

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
RICHMOND DIVISION**

In re:

**ROOMSTORE, INC.,**

Debtor.

Chapter 11

Case No. 11-37790 (DOT)

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**DISCLOSURE STATEMENT FOR CHAPTER 11 PLAN  
OF ROOMSTORE, INC.**

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**PLEASE READ THIS DISCLOSURE STATEMENT CAREFULLY. THIS  
DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON  
YOUR DECISION TO ACCEPT OR REJECT THE PLAN. THE DEBTOR BELIEVES  
THAT THE PLAN IS IN THE BEST INTERESTS OF CREDITORS, THAT IT IS FAIR  
AND EQUITABLE AND URGES YOU TO VOTE TO ACCEPT THE PLAN.**

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**LOWENSTEIN SANDLER PC**

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Bruce Buechler (NJ Bar No. 02886)  
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*Counsel to the Debtor and Debtor-in-Possession*

## **INTRODUCTION**

RoomStore, Inc., the debtor and debtor-in-possession in the above-captioned chapter 11 case (the “Debtor” or “RoomStore”), hereby submits the following Disclosure Statement pursuant to the provisions of Chapter 11 of the Bankruptcy Code with respect to its Chapter 11 Plan dated June 6, 2012 (the “Plan”). Unless otherwise noted, all capitalized terms used in this Disclosure Statement shall have the meanings ascribed to them in the Plan.

This Disclosure Statement is intended to be used in connection with the solicitation of acceptances or rejections of the Plan filed with the United States Bankruptcy Court for the Eastern District of Virginia. A copy of the Plan is sent herewith.

**THE DEBTOR RESERVES THE RIGHT TO FILE AN AMENDED DISCLOSURE STATEMENT AND PLAN. ALL CREDITORS ARE HEREBY ADVISED AND ENCOURAGED TO READ THE PLAN AND DISCLOSURE STATEMENT IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.**

**AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT BE CONSTRUED AS AN ADMISSION OR STIPULATION, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.**

The classification of Claims and Interests pursuant to the Plan is described in Article IV below. Pursuant to the Bankruptcy Code, Holders of Claims and Interests in Classes 3 and 4 as defined in the Plan, are entitled to vote on the Plan. Persons in Classes 1a, 1b, 1c, and 2 are not entitled to vote on the Plan and are deemed to have accepted or rejected the Plan by operation of law.

The Debtor anticipates Holders of Allowed Unsecured Claims will receive an amount equal to 100% of the Allowed amount of their Unsecured Claims, without interest, less the aggregate Tax Attribute Benefit realized by the Debtor (provided that the foregoing offset in respect of the Tax Attribute Benefit is capped at 20% of the Allowed amount of Unsecured Claims). The Plan, if approved, also provides that the Allowed Secured Claims of Salus, GE,

and Other Allowed Secured Claims will be paid in full pursuant to the treatment set forth in Classes 1a, 1b, and 1c of Article II of the Plan.

As more fully described herein, the source of Cash to pay the Salus, GE, Other Allowed Secured Claims, Allowed Unsecured Claims, and Interest, will come from the sale or liquidation of the Debtor's remaining Assets, along with the Debtor's recovery of security deposits and pre-paid expenses held by third parties and similar accounts, the pursuit of Causes of Action and Avoidance Actions, and distributions, if any, from MDG and CDS.

**A. The 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 OR OBJECT.**
- 2. THE PROPOSED TREATMENT OF YOUR CLAIM OR INTEREST (I.E., WHAT YOUR CLAIM OR INTEREST WILL RECEIVE IF THE PLAN IS CONFIRMED), AND HOW THIS TREATMENT COMPARES TO WHAT YOU WOULD RECEIVE IN A LIQUIDATION.**
- 3. THE HISTORY OF THE DEBTOR AND SIGNIFICANT EVENTS DURING THE BANKRUPTCY CASE.**
- 4. WHAT THE BANKRUPTCY COURT WILL CONSIDER WHEN DECIDING WHETHER TO CONFIRM THE PLAN.**
- 5. THE EFFECT OF CONFIRMATION.**
- 6. THE FEASIBILITY OF THE PLAN.**

This Disclosure Statement cannot tell you everything about your rights. You should consider consulting with your own lawyer and/or tax advisor to obtain more specific advice on how the Plan will affect you and what is the best course of action for you.

Be sure to read ***both*** the Plan ***and*** this Disclosure Statement. If there are any inconsistencies between the Plan and this Disclosure Statement, the Plan provisions will govern.

Bankruptcy Code section 1125 requires a Disclosure Statement to contain “adequate information” concerning the Plan. The term “adequate information” is defined in Bankruptcy Code section 1125(a)(1) as information of a kind, and in sufficient detail, about a debtor and its operations that will enable a hypothetical reasonable investor, typical of holders of claims or interests of the debtor to make an informed judgment about accepting or rejecting the plan. The Bankruptcy Court has determined that the information contained in this Disclosure Statement is adequate, and has approved this Disclosure Statement in accordance with the Bankruptcy Code.

This Disclosure Statement is provided to each Creditor whose Claim has been scheduled by the Debtor or who has filed a proof of claim against the Debtor. Your acceptance of the Plan may not be solicited unless you have received a copy of this Disclosure Statement prior to or concurrently with such solicitation.

**B. Confirmation Procedures.**

A Person’s vote to accept or reject the Plan will only be counted if submitted by a Creditor whose Claim is duly scheduled by the Debtor as undisputed, non-contingent and unliquidated, or who, prior to the bar date or last date fixed for filing proofs of claim, has timely filed with the Court a proof of Claim which has not been objected to, disallowed or suspended prior to computation of the votes on the Plan. The ballot form that you receive does not constitute a proof of Claim. If you are uncertain whether your Claim has been scheduled, you should check the Debtor’s Schedules, which are on file with the Clerk of the United States Bankruptcy Court located at 701 East Broad Street, Suite 4000, Richmond, Virginia 23219, or at the website of the Noticing Agent, American Legal Claim Services LLC, <http://www.americanlegalclaims.com/roomstore/index.php>. The Clerk of the Bankruptcy Court will not provide this information by telephone.

**THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE BANKRUPTCY COURT LATER CONFIRMS THE PLAN, THEN IT WILL BE BINDING ON THE DEBTOR AND ALL CREDITORS AND INTEREST HOLDERS IN THIS CASE.**

1. **Time and Place of Confirmation Hearing.**

A hearing at which the Bankruptcy Court will determine whether to confirm the Plan will take place at the United States Bankruptcy Court, located at 701 East Broad Street, Suite 4000, Richmond, Virginia 23219, before the Honorable Douglas O. Tice on [•], 2012 at [•] a.m. (prevailing Eastern Time).

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 it to:

If by Overnight Mail or Courier:

RoomStore Ballot Processing  
c/o American Legal Claim Services  
8475 Western Way Ste 150  
Jacksonville, FL 32256

If by U.S. Mail:

RoomStore Ballot Processing  
c/o American Legal Claim Services  
PO Box 23650  
Jacksonville, FL 32241-3650

Your ballot must be received by no later than [•], 2012 at 5:00 p.m. (prevailing Eastern Time) or it will not be counted. **Facsimile, e-mail or electronically transmitted ballots will not be accepted.**

3. **Deadline for Objecting to Confirmation of the Plan.**

Any objections to Confirmation of the Plan must be filed with the Clerk of the Court, 701 East Broad Street, Suite 4000, Richmond, Virginia 23219, and a copy served upon each of the following so that it is received by them no later than [•], 2012, at 5:00 p.m. (prevailing Eastern Time):

Kaplan, Voekler, Cunningham & Frank, PLC  
7 East 2nd Street  
Richmond, VA 23224-4253  
Attn: Troy Savenko, Esq.

Lowenstein Sandler PC  
65 Livingston Avenue  
Roseland, New Jersey 07068  
Attn: Bruce Buechler, Esq.

Office of the United States Trustee  
701 East Broad Street, Suite 4300  
Richmond, VA 23219  
Attn: Robert Van Arsdale, Esq.

Hunton & Williams LLP  
951 E. Byrd Street  
Richmond, VA 23219  
Attn: Tyler P. Brown, Esq.

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

If you desire further information about the Plan or if you received a damaged Ballot, please contact Adam Simpson at American Legal Claims at notice\_roomstore@americanlegalclaims.com or (904) 517-1442 on any Business Day between 9:00 a.m. and 5:00 p.m., prevailing Eastern Time.

C. **Disclaimer.**

The financial data and information contained in this Disclosure Statement and upon which the Plan is based has been prepared by Debtor from various publicly filed or internal documents. The financial data and information has not been audited.

**The Disclosure Statement has not been approved or disapproved by the Securities Exchange Commission (“SEC”), nor has the SEC opined upon the accuracy or adequacy of the statements contained herein.**

Except as described below, the Plan may be confirmed only if accepted by each Voting Class. The Bankruptcy Code defines “acceptance” as acceptance by Holders of (a) at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed

Claims that vote, and (b) at least two-thirds (2/3) in amount of Allowed Interests in each Class whose Holders cast ballots. Any Voting Class that fails to accept the Plan will be deemed to have rejected the Plan. Section 1129(b) of the Bankruptcy Code permits confirmation of the Plan notwithstanding rejection by one or more Classes if the Bankruptcy Court finds that the Plan does not discriminate unfairly and is “fair and equitable” with respect to the rejecting Class or Classes (“Cram Down”). For a more detailed description of the requirements for acceptance of the Plan and of the criteria for confirmation notwithstanding rejection by certain Classes see the portion of this Disclosure Statement entitled “Confirmation Procedure.” The Debtor will seek to have the Plan confirmed over the rejection of any voting Class which does not accept the Plan, or which is deemed to have rejected the Plan.

**THE DEBTOR BELIEVES THAT THE PLAN PROVIDES THE BEST POSSIBLE METHOD FOR MAXIMIZING THE RECOVERY TO CREDITORS. THE DEBTOR BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF EACH AND EVERY CLASS OF CREDITORS. IT IS RECOMMENDED THAT YOU VOTE TO ACCEPT THE PLAN.**

**THIS DOCUMENT WAS COMPILED FROM INFORMATION OBTAINED BY THE DEBTOR FROM NUMEROUS SOURCES BELIEVED TO BE ACCURATE TO THE BEST OF THEIR KNOWLEDGE, INFORMATION AND BELIEF. HOWEVER, NOTHING CONTAINED IN THE PLAN SHALL BE DEEMED TO BE AN ADMISSION OR A DECLARATION AGAINST INTEREST BY THE DEBTOR AND ITS ESTATE FOR PURPOSES OF ANY EXISTING OR FUTURE LITIGATION. TO THE EXTENT THAT CERTAIN DOCUMENTS ARE SUMMARIZED WITHIN THE PLAN, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS. FURTHERMORE, CERTAIN OF THE FINANCIAL INFORMATION CONTAINED IN THE PLAN HAS BEEN PREPARED WITHOUT AUDIT. EACH HOLDER OF A CLAIM SHOULD REVIEW THE ENTIRE PLAN BEFORE CASTING A BALLOT.**

After carefully reviewing the Plan and Disclosure Statement, including all Exhibits, each Person holding a Claim or Interest in Classes 3 and 4 should vote by completing the enclosed ballot and returning the ballot in a timely fashion.

