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9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SAN FERNANDO VALLEY DIVISION**

11 In re
12 **SEXY HAIR CONCEPTS, LLC,**
13 a Delaware limited liability company,
14 Debtor and Debtor-in-Possession.

Case No.:

Chapter 11

**MOTION OF THE DEBTOR FOR ORDER
APPROVING DISCLOSURE STATEMENT
AND SOLICITATION, VOTING, AND
CONFIRMATION PROCEDURES;
MEMORANDUM OF POINTS AND
AUTHORITIES**

15 Date: To be set
16 Time: To be set
17 Place: Courtroom []
21041 Burbank Blvd.
Woodland Hills, CA 91367

22 Sexy Hair Concepts, LLC (“SHC” or the “Debtor”), the Debtor and debtor-in-possession in the
23 above-captioned chapter 11 case, hereby moves (the “Motion”) the Court for an order approving (1) the
24 Disclosure Statement For Plan Of Reorganization Pursuant To Chapter 11 Of The Bankruptcy Code
25 For Sexy Hair Concepts, LLC (the “Disclosure Statement”), and (2) solicitation, voting, and
26 confirmation procedures concerning the Disclosure Statement and the Debtor’s Plan Of Reorganization
27 Pursuant To Chapter 11 Of The Bankruptcy Code For Sexy Hair Concepts, LLC (the “Plan”). In
28 support of the Motion, the Debtor has filed the Declaration of T. Scott Avila in Support of First Day

1 Motions (the “Avila Declaration”). Copies of the Plan and Disclosure Statement are attached hereto as
2 Exhibits 1 and 2, respectively and a copy of the Plan is attached also to the Avila Declaration as Exhibit
3 J. Capitalized terms used but not otherwise defined herein have the meaning given to such terms in the
4 Plan or the Disclosure Statement, as applicable.

5 **MEMORANDUM OF POINTS AND AUTHORITIES**

6 **I.**

7 **JURISDICTION AND VENUE**

8 This Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter
9 relates to the administration of the Debtor’s bankruptcy estate and is accordingly a core proceeding
10 pursuant to 28 U.S.C. § 157(b)(2)(A) and (O). Venue of this case is proper in this Court pursuant to 28
11 U.S.C. §§ 1408 and 1409. The statutory predicate for the relief requested herein is section 1125 of title
12 11 of the United States Code (the “Bankruptcy Code”), and Rules 2002, 3017, 3018, and 9007 of the
13 Federal Rules of Bankruptcy Procedure (“FRBP”).

14 **II.**

15 **STATEMENT OF FACTS**

16 **A. BUSINESS AND CORPORATE STRUCTURE**

17 SHC, a California limited liability company, is an operating company engaged in the
18 development, distribution and marketing of premium quality hair care products and brands. SHC
19 outsources the production and manufacture of its various lines of premier hair care products and
20 operates from a single facility in Chatsworth, California that houses its corporate offices and
21 distribution warehouse. SHC works with several distributors domestically and internationally, but does
22 not maintain any other offices.

23 SHC’s sole managing member is Ecoly International, Inc. (“Ecoly”). Ecoly is owned by its
24 majority shareholder Luxe Beauty Midco Corporation (“Midco” and together with Ecoly and SHC, the
25 “Debtors”) and its minority shareholder Luxe Beauty Holdings Corporation (“Holdings”). Midco is
26 wholly owned by Holdings. The current corporate structure, including the formation of Midco and
27 Holdings, is the result of a transaction in 2008 whereby Ecoly was purchased in a private sale. SHC
28 remains the only operating entity.

1 **B. PREPETITION DEBT AND FINANCING**

2 1. Secured Credit Facility

3 In 2008, SHC borrowed funds under a revolving credit and term loan credit facility. The
4 secured credit facility is maintained with the Bank of Montreal (“BMO” or the “Agent”), as the
5 Administrative and Collateral Agent for the secured lender group (the “Senior Secured Lenders”),
6 pursuant to the terms of a Credit Agreement dated April 9, 2008 (as amended and in effect, the “Credit
7 Agreement”). Under the Credit Agreement, the Senior Secured Lenders, initially made a term loan to
8 SHC of approximately \$65 million and provided a revolving line of credit of approximately \$7 million
9 (the “Senior Secured Loans”). Holdings, Midco and Ecoly guaranteed the obligations under the Credit
10 Agreement. The outstanding pre-petition amount owing under the Credit Agreement is not less than
11 \$62,580,138.16.

12 Pursuant to the terms of the Credit Agreement and an executed security agreement, the Debtors
13 and Holdings granted the Agent, for the benefit of the Senior Secured Lenders, a security interest in all
14 of their assets. Additionally, pursuant to the terms of an executed pledge agreement, the Debtors and
15 Holdings pledged their respective shares and membership interests to the Senior Secured Lenders.

16 2. Subordinated Unsecured Notes

17 SHC incurred additional obligations to Northwestern Mutual Life Insurance Company (“NML”
18 or the “Subordinated Lender”) under that certain Securities Purchase and Guaranty Agreement, dated as
19 of April 9, 2008, in respect of the 14% Subordinated Notes Due April 9, 2015 (together with all related
20 documents, the “Subordinated Note Agreement” and the “Subordinated Notes,” respectively) in the
21 initial aggregate principal amount of \$19 million. SHC’s obligations to NML are guaranteed by the
22 same entities that guaranteed the obligations under the Senior Credit Agreement. As of the date of the
23 filing of the bankruptcy petition (the “Petition Date”), the Debtors’ obligations under the Subordinated
24 Notes were approximately \$25 million.

25 **C. EVENTS LEADING TO CHAPTER 11 FILINGS**

26 In December 2008, SHC reported to the Agent and the Subordinated Lender that, due in part to
27 the state of the global economy and a substantial drop in consumer spending, it would be in default of
28 certain financial covenants under the Credit Agreement, and that it was unable to fill certain orders, had

1 overestimated manufacturer rebates and was concerned about the ability of one of its largest customers
2 to pay, which led to a need to increase account receivable reserves.

3 In June 2009, SHC was unable to make installment payments then due and owing under the
4 Credit Agreement. The Agent has declared that payment and other covenant defaults under the Credit
5 Agreement are ongoing. In addition, SHC was also unable to make payments due and owing under the
6 Subordinated Note Agreement and received a notice of default from NML. NML has declared that
7 payment and other defaults under the Subordinated Note Agreement are ongoing.

8 On July 23, 2009, the Agent exercised voting rights with respect to the pledged shares of stock
9 in Midco and Ecoly and, as a result, by unanimous shareholder consent, (i) the directors then serving on
10 the Board of Directors of Midco and Ecoly were removed; (ii) Michael Frow, Marilyn Sylvestre and
11 John G. (Pete) Ball were appointed as the independent directors of Midco and Ecoly (collectively, the
12 “Board”); (iii) Andre Laus was elected to serve as the Chief Restructuring Officer (“CRO”) of Midco
13 and Ecoly; (iv) Ecoly, the sole member of SHC, was authorized and directed to elect Andre Laus to
14 serve as CRO of SHC; and (v) Andre Laus was authorized and directed to hire CRG Partners Group,
15 LLC, to assist him in his capacity as CRO. At the direction and by resolution of the Board, Andre Laus
16 was later replaced by T. Scott Avila, who presently serves as CRO for the Debtors.

17 1. Attempted Financial Restructuring and Initial Sale Efforts

18 Initially, Andre Laus attempted to negotiate with the Debtors, NML and the Senior Secured
19 Lenders to facilitating a refinancing or restructuring of the Debtor’s loan obligations. When it became
20 obvious that the parties were at an impasse, the Board elected to retain the law firm of Peitzman, Weg
21 & Kempinsky LLP (“PWK”) and the investment banking firm of Imperial Capital, LLC (“Imperial”) to
22 assist the Debtors in, among other things, negotiations with the Senior Secured Lenders and NML,
23 attempts to refinance or restructure their debt obligations or, failing those alternatives, facilitate a sale
24 of SHC to maximize value for creditors and stakeholders. Although the Senior Secured Lenders would
25 not agree to a written forbearance agreement, the Senior Secured Lenders and Agent orally agreed to
26 work with the Debtors from month to month provided that the Debtors continued to work in good faith
27 to remedy existing defaults under the Credit Agreement, refinance the debt obligations, or liquidate
28 their assets for the benefit of creditors and stakeholders. Specifically, although the Agent delivered a

1 notice of intent to conduct a public foreclosure sale of all of the equity interests of Midco and Ecoly
2 and, subsequently, all of the assets of SHC, the Agent also extended the sale date from time to time.

3 Upon retention, Imperial worked to identify potential sources of refinancing for the Senior
4 Secured Loans and the Subordinated Notes. Specifically, Imperial first worked closely with NML and
5 Holdings' shareholders, most notably Thoma Bravo, providing them with the exclusive right to propose
6 a restructuring or refinancing transaction to the Senior Secured Lenders. NML and Thoma Bravo
7 proposed a cash pay-down of approximately \$20 million of the Senior Secured Loans, but the Senior
8 Secured Lenders rejected that offer. No other material offers were made by NML and Thoma Bravo.
9 Subsequently, Imperial began contacting third party lenders and investors to either (i) partner with
10 NML to make a new proposal to the Senior Secured Lenders, (ii) purchase all or a portion of NML's
11 debt, or (iii) refinance the Senior Secured Loans. During this time, Imperial conducted regular phone
12 calls with NML to keep it informed about indications of interest by third parties and to determine if
13 NML wanted to propose any alternative offers. No further offers were made by NML. After this
14 significant effort, Imperial informed the Debtors that it was unable to reach a suitable refinancing of
15 their debt obligations. Given that the Senior Secured Lenders still intended to foreclose if the Debtors
16 were not working to resolve their financial problems, the Board then elected to pursue a voluntary sale
17 of substantially all of SHC's assets to satisfy the Debtor's loan obligations.

18 Upon this decision, Imperial worked with SHC to prepare marketing materials and to identify
19 potential purchasers. Through this process, Imperial contacted over 180 potential purchasers and
20 provided them with marketing materials regarding SHC's assets. As a result of these efforts, Imperial
21 assisted the Debtors in having potential purchasers, with further interest in the assets, sign non-
22 disclosure agreements under which they could perform due diligence on the Debtors. Over 100
23 potential purchasers signed such agreements and began to further investigate the Debtors' business and
24 assets, including the review of a proposed asset purchase agreement jointly drafted by PWK and
25 counsel for NML. This marketing process occurred with cooperation from NML and its professional
26 advisors and with continued month to month extensions of a foreclosure sale deadline from the Agent.

27 After months of due diligence by interested parties, Imperial began an auction process in
28 February, 2010, and invited any interested party to submit a bid for SHC's assets. Three (3) parties

1 submitted bids and Imperial and the Debtors evaluated the bids to determine the highest and best offer
2 for SHC's assets. Upon making this determination, SHC entered into a confidential letter of intent with
3 a potential bidder (the "Initial Bidder") for the purchase of substantially all of SHC's assets. The Initial
4 Bidder then conducted extensive due diligence on the Debtors for the following one and a half months.
5 PWK and NML's counsel began negotiating an asset purchase agreement with the Initial Bidder's
6 counsel. Unfortunately, by April, 2010, the Initial Bidder informed the Debtors that it did not believe
7 there was sufficient value in SHC's assets and that it was terminating its letter of intent.

8 Imperial then recommended that the Debtors turn to the next highest bidder, which it believed
9 was likely to be able to close a transaction on terms favorable to the Debtors and their stakeholders in a
10 reasonable time period. Upon learning that the next highest bidder was still interested in purchasing
11 SHC's assets, SHC commenced negotiations and diligence with that bidder, Sexy Hair, Inc., who is the
12 current plan sponsor (the "Plan Sponsor").

13 2. Initial Negotiations with the Plan Sponsor

14 Through the late spring and early summer of 2010, the Debtors and the Plan Sponsor
15 (collectively, the "Parties") anticipated consummating a sale to the Plan Sponsor outside of bankruptcy.
16 Debtors' counsel and NML's counsel then began negotiating and drafting an asset purchase agreement
17 with the Plan Sponsor's counsel. The Parties ultimately agreed on most of the material terms of a cash
18 purchase transaction, including the purchase price. The Plan Sponsor had, in addition to its own cash,
19 arranged for \$35 million of committed outside financing in order to consummate the transaction.
20 However, as the Plan Sponsor began its diligence process it discovered structural, financial, regulatory
21 and general industry risks affecting the Debtors. Due to these issues, the Plan Sponsor believed there
22 were risks associated with a consensual out-of-court transaction.

23 As a result, the Plan Sponsor requested that the transaction be effectuated through a foreclosure
24 sale. In an effort to ensure the completion of the transaction, the Debtors agreed to cooperate with a
25 foreclosure sale process provided it returned the same value to its stakeholders. However, a foreclosure
26 transaction on an operating business of SHC's size is not very common, and the financing source of the
27 Plan Sponsor was concerned that it would not be able to syndicate the loan with a non-standard
28 structure for the purchase. Accordingly, the Plan Sponsor then requested that the proposed sale

1 transaction be structured as a sale in a chapter 11 case pursuant to Bankruptcy Code section 363. In
2 their continued endeavor to maximize value for the benefit of all stakeholders, the Debtors agreed to
3 file chapter 11 bankruptcies and consummate an asset sale with the Plan Sponsor. Notably, at about
4 this time, an industry-wide class-action lawsuit was filed, naming a number of defendants, including
5 SHC, for alleged violations of certain advertising and competition laws, including the Lanham Act
6 (“Class Action Lawsuit”).

7 After extended negotiations among the Debtors, NML and the Plan Sponsor, it became
8 uncertain whether terms for the asset sale pursuant to Bankruptcy Code section 363 could be agreed
9 upon. At a meeting of the Board, NML, as a Board observer, expressed that they were not in favor of
10 the Debtors pursuing a transaction with the Plan Sponsor because of the provisions in the asset
11 purchase agreement providing for (i) a \$4 million indemnity holdback for breaches of, among other
12 things, SHC’s representations and warranties and a \$6 million indemnity holdback for losses related to
13 the Class Action Lawsuit, (ii) a termination fee payable to the Plan Sponsor in the event SHC breached
14 its obligations under the proposed asset purchase agreement, and (iii) the broadly worded
15 representations and warranties of SHC. Based, in part, on this presentation made by NML, the Board
16 determined that it would not go forward with a transaction with the Plan Sponsor on the current terms
17 offered. The Board determined that it would be willing to consummate a transaction with the Plan
18 Sponsor if the terms were modified to be more favorable to the Debtors.

19 After negotiations continued between the Debtors and the Plan Sponsor and the Plan Sponsor
20 agreed to certain further changes, a final asset purchase agreement was approved by the Board and the
21 Debtors prepared to file chapter 11 bankruptcies and propose a sale of SHC’s assets pursuant to
22 Bankruptcy Code section 363. At this time, NML went further than merely indicating it would object
23 to the sale when proposed in bankruptcy court. NML took the position, via electronic correspondence
24 to SHC, that, even if the Debtors signed an agreement to sell SHC’s assets through an open and fair
25 bankruptcy process, such a sale would be a violation of the Subordinated Note Agreement. Moreover,
26 NML specifically sent the same e-mail to the Plan Sponsor, stating that NML wanted the Plan Sponsor
27 to take notice of NML’s position. The Plan Sponsor and its third-party financing source took this
28 communication to be a direct threat that NML would sue them if a purchase agreement was signed,

1 even if that purchase agreement specifically contemplated obtaining bankruptcy court approval for any
2 sale. While the Plan Sponsor was prepared to proceed with the transaction in spite of this frivolous
3 threat from NML, the Plan Sponsor's financing source was not.

4 At this point, the Plan Sponsor, the Agent, certain Senior Secured Lenders and the Debtors
5 determined that they could proceed to support a plan of reorganization for SHC, on the terms now
6 contained in the Plan. The reorganization would provide the Debtors with all of the prior benefits of
7 the proposed sale transaction by having the Plan Sponsor infuse the same amount of new equity in
8 exchange for the newly issued equity interests of the reorganized debtor ("Reorganized Debtor"), with
9 the Senior Secured Lenders receiving a significant cash pay-down on their debt and agreeing to take
10 \$35 million of restructured debt from the Reorganized Debtor (the "Transaction"). The cash remaining
11 after paying down the Senior Secured Lenders' debt would be available to distribute to unsecured
12 creditors (including the Subordinated Lender and any claims in the Class Action Lawsuit). After taking
13 into consideration the substantial efforts that took place over the past year to resolve the Debtors'
14 financial problems, the Board, based upon information and belief that the Plan Sponsor continues to
15 represent the best proposal for returning the most value to the Debtors' creditors and other stakeholders,
16 agreed to act as the Plan Proponent and submit the Plan for approval. The Board specifically noted
17 that, throughout the months of extended negotiations with the Plan Sponsor, Imperial continued to
18 investigate and have discussions with NML and third parties regarding possible refinancing,
19 restructuring or asset sale options, but that these options never provided anywhere near the value
20 provided by the Plan Sponsor.

21 **D. THE PROPOSED PLAN**

22 The Plan is a reorganizing plan whereby, subject to the provisions of the Plan, the Debtor will
23 transfer certain of its assets free and clear of all liens, claims, charges or other encumbrances to the
24 Reorganized Debtor, a newly formed corporation. The Reorganized Debtor will issue its newly created
25 equity interests to the Plan Sponsor upon the Plan Sponsor's investment of \$43 million. The
26 Reorganized Debtor will also assume \$35 million of the Senior Secured Loans, pursuant to a New
27 Credit Facility and will enter into a \$5 million Exit Revolver Facility. The Reorganized Debtor will
28 emerge from bankruptcy as an operating entity that will continue to operate the Debtor's business and

1 make payments to certain of its creditors, pursuant to the Plan, from capital invested by the Plan
2 Sponsor, its cash on hand and the cash generated from its business operations.

3 Under the Plan, all allowed Administrative Claims, priority claims, DIP Financing Claims and
4 Trade Claims will be paid in full on the Effective Date or over time, as set forth in the Plan. The Senior
5 Secured Lenders will receive their pro rata share of cash in an amount sufficient to reduce the aggregate
6 principal amount of the Senior Secured Loans to \$35 million, and each Senior Secured Lender will
7 receive its pro rata share of 100% of the loans under the New Credit Facility. Other secured claims, to
8 the extent that they are not satisfied prior to the Effective Date, will either be reinstated and rendered
9 unimpaired, or a holder of an Allowed Secured Claim will receive the collateral securing the claim.
10 The Debtor's non-priority, general unsecured creditors will share, pro rata, the assets of the Plan Trust.
11 All existing, pre-confirmation Equity Securities will be terminated under the Plan, and Equity Security
12 Holders will not receive any money or property under the Plan on account of such Equity Security.

13 **III.**

14 **RELIEF REQUESTED**

15 The Debtor seeks approval of the Disclosure Statement and a finding that the Disclosure
16 Statement contains "adequate information," as required by section 1125 of the Bankruptcy Code.
17 Additionally, the Debtor requests that the Court approve the proposed solicitation and voting
18 procedures and fix the dates for the, solicitation, voting and confirmation process, as set forth herein.
19 The Debtor further seeks approval of the form of the ballot and notice of the hearing on the
20 confirmation of the Plan (the "Confirmation Hearing"). Finally, the Debtor requests that the Court
21 grant the protections afforded by section 1125(e) of the Bankruptcy Code with respect to the
22 solicitation of the Plan.

