if any, and, on each Periodic Distribution Date, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the Periodic Net Distributable Proceeds to be paid to the Holders of Allowed General Unsecured Claims in Class 6, if any. Pursuant to a settlement arrangement between the Estates, General Unsecured Creditors holding Allowed Claims against NFMX will receive a distribution which, when expressed as a percentage of the total Allowed

CLASS NO.	DESCRIPTION	ESTIMATED AMOUNT OR VALUE OF CLAIMS OUTSTANDING AS OF THE EFFECTIVE DATE (ON A CONSOLIDATED BASIS, EXCEPT FOR CLASSES 4, 5, AND 6)	TREATMENT FOR ALLOWED CLAIMS AND ESTIMATED PROJECTED PAYMENT
			Claims held by such Creditors against NFMX (the "Recovery Percentage"), will be one third (1/3) the Recovery Percentage that is to be realized by General Unsecured Creditors holding Allowed Claims against SHI. Estimated Projected Payment: 2% Impaired; Entitled to vote
7	Equity Interests		All Equity Interests in the Debtors shall be cancelled, annulled and extinguished as of the Effective Date of the Plan. The holders of Equity Interests in the Debtors shall not receive or retain anything under the Plan on account of such Equity Interests. Estimated Projected Payment: 0% Impaired: Deemed to reject
8	Equity Interest Related Claims		Each holder of an Equity Interest Related Claim shall not receive or retain anything under the Plan on account of such Claims. Estimated Projected Payment: 0% Impaired; Deemed to reject
9	Intercompany Claims		On the Effective Date, all Intercompany Claims by and between the Debtors shall be cancelled and the Holders of Intercompany Claims shall not receive or retain anything under the Plan on account of such Claims. Estimated Projected Payment: 0% Impaired; Deemed to reject

ALTHOUGH THE PLAN PROPONENTS HAVE DONE THEIR BEST TO ENSURE THE ACCURACY OF THE ESTIMATED CLAIM AMOUNTS AND THE ESTIMATED PERCENTAGE RECOVERY SHOWN IN THE TABLE ABOVE, THE *ACTUAL* CLAIM AMOUNTS AND PERCENTAGE RECOVERIES MAY VARY.

The actual recoveries under the Plan will be dependent upon a variety of factors including, but not limited to, whether, and what amount and with what priority, contingent Claims against the Debtors become non-contingent, fixed and Allowed Claims; whether, to what extent, Disputed Claims are resolved in favor of the Debtors and/or the Estates; the extent of litigation relating to resolution of and/or objections to Claims asserted against the Debtors; the extent of preference and/or any other avoidance actions brought on behalf of the Estates and/or the Post-Confirmation Estate and the extent of recoveries with respect to any such actions; the extent of collections on accounts receivable owing to the Debtors and expenses incurred in connection therewith; the ability to monetize non-liquid assets of the Debtors and any amounts achieved in connection with such efforts; the results of the litigation brought by the Debtors with respect to the alleged Secured Claims and Liens asserted by FMF/Emler; the extent of opposition, if any, to confirmation of the Plan and/or substantive consolidation of the Estates and the expenses incurred in connection with addressing any such opposition; and the extent of historical and ongoing administrative expenses incurred in connection with the administration of the Debtors' Chapter 11 Cases and/or the Liquidating Trust. Accordingly, no representation can be nor is any representation being made with respect to whether each estimated percentage recovery shown in the table above will be realized by the Holder of an Allowed Claim in any particular Class.

IN THE VIEW OF THE PLAN PROPONENTS, THE PLAN PROVIDES THE HOLDERS OF CLAIMS WITH THE BEST RECOVERY FEASIBLE UNDER THE CIRCUMSTANCES. ACCORDINGLY, THE PLAN PROPONENTS BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF SUCH HOLDERS AND STRONGLY

RECOMMEND THAT ALL SUCH HOLDERS ENTITLED TO VOTE, VOTE TO ACCEPT THE PLAN.

D. Overview Of Disclosure Statement

The Plan Proponents submit this Disclosure Statement in accordance with Section 1125 of the Bankruptcy Code to holders of impaired claims in connection with proceedings for Confirmation of the Plan. The Plan has been proposed by the Debtors, the NFRS Committee, and the SHI Committee and filed with the Bankruptcy Court presiding over the Debtors' Chapter 11 Cases. Furthermore, the NFMX Committee has advised the Debtors that it supports the Plan.

This Disclosure Statement provides information regarding (i) the history of the Debtors, (ii) the Debtors' former business, (iii) the Debtors' debt and equity structure, (iv) the events precipitating the commencement of the Debtors' Chapter 11 Cases, and (v) major events occurring during the Debtors' chapter 11 cases, including the sales of the Debtors' intellectual property and certain other assets to Brands Holdings Limited ("BHL") and the Debtors' retail business assets and operations to Ryderz Compound, Inc. ("Ryderz"), that were approved by the Court during the Chapter 11 Cases. This Disclosure Statement also describes the Plan and the Plan's treatment of Claims against and Equity Interests in the Debtors. The purpose of the Disclosure Statement is to provide the holders of Impaired Claims with adequate information to assist them in making an informed decision regarding acceptance or rejection of the Plan. Each holder of an Impaired Claim should read this Disclosure Statement (including its Exhibits) and the Plan in their entirety and consider them in connection with the proceedings regarding Confirmation of the Plan. The Plan Proponents have not authorized any person to utilize, for purposes of solicitation, any information concerning the Debtors or the Estates other than the information contained or referred to in this Disclosure Statement.

E. Voting and Classes Under the Plan

The Plan divides the Claims of Creditors and the Interests of Equity Holders into 9 classes. Only classes of creditors and interest holders with claims or interests impaired under a chapter 11 plan are entitled to vote on a plan. Generally, and subject to the specific provisions of the Bankruptcy Code, this includes creditors and interest holders whose claims or interests, under a plan, will be modified in terms of principal, interest, length of time for payment, or a combination of the above. Each holder of a Claim in a Class that is not Impaired under the Plan is conclusively presumed to have accepted the Plan, and solicitation of acceptances from the holders of such Claims is not required and will not be undertaken. Claims based on post-petition agreements with the Debtor are Administrative Claims which are not classified and are to be paid in full in cash under the Plan. Administrative Priority Reclamation claims, if any, and priority Tax Claims are also treated as unclassified Claims that are to be paid in full in Cash under the Plan. The holders of unclassified Claims are not entitled to vote on the Plan.