**TO BE COUNTED, YOUR BALLOT MUST BE COMPLETELY FILLED IN, SIGNED AND RECEIVED BY 5:00 P.M. PREVAILING EASTERN STANDARD TIME ON [•], 2012.**

## **ARTICLE I. BACKGROUND**

### **A. Debtor's Corporate Structure.**

#### **1. RoomStore, Inc.**

The Debtor is a publically-held Virginia corporation, headquartered in Richmond, Virginia, whose stock is traded on the OTC Bulletin Board (OTCPK) under the ticker symbol ROOMQ.

#### **2. Debtor's Holdings.**

##### **a. Mattress Discounters Group, LLC.**

The Debtor owns a sixty-five percent (65%) equity interest in Mattress Discounters Group, LLC ("MDG"). MDG is a Virginia Limited Company and operates eighty-one (81) retail bedding stores in Delaware, District of Columbia, Maryland, and Virginia. MDG is a separate operating entity from RoomStore and did not file for relief under the Bankruptcy Code.

##### **b. Creative Distribution Services, LLC.**

The Debtor owns a thirty-one percent (31%) equity interest in Creative Distribution Services, LLC ("CDS"). CDS is a Virginia Limited Liability Company that was formed for the purpose of buying and holding real estate. Prior to April 2010, the Debtor owned a real property on which it operated a retail store located in Lanham, Maryland. In April 2010, the Debtor sold the store to CDS for \$2.6 million. CDS also owns a distribution center located in



Orangeburg, South Carolina subject to a first mortgage, as of June 1, 2012, in the amount of \$628,472 and declining by approximately \$19,000 per month as payments are made by CDS. CDS is a separate operating entity from the Debtor, and did not file for relief under the Bankruptcy Code.

**B. Debtor's Corporate History.**

RoomStore was founded in 1992. Its first stores were located in Dallas, Texas. By late 1996, RoomStore had grown to ten (10) stores and two warehouses. Around this time, Heilig-Meyers Company ("Heilig-Meyers"), one of the largest furniture retail companies in the United States at that time, made an offer to purchase RoomStore. The purchase was completed in February 1997. RoomStore was then incorporated in Virginia as HMY RoomStore, Inc.

Heilig-Meyers sought to expand the business and, in January 1998, purchased the assets of a Delaware company named Reliable Stores, Inc. (d/b/a The Hub) that had twenty-four (24) furniture stores and three (3) warehouses located in Pennsylvania, Maryland, and Virginia. When this acquisition was completed, Heilig-Meyers closed some of the acquired furniture stores and converted the remainder to RoomStore's format.

By August 2000, RoomStore had grown to thirty (30) stores located in Texas, Oregon and Washington and twenty-four (24) stores located in Maryland and Virginia. On August 16, 2000, Heilig-Meyers and all of its subsidiaries (including RoomStore) filed for bankruptcy under chapter 11 of the Bankruptcy Code. After the bankruptcy filing, stores in Washington and Oregon were closed. However, RoomStore gained sixteen (16) new stores by converting some of the Heilig-Meyers furniture stores into RoomStore-style furniture stores.

During the nearly five year period that RoomStore operated while in bankruptcy, it closed several, underperforming stores (in addition to the stores previously closed in Washington and Oregon). RoomStore emerged from bankruptcy on June 1, 2005 with sixty-three (63) stores.

In 2006, Rhodes, Inc., a significant furniture retailer at the time, filed for bankruptcy. RoomStore acquired the leases for six (6) former Rhodes stores located in North Carolina (Raleigh and Durham), Alabama (Birmingham and Dothan) and Florida (Tallahassee).

In September 2008, Mattress Discounters Corporation (collectively with Mattress Discounters Corporation East) filed for chapter 11, and attempted to reorganize its business. When it filed for bankruptcy, Mattress Discounters Corporation operated eighty-nine (89) bedding and mattress stores in Maryland, Virginia, and the District of Columbia, under the trade name of "Mattress Discounters." When Mattress Discounters Corporation's reorganization efforts failed, RoomStore learned that the company's remaining assets might be available for sale.

In November 2008, RoomStore, along with an individual investor, Raymond Bojanowski, formed MDG for the purpose of purchasing certain assets from the bankrupt Mattress Discounters Corporation. After conducting due diligence, MDG submitted a bid for the assets of Mattress Discounters Corporation, and the Bankruptcy Court approved the asset sale on December 4, 2008.

At the closing on December 5, 2008, MDG acquired the designated assets of Mattress Discounters Corporation, which consisted primarily of inventory. MDG also assumed seventy-three property leases and nine executory contracts. The minority interest holder Mr. Bojanowski of MDG serves as its Chief Executive Officer.

**C. Debtor's Pre-Petition Properties, Locations, and Leases.**

**1. Properties.**

RoomStore owns two (2) properties in fee simple: a retail store in Myrtle Beach, South Carolina and a distribution center in Rocky Mount, North Carolina. RoomStore does not own the land under the Myrtle Beach store; the land is subject to a long-term ground lease. The Rocky Mount property is unencumbered. The Myrtle Beach store is subject to an outstanding mortgage loan in favor of GE in the amount of approximately \$2.3 million.

**2. Locations.**

On the Petition Date, RoomStore operated sixty-three (63) retail furniture stores, both large format and clearance stores (the “Retail Stores”), in eight (8) states: Alabama, Florida, Maryland, North Carolina, Pennsylvania, South Carolina, Texas, and Virginia. In addition, the Debtor operated seven (7) warehouses and distribution centers (the “Warehouses and Distribution Centers”) located in Alabama, Maryland, North Carolina, and Texas that serviced the Retail Stores.

**3. Leases.**

On the Petition Date, RoomStore was a party to seventy-two (72) leases for retail, office and warehouse properties used in its business. These leases had remaining terms ranging from less than one (1) year to over fifteen (15) years and imposed a substantial financial obligation on RoomStore. For the fiscal year ended February 28, 2011, the Debtor’s payments for rents were just over \$23.1 million.

**D. Debtor’s Prepetition Capital Structure.**

**1. Wells Fargo Bank, National Association.**

On or about May 27, 2010, the Debtor, as Borrower, entered into a certain Loan and Security Agreement (as heretofore amended, supplemented, modified, extended, renewed, restated, and/or replaced at any time prior to the Petition Date, the “Prepetition Credit Agreement”)<sup>1</sup> with Wells Fargo Retail Finance, LLC (“WFRF”), as lender and agent. Pursuant to the Prepetition Credit Agreement, the Debtor and WFRF entered into a senior secured revolving credit facility (the “Prepetition Revolver”) in the maximum principal amount of

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<sup>1</sup> The Prepetition Credit Agreement, together with all other agreements, documents, and instruments executed and/or delivered with, to, or in favor of WFB or WFRF, including but not limited to all security agreements, notes, guarantees, mortgages, Uniform Commercial Code financing statements, and all other related agreements, documents, and instruments executed and/or delivered in connection therewith or related thereto, as any of the foregoing have heretofore been amended, supplemented, modified, extended, renewed, restated, and/or replaced at any time prior to the Petition Date, are collectively the “Prepetition Loan Documents.”

\$30,000,000, subject to availability determined by a borrowing base formula defined in the Prepetition Credit Agreement. The Prepetition Revolver was secured by first-priority security interests in and liens on all of the Debtor's assets other than the building on which the Debtor operated a retail store in Myrtle Beach, South Carolina. Subsequent to the execution of the Prepetition Credit Agreement, Wells Fargo Bank (“WFB”) became successor to WFRF by merger, and WFB replaced WFRF as lender and agent under the Prepetition Revolver.

On the Petition Date, the Debtor filed a motion (the “DIP Motion”) [Docket No. 13] seeking authority to enter into a Ratification and Amendment Agreement (the “Ratification Agreement”; and collectively with the Prepetition Loan Documents, each as amended from time to time, the “Existing Loan Documents”) with WFB as agent and lender. Pursuant to the Ratification Agreement, the Debtor is the borrower under the DIP Facility, a \$14,000,000 senior secured debtor-in-possession revolving credit facility secured by a first-priority security interest in and lien upon substantially all of the Debtor’s assets.<sup>2</sup> The Court entered an order granting the DIP Motion on an interim basis on December 14, 2011 [Docket No. 53] and entered the Final Financing Order on January 5, 2012.

The Final Financing Order permitted WFB to apply postpetition payments made by the Debtor to prepetition indebtedness under the Prepetition Revolver. Accordingly, prior to the Debtor’s entry into the Assignment Agreement (as defined below), the Prepetition Revolver had been repaid in full, and all outstanding amounts owing from the Debtor to WFB constituted postpetition indebtedness under the DIP Facility.

## **2. Real Estate Mortgage Note.**

RoomStore is the borrower under a real estate mortgage note payable to G.E. Commercial Finance Business Property Corp. bearing interest at seven and a quarter percent

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<sup>2</sup> As provided in footnote 2 to the Final Financing Order, the liens granted to Agent and Lenders pursuant thereto (a) extend to the proceeds, if any, of the Debtors’ leasehold interests in real property, but do not extend to any such leasehold interests themselves and (b) do not extend to avoidance power actions brought under Sections 542, 545, 547, 548, 549, or 550 of the Bankruptcy Code.

(7.25%) per year with a final balloon payment due on July 1, 2016. This note was used to finance the construction of RoomStore's Myrtle Beach, South Carolina store. The principal unpaid balance as of the Petition Date, was approximately \$2.3 million. The loan is secured by the Myrtle Beach building only.

### **3. Letters of Credit Relating to Insurance Policies.**

As of November 30, 2011, RoomStore had \$1.4 million of outstanding letters of credit related to insurance policies. These included an \$800,000 letter of credit for RoomStore's current workers compensation insurance carrier, and four (4) other letters of credit totaling \$645,000 for prior worker's compensation insurance carriers.