23 **IV.**

24 **ARGUMENT**

25 **A. THE DISCLOSURE STATEMENT SHOULD BE APPROVED**

26 The Debtor seeks an order of the Bankruptcy Court approving the Disclosure Statement as
27 containing "adequate information," pursuant to section 1125(a)(1) of the Bankruptcy Code. Section
28 1125(b) of the Bankruptcy Code provides that "[a]n acceptance or rejection of a plan may not be

1 solicited after the commencement of the case under this title from a holder of a claim or interest with
2 respect to such claim or interest, unless, at the time of or before such solicitation, there is transmitted to
3 such holder the plan or a summary of the plan, and a written disclosure statement approved, after notice
4 and a hearing, by the court as containing adequate information." 11 U.S.C. § 1125(b). "The purpose of
5 a disclosure statement is to give all creditors a source of information which allows them to make an
6 informed choice regarding the approval or rejection of a plan." *Duff v. U.S. Trustee (In re California*
7 *Fidelity, Inc.)*, 198 B.R. 567, 571 (9th Cir. B.A.P. 1996). Section 1125(b) of the Code "seeks to
8 guarantee that a creditor receives adequate information about a plan before the creditor is asked for a
9 vote." *Id.* The Bankruptcy Code defines "adequate information" as follows:

10 "adequate information" means information of a kind, and in sufficient detail, as far as
11 is reasonably practicable in light of the nature and history of the debtor and the
12 condition of the debtor's books and records, including a discussion of the potential
13 material Federal tax consequences of the plan to the debtor, any successor to the
14 debtor, and a hypothetical investor typical of the holders of claims or interests in the
15 case, that would enable such a hypothetical investor of the relevant class to make an
16 informed judgment about the plan, but adequate information need not include such
17 information about any other possible or proposed plan and in determining whether a
18 disclosure statement provides adequate information, the court shall consider the
19 complexity of the case, the benefit of additional information to creditors and other
20 parties in interest, and the cost of providing additional information.

11 U.S.C. § 1125(a)(1).

18 The determination of whether a particular disclosure statement provides adequate information is
19 "subjective and made on a case by case basis . . . [and] . . . is largely within the discretion of the
20 bankruptcy court." *In re Texas Extrusion Corp.*, 844 F.2d 1142, 1157 (5th Cir.), *cert. denied*, 488 U.S.
21 926 (1988); *accord, e.g., Menard-Sanford v. Mabey (In re A.H. Robins Co.)*, 880 F.2d 694, 696 (4th
22 Cir.), *cert. denied*, 493 U.S. 959 (1989); *In re Lisanti Foods, Inc.*, 329 B.R. 491, 507 (D.N.J. 2005).

23 The Disclosure Statement provides extensive information about the Debtor's chapter 11 case,
24 and a detailed explanation of the Plan and the financial information and assumptions that underlie the
25 Plan. The Debtor has attempted to ensure that the information in the Disclosure Statement is complete
26 and accurate to the best of the Debtor's knowledge, information and belief. Among other things, the
27 Disclosure Statement provides the following information, which courts generally look to in determining
28

1 whether a disclosure statement contains “adequate information” to enable a creditor or interest holder to
2 make an informed decision with respect to a chapter 11 plan. *See, e.g., In re Metrocraft Pub. Servs.*
3 *Inc.*, 39 B.R. 567, 568 (Bankr. N.D. Ga. 1984); *accord, e.g., In re Scioto Valley Mortg. Co.*, 88 B.R.
4 168, 170-71 (Bankr. S.D. Ohio 1988); *In re Reilly*, 71 B.R. 132, 134 (Bankr. D. Mont. 1987).

- 5 1. A description of the events leading to the commencement of this case (Section II.E)¹;
- 6 2. Descriptions of the Debtor's assets and their estimated value (Section VI.B, Exhibit J);
- 7 3. A discussion of the anticipated future of the Reorganized Debtor (Section III.D);
- 8 4. A discussion of the source of information contained in the Disclosure Statement (Section
9 I.C);
- 10 5. Detailed disclaimers regarding the Plan, the assumptions underlying the Plan, and future
11 projections (Sections I.A, I.C, VI, VI.C);
- 12 6. A summary of significant events that occurred during this bankruptcy case and the
13 Debtor’s present condition (Section II.F);
- 14 7. A comparison of the estimated return to impaired classes of creditors in a hypothetical
15 chapter 7 liquidation to estimated returns under the Plan (Section VI.B);
- 16 8. A discussion of the Reorganized Debtor’s future organization and management (Section
17 III.D);
- 18 9. A detailed summary of the Plan's operative provisions (Section III);
- 19 10. The Debtor’s estimated administrative expenses and professional fees (Section III.B.1);
- 20 11. Financial information, data, and valuations relevant to a creditor’s decision to accept or
21 reject the Plan (Section IV.B, Exhibits C, D);
- 22 12. A discussion of the potential risks under the Plan (Section III.E);
- 23 13. A discussion of potential preferential or otherwise voidable transfers and other potential
24 claims and causes of action (Section VII.F);
- 25 14. A detailed summary of nonbankruptcy legal proceedings by and against the Debtor and
26 potential claims held by the Debtor (Sections II.E.4, II.F.3);

27
28 ¹ References to “Sections” and “Exhibits” are to the various Sections and Exhibits to the Disclosure Statement.

1 15. A discussion of the Plan's tax consequences (Section III.G); and

2 16. A discussion of the relationship between the Debtor and its affiliates (Sections II.B, II.C,
3 II.D).

4 It is worthy of note that there are relatively few voting creditors in this Case and the disclosure
5 provided is appropriate for them. First, the Senior Secured Lenders have, pursuant to Bankruptcy Code
6 section 1125(g), already considered the Plan and received disclosure regarding it. Acceptances of the
7 Plan by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of voting lenders
8 have already been provided to the Debtor (the "Accepting Ballots"). No Senior Secured Lender voted
9 to reject the Plan. Specifically, as to disclosure, all of the Senior Secured Lenders were given the
10 Disclosure Statement, as well as prior drafts, giving them ample time to consider their votes.

11 Second, most unsecured creditors are unimpaired. Specifically, the class of Trade Claims will
12 be unimpaired. Third, the Debtor believes that the remaining class of general unsecured creditors
13 contains only a few parties: (i) a single unsecured lender, NML, who is a sophisticated party and has
14 had observer rights to the Debtor's board of directors and, while not informed of the specific details of
15 the current transaction, has been reasonably informed during the process as a whole and knows the
16 Debtor intimately; (ii) a putative class of plaintiffs, represented by proposed class representatives and
17 sophisticated counsel; and (iii) a small number of other disputed litigation creditors.

18 As demonstrated above, the Disclosure Statement provides creditors and interest holders with
19 adequate information to make an informed judgment regarding whether to vote to accept or reject the
20 Plan. Accordingly, the Debtor requests that the Bankruptcy Court approve the Disclosure Statement as
21 containing "adequate information," as defined in section 1125(a) of the Bankruptcy Code.

22 **B. THE PROPOSED FORM AND TABULATION OF BALLOTS SHOULD BE APPROVED**

23 The Debtor's proposed ballot, a copy of which is attached hereto as Exhibit 3, should be
24 approved. FRBP 3018(c) generally requires that a ballot for accepting or rejecting a plan conform to
25 the appropriate Official Form. In accordance with FRBP 3018(c), the proposed ballot is substantially
26 in the form of Official Form B14.

27 With respect to the tabulation of the ballots, the Debtor requests that the Bankruptcy Court
28 approve the following procedures:

1 1. The amount of a claim for voting purposes shall be the claim amount as listed in
2 the Debtor's schedules of assets and liabilities (the "Schedules"), provided such claim is not listed as
3 contingent, unliquidated, or disputed, and no proof of claim has been filed timely;

4 2. If a proof of claim in a specified liquidated amount has been filed timely, which
5 claim (a) is not subject to an objection filed before the confirmation hearing, (b) has not been
6 disallowed prior to the confirmation hearing, and (c) has not been designated as a disputed claim in the
7 Plan or the Disclosure Statement, then the amount of the claim for voting purposes shall be such
8 specified liquidated amount as stated in the proof of claim;

9 3. If a proof of claim in a specified liquidated amount has been filed timely, which
10 claim (a) is listed on the Schedules as contingent or unliquidated, (b) against which an objection has
11 been filed timely and is not resolved, or (c) that is designated in the Plan or Disclosure Statement as
12 disputed, then the amount of the claim for voting purposes shall be the estimated amount as set by the
13 Debtor, and listed on the creditor's ballot, subject to the creditor's rights under Bankruptcy Code
14 section 502(c) and Rule 3018 to file a motion to seek an estimation in a different amount.

15 4. If a creditor submits a ballot for a claim for which a proof of claim has not been
16 filed timely and the claim has not been listed on the Schedules, then the ballot should not be counted in
17 accordance with FRBP 3018, unless the Bankruptcy Court temporarily allows the claim for voting
18 purposes in accordance with Rule 3018;

19 5. The class of creditors party to the Class Action Lawsuit shall be certified as a
20 class, solely for purposes of voting on the Plan, and not for any other purposes in connection with
21 allowance of claims, settlement, or liability or damages in the action pending in the United States
22 District Court for the Southern District of New York, and shall be entitled to vote the amount and
23 number set forth in any proof of claim filed by counsel on behalf of the class;

24 6. The Debtor shall be authorized and directed to submit the Accepting Ballots to
25 the Debtor's proposed Claims and Solicitation Agent, Kurtzman, Carson Consultants LLC ("KCC")² as
26 soon as reasonably practicable after entry of an order approving these voting procedures, but in all

27 _____
28 ² An application to employ KCC as Claims and Solicitation Agent will be filed with the Court on or shortly after the Petition Date.

1 events so as to be received by KCC no later than the Voting Deadline (as specified below):

2 7. If a creditor casts more than one ballot voting the same claim, the last ballot
3 received prior to the deadline for submitting ballots shall supersede any prior ballot(s), even if the
4 dollar amount of the earlier claim was greater;

5 8. Votes cast by a creditor pursuant to a ballot that is not signed or is not received
6 timely shall not be counted; and

7 9. Signed ballots that are received timely but that do not indicate any vote on the
8 Plan shall be treated as a vote to accept the Plan.

9 The Debtor submits the voting procedures proposed with respect to the Class Action Lawsuit
10 claimants are appropriate and will help expedite its reorganization. As the United States Court of
11 Appeals for the Ninth Circuit has long recognized, class proofs of claim are appropriate in the
12 bankruptcy context. *Birting Fisheries v. Lane*, 92 F.3d 939, 939 (9th Cir. 1996) (holding that “the
13 bankruptcy code should be construed to allow class claims”). Furthermore, in following *Birting*
14 *Fisheries*, this District Court has stated that “class action devices are not disfavored, but are actually
15 particularly appropriate in bankruptcy proceedings” and held that a putative class may file a proof of
16 claim on account of its class members in bankruptcy. *In re First Alliance Mortgage Co.*, 269 B.R. 428,
17 444 (C.D. Cal. 2001).

18 **C. THE PROPOSED FORM OF CONFIRMATION HEARING NOTICE SHOULD BE**
19 **APPROVED**

20 The Debtor requests that the Bankruptcy Court approve in advance the form of notice of the
21 Confirmation Hearing (the “Confirmation Hearing Notice”). A copy of the proposed Confirmation
22 Hearing Notice is attached hereto as Exhibit 4.

23 **D. THE PROPOSED SOLICITATION, VOTING AND CONFIRMATION DATES**

24 The Debtor requests that the Bankruptcy Court approve the following procedures and fix the
25 following dates to enable the solicitation, voting and confirmation process to proceed in a timely
26 manner:

27 1. Confirmation Hearing Date. The Debtor requests that the Court set a hearing on
28 confirmation of the Plan (the “Confirmation Hearing”) for a date that is thirty (30) days after the

1 Disclosure Statement Hearing. Under the terms of the Investment Agreement, the Debtor is required to
2 request a hearing to confirm the Plan within thirty (30) days after the Disclosure Statement has been
3 approved (the “Disclosure Statement Approval Order”). The Plan Sponsor may terminate the
4 Investment Agreement if an order confirming the Plan has not been entered by the thirty-eighth (38th)
5 day after the entry of the Disclosure Statement Approval Order. In accordance with FRBP 2002(b), the
6 Debtor’s proposed Claims and Solicitation Agent, KCC, shall serve a copy of the Disclosure Statement
7 and Plan (the “Solicitation Package”) and Confirmation Hearing Notice on all necessary parties, and
8 shall provide a ballot to those entities allowed to vote on the Plan, no later than two (2) business days
9 following approval of the Disclosure Statement, which is approximately twenty-eight (28) days before
10 the Confirmation Hearing.

11 2. Last Day to Vote. Pursuant to FRBP 3017(c), the Debtor requests that the Court
12 order that all ballots must be completed and delivered to the KCC at the following address: Sexy Hair
13 Ballot Processing Center c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo,
14 CA 90245, by 5:00 p.m. Los Angeles time, seven (7) days prior to the date set for the Confirmation
15 Hearing.

16 3. Last Day to Object to Confirmation. Pursuant to Rule 3020(b)(1), the Debtor
17 requests that the Court order that all objections to confirmation of the Plan be filed with the Bankruptcy
18 Court and served on counsel to the Debtor, counsel for the Plan Sponsor, counsel for the Agent, counsel
19 for any official committee appointed by this Court and the Office of the United States Trustee not less
20 than ten (10) days prior to the date set for the Confirmation Hearing. This proposed deadline affords
21 parties in interest approximately eighteen (18) days notice with respect to the last day to object.

22 4. Last Day to Reply and File Ballot Summary. The Debtor also requests that the
23 Court order that the last day to file and serve on objecting parties a memorandum in support of
24 confirmation of the Plan and declarations in support thereof, and the last date to file and serve on all
25 parties a ballot summary shall be three (3) days prior to the Confirmation Hearing.

26 For convenience, the proposed key dates and deadlines are summarized in the following table:
27
28

PROPOSED CONFIRMATION DEADLINES

<i>Deadline for Service of Solicitation Package, Ballot and Confirmation Hearing Notice</i>	2 business days after Disclosure Statement Hearing
<i>Confirmation Hearing</i>	30 days after Disclosure Statement Hearing
<i>Deadline for Filing Any Objection to Confirmation</i>	10 days before Confirmation Hearing
<i>Voting Deadline</i>	7 days before Confirmation Hearing
<i>Deadline for Filing Reply Memorandum in Support of Plan Confirmation</i>	3 days before Confirmation Hearing
<i>Deadline for Filing Ballot Summary</i>	3 days before Confirmation Hearing

SHC has proposed to allow objections to confirmation of the Plan only ten (10) days prior to the hearing. Local Rule 3017-1(b) provides for objections fourteen (14) days prior to the hearing, but given the timeframe on which the Debtor and Plan Sponsor seek to proceed, extending the time for objections to be filed is appropriate under the circumstances.

E. THE COURT SHOULD GRANT THE PROTECTIONS OF 11 U.S.C. § 1125(e)

In accordance with section 1125(e) of the Bankruptcy Code, the Debtor is also requesting that the Bankruptcy Court order that any person who solicits acceptance of the Plan in accordance with the procedures set forth in this Motion, or that participates in the offer, issuance, sale, or purchase of any securities offered or sold under the Plan, shall not be liable on account of such solicitation or participation for violation of any applicable law, rule, or regulation governing solicitation or acceptance of a plan or the offer, issuance, sale, or purchase of securities. This limitation on liability is afforded to any person acting in good faith and in compliance with the applicable provisions of the Bankruptcy Code. Because all parties have acted, and intend to continue to act, in good faith and in compliance with the Bankruptcy Code with respect to the solicitation of the Plan, the Court should grant the protections of Bankruptcy Code section 1125(e).

V.

NOTICE

1 Notice of this Motion has been provided to the United States Trustee for the Central District of
2 California, all creditors listed on the Debtor's schedules, and all other parties in interest (the "Notice
3 Parties"). Given the circumstances of the case and the nature of the relief requested, the Debtor believes
4 that such notice is sufficient and that no further notice is necessary.

5 **CONCLUSION**

6 **WHEREFORE** the Debtor respectfully requests that the Court enter an order:

7 (a) approving the Disclosure Statement on a final basis;

8 (b) authorizing the Debtor immediately to distribute the Plan and Disclosure Statement and to
9 solicit acceptance of the Plan;

10 (c) approving the solicitation and voting procedures set forth in the Motion;

11 (d) approving the form of ballot to accompany the Solicitation Package;

12 (e) approving the form of notice of the Confirmation Hearing;

13 (f) fixing the dates in connection with the solicitation, voting and confirmation process, as
14 requested in the Motion;

15 (g) granting the protections afforded under 11 U.S.C. § 1125(e); and

16 (h) granting to the Debtor such other and further relief as is just.

17
18 Dated: December 21, 2010

PEITZMAN, WEG & KEMPINSKY LLP

19
20 By: /s/ Scott F. Gautier

21 Scott F. Gautier

22 Lorie A. Ball

23 Thor D. McLaughlin

24 Proposed Counsel for Debtor and Debtor in Possession
25
26
27
28

Exhibit 1

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7 Proposed Attorneys for Debtors and Debtors in Possession

8
9 **UNITED STATES BANKRUPTCY COURT**
CENTRAL DISTRICT OF CALIFORNIA
10 **SAN FERNANDO VALLEY DIVISION**

11 _____)
12 In re) Bk. No. –
13 SEXY HAIR CONCEPTS, LLC, a)
California Limited liability company, et al.) In Cases Under Chapter
14 Debtors and Debtors in Possession) 11 of the Bankruptcy Code
(11 U.S.C. § 101 et seq.)
15)
16) **PLAN OF REORGANIZATION**
17) **PURSUANT TO CHAPTER 11 OF THE**
BANKRUPTCY CODE FOR SEXY HAIR
CONCEPTS, LLC

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1 **INTRODUCTION**

2 Sexy Hair Concepts, LLC (“SHC” or the “Debtor”), Luxe Beauty Midco Corporation
3 (“Midco”), and Ecoly International, Inc. (“Ecoly” and together with SHC and Midco, the
4 “Debtors”) are Debtors in jointly-administered chapter 11 bankruptcy cases. On December 21,
5 2010 (the “Petition Date”) the Debtors commenced jointly-administered bankruptcy cases by
6 filing voluntary petitions under chapter 11 of title 11 of the United States Code (the “Bankruptcy
7 Code”), 11 U.S.C. § 101 et seq. This document is a Chapter 11 Plan of Reorganization (the
8 “Plan”) proposed by SHC. This is not a plan for either Ecoly or Midco. Sent to you in the same
9 envelope as this document is the Disclosure Statement which has been approved by the Court,
10 and which is provided to help you understand the Plan. This is a reorganization plan. In other
11 words, the Debtor seeks to accomplish payments under the Plan by seeking a capital infusion
12 from Sexy Hair, Inc. and by restructuring certain of its liabilities (the “Reorganization”). The
13 Effective Date of the proposed Plan is expected to be on or before March 5, 2011.

14 ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN ARE
15 ENCOURAGED TO READ THE PLAN AND THE DISCLOSURE STATEMENT IN THEIR
16 ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

17 **ARTICLE I.**

18 **DEFINED TERMS, RULES OF INTERPRETATION,**
19 **COMPUTATION OF TIME, AND GOVERNING LAW**

20 A. Defined Terms. As used in the Plan, the capitalized terms below have the
21 following meanings, except as otherwise expressly provided or unless the context otherwise
22 requires. Any term used but not defined in the Plan, but that is used in the Bankruptcy Code or
23 the Bankruptcy Rules, shall have the meaning ascribed to that term in the Bankruptcy Code or
24 the Bankruptcy Rules, as applicable.

25 1. Accrued Professional Compensation. At any given moment, all accrued
26 fees and expenses for services rendered by all Professionals through and including the Effective
27 Date, to the extent such fees and expenses have not been paid and regardless of whether a fee
28 application has been Filed for such fees and expenses. To the extent there is a Final Order

1 denying some or all of a Professional's fees or expenses, such denied amounts shall no longer be
2 considered Accrued Professional Compensation.