Classes 1 (Allowed Miscellaneous Secured Claims), 2 (Allowed Secured Claims of FMF/Emler), 3 (Allowed Priority Claims) are Unimpaired under the Plan. The holders of the Allowed Claims in Classes 1, 2, and 3 are not entitled to vote on the Plan and are deemed to have accepted the Plan because their Claims are not Impaired under the Plan. Holders of Equity Interests in Class 7 (Common Stock) and Equity Interest Related Claims (Class 8) are not being asked to vote on the Plan because such Holders are presumed, as a matter of law, to have rejected the Plan since they will neither receive nor retain any property under the Plan on account of their Equity Interests in or Equity Interest Related Claims against the Debtors. Intercompany Claims are cancelled under the Plan and no votes on the Plan are required with respect to such Claims (any such votes would be cast by the Debtors who are proponents of the Plan in any event). The Allowed Claims in Classes 4 (General Unsecured Claims against SHI), 5 (General Unsecured Claims Against NFRS), and 6 (General Unsecured Claims Against NFMX) are Impaired and the Holders of Allowed General Unsecured Claims are entitled to vote on the Plan. For a description of the Classes of Claims and Equity Interests and their treatment under the Plan, see Section VI below, and see the Plan itself.

Except as described below (see Section IX.B.3) and as set forth in Section 1129(b) of the Bankruptcy Code, the Court may confirm the Plan only if accepted by each voting Class. The Bankruptcy Code defines "acceptance" with respect to a class of impaired claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the allowed claims in such class whose holders actually vote to accept or reject the Plan. Holders of Impaired Claims who are to receive Distribution or retain property under the Plan may vote either to accept or reject the Plan.

F. Additional Information - Exhibits

Accompanying this Disclosure Statement are copies of the following: (1) the Notice of the Order of the Court approving this Disclosure Statement, setting the date and time of the Plan confirmation hearing, setting the deadlines and procedures for voting and for objecting to confirmation of the Plan, and related matters (the "Confirmation Notice"); and (2) for each holder of an Allowed Claim in Classes 4, 5, and 6, the ballot for voting to accept or reject the Plan (the "Ballot").

The following documents are attached as Exhibits (the "Exhibits") to this Disclosure Statement in the following order:

(a) Chart of Debtors' corporate structure (Exhibit 1);

(b) Chart regarding disposition of real property leases under which a Debtor was Lessee (Exhibit 2);

(c) Illustrative Recovery Structure (Exhibit 3); and

(d) Lists of potential preference payments made by the Debtors (payments made within 90 days prior to commencement of the Cases to non-insiders and payments made within one year prior to the commencement of the Cases to insiders) (Exhibit 4).

G. Disclaimer

The Court has approved this Disclosure Statement as containing information of a kind and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the Debtors and the condition of the Debtors' books and records, adequate to enable hypothetical, reasonable investors typical of the holders of Impaired Claims to make an informed judgment as to whether to accept or reject the Plan. **APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR THE MERITS OF THE PLAN.**

THIS DOCUMENT WAS COMPILED FROM INFORMATION OBTAINED BY THE PLAN PROPONENTS FROM NUMEROUS SOURCES BELIEVED TO BE ACCURATE TO THE BEST OF THE PLAN PROPONENTS' KNOWLEDGE, INFORMATION AND BELIEF. THE PLAN PROPONENTS HAVE NOT PERFORMED THEIR OWN INDEPENDENT INVESTIGATION OF THE ACCURACY AND COMPLETENESS OF INFORMATION CONTAINED HEREIN. THEREFORE, THE PLAN PROPONENTS DO NOT REPRESENT HEREIN THAT ANY OF SUCH INFORMATION IS ACCURATE OR COMPLETE PRIOR TO OR AS OF THE DATE OF THIS DISCLOSURE STATEMENT.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, NOTHING CONTAINED HEREIN SHALL BE ATTRIBUTABLE TO OR IS DERIVED FROM OR REPRESENTED TO BE ACCURATE BY THE OFFICE OF THE UNITED STATES TRUSTEE, BY ANY HOLDER OF A CLAIM OR INTEREST, OR BY ANY OF THEIR RESPECTIVE ADVISORS, NOR HAS ANY SUCH PARTY INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN AND EACH MAKES NO REPRESENTATION AS TO THE ACCURACY THEREOF.

ALTHOUGH THE DEBTORS' PROFESSIONAL ADVISORS AND THE PROFESSIONAL ADVISORS OF THE NFRS COMMITTEE AND THE SHI COMMITTEE HAVE ASSISTED IN THE PREPARATION OF THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA PROVIDED BY THE PLAN PROPONENTS, THEY HAVE NOT INDEPENDENTLY VERIFIED THE INFORMATION SET FORTH HEREIN AND MAKE NO REPRESENTATION AS TO THE ACCURACY

THEREOF.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS:

The information contained in this Disclosure Statement and certain other statements contained or incorporated by reference herein, including, without limitation, statements containing the words "may," "will," "believe," "anticipate," "expect," "intend," "can," "could," "estimate," "project," "should," and words of similar import constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements to be materially different from any future results expressed or implied by such forward-looking statements. Such factors include, among others, the following: the extent and amount of Unsecured Claims allowed against the Debtors; the extent of Secured Claims and/or Priority Claims allowed against the Debtors; the extent of litigation relating to resolution of and/or objections to Claims asserted against the Debtors; the extent of preference and/or any other avoidance actions brought on behalf of the Estates and/or the Post-Confirmation Estate and the extent of recoveries with respect to any such actions; the extent of collections on accounts receivable owing to the Debtors and expenses incurred in connection therewith; the ability to monetize non-liquid assets of the Debtors and any amounts achieved in connection with such efforts; the extent of opposition, if any, to confirmation of the Plan and/or substantive consolidation of the Estates and the expenses incurred in connection with addressing any such opposition; and the extent of ongoing administrative expenses incurred in connection with the administration of the Debtors' Chapter 11 Cases and/or the Liquidating Trust. Certain of these factors are discussed in more detail elsewhere herein. **Given these uncertainties, readers of this Disclosure Statement are cautioned to consider these risks and to not place undue reliance on such forward-looking statements.**

After carefully reviewing this Disclosure Statement, including the Exhibits, and the Plan, each holder of an Impaired Claim in Classes 4, 5, and 6 should decide whether to accept or reject the Plan and should indicate its vote on the enclosed Ballot and return it in the envelope provided.