## **ARTICLE II. CIRCUMSTANCES LEADING TO BANKRUPTCY FILING**

The furniture retail industry is cyclical. The U.S. furniture retail industry grew substantially between 1998 and 2007. In 1998, total annual furniture and bedding sales were \$59.6 billion. In 2007, total annual furniture and bedding sales had grown to \$86.5 billion – a 45% increase.<sup>3</sup>

RoomStore believed that much of this retail growth was driven by corresponding growth in the residential housing market. During 2005, 8.3 million new and existing homes were sold in the U.S. In the second half of 2006, housing markets around the country started to cool down. Just over 7.5 million new and existing homes were sold in 2006. In 2007 and 2008, the slowdown continued, with only 6.4 million and 5.4 million units sold, respectively.<sup>4</sup> Housing starts are an important barometer for furniture sales. When housing starts are rising, so are furniture sales. Conversely, when housing starts decline, furniture sales decline.<sup>5</sup>

In line with the housing market, furniture sales began to decline in the second half of 2006. In 2007, these declines accelerated and leading furniture chains experienced a

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<sup>3</sup> Source: April 2008 Furnishings Digest at page 10, published by Mann, Epperson & Epperson.

<sup>4</sup> Source: National Association of Home Builders ([http://www.nahb.org/fileUpload\\_details.aspx?contentID=55761](http://www.nahb.org/fileUpload_details.aspx?contentID=55761)).

<sup>5</sup> Source: U.S. Department of Commerce Industry Report, Furniture and Related Products NAICS Code 337 ([http://www.trade.gov/td/ocg/outlook09\\_furniture.pdf](http://www.trade.gov/td/ocg/outlook09_furniture.pdf)).

significant drop in sales. For many retailers, 2008 and 2009 were even worse, and double-digit sales declines were common.<sup>6</sup> Many furniture manufacturers and retailers have not survived this multi-year decline in sales. At the end of 2009 and the beginning of 2010, there were positive signs of increased furniture sales. As 2010 passed, however, furnishings sales weakened again in tandem with another decline in housing sales.<sup>7</sup> As noted above, there is a strong correlation between housing sales and furniture sales. For early 2011, housing sales were still decreasing. Compared to March 2009 to March 2010, housing sales during the period of March 2010 to March 2011 were down 6.3%.<sup>8</sup>

Given the significant downturn in the industry, RoomStore anticipated fiscal year 2012 would be a difficult year with very fierce competition among the retailers who are still in business and sought relief under the Bankruptcy Code.

### **ARTICLE III. REORGANIZATION OF THE DEBTOR'S BUSINESS DURING BANKRUPTCY CASE AND SUMMARY OF EVENTS SINCE FILING**

#### **A. Reorganization of the Debtor's Businesses During Bankruptcy Case.**

During the pendency of the bankruptcy case, the Debtor closed or is in the process of closing all of its retail stores.

The first "going out of business" sale was conducted pursuant to procedures approved by the Bankruptcy Court on January 3, 2012 [Docket No. 192]. On January 4, 2012, an auction was held at the Debtor's store in Glen Allen, Virginia to determine the highest bidder for an agency agreement that would permit the purchaser to conduct "going out of business sales" on behalf of the Debtor for eighteen (18) of the Debtor's stores. The highest and best

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<sup>6</sup> Source: 2009 Survey of Top 100 U.S. Furniture Stores, published by Furniture Today on May 25, 2009, and 2010 Survey of Top 100 U.S. Furniture Stores, published by Furniture Today on May 24, 2010.

<sup>7</sup> Source: Furnishings Digest Newsletter, published by Mann, Armistead & Epperson (March 2011).

<sup>8</sup> Source: National Association of Realtors  
(<http://www.realtor.org/wps/wcm/connect/3c211300468deea388c3cf60f51ebbfd/REL1103EHS.pdf?MOD=AJPERES&CACHEID=3c211300468deea388c3cf60f51ebbfd>).

bidder at the conclusion of the auction was a joint venture comprised of Hilco Merchant Resources, LLC, SB Capital Group, LLC, Planned Furniture Promotions, Inc., and Tiger Capital Group, LLC. The Debtor liquidated on its own an additional seven (7) stores.

On March 29, 2012, the Debtor filed a motion seeking permission to conduct “going out of business” sales at ten (10) of its stores located in Arlington, Dallas, Denton, Fort Worth, Grand Prairie, Grapevine, Mesquite, Plano, Temple, and Waco, Texas locations (“Dallas Closing Stores”) [Docket No. 429] (“Dallas GOB Motion”). The Dallas GOB Sale Motion sought permission for the Debtor to select an Agent to conduct “going out of business” sales at its Texas Stores (the “Store Closing Sales”). The landlords for the Texas Stores were served with a copy of the Dallas GOB Sale Motion.

Furniture Asset Acquisition LLC (“FAA”) approached the Debtor after the Dallas GOB Motion was filed and offered to purchase the Dallas Closing Stores leases. At the April 3, 2012 omnibus hearing, the Debtor notified the Court that FAA and the Debtor had reached an agreement to enter into an agreement (the “Agency Agreement”) wherein FAA agreed to purchase various assets (identified in the Dallas GOB Sale Motion), in the, and related to, Dallas Closing including customer lists for the Dallas Closing Stores. For this reason, the Debtor requested permission to modify the Dallas GOB Sale Motion to seek permission to sell the Assets to FAA pursuant to the Agency Agreement and not hold an auction on April 9, 2012. The Debtor’s motions to sell the assets were approved on April 11, 2012. The Dallas Closing Stores transaction was consummated.

**B. Salus Capital Partners, LLC (“Salus Capital”) Replaces Wells Fargo Bank, NA as the Debtor’s Lender.**

The Debtor and WFB contemplated from the outset of the Bankruptcy Case that the Debtor would obtain a new postpetition lender to replace WFB. To that end, on January 20, 2012, WFB, Salus Capital, and the Debtor entered into the Assignment and Assumption Agreement (the “Assignment Agreement”), whereby WFB assigned to Salus Capital, and Salus Capital assumed, all of WFB’s rights and obligations under the existing loan documents, and

Salus Capital replaced WFB as agent and sole lender under the DIP Facility.

**C. Retention of Professionals by the Debtor.**

The Debtor retained Lowenstein Sandler PC and Kaplan Voekler Cunningham & Frank PLL as its attorneys, FTI Consulting, Inc. as its financial advisor, BDO USA, LLP as its auditors, Julius M. Feinblum Real Estate, Inc. as its real estate consultant, and American Legal Claim Services LLC as its claims agent.

**D. Formation of Committee and Retention of Committee Professionals.**

On December 19, 2011, the Office of the United States Trustee formed an official committee of unsecured creditors (the "Committee") pursuant to section 1102 of the Bankruptcy Code. The Committee retained Hunton & Williams, LLP as its counsel and Alvarez & Marsal North America, LLC as its financial advisor.

**E. The Debtor's Schedules and the Bar Date.**

The Debtor filed its Schedules with the Bankruptcy Court on January 26, 2012, as may have been amended from time to time. In the aggregate, the Debtor scheduled Unsecured Claims totaling approximately \$26,697,132.74, inclusive of Unsecured Claims of Insiders or Affiliates of the Debtor. To date, filed proofs of claim of unsecured creditors total approximately \$38.5 million, a portion of which may be subject to objection or further reconciliation. The Debtor is still in the process of completing its reconciliation of filed proofs of claim.

The bar date or last date for filing a Proof of Claim was March 30, 2012 (and June 11, 2012 for Government entities). Objections to Claims can be made for a period of ninety (90) days after the Effective Date. This deadline can be further extended by Order of the Bankruptcy Court upon the filing of a motion on notice pursuant to the Case Management Order.

The Debtor shall have all proper and legal standing and the right to commence and pursue objections to Claims both before and after the Effective Date.



**F. Exclusivity.**

On February 16, 2012, the Debtor filed a motion seeking entry of an order extending the Exclusivity Periods by 120 days (the “First Exclusivity Motion”) [Docket No. 353]. On April 5, 2012, the Court entered an order granting the First Exclusivity Motion, thereby extending the Exclusivity Periods by approximately 60 days. Pursuant to that order, the Exclusive Filing Period expires on June 7, 2012, and the Exclusive Solicitation Period expires on August 6, 2012.

**G. Extension of Debtor’s Deadline to Assume or Reject Leases.**

On February 3, 2012, the Court extended the Debtor’s deadline within which to assume or reject its leases of nonresidential real property to the earlier of July 9, 2012 or the date of an order confirming the Debtor’s chapter 11 plan [Docket No. 324].

**H. Avoidance Actions and Causes of Action.**

Avoidance Actions are claims and Causes of Action deriving from Chapter 5 of the Bankruptcy Code held by the Debtor’s bankruptcy estate which are designed to avoid and recover transfers made by the Debtor prior to the Petition Date which were preferential or fraudulent in nature, including state law fraudulent conveyance actions. Upon the Effective Date, Causes of Action (which by definition include Avoidance Actions) shall be revested in the Debtor.

Included among the Avoidance Actions are preference actions pursuant to section 547 of the Bankruptcy Code. It is contemplated by the Plan, as discussed above, that the Avoidance Actions and other Causes of Action may be pursued by the Debtor after confirmation. The Debtor’s Schedules disclosed approximately \$31,302,617.80 in payments made by the Debtor within the ninety (90) days preceding the Petition Date. However, not all of these payments are preferential and, thus, not all of these payments are subject to recovery as many were made in the ordinary course of business and/or were pre-payments to purchase inventory.

There can be no assurances as to the amount that may be actually recovered because of potential defenses asserted by the prospective defendants of such preference actions. Such defenses need to be evaluated on a case by case basis, and in many instances such defenses cannot be fully analyzed absent taking some action that engages the prospective defendants. The Debtor estimates the recovery for Avoidance Actions will be over \$3 million dollars. Furthermore, it is appropriate that the Debtor take into account the costs of litigation and the likelihood and amount of potential recovery in considering the merits of each separate Avoidance Action.

The Debtor reserves the right to commence a Cause of Action (including Avoidance Actions) before or after Confirmation against all parties including but not limited to those who are listed in the Schedules as having received payments within ninety (90) days of the Petition Date. The Debtor intends to pursue Avoidance Actions as aggressively as possible for the benefit of all stakeholders.