3 2. Administrative Claim. A Claim for costs and expenses of administration
4 pursuant to sections 503(b), 507(a)(2), 507(b), or 1114(e)(2) of the Bankruptcy Code, including:
5 (a) the actual and necessary costs and expenses incurred after the Petition Date and through the
6 Effective Date of preserving the Estate and operating the business of the Debtor (such as wages,
7 salaries, or commissions for services, and payments for goods and other services and leased
8 premises); (b) compensation for legal, financial advisory, accounting, and other services and
9 reimbursement of expenses Allowed pursuant to sections 328, 330(a), or 331 of the Bankruptcy
10 Code or otherwise for the period commencing on the Petition Date and ending on the Effective
11 Date; (c) all fees and charges assessed against the Debtor's Estate pursuant to chapter 123 of the
12 Judicial Code and 28 U.S.C. § 1930; and (d) all requests for compensation or expense
13 reimbursement for making a substantial contribution in the Debtor's chapter 11 case pursuant to
14 sections 503(b)(3), (4), and (5) of the Bankruptcy Code.

15 3. Administrative Claim Bar Date. The deadline for filing requests for
16 payment of Administrative Claims, which shall be 30 days after the Effective Date for all other
17 Administrative Claims incurred after the Petition Date through the Effective Date.

18 4. Affidavit of Publication. An affidavit or declaration of a representative or
19 agent of a publisher of a periodical certifying that notice has been served through publication in
20 the publisher's periodical.

21 5. Affiliate. (a) An Entity that directly or indirectly owns, controls, or holds
22 with power to vote, twenty percent or more of the outstanding voting securities of any of the
23 Debtors, other than an Entity that holds such securities (i) in a fiduciary or agency capacity
24 without sole discretionary power to vote such securities or (ii) solely to secure a debt, if such
25 Entity has not in fact exercised such power to vote; (b) a corporation twenty percent or more of
26 whose outstanding voting securities are directly or indirectly owned, controlled, or held with
27 power to vote, by any of the Debtors, or by an Entity that directly or indirectly owns, controls, or
28 holds with power to vote, twenty percent or more of the outstanding voting securities of any of

1 the Debtors, other than an Entity that holds such securities (i) in a fiduciary or agency capacity
2 without sole discretionary power to vote such securities or (ii) solely to secure a debt, if such
3 Entity has not in fact exercised such power to vote; (c) an Entity whose business is operated
4 under a lease or operating agreement by any of the Debtors, or an Entity substantially all of
5 whose property is operated under an operating agreement with any of the Debtors; (d) an Entity
6 that operates the business or substantially all of the property of any of the Debtors under a lease
7 or operating agreement; or (e) the Debtors' domestic, wholly-owned, direct and indirect
8 subsidiaries that have not commenced cases under chapter 11 of the Bankruptcy Code.

9 6. Allowed. With respect to Claims and Interests: (a) any Claim or Interest,
10 proof of which is timely Filed by the applicable Bar Date (or that by the Bankruptcy Code or
11 Final Order is not or shall not be required to be Filed); (b) any Claim or Interest that is listed in
12 the Schedules as of the Effective Date as not disputed, not contingent, and not unliquidated, and
13 for which no Proof of Claim or Interest has been timely Filed; or (c) any Claim Allowed
14 pursuant to the Plan; provided, however, that with respect to any Claim or Interest described in
15 clauses (a) or (b) above, such Claim or Interest shall be considered Allowed only if and to the
16 extent that (x) no objection to the allowance thereof has been interposed within the applicable
17 period of time fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy
18 Court, (y) such an objection is so interposed and the Claim or Interest shall have been Allowed
19 for distribution purposes only by a Final Order, or (z) the Debtor allows such Claim prior to the
20 Effective Date with the consent of the Plan Sponsor or the Reorganized Debtor allows such
21 Claim after the Effective Date in its sole and absolute discretion. Except as otherwise specified
22 in the Plan or a Bankruptcy Court order, the amount of an Allowed Claim shall not include
23 interest on such Claim from and after the Petition Date. For purposes of determining the amount
24 of an Allowed Claim, there shall be deducted therefrom an amount equal to the amount of any
25 Claim that the Debtor may hold against the Holder thereof, to the extent such Claim may be
26 offset, recouped, or otherwise reduced under applicable law. Any Claim or Interest that has been
27 or is hereafter listed in the Debtor's Schedules as disputed, contingent, or unliquidated, and for
28 which no Proof of Claim or Interest has been timely Filed, is not considered Allowed and shall

1 be expunged without further action by the Reorganized Debtor and without any further notice to
2 or action, order, or approval of the Bankruptcy Court.

3 7. Available Unsecured Cash. The cash held by the Estate as of the Effective
4 Date, minus all amounts used to make distributions on, or set reserves for, Accrued Professional
5 Compensation, Administrative Claims, Priority Tax Claims, DIP Financing Claims, Senior
6 Secured Lender Claims, Miscellaneous Secured Claims, Priority Non-Tax Claims and Trade
7 Claims.

8 8. Ballot or Ballots. The ballots upon which Holders of Impaired Claims
9 entitled to vote shall cast their vote to accept or reject the Plan.

10 9. Bankruptcy Code. Title 11 of the United States Code, 11 U.S.C. §§ 101-
11 1532, as applicable to the Chapter 11 Case.

12 10. Bankruptcy Court. The United States Bankruptcy Court for the Central
13 District of California, San Fernando Valley Division, or any other court having jurisdiction over
14 the Chapter 11 Case.

15 11. Bankruptcy Rules. The Federal Rules of Bankruptcy Procedure as
16 applicable to the Chapter 11 Case, promulgated pursuant to section 2075 of the Judicial Code
17 and the general, local, and chambers rules and orders of the Bankruptcy Court

18 12. Bar Date. [January 17, 2011], except as otherwise provided in the Plan or
19 by Bankruptcy Court order.

20 13. Beneficial Holder. The Entity holding the beneficial interest in a Claim or
21 Interest.

22 14. BMO. The Bank of Montreal.

23 15. Business Day. Any day, other than a Saturday, Sunday, or Legal Holiday.

24 16. Cash. Cash and cash equivalents.

25 17. Cause of Action. Any claim, cause of action, controversy, demand, right,
26 action, Lien, indemnity, guaranty, suit, obligation, liability, damage, judgment, account, defense,
27 offset, power, privilege, license, and franchise of any kind or character whatsoever, known,
28 unknown, contingent or non-contingent, matured or unmatured, suspected or unsuspected,

1 liquidated or unliquidated, disputed or undisputed, secured or unsecured, assertable directly or
2 derivatively, whether arising before, on or after the Petition Date, in contract or in tort, in law or
3 in equity, or pursuant to any other theory of law. Cause of Action also includes: (a) any right of
4 setoff, counterclaim, or recoupment and any claim on contracts or for breaches of duties imposed
5 by law or in equity; (b) the right to object to Claims or Interests; (c) any claim pursuant to
6 sections 362, 510, 542, 543, 544 through 550, or 553 of the Bankruptcy Code; (d) any claim or
7 defense including fraud, mistake, duress, and usury and any other defenses set forth in section
8 558 of the Bankruptcy Code; (e) any state law fraudulent transfer claim; (f) any claim or cause of
9 action of any kind against any Released Party based in whole or in part upon acts or omissions
10 occurring prior to or after the Petition Date; and (g) any claim listed in the Plan Supplement.

11 18. Certificate. Any instrument evidencing a Claim or an Interest.

12 19. Chapter 11 Case. The chapter 11 bankruptcy case filed by the Debtor on
13 the Petition Date in the Bankruptcy Court, with case number [●].

14 20. Claim. As defined in section 101(5) of the Bankruptcy Code.

15 21. Claims and Solicitation Agent. The Debtor, unless a separate agent is
16 otherwise appointed by the Bankruptcy Court or by the Debtor on notice to parties in interest.

17 22. Claims Register. The official register of Claims and Interests maintained
18 by the Claims and Solicitation Agent.

19 23. Class. A class of Holders of Claims or Interests as set forth in the Plan.

20 24. Class Action. The civil class action pending in the District Court for the
21 Southern District of New York under *Salon Fad v. L'Oreal USA, Inc., et al.*, Case No. 10-cv-
22 5063, insofar as it relates to the claims against the Debtor.

23 25. Class Action Claims. All claims against the Debtor by any person that is
24 allegedly within the class asserted in the Class Action.

25 26. CM/ECF. The Bankruptcy Court's Case Management and Electronic
26 Case Filing system, which can be accessed at www.cacb.uscourts.gov.

27 27. Confirmation. The entry of the Confirmation Order, subject to all
28 conditions specified in Article VIII having been satisfied or waived pursuant to Article VIII.

- 1 28. Confirmation Date. The date upon which the Confirmation Order is
2 entered by the Bankruptcy Court on its docket, within the meaning of Bankruptcy Rules 5003
3 and 9021.
- 4 29. Confirmation Hearing. The hearing at which the Confirmation Order is
5 first considered by the Bankruptcy Court.
- 6 30. Confirmation Order. The order of the Bankruptcy Court confirming the
7 Plan pursuant to section 1129 of the Bankruptcy Code.
- 8 31. Consummation. The occurrence of the Effective Date.
- 9 32. Creditor. A Holder of a Claim.
- 10 33. Creditors' Committee. The Official Committee of Unsecured Creditors
11 appointed in the Chapter 11 Case, if any.
- 12 34. Debtors in Possession. The Debtor, as debtor in possession in the Chapter
13 11 Case, pursuant to sections 1107 and 1108 of the Bankruptcy Code.
- 14 35. DIP Agent. BMO, in its capacity as administrative and collateral agent for
15 the DIP Lenders under the DIP Credit Agreement.
- 16 36. DIP Credit Agreement. That certain Debtor-In-Possession Credit
17 Agreement, dated as of December 21, 2010, among the BMO, as administrative and collateral
18 agent, SHC, as borrower, Midco and Ecoly, as guarantors, and the DIP Lenders, as lenders.
- 19 37. DIP Lenders. The lenders under the DIP Credit Agreement.
- 20 38. Disclosure Statement. The disclosure statement for the Plan describing
21 the Plan, including all exhibits and schedules thereto, that is prepared and distributed in
22 accordance with sections 1125, 1126(b), and 1145 of the Bankruptcy Code, Bankruptcy Rule
23 3018, and other applicable law.
- 24 39. Disputed. With respect to any Claim or Interest, (i) any Claim or Interest
25 on the Claims Register that is not yet Allowed, (ii) any Claim or Interest that is not yet Allowed
26 pursuant to the terms of the Plan; and (iii) any Claim that is not set forth on the Schedules.
- 27 40. Distribution Agent. The Reorganized Debtor, Plan Trustee or the Entity
28 or Entities chosen by them to make or to facilitate distributions pursuant to the Plan.

- 1 41. Distribution Date. The date occurring as soon as reasonably practicable
2 after the Effective Date when distributions under the Plan shall commence, but not later than
3 thirty days after the Effective Date, without further Bankruptcy Court order.
- 4 42. Distribution Record Date. The date for determining which Holders of
5 Allowed Claims are eligible to receive distributions pursuant to the Plan, which shall be the
6 Confirmation Date or such other date as designated in the Plan or a Bankruptcy Court order.
- 7 43. Effective Date. The date in a notice Filed by the Reorganized Debtor on
8 or after the fourteenth (14th) day following entry of an order, in form and substance acceptable to
9 the Plan Sponsor, by the Bankruptcy Court confirming the Plan and satisfaction of all conditions
10 set forth in Article VIII of the Plan having been satisfied or waived in accordance with the terms
11 of the Plan.
- 12 44. Entity. As defined in section 101(15) of the Bankruptcy Code.
- 13 45. Equity Security. Any equity security as defined in section 101(16) of the
14 Bankruptcy Code of the Debtor.
- 15 46. Equity Security Holder. A Holder of an Interest.
- 16 47. Estate. The bankruptcy estate of the Debtor created by virtue of section
17 541 of the Bankruptcy Code upon the commencement of the Chapter 11 Case.
- 18 48. Excluded Asset. Excluded Asset has the meaning set forth for that term in
19 the Investment Agreement.
- 20 49. Exit Revolver Facility. A revolving credit facility on the terms set forth in
21 the term sheet attached hereto as Exhibit A.
- 22 50. Federal Judgment Rate. The federal judgment rate of [.25]%, which was
23 in effect as of the Petition Date.
- 24 51. File. To file with the Bankruptcy Court in the Chapter 11 Case, or in the
25 case of Proofs of Claim or Interest, to file with the Claims and Solicitation Agent.
- 26 52. Final Decree. The decree contemplated under Bankruptcy Rule 3022.
- 27 53. Final Order. As applicable, an order or judgment of the Bankruptcy Court
28 or other court of competent jurisdiction with respect to the relevant subject matter, which has not

1 | been reversed, stayed, modified, or amended, and as to which the time to appeal or seek
2 | certiorari has expired and no appeal or petition for certiorari has been timely taken, or as to
3 | which any appeal that has been taken or any petition for certiorari that has been or may be Filed
4 | has been resolved by the highest court to which the order or judgment was appealed or from
5 | which certiorari was sought; provided, however, that the Plan Sponsor or Reorganized Debtor, as
6 | appropriate, reserves the right to waive any such appeal or similar conditions of a Final Order.

7 | 54. General Unsecured Claims. Any Claim against the Debtor that is not a/an
8 | (a) Administrative Claim, (b) Priority Tax Claim, (c) Priority Non-Tax Claim, (d) DIP Lender
9 | Claim, (e) Senior Secured Lender Claim, (f) Other Secured Claim, (g) Trade Claim, or (h) a
10 | Class Action Claim.

11 | 55. General Unsecured Claims Amount. Means the aggregate amount of
12 | General Unsecured Claims.

13 | 56. Government Bar Date. As set forth in the Bar Date Order entered by the
14 | Bankruptcy Court.

15 | 57. Holder. An Entity holding a Claim or Interest, as applicable.

16 | 58. Impaired. With respect to any Class of Claims or Interests, a Class of
17 | Claims or Interests that is impaired within the meaning of section 1124 of the Bankruptcy Code.

18 | 59. Indemnification Obligation. An obligation of the Debtor under an
19 | executory contract or otherwise to indemnify directors, officers, or employees of the Debtor who
20 | served in such capacity at any time, with respect to or based upon any act or omission taken or
21 | omitted in any of such capacities, or for or on behalf of the Debtor, pursuant to and to the
22 | maximum extent provided by the Debtor's certificate of formation, bylaws, similar corporate
23 | documents, and applicable law, as in effect as of the Effective Date, which shall be deemed
24 | rejected under the Plan.

25 | 60. Insider. As defined in section 101(31) of the Bankruptcy Code.

26 | 61. Insured Claim. A Claim arising from an incident or occurrence alleged to
27 | have occurred prior to the Effective Date that is covered under an insurance policy applicable to
28 | the Debtor or its business.

- 1 62. Interest. Any: (a) Equity Security, including all issued, unissued,
2 authorized, or outstanding shares of stock together with any warrants, options, or contractual
3 rights to purchase or acquire such Equity Securities at any time and all rights arising with respect
4 thereto and (b) partnership, limited liability company or similar interest.
- 5 63. Internal Revenue Code. Title 26 of the United States Code, 26 U.S.C.
6 §§ 1–9833.
- 7 64. Investment Agreement. That certain Investment Agreement, dated as of
8 December 20, 2010, by and between the Investor and the Debtor.
- 9 65. Judicial Code. Title 28 of the United States Code, 28 U.S.C. §§ 1–4001.
- 10 66. Lien. As defined in section 101(37) of the Bankruptcy Code.
- 11 67. Loan. As defined in the New Credit Agreement.
- 12 68. Master Ballots. The master ballots upon which the applicable Nominee or
13 other holder of record shall submit on behalf of the Beneficial Holders it represents the votes cast
14 by such Beneficial Holders to accept or reject the Plan.
- 15 69. New Credit Agreement. The Credit Agreement entered into by the
16 Reorganized Debtor as described in Article IV.F of this Plan.
- 17 70. New Term Facility. A term loan facility on the terms set forth in the term
18 sheet attached as Exhibit A hereto.
- 19 71. Notice of Confirmation. That certain notice pursuant to Bankruptcy Rule
20 3020(c)(2) notifying Holders of Claims and Interests and parties in interest that the Bankruptcy
21 Court has confirmed the Plan.
- 22 72. Old Equity Interests. All of the Interests in the Debtor and any rights,
23 options, warrants, calls, subscriptions or other similar rights or agreements, commitments or
24 outstanding securities obligating the Debtor to issue, transfer or sell any Interests.
- 25 73. Other Secured Claim. Any Secured Claim, other than a: (i) DIP Lender
26 Claim; or (ii) Senior Secured Lender Claim.
- 27 74. Person. As defined in section 101(41) of the Bankruptcy Code.
- 28 75. Petition Date. December 20, 2010.

1 76. Plan. This Plan of Reorganization Pursuant to Chapter 11 of the
2 Bankruptcy Code for Sexy Hair Concepts, LLC, together with the Plan Supplement, either in its
3 present form or as it may be altered, amended, modified, or supplemented from time to time in
4 accordance with the terms of the Plan, the Bankruptcy Code, and the Bankruptcy Rules.

5 77. Plan Proponent. The Debtor.

6 78. Plan Sponsor. Sexy Hair, Inc.

7 79. Plan Supplement. The compilation of documents and forms of documents,
8 schedules, and exhibits to the Plan, which shall be in form and substance acceptable to the Plan
9 Sponsor and filed no later than the Plan Supplement Filing Date.

10 80. Plan Supplement Filing Date. At least five (5) days prior to the hearing on
11 approval of the Disclosure Statement, or such later date as may be approved by the Bankruptcy
12 Court on notice to parties in interest.

13 81. Plan Trust. That certain trust established pursuant to the Plan Trust
14 Agreement.

15 82. Plan Trust Agreement. That certain trust agreement, substantially on the
16 terms set forth in the Plan Supplement and in form and substance acceptable to the Plan Sponsor,
17 that, among other things: (a) establishes and governs the Plan Trust (including any Plan Trust
18 Advisory Board or similar oversight committee); and (b) describes the powers, duties, and
19 responsibilities of the Plan Trustee, the Plan Trust Assets, and the distribution of the proceeds
20 thereof.

21 83. Plan Trust Assets. The assets set forth in Article IV.Q.2 of this Plan.

22 84. Plan Trust Beneficiaries. The Holders of Claims that are to be satisfied, in
23 whole or in part, by post-Effective Date distributions that are to be made by the Plan Trust.

24 85. Plan Trust Interests. The beneficial interests in the Plan Trust to be
25 distributed to certain Holders of Claims in accordance with the terms of the Plan.

26 86. Plan Trustee. The Person designated pursuant to the Plan Trust
27 Agreement and retained as of the Effective Date to administer the Plan Trust in accordance with
28

1 the Plan and the Plan Trust Agreement, and any successor appointed in accordance with the Plan
2 Trust Agreement. The identity of the Plan Trustee shall be set forth in the Plan Supplement.

3 87. Priority Non-Tax Claim. Any Claim accorded priority in right of payment
4 pursuant to section 507(a) of the Bankruptcy Code, other than a Priority Tax Claim or an
5 Administrative Claim.

6 88. Priority Tax Claim. Any Claim of the kind specified in section 507(a)(8)
7 of the Bankruptcy Code.

8 89. Products. Products manufactured by the Debtor since January 1, 2004.

9 90. Professional. An Entity: (a) employed pursuant to a Bankruptcy Court
10 order in accordance with sections 327 and 1103 of the Bankruptcy Code and to be compensated
11 for services rendered prior to or on the Confirmation Date, pursuant to sections 327, 328, 329,
12 330, and 331 of the Bankruptcy Code or (b) awarded compensation and reimbursement by the
13 Bankruptcy Court pursuant to section 503(b)(4) of the Bankruptcy Code.

14 91. Proof of Claim. A proof of Claim Filed against the Debtor in the Chapter
15 11 Case.

16 92. Proof of Interest. A proof of Interest Filed against the Debtor in the
17 Chapter 11 Case.

18 93. Record Date. The date of entry of an order approving the Disclosure
19 Statement.