H. Balloting

TO BE COUNTED, YOUR BALLOT MUST BE COMPLETELY FILLED IN, SIGNED, AND TRANSMITTED IN THE MANNER SPECIFIED IN THE BALLOT SO THAT IT IS RECEIVED BY THE VOTING DEADLINE SPECIFIED IN THE BALLOT AND HEREIN. PLEASE CAREFULLY FOLLOW ALL INSTRUCTIONS CONTAINED IN THE BALLOT AND IN THIS DISCLOSURE STATEMENT. ANY BALLOTS RECEIVED WHICH DO NOT INDICATE EITHER AN ACCEPTANCE OR A REJECTION OF THE PLAN, WHICH ARE NOT SIGNED, WHICH INDICATE BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN, OR WHICH OTHERWISE DO NOT FULLY COMPLY WITH THE BALLOT INSTRUCTIONS, WILL NOT BE COUNTED.

If you have any question about the procedure for voting, or if you did not receive a Ballot, received a damaged Ballot, have lost your Ballot, or if you would like any additional copies of this Disclosure Statement and/or related documents, please contact SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles, CA 90071, attention: Myrna Richardson or Steven Werth (telephone) (213) 626-2311, (fax) (213) 629-4520, email: mrichardson@sulmeyerlaw.com, and swerth@sulmeyerlaw.com.

I. Purpose of This Document

This Disclosure Statement summarizes what is in the Plan, and provides you with certain information relating to the Plan and the process the Court follows in determining whether or not to confirm the Plan.

READ THIS DISCLOSURE STATEMENT CAREFULLY IF YOU WANT TO KNOW ABOUT:

(1) WHO CAN VOTE TO ACCEPT OR REJECT THE PLAN, OR OBJECT TO CONFIRMATION OF THE PLAN,

(2) WHAT THE TREATMENT OF ALLOWED CLAIMS AND EQUITY INTERESTS WILL BE UNDER THE PLAN (i.e., what the holder of an Allowed Claim or Equity Interest will receive if the Plan is

confirmed),

(3) HOW THE TREATMENT OF ALLOWED CLAIMS AND EQUITY INTERESTS UNDER THE PLAN COMPARES TO THE TREATMENT OF ALLOWED CLAIMS AND EQUITY INTERESTS IN LIQUIDATION UNDER CHAPTER 7 OF THE BANKRUPTCY CODE,

(4) THE PREPETITION OPERATING AND FINANCIAL HISTORY OF THE DEBTORS, THE DEBTORS' FORMER BUSINESS OPERATIONS, THE DEBTORS' DEBT AND EQUITY STRUCTURE, EVENTS PRECIPITATING THE CHAPTER 11 FILINGS, AND MAJOR EVENTS OCCURRING DURING THE DEBTORS' CHAPTER 11 CASES, INCLUDING THE SALE OF THE DEBTORS' INTELLECTUAL PROPERTY AND CERTAIN RELATED ASSETS TO BHL AND THE SALE OF THE DEBTORS' RETAIL OPERATIONS AND ASSETS TO RYDERZ,

(5) WHAT THE COURT WILL CONSIDER IN DETERMINING WHETHER OR NOT TO CONFIRM THE PLAN,

(6) WHAT IS THE EFFECT OF CONFIRMATION OF THE PLAN, AND

(7) WHETHER THE PLAN IS FEASIBLE.

This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain more specific advice on how the Plan will affect you and what is your best course of action. Be sure to read the Plan as well as the Disclosure Statement. If there are any inconsistencies between the Plan and the Disclosure Statement, the Plan provisions will govern. The Code requires a Disclosure Statement to contain "adequate information" concerning the Plan. The Court has approved this document as an adequate Disclosure Statement, containing enough information to enable parties affected by the Plan to make an informed judgment about the Plan.

J. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

THE COURT HAS NOT YET CONFIRMED (APPROVED) THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE COURT LATER CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON THE DEBTORS, THE LIQUIDATING TRUSTEE, ANY ENTITY ACQUIRING PROPERTY UNDER THE PLAN, AND ON ALL CREDITORS OF AND EQUITY INTEREST HOLDERS IN THE DEBTORS.

1. Time and Place of the Confirmation Hearing

The hearing (the "Confirmation Hearing") where the Court will determine whether or not to confirm the Plan will take place on _______________, at _________, in Courtroom 218, United States Bankruptcy Court, 325 West "F" Street, San Diego, California 92101.

2. Deadline For Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to timely vote on the enclosed Ballot and return the Ballot to the attention of the Debtors' bankruptcy counsel, SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles, CA 90071, attention: Myrna Richardson, Paralegal. Your ballot must be completely and accurately filled-out in accordance with the ballot instructions and received by 5:00 p.m., Pacific Time, on ______________, 2012, or it will not be counted. The ballot may be returned by mail, email (mrichardson@sulmeyerlaw.com) or fax (213.629.4520).

3. Deadline For Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Court and served by _______________, 2012, upon: (1) counsel to the Debtors, to the attention of David S. Kupetz, Esq. and Steven F. Werth, Esq., SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles, CA 90071, (email) dkupetz@sulmeyerlaw.com and swerth@sulmeyerlaw.com; and (2) counsel to the NFRS Committee and the SHI Committee, Jeffrey N. Pomerantz, Esq., and Jeffrey W. Dulberg, Esq., Pachulski Stang

Ziehl & Jones, LLP, 10100 Santa Monica Boulevard, 11th Floor, Los Angeles, California 90067, (email) jpomerantz@pszjlaw.com and jdulberg@pszjlaw.com.

4. **Identity of Person to Contact for More Information Regarding the Plan**

Any interested party desiring further information about the Plan should contact counsel for the Debtors, in writing, to the attention of David Kupetz at SulmeyerKupetz, 333 South Hope Street, 35th Floor, Los Angeles, CA 90071, (e-mail) dkupetz@sulmeyerlaw.com, or by calling (213) 626-2311.

II.

THE DEBTORS[1]

A. Business Overview

NFRS, SHI, and NFMX are related entities that were operated and functioned together as a business enterprise that primarily involved the retail sale of casual apparel and accessories, as well as protective motocross equipment, and the licensing of intellectual property rights. The Debtors' corporate and administrative offices and warehouse were located together at 1812 Aston Avenue, Carlsbad, California. As of the Petition Date, the Board of Directors for each of NFRS, SHI, and NFMX consisted of Mark Simo, Brian Simo, and Scott Benjamin. The senior officers for each of the entities were also the same.