**I. Estimated Recovery Value of Debtor's Assets and Structure of the Plan.**

The Debtor has currently pending before the Bankruptcy Court a motion seeking approval to sell the remainder of its Operating Assets, which includes the inventory at the Debtor's remaining twenty-eight (28) retail store locations and warehouse, non-residential real property leases (whether through the assumption and assignment of the leases or the sale of designation rights), trade names, intellectual property rights, furniture, fixtures, and equipment the Mid-Atlantic/Southeast license to use the Application Services and Software provided by Blueport Commerce, formally furniture.com, and other assets and property used in the operation of its business. The Debtor anticipates the Bankruptcy Court approving the sale of its Operating Assets at a hearing presently scheduled for June 26, 2012. The Debtor expects from the sale of its Operating Assets to obtain more than sufficient funds to pay in full the Allowed Secured Claim of Salus. The Debtor estimates, as of June 1, 2012, that the current cost value of its inventory is approximately \$10.4 million. As of June 1, 2012, Salus is owed approximately \$7.72 million. The Debtor estimates that it will recover approximately \$7.8 million to \$10

million from the sale of inventory and an additional \$1.8 million to \$10 million on account of the pending sale of its real estate leases and related intellectual property rights. Thus, the sale of the Debtor's Operating Assets should raise more than adequate cash to pay in full the Allowed Secured Claim of Salus, as well as Administrative and Priority Claims.

The Debtor will have the following remaining assets to be liquidated after Confirmation of the Plan and their estimated recovery values are as follows<sup>9</sup>:

- (i) CDS Interest: \$2.7 million to \$3.7 million.
- (ii) The Rocky Mount Distribution Center: \$4 million to \$5.5 million.
- (iii) MDG Interest: depending on the date the Debtor's interest in MDG is sold, the range of recovery is estimated to be between \$7.8 million to \$19.5 million.
- (iv) Avoidance Actions: the Debtor estimates the amount of any recovery from the pursuit of Avoidance Actions will be over \$3 million.
- (v) Collection of credit card reserves, and refunds of pre-paid expenses, recovery of collateralized letters of credit: HSBC Bank is holding a \$1 million deposit and Chase Paymentech is holding approximately \$3 million as reserves for charge-backs resulting from credit card purchases. The Debtor expects to recover the bulk of these funds.
- (vi) Recovery of Collateralized Letters of Credit: The Debtor has approximately \$1,517,250 of cash collateral deposited with WFB as security for certain standby letters of credit (the "LCs") issued by WFB prior to the assignment of the DIP Facility to Salus. The Debtor expects to recover these funds (assuming the LCs remain undrawn) at some point in the future; however, the timing of such recovery is unknown at this time.
- (vii) Collection of outstanding receivables.

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<sup>9</sup> These values are based on the Debtor's preliminary internal estimates.

- (viii) On-going dividends or distributions of cash from MDG or/and CDS (projected amount \$0 to \$2 million).

In addition, the Debtor will retain at its corporate headquarters located in Richmond, Virginia, certain staff members in order to assist the Debtor in the wind-down of its business operations, including the reconciliation of claims of Creditors, recovery of various deposits and credit card reserves and continuing to provide the back-office operational support to MDG, which the Debtor has provided for several years pursuant to an agreement with MDG. The Debtor's provision of the back-office services to MDG is a cash-generating activity, which the Debtor anticipates continuing in the near future to generate additional operating income.

The Debtor anticipates seeking to liquidate and/or sell the above listed assets after Confirmation of the Plan in order to maximize the recovery for the benefit of Creditors and Interests Holders of the Estate. The Debtor will maintain its public corporate structure upon Confirmation of the Plan and will not transfer any of its existing assets into a liquidating trust or other vehicle in order to minimize any negative tax consequences or litigation concerns from such a transfer. By way of example, the Debtor has approximately \$9.5 million in federal net operating loss carry-forwards and approximately \$26.3 million in federal alternative minimum tax loss carry-forwards that can be utilized to shelter gains or income derived from the sale of the above-listed assets, all of which are expected to be sold for amounts in excess of their respective tax bases. The Debtor anticipates that from the sale of these assets, the Estate will be required to recognize a gain or income for tax purposes. Maintaining the net operating loss carry-forwards and other Tax Attributes will provide a substantial benefit to Holders of Allowed Unsecured Claims. In addition, the Debtor has approximately \$8.9 million in various state net operating loss carry-forwards that likewise can be utilized to shelter or reduce gains or income derived from the sale of assets under various state tax laws by the Estate after Confirmation of the Plan.

Interests in the Debtor will not be extinguished upon Confirmation of the Plan in order to permit the Estate to maximize the use of the Tax Attributes. As a result, Interest Holders

will be precluded from recognizing for income tax purposes any loss on their Interests upon the Confirmation Date. Further, depending on the amount received from the Debtor's Assets, including the MDG Interest and CDS Interest, there is a reasonable likelihood that Holders of Interests may receive a distribution in the future on account of their Interests (the Debtor currently has approximately 5,200 Holders of Interests at this time). Based on the ultimate sale price for the Debtor's remaining assets and the preservation of its Tax Attributes, the Debtor anticipates it will pay all Allowed Secured Claims in full, all Administrative and Priority Claims (both Tax and Non-Tax) in full; and, as proposed under the Plan, pay Holders of Allowed Unsecured Claims up to an amount equal to 100% of the Allowed amount of their Unsecured Claims, without interest, less the aggregate Tax Attribute Benefit realized by the Debtor (provided that the foregoing offset in respect of the Tax Attribute Benefit is capped at 20% of the Allowed amount of Unsecured Claims) before making a distribution to Holders of Interests. The limitation on the payment to Holders of Allowed Unsecured Claims is, in part, due to the delay in Interest Holders' being able to utilize a tax benefit by recognizing a potential loss of the value of their Interests upon Confirmation of the Plan, which in turn directly benefits Unsecured Creditors by preserving millions of dollars of net operating loss carry forwards and other Tax Attributes to shelter the Estate from various capital gains and other tax consequences upon the sale of the Debtor's remaining Assets. Thus, the Debtor submits that the Plan is both fair and equitable.

#### **ARTICLE IV. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**

##### **A. General Provisions; Classifications.**

The categories of Claims and Interests listed below classify Claims and Interests for all purposes, including but not limited to voting on, confirmation of, and distributions under the Plan and under sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim or Interest is deemed classified in a particular Class only to the extent that such Claim or Interest qualifies within the description of that Class, and shall be deemed classified in a different Class to the

extent that any remainder of such Claim or Interest qualifies within the description of such other Class. A Claim or Interest is in a particular Class only to the extent that such Claim or Interest is Allowed in that Class and has not been paid or otherwise settled before the Effective Date. The classification of Claims and Interests is as follows:

CLASS	STATUS	VOTING RIGHTS
Class 1a – Salus DIP Claims	Unimpaired	Not Entitled To Vote (Deemed To Accept)
Class 1b – GE Secured Claims	Unimpaired	Not Entitled To Vote (Deemed To Accept)
Class 1c – Other Secured Claims	Unimpaired	Not Entitled To Vote (Deemed To Accept)
Class 2 – Priority Non-Tax Claims	Unimpaired	Not Entitled To Vote (Deemed To Accept)
Class 3 – General Unsecured Claims	Impaired	Entitled To Vote
Class 4 – Interests	Impaired	Entitled To Vote

**B. Unclassified Claims.**

**1. *Other Administrative Claims.***

- i. **Treatment.** The Debtor shall pay each Holder of an Allowed Other Administrative Claim the full Allowed amount of such Other Administrative Claim, without interest, in Cash, as soon as practicable after the Effective Date or within thirty (30) days after the Claim becomes an Allowed Claim (or, in either instance, as soon thereafter as available Cash exists), except that any Allowed Other Administrative Claim representing an obligation incurred in the ordinary course of business is to be paid in accordance with the terms of any agreement upon which such Allowed Other Administrative Claim is based. Notwithstanding anything herein to the contrary, the Holder of an Allowed Other Administrative Claim may be paid on such other date and upon such other terms as may be agreed to between such Holder and the Debtor. All Other Administrative Claims are required to be Filed by the Administrative Bar Date established in Section 2.02(a)(ii) of the Plan, or such Other Administrative Claim shall be forever barred and shall not be enforceable against the Debtor, its successors or assigns, or any of their respective Assets. Without limiting the foregoing, all outstanding fees payable to the Office of the United States Trustee under 28 U.S.C. § 1930 that have not been paid as of the Effective Date shall be paid no later than thirty (30) days after the Effective Date or when due in the ordinary course.

- ii. **Administrative Claims Bar Date.** Any Holder of an Other Administrative Claim must file a Proof of Claim asserting such Claim on or before the date that is thirty (30) calendar days after the Effective Date, or such or such Claim shall be forever barred and shall not be entitled to a distribution under the Plan or otherwise enforceable against the Debtor or its Estate, successors, or assigns, or any of their respective assets. Any Proof of Claim asserting an Other Administrative Claim must be sent to the following addresses:

*If by U.S. Mail:*

RoomStore Ballot Processing  
c/o American Legal Claim Services  
P.O. Box 23650  
Jacksonville, FL 32241-3650

*If by Courier or Overnight Delivery:*

RoomStore Ballot Processing  
c/o American Legal Claim Services  
8475 Western Way Suite 150  
Jacksonville, FL 32256

with copies to the Debtor and counsel for the Debtor at the address listed in Section 9.20 of the Plan. Other Administrative Claims **will not be accepted** if sent by facsimile, electronic mail, or other electronic means.

2. ***Professional Fee Claims.***

- i. **Treatment.** The Debtor shall pay to any Professional entitled to reimbursement or allowance of fees and expenses from the Estate, pursuant to sections 503(b)(2) through (b)(6) of the Bankruptcy Code Cash in the amount awarded to such Professional by Final Order of the Bankruptcy Court, as soon as practicable after the Effective Date or the date upon which any order awarding fees and expenses becomes a Final Order, in accordance with the terms of any order entered by the Bankruptcy Court governing the payment of fees and expenses during the course of the Bankruptcy Case, and after application of any retainer received by such Professional
- ii. **Final Fee Applications.** Any final application for allowance of a Professional Fee Claim for services rendered and costs incurred through the Effective Date must be Filed and served on counsel at the addresses listed in Section 9.20 of the Plan and the Office of the United States Trustee so that it is actually received no later than forty-five (45) days after the Effective Date, or such Professional Fee Claim shall be forever

barred and shall not be enforceable against the Debtor or its Estate, successors, or assigns, or any of their respective assets.

- iii. **Post-Effective Date Professional Fee Claims.** The reasonable fees and actual and necessary expenses incurred after the Effective Date by Professionals for the Debtor shall be paid by the Debtor upon each monthly submission of a fee statement to the Debtor, without the need for any approval by the Bankruptcy Court.