20 94. Reinstated. (a) Leaving unaltered the legal, equitable, and contractual
21 rights to which a Claim entitles the Holder of such Claim or Interest so as to leave such Claim
22 Unimpaired or (b) notwithstanding any contractual provision or applicable law that entitles the
23 Holder of a Claim or Interest to demand or receive accelerated payment of such Claim or Interest
24 after the occurrence of a default: (i) curing any such default that occurred before or after the
25 Petition Date, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy
26 Code or of a kind that section 365(b)(2) expressly does not require to be cured; (ii) reinstating
27 the maturity (to the extent such maturity has not otherwise occurred by the passage of time) of
28 such Claim as such maturity existed before such default; (iii) compensating the Holder of such

1 Claim or Interest for any damages incurred as a result of any reasonable reliance by such Holder
2 on such contractual provision or such applicable law; (iv) if such Claim or Interest arises from a
3 failure to perform a nonmonetary obligation other than a default arising from failure to operate a
4 nonresidential real property lease subject to section 365(b)(1)(A) of the Bankruptcy Code,
5 compensating the Holder of such Claim or Interest (other than the Debtor or an insider) for any
6 actual pecuniary loss incurred by such Holder as a result of such failure; and (v) not otherwise
7 altering the legal, equitable or contractual rights to which such Claim entitles the Holder.

8 95. Rejection Damages Claim. Any Claim on account of the rejection of an
9 executory contract or unexpired lease pursuant to section 365 of the Bankruptcy Code.

10 96. Released Party. Each of: (a) the Senior Secured Lenders in their capacity
11 as such; (b) the Senior Secured Agent in its capacity as such; (c) the Plan Sponsor; (d) the DIP
12 Lenders in their capacity as such; (e) the DIP Agent in its capacity as such; (f) with respect to
13 each of the foregoing Entities in clauses (a) through (e), such Entities' predecessors, successors
14 and assigns; (g) the Creditors' Committee and the members thereof in their capacity as such; (h)
15 with respect to each of the foregoing Entities in clauses (a) through (g), such Entities'
16 subsidiaries, Affiliates, officers, members, directors, principals, employees, agents, financial
17 advisors, attorneys, accountants, investment bankers, consultants, representatives, and other
18 Professionals; and (i) the Debtor's officers, members, directors, employees, agents, financial
19 advisors, attorneys, accountants, investment bankers, consultants, representatives, and other
20 Professionals; but only to the extent the releases contained in Section IX.G herein are approved
21 by the Bankruptcy Court with respect to each of the foregoing parties.

22 97. Reorganized Debtor. The Debtor, as reorganized pursuant to and under
23 the Plan, or any successor thereto, by merger, consolidation, or otherwise, on or after the
24 Effective Date.

25 98. Schedules. The schedules of assets and liabilities, schedules of executory
26 contracts, and statement of financial affairs, as amended from time to time, Filed by the Debtor
27 pursuant to section 521 of the Bankruptcy Code, the official bankruptcy forms, and the
28 Bankruptcy Rules.

1 99. Secured. When referring to a Claim: secured by a Lien on property in
2 which an Estate has an interest, which Lien is valid, perfected, and enforceable pursuant to
3 applicable law or by reason of a Bankruptcy Court order, or that is subject to setoff pursuant to
4 section 553 of the Bankruptcy Code, to the extent of the value of the Creditor's interest in the
5 Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as
6 determined pursuant to section 506(a) of the Bankruptcy Code.

7 100. Senior Secured Agent. The current and former agents, arranger, and
8 bookrunner with respect to, or under, the Senior Secured Credit Agreement.

9 101. Senior Secured Credit Agreement. The Credit Agreement (as may have
10 been amended from time to time) dated as of April 9, 2008, by and among BMO, as
11 administrative and collateral agent, the Senior Secured Lenders, as lenders, and SHC and certain
12 of its affiliates as borrowers and guarantors.

13 102. Senior Secured Lender Claim. Any Claim on account of the Senior
14 Secured Credit Agreement.

15 103. Senior Secured Lenders. The Senior Secured Agent and the entities that
16 hold debt under the Senior Secured Credit Agreement.

17 104. Securities Act. The Securities Act of 1933, 15 U.S.C. §§ 77a-77aa, or any
18 similar federal, state, or local law.

19 105. Security. As defined in section 2(a)(1) of the Securities Act.

20 106. Servicer. An agent, servicer, or other authorized representative of Holders
21 of Claims or Interests recognized by the Plan Proponent.

22 107. SPGA. That certain Securities Purchase and Guaranty Agreement, dated
23 as of April 9, 2008.

24 108. Solicitation Procedures Order. That certain order entered by the
25 Bankruptcy Court, approving certain solicitation procedures for solicitation of votes on the Plan.

26 109. Subordinated Claim. Any Claim that is subordinated pursuant to section
27 510 of the Bankruptcy Code, including all Claims under the SPGA.

28 110. Supremacy Clause. Paragraph 2 of Article VI of the U.S. Constitution.

1 111. The Escrow Agreement. That certain Escrow Agreement, dated as of
2 December 20, 2010, entered by and among the Investor, the Debtor, and the Escrow Holder.

3 112. The Escrow Fund. As defined in Section 3.03 of the Investor Agreement.

4 113. The Reorganized Debtor Bylaws. The bylaws of the Reorganized Debtor,
5 which shall be in form and substance acceptable to the Plan Sponsor, substantially in the form
6 contained in the Plan Supplement to be in effect upon the Effective Date.

7 114. The Reorganized Debtor Charter. The certificate of incorporation of the
8 Reorganized Debtor or other governing documents, which shall be in form and substance
9 acceptable to the Plan Sponsor, substantially in the form contained in the Plan Supplement to be
10 in effect upon the Effective Date.

11 115. The Reorganized Debtor Equity Interests. The shares of common stock in
12 the Reorganized Debtor or limited liability company interests in the Reorganized Debtor initially
13 issued and outstanding pursuant to the Plan as of the Effective Date.

14 116. Trade Claim. Any Allowed Unsecured Claim for goods or services
15 provided to the Debtor prepetition in the ordinary course of business.

16 117. Unclaimed Distribution. Any distribution under the Plan on account of an
17 Allowed Claim or Interest to a Holder that has not: (a) accepted a particular distribution or, in the
18 case of distributions made by check, presented such check for payment within 120 days of the
19 date of the check; (b) given notice to the Reorganized Debtor, the Plan Trustee or the
20 Distribution Agent, as applicable, of an intent to accept a particular distribution; (c) responded to
21 the Debtor's, Reorganized Debtor's, Plan Trustee's or Distribution Agent's requests, as
22 applicable, for information necessary to facilitate a particular distribution; or (d) taken any other
23 action necessary to facilitate such distribution.

24 118. Uniform Commercial Code. The Uniform Commercial Code as in effect
25 on the Effective Date, as enacted in the applicable state.

26 119. Unimpaired. With respect to a Class of Claims or Interests, a Class of
27 Claims or Interests that is unimpaired within the meaning of section 1124 of the Bankruptcy
28 Code.

1 120. Unsecured Claim. Any Claim that is not secured by a Lien on property in
2 which the Debtor's Estate has an interest.

3 121. U.S. Constitution. The Constitution of the United States of America.

4 122. Voting Deadline. February 11, 2011 or such other date set by the
5 Bankruptcy Court in any Order.

6 B. Rules of Interpretation.

7 1. For purposes of the Plan. (a) whenever from the context it is appropriate,
8 each term, whether stated in the singular or the plural, shall include both the singular and the
9 plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the
10 masculine, feminine, and the neuter gender; (b) unless otherwise specified, any reference in the
11 Plan to a contract, instrument, release, indenture, or other agreement or document being in a
12 particular form or on particular terms and conditions means that such document shall be
13 substantially in such form or substantially on such terms and conditions; (c) unless otherwise
14 specified, any reference in the Plan to an existing document, schedule, or exhibit, whether or not
15 Filed, shall mean such document, schedule, or exhibit, as it may have been or may be amended,
16 modified, or supplemented; (d) any reference to an Entity as a Holder of a Claim or Interest
17 includes that Entity's successors and assigns; (e) unless otherwise specified, all references in the
18 Plan to Articles are references to Articles of the Plan or to the Plan; (f) unless otherwise
19 specified, all references in the Plan to exhibits are references to exhibits in the Plan Supplement;
20 (g) the words "herein," "hereof," and "hereto" refer to the Plan in its entirety rather than to a
21 particular portion of the Plan; (h) subject to the provisions of any contract, certificate of
22 incorporation, bylaw, instrument, release, or other agreement or document entered into in
23 connection with the Plan, the rights and obligations arising pursuant to the Plan shall be
24 governed by, and construed and enforced in accordance with applicable federal law, including
25 the Bankruptcy Code and Bankruptcy Rules; (i) captions and headings to Articles are inserted for
26 convenience of reference only and are not intended to be a part of or to affect the interpretation
27 of the Plan; (j) unless otherwise set forth in the Plan, the rules of construction set forth in section
28 102 of the Bankruptcy Code shall apply; (k) any term used in capitalized form in the Plan that is

1 not otherwise defined but that is used in the Bankruptcy Code or the Bankruptcy Rules shall have
2 the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as
3 applicable; (l) all references to docket numbers of documents Filed are references to the docket
4 numbers under the Bankruptcy Court's CM/ECF system; (m) all references to statutes,
5 regulations, orders, rules of courts, and the like shall mean as amended from time to time, as
6 applicable to the Chapter 11 Case, unless otherwise stated; and (n) any immaterial effectuating
7 provisions may be interpreted by the Reorganized Debtor in such a manner that is consistent with
8 the overall purpose and intent of the Plan all without further Bankruptcy Court order.

9 2. Computation of Time. In computing any period of time prescribed or
10 allowed, the provisions of Bankruptcy Rule 9006(a) shall apply. If the date on which a
11 transaction may occur pursuant to the Plan shall occur on a day that is not a Business Day, then
12 such transaction shall instead occur on the next succeeding Business Day.

13 C. Reference to Monetary Figures. All references in the Plan to monetary figures
14 shall refer to currency of the United States of America.

15 **ARTICLE II.**

16 **ADMINISTRATIVE PRIORITY CLAIMS**

17
18 In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims
19 and Priority Tax Claims have not been classified and thus are excluded from the Classes of
20 Claims set forth in Article III.

21 A. Administrative Claims. Each Allowed Administrative Claim shall be paid in full,
22 in Cash, (i) on the later of (a) the Effective Date, (b) the date on which the Bankruptcy Court
23 enters an order allowing such Allowed Administrative Claim or (c) the date on which the
24 Reorganized Debtor or the Debtor, as applicable, with the consent of the Plan Sponsor and the
25 Holder of such Allowed Administrative Claim otherwise agree, and (ii) in such amounts as (a)
26 are incurred in the ordinary course of business by the Debtor, (b) are Allowed by the Bankruptcy
27 Court, (c) may be agreed upon between the Holder of such Allowed Administrative Claim and
28 the Reorganized Debtor or the Debtor, as applicable, with the consent of the Plan Sponsor, or (d)

1 may otherwise be required under applicable law. Such Allowed Administrative Claims shall
2 include costs incurred in the operation of the Debtor's businesses after the Petition Date, the
3 Allowed Professional fees and expenses retained by the Debtor and the Creditors' Committee
4 and the fees due to the United States Trustee pursuant to 28 U.S.C. § 1930.

5 B. Priority Tax Claims. Allowed Priority Tax Claims shall be paid in full, in Cash,
6 upon the later of (a) the Effective Date, (b) the date upon which there is a Final Order allowing
7 such Claim as an Allowed Priority Tax Claim, (c) the date that such Allowed Priority Tax Claim
8 would have been due if the Chapter 11 Case had not been commenced, or (d) upon such other
9 terms as may be agreed to between the Reorganized Debtor or the Debtor, as applicable, with the
10 consent of the Plan Sponsor, and any Holder of an Allowed Priority Tax Claim; provided,
11 however, that the Reorganized Debtor or Debtor, as applicable, with the consent of the Plan
12 Sponsor, in lieu of payment in full of Allowed Priority Tax Claims on the Effective Date, may
13 make Cash payments respecting Allowed Priority Tax Claims deferred to the extent permitted by
14 Section 1129(a)(9) of the Bankruptcy Code and, in such event, unless otherwise provided herein,
15 interest shall be paid on the unpaid portion of such Allowed Priority Tax Claim at the Federal
16 Judgment Rate; provided, further, that deferred Cash payments on account of an Allowed
17 Priority Tax Claim shall be paid quarterly over a period of six years commencing with the
18 quarter after which such Priority Tax Claim has been Allowed.

19 C. DIP Financing Claims. On the Effective Date, each Holder of a DIP Financing
20 Claim shall receive Cash in an amount equal to such Claim in full and complete satisfaction of
21 such Claim.

22 **ARTICLE III.**

23 **CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**

24
25 A. Classification of Claims and Interests. All Claims and Interests, except
26 Administrative Claims, Priority Tax Claims, and DIP Financing Claims are classified in the
27 Classes set forth in Article III. A Claim or Interest is classified in a particular Class only to the
28 extent that the Claim or Interest qualifies within the description of that Class and is classified in

1 other Classes to the extent that any portion of the Claim or Interest qualifies within the
2 description of such other Classes. A Claim is also classified in a particular Class for the purpose
3 of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed
4 Claim in that Class and has not been paid, released, or otherwise satisfied prior to the Effective
5 Date.

6 B. Class Identification. Below is a chart assigning each Class a letter and, in some
7 cases, a number for purposes of identifying each separate Class.

<u>Class</u>	<u>Claim or Interest Type</u>
A-1	Senior Secured Lender Claims
A-2	Other Secured Claims
B	Priority Non-Tax Claim
C	Trade Claims
D	General Unsecured Claims
E	Old Equity Interests

8
9
10
11
12
13
14 C. Treatment of Classes of Claims and Interests. To the extent a Class contains
15 Allowed Claims or Interests with respect to the Debtor, the treatment provided to each Class for
16 distribution purposes is specified below.

17 1. Class A-1—Senior Secured Lender Claims

18 a. Classification. Class A-1 consists of all Senior Secured Lender
19 Claims.

20 b. Impairment and Voting. Class A-1 is Impaired by the Plan. Each
21 Holder of a Claim in Class A-1 is entitled to vote to accept or reject the Plan.

22 c. Treatment. On the Effective Date, each of the Senior Secured
23 Lenders shall receive on account of its Claims, (x) its pro rata share of Cash in an
24 amount sufficient to reduce the aggregate principal amount of all Senior Secured
25 Lender Claims, plus all accrued and unpaid interest through the Effective Date, to
26 \$35 million and (y) its pro rata share of 100% of the Loans under the New Term
27 Facility.

28 2. Class A-2—Other Secured Claims

1 a. Classification. Class A-2 consists of all Other Secured Claims.

2 b. Impairment and Voting. Class A-2 is Unimpaired by the Plan.

3 Each Holder of an Allowed Claim in Class A-2 is conclusively presumed to have
4 accepted the Plan and is not entitled to vote to accept or reject the Plan.

5 c. Treatment. To the extent not satisfied by the Debtor, pursuant to
6 Bankruptcy Court order, in the ordinary course of business prior to the Effective
7 Date, at the option of the Reorganized Debtor on or after the Effective Date, (i) an
8 Allowed Other Secured Claim shall be Reinstated and rendered Unimpaired in
9 accordance with section 1124(2) of the Bankruptcy Code, (ii) a Holder of an
10 Allowed Other Secured Claim shall receive the Collateral securing both its
11 Allowed Other Secured Claim and any interest on such Allowed Other Secured
12 Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, or
13 (iii) a Holder of an Allowed Other Secured Claim shall receive such treatment as
14 to which such holder and the Reorganized Debtor or the Debtor otherwise agree.

15 3. Class B—Priority Non-Tax Claims

16 a. Classification. Class B consists of all Priority Non-Tax Claims.

17 b. Impairment and Voting. Class B is Unimpaired by the Plan. Each
18 Holder of an Allowed Claim in Class B is conclusively presumed to have
19 accepted the Plan and is not entitled to vote to accept or reject the Plan.

20 c. Treatment. Each Holder of an Allowed Priority Non-Tax Claim
21 shall receive Cash in an amount equal to such Allowed Priority Non-Tax Claim
22 on the later of the Effective Date and the date such Priority Non-Tax Claim
23 becomes an Allowed Priority Non-Tax Claim, or as soon thereafter as is
24 practicable, unless the Holder of an Allowed Priority Non-Tax Claim and the
25 Reorganized Debtor or the Debtor, with the consent of the Plan Sponsor,
26 otherwise agree.

27 4. Class C—Trade Claims

28 a. Classification. Class C consists of all Trade Claims.

1 b. Impairment and Voting. Class C is Unimpaired by the Plan. Each
2 Holder of an Allowed Claim in Class C is not entitled to vote to accept or reject
3 the Plan, and is deemed to have accepted the Plan.

4 c. Treatment. On the Effective Date, all Allowed Trade Claims shall
5 be assumed by the Reorganized Debtor and each Holder of an Allowed Trade
6 Claim shall be paid Cash in the amount of 100% of its Allowed Claim from the
7 Reorganized Debtor on customary payment terms consistent with past practice,
8 plus, if such payment is made after the date on which such payment would have
9 been due by its terms, at the discretion of the Reorganized Debtor, interest at the
10 Federal Judgment Rate, except as any such Holder and the Reorganized Debtor
11 shall otherwise agree.

12 5. Class D—General Unsecured Claims

13 a. Classification. Class D consists of all General Unsecured Claims.

14 b. Impairment and Voting. Class D is Impaired by the Plan. Each
15 Holder of an Allowed Claim in Class D is entitled to vote to accept or reject the
16 Plan.

17 c. Treatment. On the Effective Date, each Holder of an Allowed
18 General Unsecured Claim shall receive its pro rata share of the Plan Trust
19 Interests allocable to the Holders of General Unsecured Claims on account of its
20 Allowed Claim.

21 6. Class E—Old Equity Interests

22 a. Classification. Class E consists of all Old Equity Interests.

23 b. Impairment and Voting. Class E is Impaired by the Plan. Each
24 Holder of an Interest in Class E is conclusively presumed to have rejected the
25 Plan and is not entitled to vote to accept or reject the Plan.

26 c. Treatment. Each holder of an Old Equity Interest shall not be
27 entitled to, and shall not receive or retain any property or interest in property on
28 account of such Old Equity Interest.

1 D. Class Voting Rights. The voting rights of each Class are as follows.

2 1. Classes Entitled to Vote. The following Classes are Impaired and thus
3 entitled to vote to accept or reject the Plan:

4 Classes

5
6 A-1

7
8 D

9 2. Presumed Acceptance of Plan. The following Classes are Unimpaired and
10 deemed to accept the Plan. Therefore, such Classes are not entitled to vote to accept or reject the
11 Plan and the vote of such Holders of Claims and Interests shall not be solicited.

12 Classes

13
14 A-2

15
16 B

17
18 C

19 3. Presumed Rejection of Plan. The following Classes are Impaired and
20 conclusively presumed to reject the Plan. Therefore, such Classes are not entitled to vote to
21 accept or reject the Plan and the vote of such Holders of Claims or Interests shall not be solicited.

22 Classes

23
24 E

25 E. Acceptance or Rejection of the Plan

26 1. Acceptance by Impaired Classes of Claims. Pursuant to Bankruptcy Code
27 section 1126(c) and except as otherwise provided in Bankruptcy Code section 1126(e), an
28 Impaired Class of Claims has accepted the Plan if the Holders of at least two-thirds in dollar

1 amount and more than one-half in number of the Allowed Claims in such Class actually voting
2 have voted to accept the Plan.

3 2. Tabulation of Votes on a Consolidated Basis. The Claims and Solicitation
4 Agent will tabulate all votes on the Plan on a consolidated basis for the purpose of determining
5 whether the Plan satisfies Bankruptcy Code section 1129(a)(8) and (10).

6 3. Cramdown. The Plan Proponent requests Confirmation of the Plan under
7 section 1129(b) of the Bankruptcy Code with respect to any Impaired Class that does not accept,
8 or is deemed to reject, the Plan pursuant to section 1126 of the Bankruptcy Code. The Debtor
9 reserves the right to modify the Plan to the extent, if any, that Confirmation pursuant to section
10 1129(b) of the Bankruptcy Code requires modification.