At the time of the commencement of the Debtors' chapter 11 cases, the Debtors were operating 41 retail stores in 7 different states. The difficult economic environment had imposed significant stress on the Debtors' operations and revenues. During the months prior to the commencement of these chapter 11 cases, the Debtors implemented certain cost-cutting measures. Among other things, the Debtors closed 12 retail stores before commencing their Chapter 11 Cases. At the time of the commencement of the Debtors Chapter 11 Cases, the primary source of revenue for the

[1] The SHI and NFRS Committees have not independently verified each of the facts set forth below concerning the Debtors' history, operations, etc., and have relied upon the Debtors to describe these matters for use in this Disclosure Statement.

Debtors was the Debtors' retail operations.

B. Corporate Entities

NFMX is a wholly-owned subsidiary of SHI. SHI owns 97.75 percent of the stock of NFRS (Gatorz, Inc. owns the balance). Brian Simo (37.15%) and Mark Simo (38.2%) own approximately 75% of the stock of SHI, with the balance of the equity interests in SHI held by various different persons. A chart setting forth the corporate structure of the Debtors' enterprise as of the commencement of the Debtors' chapter 11 cases, including 3 entities (MX No Fear Europe SAS, No Fear International Limited, and FMF International, Inc.) that have not commenced chapter 11 cases (MX No Fear Europe SAS is not managed or controlled by the Debtors and is in a bankruptcy proceeding in Europe), is attached hereto as Exhibit 1 and is incorporated herein by this reference.

C. Founding of Simo Holdings

Brian and Mark Simo founded SHI in 1990. The entity was originally incorporated as No Fear, Inc., and changed its name to Simo Holdings, Inc., in March 2009. Through the 1990s, the Company's primary activities were the design, manufacture and sale of casual apparel and accessories under the "No Fear" brand to wholesale accounts in the United States, primarily department stores. The Company also licensed "No Fear" for the sale of products internationally. The popularity of the "No Fear" brand grew explosively into the mid 1990s, with annual revenues reaching approximately $140 million in 1995.

D. Shift in Distribution Strategy

Sales began to decline after 1995, as customers for "No Fear" and similar brands shifted from department stores to specialty retailers catering to the youth market. Profitability also declined, as department stores squeezed margins to make up for shrinking sales in this market segment. Because of these developments, and because the "No Fear" brand appeared to be losing relevance in the core action sports-oriented youth market, the Company changed its business model, terminating distribution of its products through department stores and other "big box" retailers in favor of lower volume, but what were perceived by management to be more relevant and profitable, specialty retailers. As part of this shift in distribution strategy, the Company also decided to experiment with its own retail stores. The first "No Fear" retail store was opened in 1999, to sell both "No Fear" branded products and third party products. Nineteen more stores were added by the end of 2004.

E. <u>Funding of Retail Store Growth -- Spy Optic IPO and Sale of International Rights</u>

By the end of 2004, it appeared to management of the Company that its retail store strategy was sound, and that there existed the opportunity to grow retail operations to several hundred stores. However, management understood that such growth would require significant capital investment, as each new store cost approximately $250,000 to $400,000 to open, primarily for leasehold improvements, fixtures and equipment, and inventory.

In December 2004, the Company took public its Spy Optic subsidiary and cashed out some of its Spy Optic shares to fund new store openings. The Company had started Spy Optic in about 1999, to design, manufacture and sell sunglasses and sport goggles. Spy Optic grew to approximately $35 million in annual revenues by the time of its initial public offering (IPO). From 2004 to 2009, the Company retained a significant minority ownership position in Spy Optic and "No Fear" retail stores became the single largest customer for Spy Optic products.

In October 2005, No Fear, Inc. sold, for $12.5 million, 50% of its rights to "No Fear" outside the U.S. (excluding rights to use "No Fear" for motocross products, which had been licensed to a third party). The rights were sold to Sports Direct International plc, a major European sporting goods retailer based in the United Kingdom. The sale was accomplished through the creation of a new British company, No Fear International Limited, managed by a Sports Direct subsidiary and owned 50% by Simo Holdings and 50% by another Sports Direct subsidiary (Brand Holdings Limited). The Company used the sale proceeds primarily to fund growth of its "No Fear" retail stores.

F. Formation of No Fear Retail Stores, Inc.

As of September 2006, the Company was operating approximately 30 "No Fear" stores. Company management set a target of 50 stores, which it believed would provide the critical mass necessary to show that "No Fear" could grow to a national chain of several hundred stores. With a 50-store "proof of concept," management believed that Simo Holdings would be in a position to attract significant financing, from private equity sources or possibly through an IPO, to fund an additional 50 to 100 stores. In anticipation of that future financing, SHI created a new wholly-owned subsidiary, NFRS (incorporated under the laws of California on July 25, 2006) and, in September 2006, transferred the retail store business to NFRS, including all related assets (except cash and inventory) and subject to all related liabilities and commitments, in exchange for 40,000,000 shares of NFRS common stock. As stated above, as of the Petition Date, NFRS was 97.75% held by SHI and 2.25% held by Gatorz Inc.

Following the transfer, SHI (then known as No Fear, Inc.) purchased both proprietary and third party products for NFRS, creating a payable from NFRS to SHI. SHI also provided support services including warehousing, design, accounting and production services to NFRS. As a result, a portion of SHI's shared overhead was allocated to NFRS. SHI also filed a consolidated tax return for all of its subsidiaries, creating a payable from NFRS to SHI for NFRS's portion of taxes.

In September 2008, SHI transferred ownership of the "No Fear" trademark to NFRS, together with associated copyrighted designs, and assigned to NFRS certain license contract rights related to the "No Fear" mark.