3. ***Priority Tax Claims.***

- i. **Treatment.** After paying all Allowed Administrative Claims, the Debtor shall pay any Allowed Priority Tax Claim in full, in Cash, without interest, as soon as practicable after the later of (i) sixty (60) days after the Effective Date, (ii) the date that such Claim becomes Allowed, to the extent of available Cash, (iii) at the option of the Debtor prior to the Effective Date in accordance with section 1129(a)(9)(C) of the Bankruptcy Code, Cash in an aggregate amount equal to the Allowed amount of such Priority Tax Claim, payable in regular quarterly installments over a period of not more than five (5) years after the Petition Date, or (iv) such other treatment agreeable to the Debtor and Holder of such Allowed Priority Tax Claim; provided, however, that the Holder of an Allowed Priority Tax Claim will not be entitled to receive any payment on account of any penalty arising with respect to or in connection with any Priority Tax Claim. Any demand for any such penalty will be deemed disallowed by confirmation of the Plan.

4. ***Treatment of Classified Claims***

**A. Class 1a – Salus DIP Claims**

- i. **Classification.** Class 1a consists of the Secured Claims of Salus.
- ii. **Treatment.** On or as soon as practicable after the Effective Date, Salus shall receive Cash in an amount equal to the value of the collateral securing its Allowed Class 1a Claims. Upon repayment in full of the Allowed Class 1a Claims, all Liens, Claims, charges, and other encumbrances granted by the Debtor and MDG in favor of Salus, and the guaranty granted by MDG in favor of Salus, shall be deemed terminated and of no further force or effect, and Salus shall execute and file all necessary termination statements, lien releases, and other documents necessary to document such termination and the release of the MDG guaranty.
- iii. **Voting.** Claims in Class 1a are unimpaired. Accordingly, Holders thereof are deemed to accept the Plan and are not entitled to vote to accept or reject the Plan.



**B. Class 1b – GE Secured Claims**

- i. Classification. Class 1b consists of the Secured Claims of GE Commercial Finance Business Property Corporation, secured by a lien on the GE Collateral.
- ii. Treatment. Except to the extent that a Holder of an Allowed Class 1b Claim agrees to a different treatment, on or as soon as practicable after the Effective Date, such Holder shall receive, in full and final satisfaction of such Claim, in the sole discretion of the Debtor, (1) surrender of the GE Collateral, (2) Cash in an amount equal to the value of the GE Collateral, upon the sale of the GE Collateral, (3) such other treatment required by section 1124(2) of the Bankruptcy Code for such Claim to be rendered Unimpaired, or (4) such other treatment as is agreed upon between the Debtor and GE Commercial Finance Business Property Corporation.
- iii. Voting. Claims in Class 1b are unimpaired. Accordingly, the Holder thereof is deemed to accept the Plan and is not entitled to vote to accept or reject the Plan.

**C. Class 1c – Other Secured Claims**

- i. Classification. Class 1c consists of all Secured Claims against the Debtor that are not Class 1a or Class 1b Claims.
- ii. Treatment. Except to the extent that a Holder of an Allowed Class 1c Claim agrees to a different treatment, on or as soon as practicable after the Effective Date, each such Holder shall receive, in full and final satisfaction of its Allowed Class 1c Claim, in the sole discretion of the Debtor, (1) the collateral securing such Claim, (2) Cash in an amount equal to the value of the collateral securing such Claim, (3) such other treatment required by section 1124(2) of the Bankruptcy Code for such Claim to be rendered Unimpaired, or (4) any other treatment agreed upon between the Debtor and the Holder of such Claim.
- iii. Voting. Claims in Class 1c are unimpaired. Accordingly, Holders thereof are deemed to accept the Plan and are not entitled to vote to accept or reject the Plan.

**D. Class 2 – Priority Non-Tax Claims**

- i. Classification. Class 2 consists of all Priority Non-Tax Claims.
- ii. Treatment. On or as soon as practicable after the Effective Date, each Holder of an Allowed Priority Non-Tax Claim shall receive, in full and final satisfaction of such Claim, in the sole discretion of the Debtor: (a)

full payment in Cash of its Allowed Priority Non-Tax Claim, (b) treatment of its Allowed Priority Non-Tax Claim in a manner that leaves such Claim Unimpaired, or (c) any other treatment agreed upon between the Debtor and the Holder of such Claim.

- iii. Voting. Claims in Class 2 are Unimpaired. Accordingly, Holders thereof are deemed to accept the Plan and are not entitled to vote to accept or reject the Plan.

**E. Class 3 – General Unsecured Claims**

- i. Classification. Class 3 consists of all Allowed Unsecured Claims.
- ii. Treatment. Holders of Allowed Unsecured Claims in Class 3 shall receive periodic Pro Rata distributions of Available Unsecured Creditor Cash (if any), as and when Available Unsecured Creditor Cash exists, up to an amount equal to 100% of the Allowed amount of their Unsecured Claims, without interest, less the aggregate Tax Attribute Benefit realized by the Debtor (provided that the foregoing offset in respect of the Tax Attribute Benefit is capped at 20% of the Allowed amount of Unsecured Claims).
- iii. Voting. Claims in Class 3 are Impaired and the Holders thereof are entitled to vote to accept or reject the Plan.

**F. Class 4 – Interests**

- i. Classification. Class 4 consists of all Allowed Interests in the Debtor.
- ii. Treatment. Allowed Interests in Class 4 shall remain in effect, and the Holders thereof shall receive periodic Pro Rata distributions of Available Equity Interest Cash (if any), as and when Available Equity Interest Cash exists.
- iii. Voting. Interests in Class 4 are Impaired and the Holders thereof are entitled to vote to accept or reject the Plan.

ARTICLE V. TREATMENT AND RESOLUTION OF DISPUTED, CONTINGENT,  
AND UNKNOWN CLAIMS

A. **Resolution of Disputed Administrative Claims and Disputed Claims**

- (1) ***Prosecution of Objections to Claims.*** An objection to the allowance of a Claim shall be in writing and shall be Filed with the Bankruptcy Court pursuant to Section (2) below. Except as set forth in the Plan, nothing in the Plan, the Confirmation Order, or any order in aid of the Plan, shall constitute or be deemed to constitute a waiver or release of any Claim, Cause of Action, Avoidance Action, right of setoff, or other legal or equitable defense that the Debtor had immediately prior to the commencement of the Bankruptcy Case against or with respect to any Claim. Except as set forth in the Plan, upon the Confirmation Date, the Debtor shall have, retain, reserve and be entitled to assert all such Claims, Causes of Action, rights of setoff and other legal or equitable defenses which the Debtor had immediately prior to the commencement of its Bankruptcy Case against or with respect to any Claim.
- (2) ***Disputed Claim Reserve.*** When making any distribution hereunder to a Class in which there exist one or more Disputed Claims, the Debtor shall establish a Disputed Claim Reserve in respect of such Disputed Claims in an amount equal to the Pro Rata share of such distribution to which each Holder of a Disputed Claim would be entitled if such Disputed Claim were an Allowed Claim.
- (3) ***Payments and Distributions on Disputed Claims.*** As and when authorized by a Final Order, Disputed Claims that become Allowed Claims shall be paid in accordance with the terms of the Plan (including from any Disputed Claim Reserve established in respect thereof, as applicable). No distribution shall be made on a Claim where only a portion of such Claim is Disputed until such dispute is resolved by settlement or Final Order.

B. **Allowance and Disallowance of Claims**

- (1) ***Disallowance of Claims.*** All Claims (whether Secured Claims, Administrative Claims, Priority Claims, or Unsecured Claims) held by Persons against whom the Debtor has Filed or commenced or may in the future File or commence a Claim or Cause of Action under sections 522(f), 522(h), 542, 543, 544, 547, 548, 549, 550, 551, 553, or 724(a) of the Bankruptcy Code shall be deemed disallowed pursuant to section 502(d) of the Bankruptcy Code unless otherwise ordered by Final Order of the Bankruptcy Court.
- (2) ***Allowance of Claims.*** Except as expressly provided in the Plan, no Claims shall be deemed Allowed by virtue of the Plan, Confirmation Order, or any order of the Bankruptcy Court, unless and until such Claim is deemed Allowed under the Bankruptcy Code, or the Bankruptcy Court enters a Final Order in the Bankruptcy Case deeming such Claim Allowed. Notwithstanding the foregoing, any Claim included in the Debtor's Schedules that is *not* listed as contingent, unliquidated,

or disputed shall be an Allowed Claim. The Allowance and disallowance of Claims shall be in all respects subject to the provisions of section 502 of the Bankruptcy Code.

- (3) ***Objections to Claims.*** The Debtor shall have standing and the right to commence and pursue objections to Claims after the Effective Date. All objections to Claims shall be filed with the Bankruptcy Court and served upon the Holders of each of the Claims to which objections are made, on or prior to the Claim Objection Deadline. The Debtor shall have the right to file a motion with the Bankruptcy Court for one or more extensions of the Claim Objection Deadline on notice to only the Bankruptcy Rule 2002 service (as defined in the Case Management Procedures) list and such an extension shall not be deemed a modification of the Plan.
- (4) ***Setoffs and Recoupment.*** Subject to the terms of the Plan, the Debtor may, pursuant to section 553 of the Bankruptcy Code or applicable non-bankruptcy law, but shall not be required to, setoff against or recoup from any Claim (whether a Secured Claim, Administrative Claim, Priority Claim, or Unsecured Claim) on which payments are to be made pursuant to the Plan, any claims of any nature whatsoever the Debtor may have against the Holder of such Claim; provided, however, that neither the failure to do so nor the Allowance of any Claim shall constitute a waiver or release by the Debtor of any such claims the Debtor may have against such Claim, whether before or after the entry of the Confirmation Order.
- (5) ***Withholding or Other Taxes.*** The Debtor shall be entitled to deduct any federal, state, or local withholding or other taxes from any distributions under the Plan. As a condition to making any distribution under the Plan, each Holder of an Allowed Claim or Allowed Interest shall provide the Debtor with such Holder's taxpayer identification number and such other information or certification as the Debtor may deem reasonably necessary to comply with applicable tax reporting and/or withholding laws or regulations. If a Holder of a Claim or Interest fails to provide the Debtor with such Holder's taxpayer identification number within thirty (30) days after such a request, such Holder shall be deemed to have forfeited the right to a distribution under the Plan.

C. **Controversy Concerning Impairment.** If a controversy arises as to whether any Claims or Interests or any Class of Claims or Interests are Impaired under the Plan, the Bankruptcy Court, after notice and a hearing, shall determine such controversy on or before the Confirmation Date.