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

14 **ARTICLE IV.**

15 **PROVISIONS FOR IMPLEMENTATION OF THE PLAN**

16
17 A. Effect of Distribution to Creditors. Except as specifically provided herein, all
18 Plan distributions made to Creditors holding Allowed Claims in any Class are intended to be and
19 shall be final, and no Plan distribution to the holder of a Claim in one Class shall be subject to
20 being shared with or reallocated to the holders of any Claim in any other Class by virtue of any
21 prepetition collateral trust agreement, shared collateral agreement, subordination agreement, or
22 other similar inter-creditor arrangement.

23 B. Sources of Consideration for Plan Distributions. Except as otherwise provided in
24 the Plan or the Confirmation Order, all consideration necessary for the Reorganized Debtor to
25 make payments pursuant to the Plan shall be obtained from the existing Cash balances of the
26 Debtor, the purchase price specified in the Investment Agreement, the New Term Facility, the
27 issuance of the Reorganized Debtor Equity Interests, and the operations of the Debtor or the
28 Reorganized Debtor.

1 C. Changes of Name; Redomestication and Conversion to Corporation; Reorganized
2 Debtor Equity Interests. Immediately prior to the occurrence of the Effective Date, the Debtor
3 shall change its name to any name that does not include the term “Sexy Hair,” and the caption of
4 this Bankruptcy Case shall be changed accordingly. Immediately thereafter, on the Effective
5 Date, Sexy Hair LLC shall (i) be redomesticated as an LLC organized under the laws of the State
6 of Delaware, (ii) convert to existence as a corporation organized under the laws of the State of
7 Delaware and (iii) change its name to a name that does include the term “Sexy” or “Hair”. The
8 Reorganized Debtor shall then issue the Reorganized Debtor Equity Interests to Sexy Hair, Inc.

9 D. Section 1145 Exemption. Pursuant to section 1145 of the Bankruptcy Code, the
10 offering, issuance, and distribution of any Securities contemplated by the Plan and any and all
11 settlement agreements incorporated therein, including the Reorganized Debtor Equity Interests,
12 shall, to the fullest extent permitted by applicable law, be exempt from, among other things, the
13 registration requirements of section 5 of the Securities Act and any other applicable law
14 requiring registration prior to the offering, issuance, distribution, or sale of Securities. In
15 addition, under section 1145 of the Bankruptcy Code any Securities contemplated by the Plan,
16 including the Reorganized Debtor Equity Interests will be freely tradable and transferable by the
17 recipients thereof, subject to (i) the provisions of section 1145(b)(1) of the Bankruptcy Code
18 relating to the definition of an underwriter in section 2(a)(11) of the Securities Act, and
19 compliance with any rules and regulations of the Securities and Exchange Commission, if any,
20 applicable at the time of any future transfer of such Securities or instruments; (ii) the restrictions,
21 if any, on the transferability of such Securities and instruments set forth in the Stockholders
22 Agreement; and (iii) applicable regulatory approval.

23 E. Issuance and Distribution of the Reorganized Debtor Equity Interests. The
24 Reorganized Debtor Equity Interests, when issued or distributed as provided in the Plan, will be
25 duly authorized, validly issued, and, if applicable, fully paid and nonassessable. Each
26 distribution and issuance shall be governed by the terms and conditions set forth in the Plan
27 applicable to such distribution or issuance and by the terms and conditions of the instruments
28

1 evidencing or relating to such distribution or issuance, which terms and conditions shall bind
2 each Entity receiving such distribution or issuance.

3 F. New Term Facility and Exit Revolver Facility. On the Effective Date or as soon
4 as reasonably practicable thereafter, the Reorganized Debtor shall enter into a credit agreement
5 with respect to the New Term Facility and the Exit Revolver Facility, which shall have the terms
6 set forth [in the Plan Supplement], and the Reorganized Debtor and Debtor are further authorized
7 to execute, deliver, file, record and issue any other agreements, instruments or documents
8 reasonably requested by the agent under the New Credit Agreement, in each case without further
9 notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order
10 or rule or the vote, consent, authorization or approval of any Person (other than as expressly
11 required under or by the New Credit Agreement). Upon the effectiveness of and in accordance
12 with the terms of the New Credit Agreement, (i) the Reorganized Debtor is authorized to perform
13 its obligations thereunder including, without limitation, the payment or reimbursement of any
14 fees, expenses, losses, damages or indemnities, (ii) the New Credit Agreement shall constitute
15 the legal, valid and binding obligation of the Reorganized Debtor, and (ii) no obligation,
16 payment, transfer or grant of security under the New Credit Agreement shall be stayed,
17 restrained, voidable, or recoverable under the Bankruptcy Code or under any applicable law or
18 subject to any defense, reduction, recoupment, setoff or counterclaim. Confirmation of the Plan
19 shall be deemed approval of the New Credit Agreement (including the transactions contemplated
20 thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred by
21 the Reorganized Debtor and the Debtor in connection therewith, including the payment of all
22 fees, indemnities, and expenses provided for therein) and authorization for the Reorganized
23 Debtor to enter into and execute the New Credit Agreement.

24 G. Waiver of Subordination. As of the Effective Date, in consideration of the
25 distributions made to Class A, the Senior Secured Agent and all Senior Secured Lenders shall be
26 deemed to have waived and released all of their rights to assert subordination of any General
27 Unsecured Claim, including rights under intercreditor agreement or similar rights in NML
28 documents.

1 H. Corporate Existence. Except as otherwise provided in the Plan, the Debtor shall
2 continue to exist after the Effective Date as a separate corporate entity, limited liability company,
3 partnership, or other form, as the case may be, with all the powers of a corporation, limited
4 liability company, partnership, or other form, as the case may be, pursuant to the applicable law
5 in the jurisdiction in which the Debtor is incorporated or formed and pursuant to the respective
6 certificate of formation and bylaws (or other formation documents) in effect prior to the
7 Effective Date, except to the extent such certificate of incorporation and bylaws (or other
8 formation documents) are amended by the Plan or otherwise, and to the extent such documents
9 are amended, such documents are deemed to be pursuant to the Plan and require no further action
10 or approval.

11 I. Vesting of Assets in the Reorganized Debtor. Except for the Plan Trust Assets
12 and unless otherwise provided in the Plan or any agreement, instrument, or other document
13 incorporated herein, on the Effective Date, all property in each Estate, all Causes of Action, and
14 any property acquired by the Debtor pursuant to the Plan shall vest in the Reorganized Debtor,
15 free and clear of all Liens, Claims, charges, or other encumbrances, other than those created (or
16 permitted) under the New Credit Facility. On and after the Effective Date, except as otherwise
17 provided in the Plan, the Reorganized Debtor may operate its business and may use, acquire, or
18 dispose of property and compromise or settle any Claims, Interests, or Causes of Action without
19 supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy
20 Code or Bankruptcy Rules.

21 J. Cancellation of Equity Securities and Related Obligations. On the Effective Date,
22 except as otherwise specifically provided for in the Plan: (1) the Old Equity Interests and any
23 other Certificate, note, bond, indenture, purchase right, option, warrant, or other instrument or
24 document directly or indirectly evidencing or creating any indebtedness or obligation of or
25 ownership interest in the Debtor giving rise to any Claim or Interest (except such Certificates,
26 notes, other instruments or documents evidencing indebtedness or obligations of the Debtor that
27 are Reinstated pursuant to the Plan), shall be cancelled solely as to the Debtor, and the
28 Reorganized Debtor shall not have any continuing obligations thereunder and (2) the obligations

1 of the Debtor pursuant, relating, or pertaining to any agreements, indentures, certificates of
2 designation, bylaws, or certificate or articles of incorporation or similar documents governing the
3 Old Equity Interests and any other Certificates, notes, bonds, indentures, purchase rights,
4 options, warrants, or other instruments or documents evidencing or creating any indebtedness or
5 obligation of the Debtor (except such agreements or Certificates, notes or other instruments
6 evidencing indebtedness or obligations of the Debtor that are specifically Reinstated pursuant to
7 the Plan) shall be released and discharged; provided, however, that notwithstanding
8 Confirmation, any such indenture or agreement that governs the rights of the Holder of a Claim
9 shall continue in effect solely for purposes of: (w) allowing Holders to receive distributions
10 under the Plan; (x) allowing a Servicer to make distributions on account of such Claims as
11 provided in the applicable governing agreement; (y) permitting such Servicer to maintain any
12 rights and Liens it may have against property other than the Reorganized Debtor's property for
13 fees, costs, and expenses pursuant to such indenture or other agreement; and (z) governing the
14 rights and obligations of non-Debtor parties to such agreements vis-à-vis each other; provided,
15 further, however, that the preceding proviso shall not affect the discharge of Claims or Interests
16 pursuant to the Bankruptcy Code, the Confirmation Order, or the Plan, or result in any expense
17 or liability to the Reorganized Debtor. The Reorganized Debtor shall not have any obligations to
18 any Servicer for any fees, costs, or expenses, except as expressly otherwise provided in the Plan.

19 K. Corporate Action. Each of the matters provided for by the Plan involving the
20 corporate structure of the Debtor or corporate or related actions to be taken by or required of the
21 Reorganized Debtor shall, as of the Effective Date, be deemed to have occurred and be effective
22 as provided in the Plan (except to the extent otherwise indicated), and shall be authorized,
23 approved, and, to the extent taken prior to the Effective Date, ratified in all respects without any
24 requirement of further action by Holders of Claims or Interests, directors of the Debtor, or any
25 other Entity. Without limiting the foregoing, such actions may include: the adoption and filing
26 of the Reorganized Debtor Charter and the Reorganized Debtor Bylaws; the appointment of
27 directors and officers for the Reorganized Debtor; the execution of the Stockholders Agreement;

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1 and the adoption, implementation, and amendment of the Management and Director Equity
2 Incentive Plan.

3 L. Certificate of Incorporation and Bylaws. The certificates of incorporation and
4 bylaws (or other formation documents relating to limited liability companies, limited
5 partnerships or other forms of Entity) of the Debtor shall be amended, in form and substance
6 acceptable to the Plan Sponsor, as may be required to be consistent with the provisions of the
7 Plan and the Bankruptcy Code. The Reorganized Debtor Charter and the Reorganized Debtor
8 Bylaws shall be in form and substance acceptable to the Plan Sponsor and shall be included in
9 the Plan Supplement, which will be Filed on the Plan Supplement Filing Date. The certificate of
10 incorporation of the Reorganized Debtor shall, among other things: (1) authorize issuance of the
11 Reorganized Debtor Equity Interests; and (2) pursuant to and only to the extent required by
12 section 1123(a)(6) of the Bankruptcy Code, include a provision prohibiting the issuance of non-
13 voting Equity Securities. On or as soon as reasonably practicable after the Effective Date, to the
14 extent required, each of the Reorganized Debtor shall file a new certificate of incorporation (or
15 other formation documents relating to limited liability companies limited partnerships, or other
16 forms of Entity) in form and substance acceptable to Plan Sponsor, with the secretary (or
17 equivalent state officer or Entity) of the state under which the Reorganized Debtor is or is to be
18 incorporated or organized. On or as soon as reasonably practicable after the Effective Date, to
19 the extent required, the Reorganized Debtor shall file the Reorganized Debtor Charter with the
20 secretary (or equivalent state officer or Entity) of the state under which the Reorganized Debtor
21 is to be incorporated or organized. After the Effective Date, the Reorganized Debtor may amend
22 and restate its new certificate of incorporation and other constituent documents as permitted by
23 the relevant state corporate law.

24 M. Effectuating Documents, Further Transactions. On and after the Effective Date,
25 the Reorganized Debtor, and the officers and members of the boards of directors (or other
26 governing bodies) thereof, are authorized to and may issue, execute, deliver, file, or record such
27 contracts, Securities, instruments, releases, and other agreements or documents and take such
28 actions as may be necessary or appropriate to effectuate, implement, and further evidence the

1 terms and conditions of the Plan and the Securities issued pursuant to the Plan in the name of and
2 on behalf of the Reorganized Debtor, without the need for any approvals, authorizations, or
3 consents except for those expressly required pursuant to the Plan.

4 N. Exemption from Certain Transfer Taxes and Recording Fees. Pursuant to section
5 1146(a) of the Bankruptcy Code, the transfer from the Debtor to the Reorganized Debtor or to
6 any Entity pursuant to, in contemplation of, or in connection with the Plan or pursuant to: (1) the
7 issuance, distribution, transfer, or exchange of any debt, equity security, or other interest in the
8 Debtor or the Reorganized Debtor; (2) the creation, modification, consolidation, or recording of
9 any mortgage, deed of trust, or other security interest, or the securing of additional indebtedness
10 by such or other means; (3) the making, assignment, or recording of any lease or sublease; or (4)
11 the making, delivery, or recording of any deed or other instrument of transfer under, in
12 furtherance of, or in connection with, the Plan, including any deeds, bills of sale, assignments, or
13 other instrument of transfer executed in connection with any transaction arising out of,
14 contemplated by, or in any way related to the Plan, shall not be subject to any document
15 recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, real estate
16 transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording fee, or
17 recording fee, or other similar tax or governmental assessment, and the appropriate state or local
18 governmental officials or agents shall forego the collection of any such tax or governmental
19 assessment and to accept for filing and recordation any of the foregoing instruments or other
20 documents without the payment of any such tax or governmental assessment.

21 O. Directors and Officers of the Reorganized Debtor. On the Effective Date, the
22 board of directors of the Reorganized Debtor or similar governing entities shall be composed of
23 one or more members appointed by the Plan Sponsor. On the Effective Date, a chief executive
24 officer or similar officer selected by the board of directors of the Reorganized Debtor shall be
25 appointed. The identity of such officers and directors shall be disclosed prior to the
26 Confirmation Hearing.

27 P. The Plan Trust.
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1 1. On the Effective Date, the Plan Trust will be implemented pursuant to the
2 terms of the Plan Trust Agreement. On the Effective Date, pursuant to the terms of the Plan
3 Trust Agreement, the Debtor will transfer the Plan Trust Assets for and on behalf of the Plan
4 Trust Beneficiaries, which will be the Holders of Allowed Claims in Class D. For all federal
5 income tax purposes, the beneficiaries of the Plan Trust shall be treated as grantors and owners
6 thereof and it is intended that the Plan Trust be classified as a liquidating trust under Section
7 301.7701-4 of the Treasury Regulations and that such trust is owned by its beneficiaries.
8 Accordingly, for federal income tax purposes, it is intended that the Plan Trust Beneficiaries be
9 treated as if they had received a distribution of an undivided interest in the Plan Trust Assets and
10 then contributed such interests to the Plan Trust.

11 2. The Plan Trust will be funded by (a) all Excluded Assets (as defined in the
12 Investment Agreement) except Cash, (b) all Available Unsecured Cash, and (c) the right to
13 receive future distributions from the Escrow Fund per the terms of the Escrow Agreement and
14 Investment Agreement (collectively, the "Plan Trust Assets").

15 3. Each beneficiary of the Plan Trust shall have the right to object to the
16 Claims of other beneficiaries of the Plan Trust. The Plan Trustee shall not have any standing to
17 object to such Claims. All objections shall be prosecuted at the expense of each party thereto,
18 and the Plan Trust shall not pay the costs or expenses of any such objections. Any objections to
19 the Claims of other beneficiaries of the Plan Trust shall be served and filed on or before the later
20 of (i) sixty (60) days after the Effective Date, and (ii) such date as may be fixed by the
21 Bankruptcy Court, whether fixed before or after the date specified in clause (i) above.

22 Q. The Escrow Fund. On the Effective Date, pursuant to the Confirmation Order, the
23 Debtor shall assign any and all of its rights to, or interests in, the Escrow Agreement or the
24 Escrow Fund to the Plan Trustee.

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ARTICLE V.

DISTRIBUTIONS

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3 A. Distributions. As of the close of business on the Distribution Record Date, the
4 various transfer registers for each of the Classes of Claims or Equity Interests as maintained by
5 the Debtor, or its respective agents, shall be deemed closed, and there shall be no further changes
6 in the record holders of any of the Claims or Equity Interests. The Debtor or the Reorganized
7 Debtor shall have no obligation to recognize any transfer of the Claims or Equity Interests
8 occurring on or after the Distribution Record Date. The Debtor, the Reorganized Debtor, or any
9 party responsible for making distributions pursuant to Article V hereof, shall be entitled to
10 recognize and deal for all purposes hereunder only with those record holders stated on the
11 transfer ledgers as of the close of business on the Distribution Record Date, to the extent
12 applicable.

13 B. Date of Distributions. Except as otherwise provided herein or in the Plan Trust
14 Agreement, any distributions and deliveries to be made hereunder shall be made on the Effective
15 Date or as soon thereafter as is practicable. In the event that any payment or act under the Plan is
16 required to be made or performed on a date that is not a Business Day, then the making of such
17 payment or the performance of such act may be completed on or as soon as reasonably
18 practicable after the next succeeding Business Day, but shall be deemed to have been completed
19 as of the required date.

20 C. Postpetition Interest on Claims. Except as provided in the DIP Loan Agreement,
21 or for Classes A, B and C, no interest shall accrue on or after the Petition Date on any Claims.

22 D. Disbursing Agent. All distributions hereunder shall be made, and the reserve on
23 account of Accrued Professional Compensation shall be set, by the Plan Trustee (or such other
24 entity designated by the Reorganized Debtor), as Disbursing Agent, on or after the Effective
25 Date, as otherwise provided herein, or in the Plan Trust Agreement; *provided, however*, that the
26 Administrative Agents under the Senior Secured Credit Agreement and DIP Credit Facility (or
27 such other entity designated by each such Administrative Agent) shall be the Disbursing Agent
28 for the Senior Secured Credit Agreement and DIP Credit Facility, respectively, and the

1 Reorganized Debtor shall be the Disbursing Agent with respect to Allowed Trade Claims. The
2 Disbursing Agent shall not be required to give any bond or surety or other security for the
3 performance of its duties unless otherwise ordered by the Bankruptcy Court, and, in the event
4 that the Disbursing Agent is so ordered, all costs and expenses of procuring any such bond or
5 surety shall be borne by the Plan Trust.

6 E. Powers of Disbursing Agent. The Disbursing Agent shall be empowered to (i)
7 effect all actions and execute all agreements, instruments, and other documents necessary to
8 perform its duties hereunder, (ii) make all distributions contemplated hereby, and (iii) exercise
9 such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court,
10 pursuant to the Plan.

11 F. Surrender of Instruments. As a condition to receiving any distribution under the
12 Plan, each holder of a certificated instrument or note must surrender such instrument or note held
13 by it to the Disbursing Agent or its designee. Any holder of such instrument or note that fails to
14 (i) surrender such instrument or note, or (ii) execute and deliver an affidavit of loss and/or
15 indemnity reasonably satisfactory to the Disbursing Agent and furnish a bond in form, substance,
16 and amount reasonably satisfactory to the Disbursing Agent before the first anniversary of the
17 Effective Date shall be deemed to have forfeited all rights and Claims and may not participate in
18 any distribution hereunder. Any distribution so forfeited shall become property of the
19 Reorganized Debtor.

20 G. Delivery of Distributions. Subject to Bankruptcy Rule 9010, all distributions to
21 any holder of an Allowed Claim shall be made to the Disbursing Agent, who shall transmit such
22 distribution to the applicable holders of Allowed Claims. In the event that any distribution to
23 any holder is returned as undeliverable, the Disbursing Agent shall use reasonable efforts to
24 determine the current address of such holder, but no distribution to such holder shall be made
25 unless and until the Disbursing Agent has determined the then current address of such holder, at
26 which time such distribution shall be made to such holder without interest; provided that such
27 distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code
28 at the expiration of one (1) year from the Effective Date, after such date, all unclaimed property

1 or interest in property shall revert to the Plan Trust, and the Claim of any other holder to such
2 property or interest in property shall be discharged and forever barred.