G. Formation of No Fear MX, Inc.

In about 2000, the Company granted to one of its employees, Jeffrey Surwall, a license to use "No Fear" for the design, production and sale of protective equipment for the sport of motocross. Mr. Surwall built the business to approximately $14 million in annual revenues. In July 2007, SHI purchased the assets of the business from Mr. Surwall for $7 million. The business was acquired through a newly formed subsidiary, NFMX. The purchase price was to be paid out at established increments over a 5-year period. The arrangement is set forth in the Asset and Stock Purchase Agreement (the "ASPA") made as of July 11, 2007, by and among No Fear, Inc. ("Parent" under the ASPA), No Fear MX, Inc. ("Buyer" and, together with Parent, "Buyer Parties" under the ASPA), J2, LLC ("J2" under the ASPA), J.T.M.X., LLC ("JTMX" and together with J2, "Sellers" under the ASPA), and Jeffrey Surwall ("Surwall" and together with Sellers, "Seller Parties" under the ASPA). Under the ASPA, Buyer Parties are obligated to Seller Parties for unpaid deferred payments. The asserted outstanding amount is approximately $5,590,000. Following the acquisition, SHI provided support services for NFMX and a portion of SHI's shared overhead was allocated to NFMX.

H. Attempted Merger with Gatorz Inc.

Beginning in 2007 and continuing through 2010, SHI and NFRS pursued a series of efforts and transactions in order to raise capital to fund the growth of NFRS. These efforts and transactions included (i) in 2007 and 2008, a proposed reverse merger, combined with a public stock offering, with Orange 21 Inc. (the parent company of Spy Optic), then listed on the NASDAQ, (ii) in 2008, a private placement of preferred stock, and (iii) in 2009 and 2010, a proposed reverse merger and public stock offering with Gatorz Inc., a company listed on the Toronto Stock Exchange – Venture. Throughout this period, SHI and NFRS also had discussions regarding possible investments in the Company with dozens of private equity firms and other potential financing sources. None of these efforts were successful.

The spin-off of NFRS in 2006 and the subsequent attempts to raise capital from 2007 through 2010 were expensive. SHI and NFRS incurred significant accounting and audit fees in connection with the NFRS spin-off, substantial legal fees in pursuit of the Orange 21 transaction, and a large amount, approximately $1 million in total, for both accounting and legal fees in connection with the attempted Gatorz transaction.

I. The Products and Business of NFRS

NFRS was a retailer of action sports and casual youth lifestyle apparel and accessories targeting young adults and teens. NFRS sold a broad range of apparel and accessories, including t-shirts, jackets, sweatshirts, jeans, walkshorts, board shorts, eyewear, bags and watches complemented by a selection of video and music, auto and motocross accessories, home décor, bedding, toys and gifts. Products were sold primarily under brands owned by NFRS or SHI, principally "No Fear" and "So Cal." In addition to its own brands, NFRS sold apparel and accessories consistent with its lifestyle focus from leading third party vendors including "FMF", "SRH", "Spy Optic", "Metal Mulisha", "Oakley" and "Gatorz". NFRS's primary customers historically were young males, with the men's category accounting for approximately 56% of sales while women's and youth make up approximately 27% and 3% of sales, respectively. The remaining 14% of sales consisted of optics in addition to other categories that were not age or gender specific, such as decals. As of the Petition Date, NFRS operated 41 retail stores in seven states, primarily in the southwestern United States.

NFRS's products primarily targeted young adults and teens seeking an action sports inspired lifestyle. Unlike a number of retailers and apparel brands that have a history targeting the major board sports (surfing, skateboarding and snowboarding), the "No Fear" brand was founded in motocross and freestyle motocross.

NFRS utilized a number of third party suppliers to design, source and import proprietary branded product. NFRS frequently sourced its proprietary branded product on a consignment basis, so that it did not take title to the consigned products until they were shipped from the Carlsbad facility to individual NFRS stores. In some instances, NFRS did not take title to consigned products until immediately prior to their sale to the end consumer.

J. Intellectual Property

The intellectual property associated with the "No Fear" name, including the "No Fear" trademark and various other rights, was transferred from SHI to NFRS on

August 31, 2008. The trademarks, which had no carrying value for financial statements, had certain associated deferred tax benefits in the amount of approximately $214,000 which were recorded to additional paid-in capital as a non-cash contribution of intangibles by SHI. As a result of the assignment of the "No Fear" trademark, NFRS received royalty income from a license to PepsiCo, Inc. for a No Fear-branded energy drink. In addition, the eCommerce activities of www.nofear.com were consolidated with NFRS.

As of the Petition Date, NFRS and SHI held more than 45 U.S. trademark registrations, including "No Fear," "So Cal," "Fearless" and other marks, the majority of which covered clothing and retail store operations. The remaining registrations included but were not limited to the following products: sunglasses and eyeglasses; autos, motorcycles and related parts; jewelry; decals, stickers and other printed matter; helmets and protective equipment; and non-alcoholic beverages and nutrition bars.

NFRS licensed, on a royalty-free basis, the "No Fear" trademark to NFMX for the development and sale of protective motocross equipment worldwide. NFRS also licensed the "No Fear" mark to NFMX and to third parties for the wholesale sale of apparel and accessories in select channels.

K. Real Estate Leases

As stated above, as of the Petition Date, NFRS operated 41 retail stores in seven states primarily in the southwestern United States. The Company also leased its corporate headquarters and warehouse, which were located in Carlsbad, California. Approximately 60% of NFRS's stores were located in California. NFRS's retail stores were located in major shopping malls, with stores ranging in size from 1,000 to 2,400 square feet, and averaging approximately 1,750 square feet. The table below outlines the growth of NFRS's concept by stores over the six fiscal years prior to September 30, 2010. After September 30, 2010, and prior to the Petition Date (February 24, 2011), NFRS closed 12 stores.

	Fiscal Years Ended August 31,						Through September 30, 2010
	2005	2006	2007	2008	2009	2010	
Stores open, beginning of period	19	22	34	39	48	54	55
Net new stores	3	12	5	9	6	1	(2)
Stores open, end of period	22	34	39	48	54	55	53

All of NFRS's store locations were leased. Leases typically ranged in term from 1 to 10 years. NFRS periodically executed temporary leases (with terms of less than 12 months) for locations where it was seeking permanent space.

As stated above, NFRS closed 12 stores during the months prior to the commencement of the Chapter 11 Cases. Shortly following commencement of the Chapter 11 Cases, the Debtors filed a motion to reject the 12 leases for the closed stores. Pursuant to an order entered on March 3, 2011, the Court granted the Debtors' motion to reject the 12 leases as of the later of the Petition Date or the date by which the Debtors relinquished possession of the subject premises to the landlord in broom swept condition. Thereafter, the Court approved the Debtors' motion for an order authorizing a procedure for the further rejection of nonresidential real property leases. The Debtors subsequently rejected approximately an additional 8 store leases and the Debtors' corporate headquarters lease. Pursuant to the Debtors' sale of its retail operations and related assets to Ryderz, the Debtors assumed and assigned approximately 33 store leases to Ryderz. A chart setting forth all nonresidential real property leases of the Debtors that were either rejected or assumed and assigned pursuant to orders of the Court during the Chapter 11 Cases is attached hereto as Exhibit 2. All nonresidential real property leases of the Debtors that were not terminated prior to the commencement of the Chapter 11 Cases have either been rejected or assumed and assigned pursuant to orders of the Court and/or the Court-approved rejection procedures or terminated based on expiration of the term of the lease.