## ARTICLE VI. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

- A. **Assumption of Certain Executory Contracts.** On the Effective Date, except for any Executory Contract that has previously been assumed or rejected by the Debtor pursuant to an order of the Bankruptcy Court under section 365 of the Bankruptcy

Code or the Rejection Procedures Order, each Executory Contract set forth on Schedule 4.01 to the Plan shall be deemed assumed pursuant to section 365 of the Bankruptcy Code, effective as of the Confirmation Date. The cure amounts, if any, due to the non-Debtor parties to such Executory Contracts are set forth on Schedule 4.01. The Confirmation Order shall constitute an order of the Bankruptcy Court approving such assumption pursuant to section 365 of the Bankruptcy Code. The Debtor shall file and serve Schedule 4.01 not less than fifteen (15) days prior to the Confirmation Hearing.

- B. Rejection of Executory Contracts.** On the Effective Date, any Executory Contract not assumed by the Debtor pursuant to the Plan or assumed or rejected by the Debtor pursuant to a prior order of the Bankruptcy Court under section 365 of the Bankruptcy Code or the Rejection Procedures shall be deemed rejected, effective as of the Confirmation Date. The Confirmation Order shall constitute an order of the Bankruptcy Court approving such rejection pursuant to section 365 of the Bankruptcy Code, effective as of the Confirmation Date.
- C. Bar Date for Rejection Damage Claims.** Any Proof of Claim in respect of a Claim arising from the rejection of an Executory Contract by operation of Section 4.02 of the Plan must be sent to the following addresses on or before the first Business Day that is not less than thirty (30) calendar days after the Confirmation Date, or such Claim shall be forever barred and shall not be entitled to a distribution under the Plan or otherwise enforceable against the Debtor or its Estate, successors, or assigns or any of their respective assets:

*If by U.S. Mail:*

RoomStore Claim Processing  
c/o American Legal Claim Services  
P.O. Box 23650  
Jacksonville, FL 32241-3650

*If by Courier or Overnight Delivery:*

RoomStore Claim Processing  
c/o American Legal Claim Services  
8475 Western Way Suite 150  
Jacksonville, FL 32256

Any Claim arising from the rejection of an Executory Contract pursuant to the Plan shall be treated as a Class 3 Claim, subject to the Debtor's right to object to Allowance thereof pursuant to Article III of the Plan.

## **ARTICLE VII. DISTRIBUTIONS**

- A. General.** The Debtor shall make all distributions under the Plan as may be required.

**B. Manner of Payment.** Any payment of Cash under the Plan may be made either by check drawn or wire transfer from a domestic bank, at the option of the Debtor.

**C. Transmittal of Distributions to Parties Entitled Thereto.** All distributions by check shall be deemed made at the time such check is deposited in the United States mail, postage prepaid. Any distributions by wire transfer shall be deemed made as of the date of the wire transfer is made. Except as otherwise agreed with the Holder of an Allowed Claim or Allowed Interest in respect thereof or provided in the Plan, any distribution required under the Plan on account of an Allowed Claim or Allowed Interest shall be mailed to (i) the latest mailing address Filed for the Holder thereof, (ii) the latest mailing address Filed for a Holder of a filed power of attorney designated by the Holder of such Claim or Interest to receive distributions, (iii) the latest mailing address Filed for the Holder's transferee as identified in a notice Filed and served on the Debtor pursuant to Bankruptcy Rule 3001(e) prior to the date the distribution is made, or (iv) if no such mailing address has been Filed, the mailing address reflected on the Schedules or in the Debtor's books and records. The Holder of a Claim or Interest shall be required to promptly notify the Debtor and the Court of any change in such Holder's mailing address.

**D. Distribution of Unclaimed Property.** Except as otherwise provided in the Plan, any distribution under the Plan that remains unclaimed ninety (90) days after the date thereof shall be forfeited, and such distribution, together with any interest earned thereon, shall return to and revert in the Debtor.

**E. Saturday, Sunday or Legal Holiday.** If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the following Business Day, but shall be deemed to have been completed as of the required date.

**F. Reports.** Until a Final Decree is entered, the Debtor shall submit all post-confirmation quarterly reports to the United States Trustee as required by the United States Trustee guidelines (with a copy served on the Office of the United States Trustee) setting forth all receipts and disbursements of the Debtor. The first report shall be filed within thirty (30) days after the end of the quarter in which the Effective Date occurs. The Debtor shall be responsible to request that a Final Decree be entered in the Bankruptcy Case. The Debtor shall also be responsible for any quarterly fees due to the United States Trustee from and after the Effective Date until the Bankruptcy Case is closed.

**G. Fractional Cents and De Minimis Distributions.** Notwithstanding any other provisions of the Plan to the contrary, no payment of fractional cents will be made under the Plan. Cash will be issued to Holders entitled to receive a distribution of Cash in whole cents (rounded to the nearest whole cent when and as necessary). Any distribution of less than \$50.00 will be considered de minimis, and Holders of Allowed Claims or Allowed Interests that are entitled to an interim or final distribution of less than \$50.00 will not receive any distribution. Such funds will remain with and revert in the Debtor.

**H. Residual Assets.** After the sales of the Debtor's assets have been completed, if (a) the Debtor's sole remaining asset is Cash in an amount less than \$30,000 and

(b) the Debtor's Board of Directors determines in its discretion that a further distribution would be economically impractical, the Debtor may donate such amount to a charity approved by the Debtor's Board of Directors.

**J. Net Operating Losses.** All Tax Attributes shall be preserved and may be utilized by the Debtor to offset gains on asset dispositions.

## **ARTICLE VIII. MEANS OF IMPLEMENTATION**

**A. Corporate Action.** Upon the Effective Date, all matters provided under the Plan involving the Debtor shall be deemed to be authorized and approved without any requirement of further action by the Debtor or its shareholders or board of directors.

**B. Funding of Plan.** The source of funds to achieve consummation of and carry out the Plan shall be (a) the proceeds of the sale or sales of the Operating Assets, the Owned Real Estate, the MDG Interest, the CDS Interest, and any other assets or income derived from the Debtor's operations; (b) distributions of cash to the Debtor from MDG prior to the sale of the MDG Interest, if any; (c) distributions of cash to the Debtor from CDS prior to the sale of the CDS Interest, if any; and (d) income from providing on-going services for MDG. After the Confirmation Date, the Debtor can sell its remaining assets either (i) pursuant to section 363 of the Bankruptcy Code upon the Filing of a motion and Bankruptcy Court approval thereof or (ii) without Bankruptcy Court approval.

**C. Causes of Action.** Except as otherwise provided in the Plan, any and all rights or Causes of Action (which include Avoidance Actions) under any theory of law or fact, including without limitation under the Bankruptcy Code, accruing to or assertable by the Debtor shall remain assets of the Debtor and, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code, on the Effective Date such Causes of Action and Avoidance Actions shall be revested in the Debtor. In accordance with section 1123(b) of the Bankruptcy Code, and except where such Causes of Action have been expressly released, the Debtor shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, and the Debtor's rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. No Person may rely on the absence of a specific reference to any Cause of Action against them in the Plan, any supplement hereto, this Disclosure Statement, or any supplement thereto (as each may be amended from time to time) as any indication that the Debtor will not pursue any and all available Causes of Action against such Person. Except with respect to Causes of Action as to which the Debtor has released any Person on or prior to the Effective Date, the Debtor expressly reserves all rights to prosecute any and all Causes of Action against any Person, except as otherwise expressly provided in the Plan. Unless any Cause of Action against a Person is expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order of the Bankruptcy Court, the Debtor expressly reserves all Causes of Action for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the confirmation or consummation of the Plan. The Debtor may settle, without further order of the Bankruptcy Court, any Causes of Action. The Bankruptcy Court shall retain jurisdiction with

respect to any and all Causes of Action, whether commenced prior to or after Confirmation of the Plan. The Debtor may settle, without further order of the Bankruptcy Court any Causes of Action or Avoidance Actions. The Bankruptcy Court shall retain jurisdiction with respect to any and all Causes of Action and Avoidance Actions, whether commenced prior to or after Confirmation of the Plan. For the avoidance of doubt, the Plan does not release or waive any Causes of Action or Avoidance Actions against Raymond T. Bojanowski or any of his successors, assigns, heirs, advisors, attorneys, or other related parties or entities, and all such Causes of Action and Avoidance Actions are expressly reserved and preserved.

**D. Corporation Governance.** On and after the Effective Date, the Debtor shall be governed by a three-member Board of Directors comprised of (a) two members of the Debtor's existing Board of Directors, to be selected by majority vote of the Debtor's existing Board of Directors on or before the Effective Date, and (b) one creditor designee appointed by the Committee. Any vacancy in the Debtor's Board of Directors on or after the Effective Date shall be filled by a new director selected by unanimous vote of the remaining directors. Upon the Effective Date, the Debtor's corporate charter, by-laws, and other organizational documents shall be deemed amended to the extent necessary to effectuate the governance structure set forth in this Article. Board compensation shall be determined by the Board on or after the Effective Date.

#### **ARTICLE IX. EFFECTS OF CONFIRMATION**

**A. Vesting of Assets.** On the Effective Date, title to all assets of the Debtor and its Estate (including the MDG Interest and the CDS Interest) shall vest in the Debtor free and clear of all Liens, Claims, charges, and other encumbrances, except as expressly provided in the Plan. All rights and privileges of ownership and management appurtenant to the MDG Interest and the CDS Interest, as the same existed immediately prior to the Petition Date, shall revest in the Debtor in full on the Effective Date, and any provision of state law (including but not limited to the Virginia Limited Liability Company Act) or any agreement (including but not limited to the MDG Operating Agreement and the Buy-Sell Agreement for MDG dated as of January 8, 2010) purporting to limit or alter such rights by virtue of the filing of the Bankruptcy Case is deemed invalid, unenforceable, and of no effect. Upon the Effective Date, the Unanimous Written Consent of the Members and Board of Managers of MDG dated December 14, 2011 shall no longer be in effect. Upon disposition of the Operating Assets, the Owned Real Estate, the MDG Interest, the CDS Interest, and any other assets of the Debtor and payment of all distributions contemplated under this Plan, the Debtor may be (a) merged into another entity, (b) dissolved without the need for any filings with the applicable governmental officials in the Debtor's state of incorporation, or (c) sold, in the discretion of the Debtor's Board of Directors.

**B. Authority to Effectuate Plan.** Upon the Effective Date, all matters provided under the Plan shall be deemed to be authorized and approved without the requirement of further approval from the Bankruptcy Court or the Debtor. The Debtor shall be authorized, without further application to or order of the Bankruptcy Court, to take whatever action necessary to achieve consummation and carry out the Plan and to effectuate the transactions provided for hereunder.