3 H. Manner of Payment Under Plan.

4 1. All distributions of Cash under the Plan shall be made by the Reorganized
5 Debtor on behalf of itself to the Disbursing Agent. Any distributions that revert to the Plan Trust
6 or are otherwise cancelled (such as to the extent any distributions have not been claimed within
7 one year) shall revert solely in the Plan Trust.

8 2. At the option of the Debtor, any Cash payment to be made hereunder may
9 be made by a check or wire transfer or as otherwise required or provided in applicable
10 agreements.

11 I. Setoffs. The Debtor and the Reorganized Debtor may, but shall not be required
12 to, set off against any Claim (for purposes of determining the Allowed amount of such Claim on
13 which distribution shall be made), any claims of any nature whatsoever that the Debtor or the
14 Reorganized Debtor may have against the holder of such Claim but neither the failure to do so
15 nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtor or
16 the Reorganized Debtor of any such claim the Debtor or the Reorganized Debtor may have
17 against the holder of such Claim.

18 J. Minimum Distributions. No distribution of less than \$1,000.00 on account of an
19 Allowed Claim shall be made by the Reorganized Debtor to any holder of a Claim unless a
20 request therefor is made in writing to the Reorganized Debtor.

21 K. Distributions After Effective Date. Distributions made after the Effective Date to
22 holders of Disputed Claims that are not Allowed Claims as of the Effective Date but which later
23 become Allowed Claims shall be deemed to have been made on the Effective Date.

24 L. Allocation of Distributions Between Principal and Interest. To the extent that any
25 Allowed Claim entitled to a distribution under the Plan is comprised of indebtedness and accrued
26 but unpaid interest thereon, such distribution shall be allocated to the principal amount (as
27 determined for federal income tax purposes) of the Claim first, and then to accrued but unpaid
28 interest.

ARTICLE VI.

PROCEDURES FOR DISPUTED CLAIMS

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3 A. Objections to Claims. The Debtor and the Reorganized Debtor shall be entitled to
4 and have the sole right to file objections to all Trade Claims as provided for under the Investment
5 Agreement and this Plan. Any objections to Trade Claims shall be served and filed on or before
6 the later of (i) sixty (60) days after the Effective Date, and (ii) such date as may be fixed by the
7 Bankruptcy Court, whether fixed before or after the date specified in clause (i) above.

8 B. Payments and Distributions with Respect to Disputed Claims. Notwithstanding
9 any other provision hereof, if any portion of a Claim is a Disputed Claim, no payment or
10 distribution provided hereunder shall be made on account of such Claim unless and until such
11 Disputed Claim becomes an Allowed Claim.

12 C. Estimation of Claims. The Debtor and the Reorganized Debtor may at any time
13 request that the Bankruptcy Court estimate any Contingent Claim or Disputed Claim pursuant to
14 section 502(c) of the Bankruptcy Code, regardless of whether an objection was previously filed
15 with the Bankruptcy Court with respect to such Claim, or whether the Bankruptcy Court has
16 ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any
17 Claim at any time during litigation concerning any objection to any Claim, including, without
18 limitation, during the pendency of any appeal relating to any such objection. If the estimated
19 amount constitutes a maximum limitation on the amount of such Claim, the Reorganized Debtor
20 may pursue supplementary proceedings to object to the allowance of such Claim. All of the
21 aforementioned objection, estimation, and resolution procedures are intended to be cumulative
22 and not exclusive of one another. Except as provided herein and in the Agreement, Claims may
23 be estimated and subsequently compromised, settled, withdrawn, or resolved by any mechanism
24 approved by the Bankruptcy Court.

25 D. Distributions Relating to Disputed Claims. At such time as a Disputed Claim
26 becomes an Allowed Claim, the Disbursing Agent shall distribute to the holder of such Claim,
27 such holder's pro rata portion of the property distributable with respect to the Class in which
28 such Claim belongs. To the extent that all or a portion of a Disputed Claim is disallowed, the

1 holder of such Claim shall not receive any distribution on account of the portion of such Claim
2 that is disallowed and any property withheld pending the resolution of such Claim shall be
3 reallocated pro rata to the holders of Allowed Claims in the same class.

4 E. Distributions after Allowance. To the extent that a Disputed Claim becomes an
5 Allowed Claim after the Effective Date, a distribution shall be made to the holder of such
6 Allowed Claim in accordance with the provisions of the Plan. As soon as practicable after the
7 date that the order or judgment of the Bankruptcy Court allowing any Disputed Claim becomes a
8 Final Order, the Disbursing Agent shall provide to the holder of such Claim, the distribution to
9 which such holder is entitled hereunder.

10 F. Preservation of Rights to Settle Claims. In accordance with section 1123(b) of the
11 Bankruptcy Code, the Reorganized Debtor shall retain and may enforce, sue on, settle, or
12 compromise (or decline to do any of the foregoing) all claims, rights, causes of action, suits, and
13 proceedings, whether in law or in equity, whether known or unknown, that the Debtor or its
14 estate may hold against any person or entity without the approval of the Bankruptcy Court,
15 subject to the terms of section VI.A hereof, the Confirmation Order, the Agreement, and any
16 contract, instrument, release, indenture, or other agreement entered into in connection herewith.
17 The Reorganized Debtor or its successor(s) may pursue such retained claims, rights, or causes of
18 action, suits, or proceedings, as appropriate, in accordance with the best interests of the
19 Reorganized Debtor or its successor(s) who hold such rights.

20 G. Disallowed Claims. All claims held by persons or entities against whom or which
21 the Debtor, after consultation with the Plan Sponsor, or Reorganized Debtor has commenced a
22 proceeding asserting a cause of action under sections 542, 543, 544, 545, 547, 548, 549, and/or
23 550 of the Bankruptcy Code shall be deemed "disallowed" claims pursuant to section 502(d) of
24 the Bankruptcy Code and shall continue to be disallowed for all purposes until the avoidance
25 action against such party has been settled or resolved by Final Order and any sums due to the
26 Debtor or the Reorganized Debtor from such party have been paid.

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ARTICLE VII.

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

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3 A. General Treatment. Except as otherwise provided in the Plan, the Debtor's
4 executory contracts or unexpired leases not assumed or rejected pursuant to a Bankruptcy Court
5 order prior to the Effective Date shall be deemed rejected pursuant to sections 365 and 1123 of
6 the Bankruptcy Code, except for those executory contracts or unexpired leases: (1) that constitute
7 "Assets" under the Investment Agreement; (2) that are Intercompany Contracts, in which case
8 such Intercompany Contracts are deemed automatically assumed by the Debtor as of the
9 Effective Date, unless such Intercompany Contract previously was rejected by the Debtor
10 pursuant to a Bankruptcy Court order, is the subject of a motion to reject pending on the
11 Effective Date; (3) that are the subject of a motion to assume or reject pending on the Effective
12 Date (in which case such assumption or rejection and the effective date thereof shall remain
13 subject to a Bankruptcy Court order); (4) that are subject to a motion to reject with a requested
14 effective date of rejection after the Effective Date; or (5) that are otherwise expressly assumed or
15 rejected pursuant to the Plan. Entry of the Confirmation Order shall constitute a Bankruptcy
16 Court order approving the assumptions or rejections of such executory contracts or unexpired
17 leases as set forth in the Plan, all pursuant to sections 365(a) and 1123 of the Bankruptcy Code.
18 Unless otherwise indicated, all assumptions or rejections of such executory contracts and
19 unexpired leases in the Plan are effective as of the Effective Date. Each such executory contract
20 and unexpired lease assumed pursuant to the Plan or by Bankruptcy Court order but not assigned
21 to a third party prior to the Effective Date shall revest in and be fully enforceable by the
22 applicable contracting Reorganized Debtor in accordance with its terms, except as such terms
23 may have been modified by such order. Notwithstanding anything to the contrary in the Plan,
24 the Plan Proponent and the Reorganized Debtor, as applicable, reserve the right to alter, amend,
25 modify, or supplement the schedules of executory contracts or unexpired leases identified in the
26 Plan Supplement at any time through and including fifteen days after the Effective Date.

27 B. Rejection Claims. In the event that the rejection of an executory contract or
28 unexpired lease by the Debtor pursuant to the Plan results in damages to the other party or parties

1 to such contract or lease, a Claim for such damages, if not heretofore evidenced by a timely filed
2 proof of claim, shall be forever barred and shall not be enforceable against the Debtor or the
3 Reorganized Debtor, or their respective properties or interests in property as agents, successors,
4 or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel
5 for the Debtor and the Reorganized Debtor on or before the date that is thirty (30) days after the
6 Confirmation Date or such later rejection date that occurs as a result of a dispute concerning
7 amounts necessary to cure any defaults.

8 C. Assignment. On and after the Effective Date, pursuant to sections 105(a), 363
9 and 365 of the Bankruptcy Code, the Debtor and Reorganized Debtor may transfer and assign
10 any of their executory contracts or unexpired leases that have not been rejected to any of their
11 affiliates without any further act, authority, or notice. Any executory contract or unexpired lease
12 so transferred and assigned shall remain in full force and effect for the benefit of the transferee or
13 assignee in accordance with its terms, notwithstanding any provision in such executory contract
14 or unexpired lease (including those of the type described in sections 365(b)(2) of the Bankruptcy
15 Code) that prohibits, restricts, or conditions such transfer or assignment. Any provision that
16 prohibits, restricts, or conditions the assignment or transfer of any such executory contract or
17 unexpired lease or that terminates or modifies such executory contract or unexpired lease or
18 allows the counterparty to such executory contract or unexpired lease to terminate, modify,
19 recapture, impose any penalty, condition renewal or extension, or modify any term or condition
20 upon any such transfer and assignment constitutes an unenforceable anti-assignment provision
21 and is void and of no force or effect.

22 D. Survival of the Debtor's Indemnification Obligations. Subject to Section IX.G.I.,
23 any obligations of the Debtor pursuant to its corporate charters and bylaws to indemnify current
24 directors, officers, agents, and/or employees with respect to all present and future actions, suits,
25 and proceedings against the Debtor or such directors, officers, agents, and/or employees, based
26 upon any act or omission for or on behalf of the Debtor shall not be discharged or impaired by
27 confirmation of the Plan, provided that the Reorganized Debtor shall not indemnify directors of
28 the Debtor for any matters that are excluded from the releases in section IX.G.1. Subject to

1 Section IX.G.I., such obligations shall be deemed and treated as executory contracts to be
2 assumed by the Debtor hereunder and shall continue as obligations of the Reorganized Debtor.

3 E. Survival of Other Employment Arrangements. All prepetition employment
4 contracts, benefit, compensation, and other similar programs and plans shall be deemed and
5 treated as executory contracts pursuant to the Plan and shall be deemed assumed by Debtor SHC
6 on the Effective Date and will continue in full force and effect as obligations of the Reorganized
7 Debtor, except to the extent they are listed on the schedule of Rejected Contracts to the
8 Investment Agreement or have been previously rejected or are rejected hereunder.

9 F. Insurance Policies. All insurance policies pursuant to which the Debtor has any
10 obligations in effect as of the date of the Confirmation Order shall be deemed and treated as
11 executory contracts pursuant to the Plan and shall be assumed by the Debtor and assigned to the
12 Reorganized Debtor and shall continue in full force and effect. All other insurance policies shall
13 revert in the Reorganized Debtor.

14 **ARTICLE VIII.**

15 **CONDITIONS PRECEDENT TO THE EFFECTIVE DATE**

16
17 A. Conditions to Effective Date.

18 (i) the Confirmation Order, in form and substance satisfactory to the
19 Debtor and the Plan Sponsor shall have been entered and shall be in full force and effect
20 and there shall not be a stay or injunction in effect with respect thereto;

21 (ii) all actions, documents, and agreements necessary to implement the
22 Plan, including, without limitation., all actions, documents, and agreements necessary to
23 implement the Reorganization, shall have been effected or executed, and the Closing (as
24 defined in the Investment Agreement) shall have occurred;

25 (iii) all DIP Financing Claims shall have been paid in Cash and the
26 amount required to be paid on account of Senior Secured Lender Claims pursuant to
27 Article III.C.1.c shall have been paid in Cash; and
28

1 (iv) the Debtor shall have received all authorizations, consents,
2 regulatory approvals, rulings, letters, no-action letters, opinions, or documents necessary
3 to implement the Plan and that are required by law, regulation, or order.

4 B. Effect of Failure of Conditions to Effective Date. If the Investment Agreement is
5 terminated in accordance with its terms after the Confirmation Date or, if the Investment
6 Agreement is still in effect, the conditions precedent specified in Section VIII.A have not been
7 satisfied or waived within three-hundred-sixty (360) days after the Confirmation Date, then (i)
8 the Confirmation Order shall be vacated, (ii) no distributions under the Plan shall be made, (iii)
9 the Debtor and all holders of Claims and Equity Interests shall be restored to the status quo ante
10 as of the day immediately preceding the Confirmation Date as though the Confirmation Date
11 never occurred, and (iv) all of the Debtor's obligations with respect to the Claims and the Equity
12 Interests shall remain unchanged and nothing contained herein shall be deemed to constitute a
13 waiver or release of any claims by or against the Debtor or any other entity or to prejudice in any
14 manner the rights of the Debtor or any other entity in any further proceedings involving the
15 Debtor or otherwise.

16 **ARTICLE IX.**

17 **EFFECT OF CONFIRMATION**

18
19 A. Vesting of Assets. On the Effective Date, pursuant to sections 1141(b) and (c) of
20 the Bankruptcy Code, all property of the Debtor's estate shall vest in the Reorganized Debtor
21 free and clear of all Claims, liens, encumbrances, charges, and other interests (other than liens
22 under the New Credit Agreement), except for the Plan Trust Assets, which shall vest in the Plan
23 Trust. The Reorganized Debtor may operate their businesses and may use, acquire, and dispose
24 of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all
25 respects as if there were no pending cases under any chapter or provision of the Bankruptcy
26 Code, except as provided herein.

27 B. Discharge of Claims and Termination of Equity Interests. Except as otherwise
28 provided herein or in the Confirmation Order, the rights afforded herein and the payments and

1 distributions to be made hereunder shall discharge all existing debts and Claims, and terminate
2 all Equity Interests in the Debtor of any kind, nature, or description whatsoever against or in the
3 Debtor or any of its assets or properties to the fullest extent permitted by section 1141 of the
4 Bankruptcy Code. Except as provided herein, on the Effective Date, all existing Claims against
5 the Debtor and Equity Interests in the Debtor shall be, and shall be deemed to be, discharged and
6 terminated, and all holders of Claims and Equity Interests shall be precluded and enjoined from
7 asserting against the Reorganized Debtor or any of their assets or properties, any other or further
8 Claim or Equity Interest based upon any act or omission, transaction, or other activity of any
9 kind or nature that occurred prior to the Effective Date, whether or not such holder has filed a
10 proof of Claim or proof of Equity Interest. Notwithstanding any provision herein, any valid
11 setoff or recoupment rights held against the Debtor shall not be affected by the Plan and shall be
12 expressly preserved in the Confirmation Order.

13 C. Discharge. Upon the Effective Date and in consideration of the distributions to be
14 made hereunder, except as otherwise expressly provided herein, each Holder (as well as any
15 trustees and agents on behalf of each holder) of a Claim against the Debtor, or Equity Interest in
16 the Debtor and any affiliate of such Holder shall be deemed to have forever waived, released,
17 and discharged the Debtor, to the fullest extent permitted by section 1141 of the Bankruptcy
18 Code, of and from any and all Claims, Equity Interests, rights, and liabilities that arose prior to
19 the Effective Date. On the Effective Date, all such persons shall be forever precluded and
20 enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting or asserting any
21 such discharged Claim against the Debtor or terminated Equity Interest in the Debtor.

22 Except as otherwise provided herein, all persons or entities who have held, now hold, or
23 may hold Claims against any of the Debtor or Equity Interests the Debtor and all other parties in
24 interest, along with their respective present and former employees, agents, officers, directors,
25 principals, and affiliates, are permanently enjoined from and after the Effective Date, from (i)
26 commencing or continuing in any manner any action or other proceeding of any kind with
27 respect to such Claim or Equity Interest against the Debtor or the Reorganized Debtor, (ii) the
28 enforcement, attachment, collection, or recovery by any manner or means of any judgment,

1 award, decree, or order against the Debtor or the Reorganized Debtor, (iii) creating, perfecting,
2 or enforcing any encumbrance of any kind against the Debtor or the Reorganized Debtor or
3 against the property or interests in property of the Debtor or the Reorganized Debtor, or (iv)
4 asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due
5 from the Debtor or the Reorganized Debtor, with respect to such Claim or Equity Interest. Such
6 injunction shall extend to any successors of the Debtor and Reorganized Debtor and their
7 respective properties and interest in properties.

8 D. Term of Injunctions or Stays. Unless otherwise provided, all injunctions or stays
9 arising under or entered during the Reorganization Cases under section 105 or 362 of the
10 Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full
11 force and effect until the later of the Effective Date and the date indicated in the order providing
12 for such injunction or stay.

13 E. Injunction Against Products-Related Actions. Upon entry of the
14 Confirmation Order, all persons and entities holding claims of any kind against the Debtor
15 (including, but not limited to, those holding Class Action Claims) (whether known or
16 unknown, legal or equitable, matured or unmatured, contingent or noncontingent,
17 liquidated or unliquidated, asserted or unasserted, whether arising prior to or subsequent
18 to the Petition Date, whether imposed by agreement, understanding, the Lanham Act, or
19 otherwise), arising under or out of, in connection with, or in any way relating to (i) the
20 Reorganized Debtor's marketing, distributing, or selling, within twelve (12) months
21 following the Effective Date, of any Products (to the extent the packaging of such products
22 remains unchanged by the Reorganized Debtor) or (ii) the Reorganized Debtor's
23 marketing, advertising or making any public statement with respect to the Products,
24 whether explicitly or impliedly, in accordance with or pursuant to the terms of any
25 assumed contract for marketing, advertising, or any other similar service, that the
26 Products are sold only in professional salons or through licensed cosmetologists, without
27 diversion into-non-professional retail channels, shall be forever barred, estopped and
28 permanently enjoined from asserting, prosecuting, or otherwise pursuing any such claims

1 (including, but not limited to, the Class Action Claims) against the Reorganized Debtor or
2 its respective property.

3 F. Injunction Against Interference with Plan. Upon the entry of the Confirmation
4 Order, all holders of Claims and Equity Interests and other parties in interest, along with their
5 respective present or former employees, agents, officers, directors, or principals, shall be
6 enjoined from taking any actions to interfere with the implementation or consummation of the
7 Plan.

8 G. Releases.

9 1. Releases by Debtor. As of the Confirmation Date, but subject to
10 occurrence of the Effective Date, for good and valuable consideration, the adequacy of which is
11 hereby confirmed, the Debtor, the Reorganized Debtor, and any person seeking to exercise the
12 rights of the Debtor's estate, including, without limitation, any successor to the Debtor or any
13 estate representative appointed or selected pursuant to section 1123(b)(3) of the Bankruptcy
14 Code, shall be deemed to unconditionally forever release, waive, and discharge all claims,
15 obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities
16 whatsoever (other than for gross negligence, willful misconduct, intentional fraud, or criminal
17 conduct) in connection with or related to the Debtor, the Chapter 11 Case, or the Plan (other than
18 the rights of the Debtor and the Reorganized Debtor to enforce the Plan and the contracts,
19 instruments, indentures, and other agreements or documents delivered or assumed thereunder,
20 including, without limitation, the Investment Agreement and other than any cause of action
21 retained pursuant to Section IX.H), whether liquidated or unliquidated, fixed or contingent,
22 matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter
23 arising, in law, equity or otherwise, that are based in whole or part on any act, omission,
24 transaction, event, or other occurrence taking place on or prior to the Effective Date in any way
25 relating to the Debtor, the Reorganized Debtor, the Chapter 11 Case, or the Plan, and that may be
26 asserted by or on behalf of the Debtor or the Reorganized Debtor against the Released Parties;
27 provided, however, that nothing in this Section IX.G.1 shall be deemed to prohibit the Debtor or
28 the Reorganized Debtor from asserting and enforcing any claims, obligations, suits, judgments,

1 demands, debts, rights, causes of action or liabilities they may have against any employee (other
2 than any director or officer) that is based upon an alleged breach of a confidentiality, non-
3 compete or any other contractual or fiduciary obligation owed to the Debtor through the
4 Effective Date; provided, further, however, that this Section IX.G.1 shall not operate as a waiver
5 or release from any claims or causes of action arising out of (i) any cause of action retained
6 pursuant to Section IX.H, (ii) the gross negligence, willful misconduct, intentional fraud, or
7 criminal liability of any person, and (iii) as to the directors of the Debtor, a breach of fiduciary
8 duty prior to the Commencement Date.