L. Revenue in Years Prior to Commencement of Chapter 11 Cases

NFRS's stores generated same store sales growth of 0.3%, 17.7%, 16.5% and 10.0% for the fiscal years ended August 31, 2008, 2007, 2006 and 2005, respectively. As a result of the challenging economic environment that prevailed after early 2008, NFRS's same store sales were down 19.4% in fiscal 2009 and were down 10.2% in the first nine months of fiscal 2010. With NFRS's geographic concentration in California, Arizona and Nevada, NFRS believed its performance was consistent with its peers in the regions where NFRS operated. In fiscal 2009, NFRS's stores open for the entire year generated average revenue of approximately $777,000. Substantially all of NFRS's consolidated revenues were derived from sales of apparel and related accessories to consumers.

For its 2008, 2009 and 2010 fiscal years, NFRS generated total revenues of approximately $40.2 million, $39.3 million, and $37.6 million, respectively. Earnings before interest, taxes, depreciation and amortization in 2008 and 2009 were $1.9 million and $2.5 million, respectively. In its 2010 fiscal year NFRS incurred a loss of $412,000 before interest, taxes, depreciation and amortization.

NFMX generated total revenues of approximately $5.1 million, $2.7 million, and $2.4 million for its fiscal years 2008, 2009 and 2010, respectively. NFMX incurred a loss before interest, taxes, depreciation and amortization in each of those years, of $309,000, $1,295,000, and $915,000 respectively.

SHI generated total revenues of approximately $32.6 million, $26.4 million, and $22.2 million for its fiscal years ended 2008, 2009 and 2010, respectively. SHI incurred profit (loss) before interest, taxes, depreciation and amortization in each of those years, of ($1,510,000), $1,126,000, and $507,000.

The retail apparel industry is cyclical and, consequently, NFRS's sales were affected by general economic conditions. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence. After May 2008, NFRS experienced declining comparable store sales in the face of the challenging economic environment in the United States as consumers reduced discretionary spending, and apparel purchases in particular.

An average NFRS retail store, including inventory, historically cost approximately $250,000 to $400,000 to construct, assuming no tenant improvement allowances. Approximately $200,000 to $250,000 of the cost consisted of fixed assets, including fixtures and NFRS's point of sale system. The remainder of the expense was the cost of inventory required to stock the stores. NFRS sought to achieve payback on its investment in new stores in less than three years.

As is the case with many retailers of apparel and related merchandise, NFRS's business was subject to seasonal influences. As a result, NFRS historically experienced seasonal and quarterly fluctuations in its net sales and operating results. NFRS's net sales and operating results were typically lower in the first and third quarters of its fiscal year, while the winter holiday and back-to-school periods historically accounted for the largest percentage of NFRS's annual net sales. Variable costs such as store labor expense could be adjusted to match seasonal fluctuations in revenue but costs such as occupancy were fixed. As a result, NFRS historically generated a disproportionate level of earnings in its fiscal second and fourth quarters. Quarterly results of operations also fluctuated significantly as a result of a variety of factors, including the timing of store openings and the relative proportion of NFRS's new stores to mature stores, fashion trends and changes in consumer preferences, calendar shifts of holiday or seasonal periods, changes in merchandise mix, timing of promotional events, general economic conditions, competition and weather conditions.

NFRS's selling expenses consisted primarily of store payroll and store level advertising and marketing. General and administrative expenses consisted primarily of rent, personnel wages and benefits, administrative staff and infrastructure expenses, depreciation and travel and entertainment.

M. Directors and Officers of the Debtors

As stated above, at the time of the commencement of the Debtors' chapter 11 cases, the same individuals served as directors (Mark Simo, Brian Simo, and Scott Benjamin), and officers for each of the Debtors. As of the Petition Date, the Debtors' officers were Mark Simo (Chief Executive Officer), Brian Simo (President and Assistant Secretary), Scott Benjamin (Executive Vice President, Secretary and General Counsel) and Kenneth Aurigemma (Chief Financial Officer). The Debtors officers and directors as of and since the Petition Date are discussed below.

Mark Simo – Mark was CEO and a director of the Debtors. He served in those capacities since founding the Company with his brother, Brian Simo, in 1990. Mark was responsible for positioning No Fear in the industry, advancing the Company's mission and objectives, and promoting revenue, profitability and growth as an organization. In coordination with the Company's president, Mark oversaw company operations. Mark co-founded Spy Optic (now Orange 21, Inc.) in 1994 and served as a director through September 2008 and CEO until late 2004 when the company was taken public, returning as CEO in 2007 through September 2008. From 1984 to 1990, he was a Vice President and a shareholder of Life's A Beach, an apparel company he co-founded with Brian Simo. Mark started racing motocross at age 12, and moved onto auto racing as an adult. From 1988 until 2000, Mark was a team owner and professional race car driver in multiple series, including the sports car GT3 series (winning the drive championship for BMW in 1998), the NASCAR Sprint Cup series and the NASCAR Craftsman Truck series. Following the closing of the Ryderz Transaction, Mark Simo tendered his resignation as a director and officer of the Debtors.

Brian Simo – Brian was President and a director of the Debtors. He served in those capacities since co-founding the Company with his brother, Mark Simo, in 1990. Brian was responsible for managing the day-to-day operations and performance of the Company's businesses. In coordination with the Debtors' CEO, Brian oversaw operations, in addition to serving as a key creative talent of the Company, contributing to graphical design development and quality control. Brian was a co-founder of Spy Optic (now Orange 21, Inc.) and served as a director from 1994 to August 2004, and as President from 1994 to 1997. He was Vice President of Production and a shareholder of Life's A Beach from 1984 to 1990, which he co-founded with Mark Simo. Brian is a professional race car driver and team owner, having participated in multiple series since 1990, including SCCA showroom-stock racing, the Trans-Am series, and the NASCAR Sprint Cup. Following the closing of the Ryderz Transaction, Brian Simo tendered his resignation as an officer and director of the Debtors.