**C. Binding Effect.** Except as otherwise expressly provided in the Plan, on and after the Effective Date, the Plan shall bind all Holders of Claims and Interests, whether or not such Holders voted to accept or reject the Plan. Subject to the terms of the Plan, upon the Effective Date, every Holder of a Claim or Interest shall be precluded and permanently enjoined from asserting against the Debtor any Claim based on any document, instrument, judgment, award, order, act, omission, transaction, or other activity of any kind or nature that occurred before the Petition Date.

**D. Compromise and Settlement of Claims and Interests.** Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019 and in consideration for the classification, distributions, and other benefits provided pursuant to the Plan, on the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims, Interests, and controversies resolved pursuant to the Plan or relating to the contractual, legal, or subordination rights that a Holder of a Claim or Interest may have with respect to any Claim or Interest, or any distribution to be made on account of such Claim or Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Interests, and controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtor, its Estate, and all Holders of Claims and Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, pursuant to Bankruptcy Rule 9019, without any further notice to, or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Debtor may compromise and settle Claims against the Debtor and its Estate.

**E. Injunction.** Upon the Effective Date, the Confirmation Order shall act as an injunction against the commencement or continuation of any action, employment of process, or act to collect, offset, or recover a Claim or Interest against the Debtor or its assets or properties. Except as otherwise expressly provided in the Plan or the Confirmation Order, all Persons who have held, hold, or may hold Claims against, or Interests in, the Debtor or its assets or property shall be permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Interest, (b) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against the Debtor on account of any such Claim or Interest, and (c) creating, perfecting, or enforcing any encumbrance of any kind against the Debtor or against the property or interests in property of the Debtor on account of any such Claim or Interest, except to enforce the provisions of the Plan. The foregoing injunction shall extend to successors of the Debtor and their respective properties and interests in property.

**F. Exculpation.** The Exculpated Parties are each granted the protections and benefits of section 1125(e) of the Bankruptcy Code, to the fullest extent permitted.

**G. Committee.** On the Effective Date, the Committee shall be deemed dissolved, and its members shall be deemed released of any further duties, responsibilities, and obligations in connection with the Bankruptcy Case or the Plan and its implementation, and the retention or employment of the Professionals retained by the Committee shall terminate.

## ARTICLE X. CONDITIONS PRECEDENT

**A. Conditions Precedent to Confirmation Date.** Each of the following conditions must be satisfied or waived in accordance with Section 8.03 of the Plan prior to the occurrence of the Confirmation Date:

- (1) The final version of the Plan and all of the exhibits and schedules thereto shall have been Filed in form and substance acceptable to the Debtor in its sole discretion.
- (2) The Confirmation Order shall approve in all respects the provisions, terms, and conditions of the Plan, and shall be in form and substance acceptable to the Debtor in its sole discretion.

**B. Conditions Precedent to the Effective Date.** Each of the following conditions must be satisfied or waived pursuant to Section 8.03 of the Plan prior to the occurrence of the Effective Date:

- (1) The Confirmation Date shall have occurred.
- (2) The Confirmation Order, in form and substance acceptable to the Debtor in its sole discretion, shall have become a Final Order.

**C. Waiver of Conditions.** The Debtor may, in its sole discretion, waive any of the conditions set forth in Sections 8.01 and 8.02 of the Plan, without notice and without further action, order, or approval of the Bankruptcy Court.

**D. Effect of Non-Occurrence of Effective Date Conditions.** Each of the conditions precedent to the occurrence of the Effective Date set forth in Section 8.02 of the Plan must be satisfied or waived by the Debtor, and the Effective Date must occur within one hundred eighty (180) days after the Confirmation Date (or by such later date as established by a Final Order of the Bankruptcy Court). If the Effective Date has not occurred within one hundred eighty (180) days after the Confirmation Date (or by such later date as established by a Final Order of the Bankruptcy Court), then, upon motion by the Debtor or another party-in-interest made before the Effective Date, the Confirmation Order may be vacated by the Bankruptcy Court; provided, however, that if the Effective Date occurs while a motion to vacate the Confirmation Order is pending, such motion shall be deemed denied as moot. If the Confirmation Order is vacated by the Bankruptcy Court, the Plan shall be null and void in all respects, and nothing contained in the Plan shall constitute a waiver or release of any Claims against or Interests in the Debtor or release of any claims or interests held by the Debtor or its Estate.

## ARTICLE XI. CONFIRMATION REQUIREMENTS AND PROCEDURE

The following discussion is intended to be a non-exclusive summary of certain risks attendant upon the confirmation of the Plan. You are encouraged to supplement the

summary with your own analysis, an evaluation of the Plan and Disclosure Statement in their entirety, and in consultation with your own advisors. The Debtor believes that the Plan is viable and will meet all the requirements for confirmation under Bankruptcy Code section 1129.

**PERSONS CONCERNED WITH CONFIRMATION OF THE PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS AND/OR TAX ADVISORS BECAUSE THE LAWS CONCERNING CONFIRMING A PLAN ARE COMPLEX.**

The following discussion is intended solely for the purpose of alerting readers about basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing objections and/or Claims. The Debtor does not represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Bankruptcy Court can confirm the Plan. Some of the requirements include that the Plan must be proposed in good faith, that the Creditors have accepted the Plan, that the Plan pays Creditors at least as much as they would receive in a Chapter 7 liquidation, and that the Plan is feasible. These requirements are not the only requirements for confirmation.

**A. Who May Vote or Object**

**1. Who May Object to the Confirmation of the Plan?**

Any party-in-interest, Creditor or Interest Holder may object to confirmation of the Plan, but as explained below, not everyone is entitled to vote to accept or reject the Plan.

**2. Who May Vote to Accept or Reject the Plan?**

A Creditor or Interest Holder has a right to vote for or against the Plan if that Creditor or Interest Holder has a Claim that is both (i) allowed or allowed for voting purposes, and (ii) classified in an Impaired Class that will receive some distribution or recovery under the Plan.

**B. What Is An Allowed Class or Interest?**

As noted above, a Creditor or Interest Holder must first have an Allowed Claim or Interest to have the right to vote. Generally, any proof of Claim or Interest will be Allowed, unless a party-in-interest such as the Debtor files an objection to the Claim or Interest. When an objection is so filed, the Creditor or Interest Holder cannot vote unless the Bankruptcy Court, after notice and a hearing, either overrules the objection or allows the Claim or Interest for voting purposes.

A Creditor or Interest Holder may have an Allowed Claim or Interest even if a proof of Claim or Interest was not timely filed. A Claim is deemed allowed if it is scheduled on the Debtor's Schedules and such Claim is not scheduled as disputed, contingent or unliquidated. An Interest is deemed Allowed if it is scheduled and no party-in-interest has objected to the Interest.

**C. What is an Impaired Claim or Interest?**

As noted above, an Allowed Claim or Interest only has the right to vote if it is in a Class that is Impaired under the Plan. A Class is Impaired if the Plan alters the legal, equitable or contractual rights of the members of the Class. For example, the Class comprised of Unsecured Claims is Impaired because the Plan will not pay members of this Class 100% of what they are owed.

In this Bankruptcy Case, Allowed Claims in Classes 3 and 4 are Impaired and entitled to vote to accept or reject the Plan. Classes 1(a), 1(b), 1(c), and 2 are Unimpaired and thus are presumed to have accepted the Plan. A party who disputes the Debtor's characterization of a Claim as being Impaired or Unimpaired may file an objection to the Plan stating that its Claim has been incorrectly characterized.

**1. Who is Not Entitled to Vote?**

The following four types of Claims are not entitled to vote: (i) Claims that have been disallowed; (ii) Claims in an unimpaired Class; (iii) Claims entitled to Priority pursuant to

Bankruptcy Code sections 507(a)(1), (a)(2) and (a)(8); and (iv) Claims in Classes that do not receive or retain any value under the Plan. Claims in unimpaired Classes are not entitled to vote because such Classes are deemed to have accepted the Plan. Claims entitled to Priority pursuant to Bankruptcy Code sections 507(a)(1), (a)(2), and (a)(8) are not entitled to vote because such Claims are not placed in Classes and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in Classes that did not receive or retain any value under the Plan do not vote because such Classes are deemed to have rejected the Plan. Even if your Claim is of the type described above, you may still have the right to object to Confirmation of the Plan.

**2. Who Can Vote in More Than One Class?**

A Creditor whose Claim has been Allowed in part as a Secured Claim and in part as an Unsecured Claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the Secured part of the Claim and another ballot for the Unsecured part of the Claim. The Debtor does not believe that any Creditor has a Claim in more than one Class.

**3. Votes Necessary to Confirm the Plan**

If Impaired Classes exist, the Court cannot confirm the Plan unless (i) at least one Impaired Class has accepted the Plan without counting the votes of any Insiders within that Class, and (ii) all Impaired Classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by “cram down” of the non-accepting classes, as discussed later in the Plan.

**4. Votes Necessary for Class to Accept the Plan**

A Class of Claims is considered to have accepted the Plan when more than one half in number and at least two-thirds in a dollar amount of the Claims that have actually voted have voted in favor of accepting the Plan. A Class of Interests is considered to have accepted the Plan when at least two-thirds in the amount of the Interest Holders of such Class that have actually voted to accept the Plan.

**5. Treatment of Non-Accepting Classes**

As noted above, even if all Impaired Classes do not accept the proposed Plan, the Court can nonetheless confirm the Plan if the non-accepting Classes are treated in the manner required by the Bankruptcy Code. The process by which non-accepting Classes are forced to be bound by the terms of the Plan is commonly referred to as “cram down.” The Bankruptcy Code allows the Plan to be “crammed-down” on non-accepting Classes of Claims or Interests if the Plan (i) meets all consensual requirements except the voting requirements of section 1129(a)(8) of the Bankruptcy Code, and (ii) if the Plan does not discriminate “unfairly” and is “fair and equitable” toward each impaired Class that has not voted to accept the Plan, as referred to in Bankruptcy Code section 1129(b) and the applicable case law.

**6. Request for Confirmation Despite Non-Acceptance by an Impaired Class**

In the event an Impaired Class of Claims or Interests with the right to vote on the Plan ultimately votes to reject the Plan, the Debtor will request the Court to confirm the Plan by “Cram Down.”

**D. Liquidation Analysis**

Another confirmation requirement is the “best interests test” which requires a liquidation analysis. Under the best interests test, if a Claimant or Interest Holder is an Impaired Class and the Claimant or Interest Holder does not vote to accept the Plan, then that Claimant or Interest Holder must receive or retain under the Plan property of the value not less than the amount that such Holder would receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code.