9 2. Releases by Holders of Claims and Equity Interests. As of the Effective
10 Date, for good and valuable consideration, the adequacy of which is hereby confirmed, (i) each
11 Holder of a Claim that votes in favor of the Plan (or is deemed to accept the Plan) and (ii) to the
12 fullest extent permissible under applicable law, as such law may be extended or integrated after
13 the Effective Date, each holder of a Claim or Equity Interest that does not vote to accept the Plan
14 or is deemed to reject the Plan, as applicable, shall be deemed to unconditionally, forever release,
15 waive and discharge each of the Released Parties, from any and all claims, obligations, suits,
16 judgments, damages, demands, debts, rights, causes of action and liabilities whatsoever in
17 connection with or related to the Debtor, the Chapter 11 Case, or the Plan whether liquidated or
18 unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or
19 unforeseen, then existing or thereafter arising, in law, equity or otherwise, that are based in
20 whole or part on any act, omission, transaction, event, or other occurrence taking place on or
21 prior to the Effective Date in any way relating to the Debtor, the Reorganized Debtor, the
22 Chapter 11 Case, or the Plan; *provided, however*, that the foregoing shall not operate as a waiver
23 or release from any causes of action arising out of the gross negligence, willful misconduct,
24 intentional fraud, or criminal liability of any such person or entity; provided, further, however,
25 that each Holder of a Class Action Claim shall be deemed to unconditionally, forever release,
26 waive and discharge each of the Reorganized Debtor from any and all claims, obligations, suits,
27 judgments, damages, demands, debts, rights, causes of action and liabilities whatsoever in
28

1 connection with any use, within twelve (12) months after the Effective Date of existing or pre-
2 ordered advertising materials, inventory, labeling, or packaging.

3 H. Retention of Causes of Action/Reservation of Rights.

4 1. Nothing contained herein or in the Confirmation Order shall be deemed to
5 be a waiver or the relinquishment of any rights or causes of action that the Debtor or the
6 Reorganized Debtor may have or which the Reorganized Debtor may choose to assert on behalf
7 of its estate under any provision of the Bankruptcy Code or any applicable non-bankruptcy law
8 or rule, common law, equitable principle or other source of right or obligation, including, without
9 limitation, (i) any and all Claims against any person or entity, to the extent such person or entity
10 asserts a crossclaim, counterclaim, and/or Claim for setoff which seeks affirmative relief against
11 the Debtor, the Reorganized Debtor, their officers, directors, or representatives; (ii) the turnover
12 of any property of the Debtor's estate; and (iii) any cause of action retained pursuant to Section
13 IX.H herein; *provided, however*, that this Section IX.I.(1) herein shall not apply to any claims
14 released in Section IX.G.(1) herein.

15 2. Nothing contained herein or in the Confirmation Order shall be deemed to
16 be a waiver or relinquishment of any claim, cause of action, right of setoff, or other legal or
17 equitable defense which the Debtor had immediately prior to the Commencement Date, against
18 or with respect to any Claim left unimpaired by the Plan. The Reorganized Debtor shall have,
19 retain, reserve, and be entitled to assert all such claims, causes of action, rights of setoff, and
20 other legal or equitable defenses which they had immediately prior to the Commencement Date
21 fully as if the Chapter 11 Case had not been commenced, and all of the Reorganized Debtor's
22 legal and equitable rights respecting any Claim left unimpaired by the Plan may be asserted after
23 the Confirmation Date to the same extent as if the Reorganization Cases had not been
24 commenced.

25 I. Waiver of Section 547 Claims. As of the Effective Date, the Debtor and the Plan
26 Trustee shall be deemed to have waived any and all claims brought pursuant to section 547 of the
27 Bankruptcy Code against (i) any Holder of an Allowed Trade Claim, (ii) any supplier of goods or
28 services who would become a Holder of a Trade Claim if an action pursuant to section 547 of the

1 Bankruptcy Code was successfully brought against it, and (iii) any person employed by the
2 Reorganized Debtor.

3 J. Solicitation of the Plan. As of and subject to the occurrence of the Confirmation
4 Date: (i) the Debtor shall be deemed to have solicited acceptances of the Plan in good faith and
5 in compliance with the applicable provisions of the Bankruptcy Code, including without
6 limitation, sections 1125(a) and (e) of the Bankruptcy Code, and any applicable non-bankruptcy
7 law, rule, or regulation governing the adequacy of disclosure in connection with such solicitation
8 and (ii) the Debtor, the Plan Sponsor, and each of their respective directors, officers, employees,
9 affiliates, agents, financial advisors, investment bankers, Professionals, accountants, and
10 attorneys shall be deemed to have participated in good faith and in compliance with the
11 applicable provisions of the Bankruptcy Code in the offer and issuance of any securities under
12 the Plan, and therefore are not, and on account of such offer, issuance, and solicitation will not
13 be, liable at any time for any violation of any applicable law, rule or regulation governing the
14 solicitation of acceptances or rejections of the Plan or the offer and issuance of any securities
15 under the Plan.

16 K. Section 1145 Exemption. Pursuant to section 1145 of the Bankruptcy Code, the
17 issuance under the Plan of the Reorganized Debtor Equity Interests shall be exempt from
18 registration under the Securities Act. Pursuant to Section 4(2) of the Securities Act, the issuance
19 of the Reorganized Debtor Equity Interests shall also be so exempt.

20 L. Plan Supplement. A draft form of the Plan Documents to be entered into as of the
21 Effective Date and any other appropriate documents shall be contained in the Plan Supplement
22 and filed with the Clerk of the Bankruptcy Court by no later than five Business Days prior to the
23 Confirmation Hearing. Upon its filing with the Bankruptcy Court, the Plan Supplement may be
24 inspected in the office of the Clerk of the Bankruptcy Court during normal court hours.
25 Documents to be included in the Plan Supplement will be posted as they become available, but
26 no later than five Business Days prior to the Confirmation Hearing.

27 M. Corporate Action. On the Effective Date, all matters provided for herein that
28 would otherwise require approval of the stockholders or directors of one or more of the Debtor or

1 Reorganized Debtor, including, without limitation, the authorization to issue or cause to be
2 issued the Reorganized Debtor Common Stock, all Restructuring Transactions to be effectuated
3 pursuant to the Plan, the election or appointment as the case may be, of directors and officers of
4 the Reorganized Debtor pursuant to the Plan, amendments of the Debtor's certificates of
5 incorporation or bylaws shall be deemed to have occurred and shall be in effect from and after
6 the Effective Date pursuant to the applicable general corporation law of the states in which the
7 Debtor or the Reorganized Debtor are incorporated, without any requirement of further action by
8 the stockholders or directors of the Debtor or the Reorganized Debtor.

9 **ARTICLE X.**

10 **RETENTION OF JURISDICTION**

11
12 On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all
13 matters arising in, arising under, and related to the Chapter 11 Case for, among other things, the
14 following purposes:

- 15 a. to hear and determine motions and/or applications for the
16 assumption or rejection of executory contracts or unexpired leases and the
17 allowance, classification, priority, compromise, estimation, or payment of Claims
18 resulting therefrom;
- 19 b. to determine any motion, adversary proceeding, application,
20 contested matter, and other litigated matter pending on or commenced after the
21 Confirmation Date;
- 22 c. to ensure that distributions to holders of Allowed Claims are
23 accomplished as provided herein;
- 24 d. to consider Claims or the allowance, classification, priority,
25 compromise, estimation, or payment of any Claim;
- 26 e. to enter, implement, or enforce such orders as may be appropriate
27 in the event the Confirmation Order is for any reason stayed, reversed, revoked,
28 modified, or vacated;

1 f. to issue injunctions, enter and implement other orders, and take
2 such other actions as may be necessary or appropriate to restrain interference by
3 any person with the consummation, implementation, or enforcement of the Plan,
4 the Confirmation Order, or any other order of the Bankruptcy Court;

5 g. to hear and determine any application to modify the Plan in
6 accordance with section 1127 of the Bankruptcy Code, to remedy any defect or
7 omission or reconcile any inconsistency in the Plan, the disclosure statement for
8 the Plan, or any order of the Bankruptcy Court, including the Confirmation Order,
9 in such a manner as may be necessary to carry out the purposes and effects
10 thereof;

11 h. to hear and determine all applications under sections 330, 331, and
12 503(b) of the Bankruptcy Code for awards of compensation for services rendered
13 and reimbursement of expenses incurred prior to the Confirmation Date;

14 i. to hear and determine disputes arising in connection with the
15 interpretation, implementation, or enforcement of the Plan, the Confirmation
16 Order, any transactions or payments contemplated hereby or under the
17 Agreement, or any agreement, instrument, or other document governing or
18 relating to any of the foregoing;

19 j. to take any action and issue such orders as may be necessary to
20 construe, enforce, implement, execute, and consummate the Plan or to maintain
21 the integrity of the Plan following consummation;

22 k. to hear any disputes arising out of, and to enforce, the order
23 approving alternative dispute resolution procedures to resolve personal injury,
24 employment litigation, and similar claims pursuant to section 105(a) of the
25 Bankruptcy Code;

26 l. to determine such other matters and for such other purposes as may
27 be provided in the Confirmation Order;

28

1 m. to hear and determine matters concerning state, local, and federal
2 taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code
3 (including any requests for expedited determinations under section 505(b) of the
4 Bankruptcy Code);

5 n. to hear and determine any other matters related hereto and not
6 inconsistent with the Bankruptcy Code and title 28 of the United States Code;

7 o. to enter a final decree closing the Debtor's chapter 11 case;

8 p. to recover all assets of the Debtor and property of the Debtor's
9 estate, wherever located; and

10 q. to hear and determine any rights, Claims, or causes of action held
11 by or accruing to the Debtor pursuant to the Bankruptcy Code or pursuant to any
12 federal statute or legal theory.

13 **ARTICLE XI.**

14 **MISCELLANEOUS PROVISIONS**

15
16 A. Payment of Statutory Fees. On the Effective Date, and thereafter as may be
17 required, the Debtor shall pay all fees payable pursuant to section 1930 of chapter 123 of title 28
18 of the United States Code.

19 B. Dissolution of Statutory Committee of Unsecured Creditors. Any creditors
20 committee appointed pursuant to section 1102 of the Bankruptcy Code in the Chapter 11 Case
21 shall dissolve on the Effective Date

22 C. Substantial Consummation. On the Effective Date, the Plan shall be deemed to be
23 substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

24 D. Request for Expedited Determination of Taxes. The Reorganized Debtor shall
25 have the right to request an expedited determination under section 505(b) of the Bankruptcy
26 Code with respect to tax returns filed, or to be filed, for any and all taxable periods ending after
27 the Commencement Date through the Effective Date.

28 E. Amendments.

1 1. Plan Modifications. The Plan may be amended, modified, or
2 supplemented by the Debtor or the Reorganized Debtor in the manner provided for by section
3 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure
4 pursuant to section 1125 of the Bankruptcy Code, subject to the terms of the Investment
5 Agreement and the Plan Support Agreement. In addition, after the Confirmation Date and subject
6 to the terms of the Investment Agreement, the Debtor may institute proceedings in the
7 Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan
8 or the Confirmation Order, with respect to such matters as may be necessary to carry out the
9 purposes and effects of the Plan.

10 2. Other Amendments. Subject to the terms of the Investment Agreement
11 and the Plan Support Agreement, prior to the Effective Date, the Debtor may make appropriate
12 technical adjustments and modifications to the Plan without further order or approval of the
13 Bankruptcy Court.

14 F. Effectuating Documents and Further Transactions. Subject to the terms of the
15 Plan Support Agreement, each of the officers of the Reorganized Debtor is authorized, in
16 accordance with his or her authority under the resolutions of the applicable board of directors, to
17 execute, deliver, file, or record such contracts, instruments, releases, indentures, and other
18 agreements or documents and take such actions as may be necessary or appropriate to effectuate
19 and further evidence the winks and conditions of the Plan.

20 G. Revocation or Withdrawal of the Plan. Subject to the terms of the Investment
21 Agreement and the Plan Support Agreement, the Debtor reserves the right to revoke or withdraw
22 the Plan prior to the Effective Date; provided, however, that prior to taking any such action the
23 Debtor must consult in good faith with the Professionals for the Plan Sponsor and the
24 Administrative Agent and any such action may only be taken if it is in the exercise of the
25 Debtor's fiduciary duty to its creditors. If the Debtor takes such action, the Plan shall be deemed
26 null and void. In such event, nothing contained herein shall constitute or be deemed to be a
27 waiver or release of any Claims by or against the Debtor or any other person or to prejudice in
28 any manner the rights of the Debtor or any person in further proceedings involving the Debtor.

1 H. Severability. If, prior to the entry of the Confirmation Order, any term or
2 provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the
3 Bankruptcy Court, at the request of the Debtor, shall have the power to alter and interpret such
4 term or provision to make it valid or enforceable to the maximum extent practicable, consistent
5 with the original purpose of the term or provision held to be invalid, void, or unenforceable, and
6 such term or provision shall then be applicable as altered or interpreted. Notwithstanding any
7 such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan
8 will remain in full force and effect and will in no way be affected, impaired, or invalidated by
9 such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial
10 determination and shall provide that each term and provision of the Plan, as it may have been
11 altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its
12 terms. No alteration or interpretation of the Plan pursuant to this Section XI.H shall operate to
13 modify or amend the terms and conditions of the Investment Agreement unless such
14 modification or amendment has been consented to as required pursuant to the Investment
15 Agreement.

16 I. Governing Law. Except to the extent that the Bankruptcy Code or other federal
17 law is applicable, or to the extent an exhibit hereto or a schedule in the Plan Supplement provides
18 otherwise, the rights, duties, and obligations arising under the Plan shall be governed by, and
19 construed and enforced in accordance with, the laws of the State of New York, without giving
20 effect to the principles of conflict of laws thereof.

21 J. Time. In computing any period of time prescribed or allowed by the Plan, unless
22 otherwise set forth herein or determined by the Bankruptcy Court, the provisions of Bankruptcy
23 Rule 9006 shall apply.

24 K. Binding Effect. The Plan shall be binding upon and inure to the benefit of the
25 Debtor, the Plan Sponsor, the holders of Claims and Equity Interests, and each of their respective
26 successors and assigns, including, without limitation, the Reorganized Debtor.

27 L. Notices. All notices, requests, and demands to or upon the Debtor to be effective
28 shall be in writing (including by facsimile transmission) and, unless otherwise expressly

1 provided herein, shall be deemed to have been duly given or made when actually delivered or, in
2 the case of notice by facsimile transmission, when received and telephonically confirmed,
3 addressed as follows: Sexy Hair, LLC; c/o Scott F. Gautier; Peitzman, Weg & Kempinsky LLP;
4 10100 Santa Monica Blvd, Suite 1450; Los Angeles, CA 90067.

5
6 Respectfully submitted,

7 PEITZMAN, WEG & KEMPINSKY LLP

8 December 21, 2010

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10 _____
11 Proposed Attorneys for Debtors and Debtors in
12 Possession

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Exhibit A

SUMMARY OF TERMS

The following summarizes selected terms of certain senior secured credit facilities (the "Credit Facilities") to be utilized in connection with the proposed acquisition of Sexy Hair Concepts by TSG. This Summary of Terms is intended to summarize certain material terms and does not include descriptions of all of the terms and other provisions that are to be contained in the definitive documentation relating to the Credit Facilities. This Summary of Terms does not constitute an offer or a commitment of any kind, and is being submitted solely for discussion purposes.

Borrower: A direct wholly-owned subsidiary of TSG (the "Borrower"), which shall acquire all or substantially all of the assets and related operations of the haircare product design and distribution business of Sexy Hair Concepts, LLC.

Guarantors: All existing and future domestic subsidiaries of the Borrower, and any holding company formed to hold the equity securities of the Borrower.

Administrative Agent: Bank of Montreal (the "Administrative Agent").

Lenders: Existing Sexy Hair Lenders (the "Lenders").

Closing Date: TBD

Type and Amount: The Credit Facilities ("Facilities") shall consist of the Term Loan Facility and the Revolving Credit Facility (each, a "Facility").

\$35,000,000 Term Loan Facility.

\$5,000,000 Revolving Credit Facility. Letters of credit may be issued up to a sublimit to be agreed upon.

Term: Maturity will be 18 months from date of initial draw.

Fees and Amortization: 360 days from the date of the initial draw the Borrower shall pay a 150 basis point fee on the outstanding loans and unfunded commitments and make a principal payment of \$5,000,000 to be applied to the term loan.

Purpose: Term Loan Facility made available to facilitate the purchase Sexy Hair Concepts LLC by Borrower.

Revolving Credit Facility will be made available to provide for the working capital requirements and other general corporate purpose. Letters of credit may be issued on the Closing Date to backstop or replace letters of credit existing on the Closing Date.

Security: The Credit Facilities will be secured by first priority perfected liens on substantially all existing and after-acquired property (tangible and intangible) of the Borrower and the Guarantors, including without limitation all accounts receivable, inventory, equipment, intellectual property and other personal property, and all fee owned real property, and a pledge of the capital stock of the Borrower and its subsidiaries.

Waterfall: In the event of an acceleration, bankruptcy, etc, advances (if any) under the Revolving Credit Facility to be paid in full prior to application of proceeds to the Term Loan Facility.

Interest Rates: Pricing of the Facilities shall be set at LIBOR or Base Rate (at the Borrower's option) plus the Applicable Margin. LIBOR to be defined as the greater of (i) 1.00% (the "LIBOR Floor") or (ii) the prevailing LIBOR rate. Base Rate to be defined as the greater of (i) LIBOR Floor + 1.00% (the "Base Rate Floor") or (ii) the prevailing Base Rate.

The initial Base Rate and LIBOR Margins for both Facilities shall be as follows:

Base Rate plus 4.75% or LIBOR plus 5.75%.

After 180 days from the date of initial draw, the Base Rate and LIBOR Margins for both Facilities shall be as follows:

Base Rate plus 5.75% or LIBOR plus 6.75%.

After 360 days from the date of initial draw, the Base Rate and LIBOR Margins for both Facilities shall be as follows:

Base Rate plus 6.75% or LIBOR plus 7.75%.

Interest Payments: Monthly

Upfront Fee: A fee equal to 25bps on total commitments will be payable at the time of the first draw.

Commitment Fees: Remain unchanged from existing credit facilities of Sexy Hair Concepts, LLC.

Mandatory
Prepayments and
Commitment
Reductions:

Subject to certain exceptions to be agreed upon, the Credit Facilities will be prepaid by an amount equal to: (i) 100% of the net cash proceeds of all asset dispositions, (ii) 100% of the net cash proceeds from the issuance of debt other than permitted debt by the Borrower and its Subsidiaries, (iii) 100% of the net cash proceeds from the issuance of equity by the Borrower and its Subsidiaries

All such amounts shall be applied first to the prepayment of the Term Loan Facility and thereafter to the prepayment of the Revolving Credit Facility (without any reduction of the commitments thereunder).

Representations
and Warranties:

Standard Reps and Warranties

Covenants:

TBD

Events of Default:

Minimum EBITDA:

There will be no covenant in place for the first "partial" quarter should the transaction close during a fiscal quarter. 6 months following the end of the first fiscal quarter, and each quarter thereafter, a minimum EBITDA covenant will be set at 75% of the trailing 6 month EBITDA projections. Tests to be delivered 45 days following quarter end.