Ken Aurigemma – Ken is the CFO of the Debtors. He served in that capacity since September 2006. He joined the Company as Controller in 2005. Ken was previously Controller of LEGO Brand Retail, Inc., the retail division of the LEGO Group, from 2000 to 2004. From 1987 to 2000, he was employed by the Navy Exchange Service Command, a military retailer, where he served as an Internal Auditor from 1987 to 1990, Senior Accountant from 1990 to 1993, and an Accounting Manager from 1993 to 2000. Ken holds a BS degree in Accounting from Pennsylvania State University. Following the closing of the Ryderz Transaction, Ken Aurigemma continued to serve as CFO of the Debtors.

Scott Benjamin – Scott is a director, Executive Vice President, General Counsel, and Secretary of the Debtors. Scott has served in those capacities since 2007. Scott was Senior Vice President – Operations and General Counsel for Holocom Networks, Inc. in 2006, and from 1998 through 2005 he was Vice President and General Counsel of hospital software developer Bridge Medical, Inc., which was subsequently acquired by Cerner Corp. (NASDAQ: CERN). He served as Vice President and General Counsel for Bumble Bee Foods, Inc., a branded food products company, from 1992 through 1997, when the company was acquired by HM Capital Partners. Prior to that, he was a senior lawyer with Nestlé USA in San Francisco. Scott received his JD degree from Golden Gate University School of Law and an AB from the University of Virginia. Following the closing of the Ryderz Transaction, Scott Benjamin continued to serve in his capacities as a director and an officer (President and Secretary) of the Debtors.

Following the closing of the Ryderz Transaction, in accordance with the Debtors' governing Articles of Incorporation and Bylaws, two new directors were appointed for each of the Debtors. These new directors are: Peter S. Kravitz and Roy Kim.

Peter S. Kravitz is the managing Principal of Solution Trust, a boutique firm of senior business and legal consulting professionals specializing in corporate governance, restructuring, and trustee related services. Mr. Kravitz is an attorney whose practice is now dedicated to serving as a Chief Restructuring Officer, Liquidating Trustee, Plan Administrator, Member of Bankruptcy Oversight and Creditor's Committees, and member of Board of Directors where his legal and business backgrounds are well served. Mr. Kravitz has served or is serving as liquidating trustee for the Fleetwood Liquidating Trust (successor trust of Fleetwood Enterprises, Inc. and its related entities), Co-Chairman of Trust Advisory Board for the Circuit City Liquidating Trust (successor trust to publicly-held Virginia based national specialty retailer of consumer electronics), a member of the Trust Advisory Board of the LandSource Communities Creditor Trust (successor trust to large and diversified or residential and commercial land development company), Liquidating Trustee under the Right Start Liquidating Trust (successor trust to the independent retailer of juvenile products), Liquidating Trustee under the BabyStyle Liquidating Trust (successor trust for upscale retail branded baby and maternity products retailer), Chief Restructuring Officer for Max Wave, LLC (appointed to consensually wind-down clothing retailer), President and member of Board of Directors of Gibralter Insurance Co. Ltd. (a Bermuda-based captive insurer), member of the Board of Directors of Fleetwood Canada (a Canadian-based manufacturer of travel trailers and campers), member of the Trust Advisory Board of Asyst Technologies Liquidating Trust (successor trust to provider of integrated hardware and software automation solutions), and Interim Liquidating Trustee and Trust Advisory Board member of National RV Liquidating Trust (successor trust to publicly traded motor home manufacturer company).

Mr. Kravitz received his law degree from Rutgers University Law School and received his Bachelors of Science from Lehigh University.

Under the Plan, Mr. Kravitz is to be appointed the Liquidating Trustee.

Roy Kim has over 23 years experience as an operations, finance and management expert, specializing in turnarounds, restructurings, mergers, acquisitions, divestitures, liquidations, and wind-downs. Currently, he is a managing director for Avant Partners, a management advisory firm where his clientele range from middle market private companies and public companies to start-up companies. Mr. Kim has worked as a CEO, President, COO, and CFO for a number of diverse companies and venture firms, including Red Point Ventures, Insight Capital, and Redleaf Venture Management. Mr. Kim has extensive and in-depth experience with insolvency matters, including assignments for the benefits of creditors, receiverships, and bankruptcy cases.

Mr. Kim received his law degree from NYU School of Law, and received his Bachelors of Science in computer science, specializing in microprocessor design and software engineering, from the College of Engineering at University of California at Santa Barbara.

N. <u>Employees</u>

As of the Petition Date, the Company employed approximately 377 individuals. Of these employees, approximately 374 employees worked in the retail store operations, a majority of which were part-time employees and approximately 60 were salaried individuals. NFMX employed 1 individual as of the Petition Date. SHI had no direct employees as of the Petition Date. The majority of NFRS's senior executives, as well as certain employees in accounting, legal, information technology, administrative support and human resources, were directly employed by either NFRS, but performed services for NFRS as well as NFMX and SHI. Portions of the salaries of these executives and employees were paid for by NFRS in accordance with the Management Services Agreement between the entities, based on a historical review of time dedicated to each entity. No employees of NFRS or NFMX were covered by a collective bargaining agreement.

O. Equity Holders in the Debtors

As stated above, SHI owns 97.75% of the stock of NFRS (Gatorz, Inc. owns the balance of the equity interests in NFRS). SHI owns 100% of the equity interests in NFMX. Brian Simo (37.15%) and Mark Simo (38.02%) own approximately 75% of the equity interests in SHI, with the balance of the equity interests in SHI held by various different persons.

P. The Debtors' Prepetition Secured Debt

1. **Credit Cash**

In November 2009, NFRS entered into a credit card receivables financing arrangement with Credit Cash NJ, LLC ("Credit Cash"). Under this arrangement, Credit Cash made loans to NFRS, secured by a first lien on all assets of NFRS and NFMX and that were repaid through deductions from NFRS's daily credit card receipts. NFRS took $500,000 loans from Credit Cash in November and December of 2009 and July, November and December of 2010. As of the Petition Date, NFRS owed Credit Cash approximately $1,129,038. Credit Cash held security interests in certain of NFRS's asserted as well as the assets of NFMX. Credit Cash was paid in full from the proceeds of the BHL Sale Transaction and its Lien on property of the Estates has been released.