In a Chapter 7 case, a debtor’s assets are usually sold by a Chapter 7 Trustee. Secured creditors are paid first from the sale proceeds from the property in which the secured creditor has a lien or the property is surrendered to the secured creditor. Administrative and then Priority Claims are paid next. Unsecured creditors are paid from any remaining proceeds from the liquidation of the assets. Unsecured creditors with the same priority share in proportion to

the amount of their Allowed Claims. Finally, Interest Holders receive the balance that remains after all Creditors are paid pursuant to the Plan, if anything.

In order for the Bankruptcy Court to be able to confirm the Plan, the Court must find that all creditors and Interest Holders who do not accept the Plan will receive as much under the Plan as such Holders would receive under Chapter 7 liquidation. The Debtor submits that this requirement is met because the Debtor is selling its assets in due course and will distribute the proceeds in accordance with the Bankruptcy Code's priority scheme. Moreover, the Debtor's Estate will not incur the typical "start-up" costs associated with a trustee such as file review. Additionally, the Debtor's Estate will not be "taxed" with the trustee's commission of up to three percent (3%) on the sale of the Debtor's assets or prosecution of Causes of Action. Further, the Debtor is fully familiar with the issues surrounding a potential sale of its interest in MDG. For this reason, the Debtor's Estate is in a position to more efficiently handle potential objections than an outside party.

Under the Plan, the Debtor's assets are to be distributed in accordance with the priority scheme as established by Congress in the Bankruptcy Code. Thus, Unsecured Creditors will receive more under the Plan than they would in a Chapter 7.

**E. Feasibility**

Another requirement for confirmation involves the feasibility of the Plan, which means the confirmation of the Plan is not likely to be followed by the liquidation or need for further financial reorganization of the Debtor or any successor debtor under the Plan, unless such a liquidation or reorganization is proposed in the Plan. This element is satisfied because the Debtor's operations are being wound down and the remaining operations are cash flow positive.

**F. Confirmation Hearing**

The Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan after the ballots have been cast. The Confirmation Hearing has been scheduled for [•], 2012 at [•]:00 a.m., prevailing Eastern Time. The Confirmation Hearing may

be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjournment made at the Confirmation Hearing. At the Confirmation Hearing, the Bankruptcy Court will (i) determine whether the Plan has been accepted by the requisite majority of Creditors in Classes 3 and 4; (ii) hear and determine all objections to the Plan and to confirmation of the Plan; (iii) determine whether the Plan meets the requirements of the Bankruptcy Code and has been proposed in good faith; and (iv) confirm or refuse to confirm the Plan.

THE DEBTOR BELIEVES THAT THE PLAN DOES NOT DISCRIMINATE UNFAIRLY WITH RESPECT TO ANY CLASS, AND THAT IT IS FAIR AND EQUITABLE WITH RESPECT TO EACH IMPAIRED CLASS. THEREFORE, THE DEBTOR RECOMMENDS THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.

**G. Objections to Confirmation**

Objections to confirmation must be in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim or the Interest in the Debtor held by the objector. Any such objection must be Filed with the Bankruptcy Court and served upon each of the following so that it is received by them on or before **5:00 p.m. (prevailing Eastern Time) on [•], 2012:**

Lowenstein Sandler PC  
65 Livingston Avenue  
Roseland, New Jersey 07068  
Attn: Bruce Buechler, Esq.

-and-

Kaplan Voekler Cunningham & Frank, PLC  
7 East 2<sup>nd</sup> Street (23224)  
P.O. Box 2470  
Richmond, VA 23218  
Attn: Troy Savenko, Esq.

Office of the United States Trustee  
701 East Broad Street, Suite 4300  
Richmond, VA 23210



Attn: Robert Van Arsdale, Esq.

Hunton & Williams LLP  
951 E. Byrd Street  
Richmond, VA 23219  
Attn: Tyler P. Brown, Esq.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

#### **ARTICLE XI. TAX CONSEQUENCES**

##### **A. Circular 230 Disclaimer.**

To ensure compliance with requirements imposed by the Internal Revenue Service (the “IRS”), we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or tax-related matter(s) addressed in the Plan.

Confirmation may have federal income tax consequences for the Debtor and Holders of Claims or Interests. The Debtor has not obtained and does not intend to request a ruling from the IRS, nor has the Debtor obtained an opinion of counsel with respect to any tax matters. Any federal income tax matters raised by Confirmation of the Plan are governed by the Internal Revenue Code and the regulations promulgated thereunder. Creditors and Holders of Interests are urged to consult their own counsel and tax advisors as to the consequences to them, under federal and applicable state, local and foreign tax laws, of the Plan. The following is intended to be a summary only and not a substitute for careful tax planning with a tax professional. The federal, state and local tax consequences of the Plan may be complex in some circumstances and, in some cases, uncertain. Accordingly, each Holder of a Claim or Interest is strongly urged to consult with his or her own tax advisor regarding the federal, state and local tax consequences of the Plan.

**B. Tax Consequences to the Debtor**

The Debtor may not recognize income as a result of the discharge of debt pursuant to the Plan because section 108 of the Internal Revenue Code provides that taxpayers in bankruptcy proceedings do not recognize income from the cancellation of indebtedness. However, a taxpayer is required to reduce its Tax Attributes by the amount of the debt discharged. Tax Attributes are reduced in the following order: (i) net operating losses; (ii) general business credits; (iii) capital loss carryovers; (iv) basis in assets; and (v) foreign tax credits.

The Debtor anticipates realizing taxable gains on the sales of its assets. As a result of Interests being left in effect by the Plan, the Debtor will retain certain valuable Tax Attributes, including but not limited to approximately \$9.5 million in federal net operating loss carry-forwards, approximately \$26.3 million in federal alternative minimum tax loss carry-forwards, and approximately \$8.9 million in various state net operating loss carry-forwards, which the Estate can use to shelter or reduce such gains or other income for federal and state income tax purposes notwithstanding Confirmation of the Plan. The Debtor is likely to have additional Tax Attributes based upon its fiscal year 2012 and fiscal year 2013 tax returns, which have not yet been prepared.

**C. Tax Consequences to Unsecured Creditors**

An Unsecured Creditor that receives only Cash in satisfaction of its Claim may recognize gain or loss, with respect to the principal amount of the Claim, equal to the difference between (i) the Creditor's basis in the Claim (other than the portion of the Claim, if any, attributable to accrued interest), and (ii) the balance of the Cash received after any allocation to accrued interest. The character of the gain or loss as capital gain or loss, or ordinary income or loss, will generally be determined by whether the Claim is a capital asset in the Creditor's hands. A Creditor will also recognize income or loss in respect of consideration received for accrued interest on the Claim. The income or loss will generally be ordinary, regardless of whether the Creditor's Claim is a capital asset in its hands.

**D. Tax Consequences to Holders of Interests**

Because Interests in the Debtor will remain in effect after the Effective Date, Holders of Interests be precluded from recognizing a loss on their investment in such Interests that would result from the occurrence of the Effective Date if such Interests were extinguished.

**E. Disclaimer**

Holders of Claims or Interests should not rely on this Disclosure Statement with respect to the tax consequences of the Plan. They should consult with their own tax counsel or advisor. The discussion of tax consequences in this Disclosure Statement is not intended to be a complete discussion or analysis.

**RECOMMENDATION**

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS PREFERABLE TO ANY OF THE ALTERNATIVES DESCRIBED ABOVE AND THAT THE PLAN IS DESIGNED TO PROVIDE GREATER RECOVERIES THAN THOSE AVAILABLE IN A LIQUIDATION. ANY OTHER ALTERNATIVE WOULD CAUSE SIGNIFICANT DELAY AND UNCERTAINTY, AS WELL AS ADDITIONAL ADMINISTRATIVE COSTS.

[SIGNATURE PAGE TO FOLLOW]

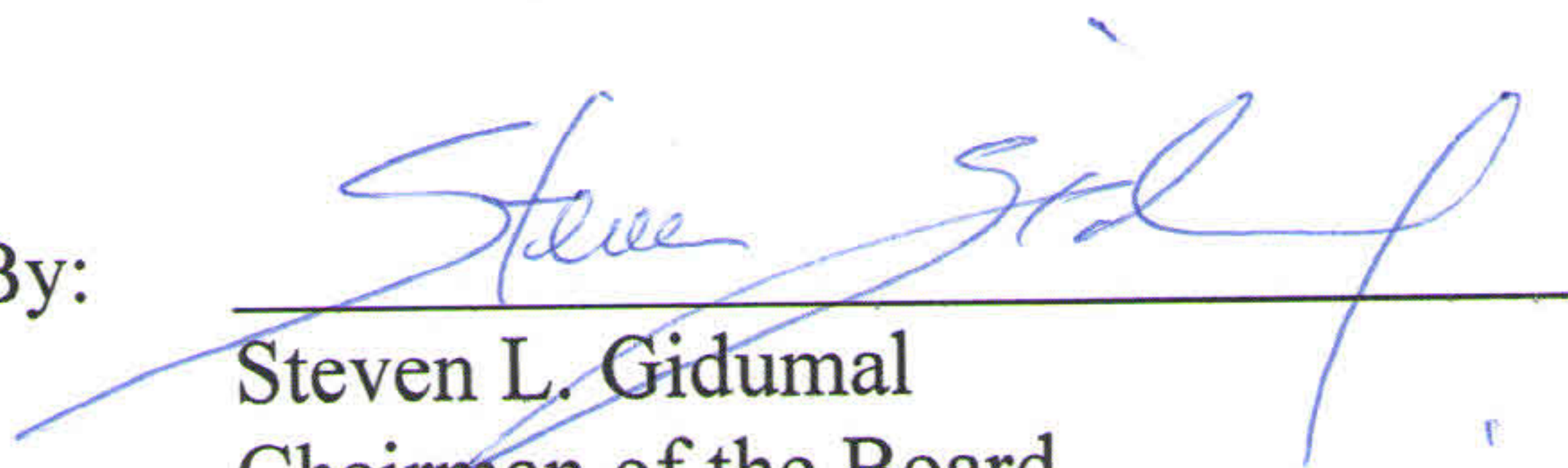
**SIGNATURE**

Dated: June 6, 2012

Respectfully Submitted,

**ROOMSTORE, INC.**  
**Debtor and Debtor-in-Possession**

By:

  
\_\_\_\_\_  
Steven L. Gidumal  
Chairman of the Board

Dated: June 6, 2012  
Richmond, Virginia

Respectfully submitted,

/s/ Troy Savenko

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Possession*