2. **FMF/Emler**

FMF Racing, Inc. ("FMF Racing"), which filed a writ of attachment against SHI in the amount of $1,500,000, and Don Emler ("Emler", and Emler and FMF Racing are collectively referred to as "FMF/Emler"), who filed a writ of attachment against SHI in the amount of $802,333.33, assert Liens on assets of SHI. Emler is a principal of FMF Racing. The scope of the liens created by the writs of attachment is limited to property subject to a statutory method of levy under California law, and includes real property in California (the Debtors did not have any such property), certain tangible personal property, inventory, accounts receivable, and general intangibles (but not copyrights, trademarks, or patents). A creditor must levy on property in the manner prescribed by

California state law in order for property to be subject to an attachment lien. Strict compliance with the state law procedures is required. The Debtors believe that FMF/Emler failed to comply with state law requirements for obtaining an attachment lien on virtually all categories of assets of the Debtors and that the only assets of the Debtors of any value with respect to which FMF/Emler obtained a lien were some minimal equipment and furniture with a value of less than $39,000.

FMF/Emler did not oppose the sale of the Debtors' assets, but did file a limited objection relating to the Debtors' sale motion. In the limited objection, FMF/Emler objected to (1) the way the Debtors characterized FMF/Emler's claims, (2) that the sale motion did not identify the assets to which FMF/Emler's liens attach, and (3) that there was a risk that whatever liens FMF/Emler had would not be recognized after a sale.

After FMF/Emler filed the limited objection, FMF/Emler, the Debtors, the Debtors' postpetition secured lender (the "DIP Lender"), the NFRS Committee, and the SHI Committee entered into a stipulation (the "FMF/Emler Stipulation"), pursuant to which FMF/Emler consented to the sale of the Debtors' assets free and clear of liens under section 363(f)(2) and (4) of the Bankruptcy Code on the condition that the valid prepetition attachment liens of FMF/Emler and any replacement liens granted in the FMF/Emler Stipulation would attach to the proceeds of the sales with the same validity, priority, perfection, and extent as existed with at the time of the sale. The FMF/Emler Stipulation was filed in the Chapter 11 Cases on July 18, 2011.

Pursuant to the FMF/Emler Stipulation, the Debtors, the NFRS and SHI Committees, and the Debtors' postpetition lender reserved the right to object to the claims of FMF/Emler and to object to the validity, priority, perfection, and extent of the liens, if any, held by FMF/Emler encumbering the Debtors' assets. The Debtors, the Committees, and the DIP Lender, specifically reserved all rights with respect to the question of whether any collateral is subject to FMF/Emler's replacement lien and whether cash collateral exists. FMF/Emler reserved their rights to assert that their prepetition attachment liens extend to all assets of SHI.

FMF/Emler has stated that they believe their attachment liens applied to all securities owned by SHI. The Plan Proponents believe that this is not correct with respect to SHI's former 50% interest in No Fear International Limited ("NFIL"), because FMF/Emler never levied upon this interest. Securities are subject to attachment and levy under CCP §§ 487.010 and 488.450. A lien only arises, however, when property subject to an attachment is levied upon. CCP § 488.500(a). While FMF/Emler has levied upon SHI's interests in No Fear MX, Inc., No Fear Racing, Inc., and FMF International, Inc. (none of which were included in assets sold by the Debtors), FMF/Emler did not do so with respect to SHI's interest in NFIL.

In order to levy upon SHI's interest in NFIL, the California Code of Civil Procedure requires that the levying officer must use the legal process "required by the state in which the chief executive office of the issuer of the security is located". NFIL, which issued the security, is a United Kingdom company, headquartered in England. The chief executive office of NFIL is located in England. Thus, FMF/Emler could not levy upon this interest except by legal process in England, which did not occur. Accordingly, the Plan Proponents believe that FMF/Emler did not have a lien with respect to SHI's 50% interest in NFIL.

FMF/Emler additionally asserted that they possessed a lien on the Debtors' equity interest in MX No Fear Europe. The Plan Proponents believe that this assertion is also incorrect, as the Debtors' interest in this entity is held by No Fear MX, Inc., and FMF/Emler did not obtain a writ of attachment against No Fear MX, Inc. Further, the Plan Proponents believe that FMF/Emler did not levy upon this interest, as is required to create a lien.

FMF/Emler also asserted that they hold a lien on receivables of the Debtors. However, the Plan Proponents believe that FMF/Emler did not comply with the provisions of the California Code of Civil Procedure required to obtain a lien upon accounts receivable. In order to levy (the requirement for obtaining a lien), FMF/Emler was required to personally serve a copy of its writs of attachment and notice of attachment on the account debtors. FMF/Emler did not accomplish the required service on account debtors.

FMF/Emler also asserted an attachment lien on vehicles of the Debtors. However, the Debtors believe that FMF/Emler did not comply with the applicable requirements of the California Code of Civil Procedure for obtaining such a lien. That section required the levying officer to file a notice of attachment with the California Department of Motor Vehicles. This was not done.

FMF/Emler further asserted an attachment lien on the Debtors' inventory. However, FMF/Emler did not comply with the California Code of Civil Procedure alternative requirements of either having a keeper put in place in charge of the inventory or the filing of a notice of attachment with specific detail identifying inventory with the California Secretary of State. As a result, the Plan Proponents believe that FMF/Emler did not have a lien on any inventory of the Debtors and do not have a lien on any of the proceeds from the Debtors' sale of inventory to Ryderz. In addition, FMF/Emler asserts liens on certain other limited categories of assets that the Debtors dispute since the Debtors believe that FMF/Emler similarly did not comply with the California State law requirements for levying on a writ of attachment necessary to create a lien.

While FMF/Emler asserts a secured claim in the approximate sum of $2.3 million, the Plan Proponents believe that the amount of FMF/Emler's allowable secured claim does not exceed approximately $38,800. In an effort to attempt to resolve this dispute, the Debtors, the Creditors' Committees for SHI and NFRS, and FMF/Emler engaged in negotiations and subsequently participated in a formal mediation on November 21, 2011. The mediation was conducted by United States Bankruptcy Judge Scott Clarkson from the Central District of California. The negotiations and mediation did not result in a settlement. The Debtors have filed a complaint in the Bankruptcy Court to determine the validity, priority and extent of FMF/Emler's purported liens, the value of claims secured by any such liens on property in which the Estates have an interest, and objecting to the secured claims of FMF/Emler.