Conditions
Precedent:

Standard CP's

Waivers and
Amendments:

Remain unchanged from existing credit facilities of Sexy Hair Concepts, LLC.

Governing Law and
Jurisdiction:

Remain unchanged from existing credit facilities of Sexy Hair Concepts, LLC.

Administrative
Agent's Counsel:

Goldberg Kohn Ltd.

Exhibit 2

1 Scott F. Gautier (State Bar No. 211742)
sgautier@pwkllp.com
2 Lorie A. Ball (State Bar No. 210703)
lball@pwkllp.com
3 Thor D. McLaughlin (State Bar No. 257864)
tmclaughlin@pwkllp.com
4 PEITZMAN, WEG & KEMPINSKY LLP
10100 Santa Monica Boulevard, Suite 1450
5 Los Angeles, CA 90067
Telephone: (310) 552-3100
6 Facsimile: (310) 552-3101

7 Proposed Counsel for Debtors and Debtors
in Possession
8

9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SAN FERNANDO VALLEY DIVISION**

12 In re:

13
14 **SEXY HAIR CONCEPTS, LLC, a**
15 **California limited liability company,**

16 **Debtor and Debtor in Possession**
17

Case No.:
Chapter 11

**DISCLOSURE STATEMENT FOR
PLAN OF REORGANIZATION
PURSUANT TO CHAPTER 11 OF
THE BANKRUPTCY CODE FOR
SEXY HAIR CONCEPTS, LLC**

Disclosure Statement Hearing

Date:
Time:
Place: Courtroom _____
21041 Burbank Blvd.
Woodland Hills, CA

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I.

INTRODUCTION

Sexy Hair Concepts, LLC (“SHC” or the “Debtor”), Luxe Beauty Midco Corporation (“Midco”), and Ecoly International, Inc. (“Ecoly” and together with SHC and Midco, the “Debtors”) are debtors in jointly-administered chapter 11 bankruptcy cases (the “Chapter 11 Cases”) pending before the Bankruptcy Court for the Central District of California, San Fernando Division (the “Bankruptcy Court”) under Case Number [●]. On December 21, 2010 (the “Petition Date”), the Debtors commenced jointly-administered bankruptcy cases by filing voluntary petitions under chapter 11 of title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the “Bankruptcy Code”). The document you are reading is a Disclosure Statement (the “Disclosure Statement”) for a Chapter 11 Plan of Reorganization (the “Plan”)¹ proposed by SHC and is provided to help you understand the Plan.

This is a Disclosure Statement for a reorganization plan. In other words, SHC seeks to accomplish payments under the Plan and reorganize by obtaining a capital infusion from Sexy Hair, Inc. (the “Plan Sponsor”) and restructuring certain of its liabilities. The effective date of the proposed Plan, when SHC is expected to emerge from chapter 11, is expected to be on or about March 5, 2010 (the “Effective Date”).²

The Plan is not a Plan for either Ecoly or Midco.

A. Purpose of This Document

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

¹ Capitalized terms used but not otherwise defined herein have the meaning given to such terms in the Plan or the Bankruptcy Code, as applicable.

² SHC, on and after the Effective Date, is referred to in this Disclosure Statement as the “Reorganized Debtor.”

READ THIS DISCLOSURE STATEMENT CAREFULLY IF YOU WANT TO KNOW

ABOUT:

- (1) **WHO CAN VOTE OR OBJECT,**
- (2) **WHAT THE TREATMENT OF YOUR CLAIM IS (I.E., WHAT YOUR CLAIM WILL RECEIVE IF THE PLAN IS CONFIRMED), AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN LIQUIDATION,**
- (3) **THE HISTORY OF SHC AND SIGNIFICANT EVENTS DURING THE BANKRUPTCY,**
- (4) **WHAT THINGS THE COURT WILL LOOK AT TO DECIDE WHETHER OR NOT TO CONFIRM THE PLAN,**
- (5) **WHAT IS THE EFFECT OF CONFIRMATION, AND**
- (6) **WHETHER THIS PLAN IS FEASIBLE.**

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

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

THE 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. IF THE BANKRUPTCY COURT LATER CONFIRMS THE PLAN, HOWEVER, THEN THE PLAN WILL BE BINDING ON SHC AND ON ALL CREDITORS AND INTEREST HOLDERS IN THIS CASE.

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

1. Time and Place of the Confirmation Hearing

The hearing to determine whether or not to confirm the Plan will take place on [●], at [●] {A.M./P.M.}, in the Bankruptcy Court, in Courtroom [●], at 21041 Burbank Blvd., Woodland Hills, California, 91367.

1 **2. Deadline For Voting For or Against the Plan**

2 If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot
3 and return the ballot in the enclosed envelope to the Debtor’s Claims and Solicitation Agent,
4 Kurtzman Carson Consultants LLC, at the following address: Sexy Hair Ballot Processing
5 Center c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, CA 90245.

6 Your ballot must be received by January 17, 2011 at 5:00 pm. (Pacific time) or it will not
7 be counted.

8 **3. Deadline For Objecting to the Confirmation of the Plan**

9 Objections to the confirmation of the Plan must be filed with the Bankruptcy Court and
10 served upon (i) counsel for the Debtor, (ii) counsel for the Senior Secured Lenders, (iii) counsel
11 for the Plan Sponsor, (iv) counsel to the creditors’ committee appointed in the Debtors’ chapter
12 11 cases (if any) (the “Creditors’ Committee”), and (v) the Office of the United States Trustee
13 by February 8, 2011.

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

15 Any interested party desiring further information about the Plan should contact counsel
16 for the Debtor, Peitzman, Weg & Kempinsky LLP, attention Scott F. Gautier, Esq., 10100 Santa
17 Monica Blvd., Suite 1450, Los Angeles, CA 90067, or counsel for the Creditors’ Committee.

18 **C. Disclaimer**

19 The Bankruptcy Court has not yet determined whether or not the Plan is confirmable and
20 makes no recommendation as to whether or not you should support or oppose the Plan. The
21 information relied upon in formulating the Plan is based on SHC’s books and records and
22 documents filed with the Bankruptcy Court. The information contained in this Disclosure
23 Statement is provided by SHC. SHC represents that everything stated in this Disclosure
24 Statement is true to the best of SHC’s knowledge.

25 **II.**

26 **BACKGROUND**

27 **A. Description and History of SHC’s Business**

28 SHC is an operating company engaged in the development, distribution and marketing of

1 premium quality hair-care products (such as shampoo, conditioner, hairspray and other
2 hairstyling products) and brands. The other two debtors are holding companies without any
3 assets that are material to the operations of SHC. SHC outsources the production and
4 manufacturing of its various lines of premier products, and operates from a single facility in
5 Chatsworth, California that houses the Debtors' corporate offices and distribution warehouse.
6 SHC works with several distributors domestically and internationally, but does not maintain any
7 other offices. The Debtors have been in the hair care product business since 1994 and formed
8 SHC in 2001 to act as the operating entity.

9 **B. Management of SHC**

10 The Debtors' current chief executive officer ("CEO"), Karl-Heinz Pitsch ("Pitsch"), was
11 initially hired by the Debtors in November 2008 to act as the chief operating officer. In the
12 spring of 2009 he was appointed as the CEO. Mark Milner, the Debtors' current chief financial
13 officer ("CFO"), was hired in January 2009. Both executives are veterans of the hair care
14 product industry.

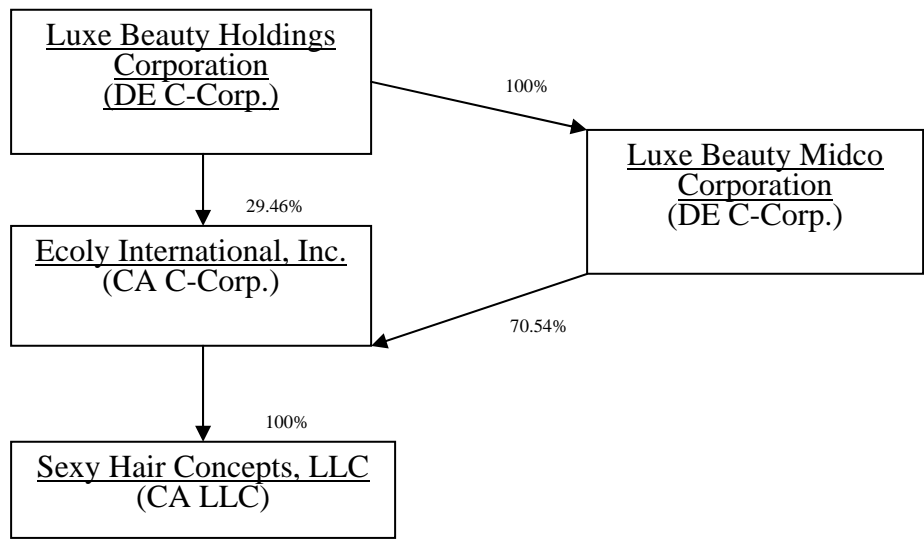
15 T. Scott Avila currently serves as the Chief Restructuring Officer of the Debtors. Mr.
16 Avila is a managing director of the financial advisory firm CRG Partners Group, LLC ("CRG"),
17 which has offices throughout the United States, including in Los Angeles.

18 **C. Prepetition Corporate and Capital Structure**

19 SHC's business was purchased in April 2008 by a group of private buyers, led by the
20 private equity firm Thoma Bravo, LLC ("Thoma Bravo"). SHC's current corporate and capital
21 structure are the result of that purchase.

22 The Debtors and their corporate parents consist of the following structure:
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As noted above, Luxe Beauty Holdings Corporation (“Holdings”) is privately held, but has a number of shareholders (the “Shareholders”), led by Thoma Bravo. SHC remains the only operating entity. The debt capital in this structure was provided in two tiers, a secured credit facility and subordinated unsecured notes.

1 **1. Credit Facility**

2 The secured credit facility is provided by a syndicate of secured lenders (the "Senior
3 Secured Lenders"), pursuant to the terms of a Credit Agreement dated April 9, 2008 (as
4 amended and in effect, the "Credit Agreement"). The Bank of Montreal ("BMO" or the
5 "Agent") as successor to Bank of America, N.A., (the original Administrative Agent and
6 Collateral Agent) is the Administrative Agent and Collateral Agent for the Senior Secured
7 Lenders under the Credit Agreement. Under the Credit Agreement, the Senior Secured Lenders
8 initially made a term loan to SHC of approximately \$65 million and provided a revolving line of
9 credit of approximately \$7 million (the "Senior Secured Loans"). Holdings, Midco and Ecoly
10 guaranteed the obligations under the Credit Agreement. The outstanding pre-petition amount
11 owing under the Credit Agreement is not less than \$62,580,138.16.

12 Pursuant to the terms of the Credit Agreement and an executed Security Agreement
13 between Debtors and Senior Secured Lenders, the Debtors and Holdings granted the Agent a
14 security interest in all of the their assets. The Agent asserts that it holds, for the benefit of the
15 Senior Secured Lenders, a valid, perfected and enforceable security interest in all of the
16 Debtors' assets, including assets that constitute "cash collateral" as defined in section 363(a) of
17 the Bankruptcy Code (the "Cash Collateral"). SHC is not aware of any defects in the collateral
18 coverage over the assets pledged to the Agent. Additionally, pursuant to the terms of an
19 executed pledge agreement between Debtors and Senior Secured Lenders, the Debtors and
20 Holdings pledged their respective shares and membership interests to the Senior Secured
21 Lenders.

22 **2. Subordinated Unsecured Notes**

23 The subordinated unsecured notes (the "Subordinated Notes") were issued on April 9,
24 2008 to Northwestern Mutual Life Insurance Company ("NML" or the "Subordinated Lender")
25 pursuant to the terms of the Securities Purchase and Guaranty Agreement of the same date (the
26 "SPGA"). The Subordinated Notes are guaranteed by the same entities that guaranteed the
27 Credit Agreement: Holdings, Ecoly and Midco. However, the Subordinated Notes were
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1 provided on an unsecured basis. Furthermore, the Subordinated Notes are contractually
2 subordinated to all amounts owed to the Senior Secured Lenders pursuant to an Intercreditor
3 Agreement between the Agent and the Subordinated Lender. The outstanding prepetition
4 amount owed in respect of the Subordinated Notes is not less than \$25,000,000.

5 **D. Events Leading to Chapter 11 Filings**

6 In December of 2008, SHC reported to the Agent and the Subordinated Lender that, due
7 in part to the state of the global economy and a substantial drop in consumer spending, it would
8 be in default of certain financial covenants under the Credit Agreement, and that it was unable
9 to fill certain orders, had overestimated manufacturer rebates and was concerned about the
10 ability of one of its largest customers to pay, which led to a need to increase account receivable
11 reserves.

12 In June of 2009, SHC was unable to make installment payments then due and owing
13 under the Credit Agreement. The Agent has declared that payment and other covenant defaults
14 under the Credit Agreement are ongoing. In addition, SHC was also unable to make payments
15 due and owing under the Subordinated Note Agreement and received a notice of default from
16 NML. NML has declared that payment and other defaults under the Subordinated Note
17 Agreement are ongoing.

18 On July 23, 2009, the Agent exercised voting rights with respect to the pledged shares of
19 stock in Midco and Ecoly and, as a result, by unanimous shareholder consent, (i) the directors
20 then serving on the Board of Directors of Midco and Ecoly were removed; (ii) Michael Frow,
21 Marilyn Sylvestre and John G. (Pete) Ball were appointed as the independent directors of Midco
22 and Ecoly (collectively, the "Board"); (iii) Andre Laus was elected to serve as the Chief
23 Restructuring Officer ("CRO") of Midco and Ecoly; (iv) Ecoly, the sole member of SHC, was
24 authorized and directed to elect Andre Laus to serve as CRO of SHC; and (v) Andre Laus was
25 authorized and directed to hire CRG Partners Group, LLC, to assist him in his capacity as CRO.
26 At the direction and by resolution of the Board, Andre Laus was later replaced by T. Scott
27 Avila, who presently serves as CRO for the Debtors.
28

1 **1. Attempted Financial Restructuring and Initial Sale Efforts**

2 Initially, Andre Laus attempted to negotiate with the Debtors, NML and the Senior
3 Secured Lenders to facilitate a refinancing or restructuring of the Debtors' loan obligations.
4 When it became obvious that the parties were at an impasse, the Board elected to retain the law
5 firm of Peitzman, Weg & Kempinsky LLP ("PWK") and the investment banking firm of
6 Imperial Capital, LLC ("Imperial") to assist the Debtors in, among other things, negotiations
7 with the Senior Secured Lenders and NML, attempts to refinance or restructure their debt
8 obligations or, failing those alternatives, facilitating a sale of SHC to maximize value for
9 creditors and stakeholders. Although the Senior Secured Lenders would not agree to a written
10 forbearance agreement, the Senior Secured Lenders and Agent orally agreed to work with the
11 Debtors from month to month provided that the Debtors continued to work in good faith to
12 remedy existing defaults under the Credit Agreement, refinance the debt obligations, or
13 liquidate their assets for the benefit of creditors and stakeholders. Specifically, although the
14 Agent delivered a notice of intent to conduct a public foreclosure sale of all of the equity
15 interests of Midco and Ecoly and, subsequently, all of the assets of SHC, the Agent also
16 extended the sale date from time to time.

17 Upon retention, Imperial worked to identify potential sources of refinancing for the
18 Senior Secured Loans and the Subordinated Notes. Specifically, Imperial first worked closely
19 with NML and Holdings' shareholders, most notably Thoma Bravo, providing it with the
20 exclusive right to propose a restructuring or refinancing transaction to the Senior Secured
21 Lenders. NML and Thoma Bravo proposed a cash pay-down of approximately \$20 million of
22 the Senior Secured Loans, but the Senior Secured Lenders rejected that offer. No other material
23 offers were made by NML and Thoma Bravo. Subsequently, Imperial began contacting third
24 party lenders and investors to either (i) partner with NML to make a new proposal to the Senior
25 Secured Lenders, (ii) purchase all or a portion of NML's debt, or (iii) refinance the Senior
26 Secured Loans. During this time, Imperial conducted regular phone calls with NML to keep it
27 informed about indications of interest by third parties and to determine if NML wanted to
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1 propose any alternative offers. No further offers were made by NML. After this significant
2 effort, Imperial informed the Debtors that it was unable to reach a suitable refinancing of the
3 Debtors' debt obligations. Given that the Senior Secured Lenders still intended to foreclose if
4 the Debtors were not working to resolve their financial problems, the Board then elected to
5 pursue a voluntary sale of substantially all of SHC's assets to satisfy the Debtors' loan
6 obligations.

7 Upon this decision, Imperial worked with SHC to prepare marketing materials and to
8 identify potential purchasers. Through this process, Imperial contacted over 180 potential
9 purchasers and provided them with marketing materials regarding SHC's assets. As a result of
10 these efforts, Imperial assisted the Debtors in having potential purchasers with further interest in
11 the assets sign non-disclosure agreements under which they could perform due diligence on the
12 Debtors. Over 100 potential purchasers signed such agreements and began to further investigate
13 the Debtors' business and assets, including the review of a proposed asset purchase agreement
14 jointly drafted by PWK and counsel for NML. This marketing process occurred with
15 cooperation from NML and its professional advisors and with continued month to month
16 extensions of a foreclosure sale deadline from the Agent.

17 After months of due diligence by interested parties, Imperial began an auction process in
18 February, 2010, and invited any interested party to submit a bid for SHC's assets. Three (3)
19 parties submitted bids and Imperial and the Debtors evaluated the bids to determine the highest
20 and best offer for SHC's assets. Upon making this determination, SHC entered into a
21 confidential letter of intent with a potential bidder (the "Initial Bidder") for the purchase of
22 substantially all of SHC's assets. The Initial Bidder then conducted extensive due diligence on
23 the Debtors for the following one and half months and PWK and NML's counsel began
24 negotiating an asset purchase agreement with the Initial Bidder's counsel. Unfortunately, by
25 April, 2010, the Initial Bidder informed the Debtors that it did not believe there was sufficient
26 value in SHC's assets and that it was terminating its letter of intent.

27 Imperial then recommended that the Debtors turn to the next highest bidder, which it
28

1 believed was likely to be able to close a transaction on terms favorable to the Debtors and their
2 stakeholders in a reasonable time period. Upon learning that the next highest bidder was still
3 interested in purchasing SHC's assets, the Debtors commenced negotiations and diligence with
4 that bidder, Sexy Hair, Inc., who is the current plan sponsor (the "Plan Sponsor").

5 **2. Initial Negotiations with Plan Sponsor**

6 Through the late spring and early summer of 2010, the Debtors and Plan Sponsor
7 (collectively, the "Parties") anticipated consummating a sale to the Plan Sponsor outside of
8 bankruptcy. Debtors' counsel and NML's counsel then began negotiating and drafting an asset
9 purchase agreement with the Plan Sponsor's counsel. The Parties ultimately agreed on most of
10 the material terms of a cash purchase transaction, including the purchase price. The Plan
11 Sponsor had, in addition to its own cash, arranged for \$35 million of committed outside
12 financing in order to consummate the transaction. However, as the Plan Sponsor began its
13 diligence process, it discovered structural, financial, regulatory and general industry risks
14 affecting the Debtors. Due to these issues, the Plan Sponsor believed there were risks associated
15 with a consensual out-of-court transaction.

16 As a result, the Plan Sponsor requested that the transaction be effectuated through a
17 foreclosure sale. In an effort to ensure the completion of the transaction, the Debtors agreed to
18 cooperate with a foreclosure sale process provided it returned the same value to its stakeholders.
19 However, a foreclosure transaction on an operating business of SHC's size is not very common,
20 and the financing source of the Plan Sponsor was concerned that it would not be able to
21 syndicate the loan with a non-standard structure for the purchase. Accordingly, the Plan
22 Sponsor then requested that the proposed sale transaction be structured as a sale in a chapter 11
23 case pursuant to Bankruptcy Code section 363. In their continued endeavor to maximize value
24 for the benefit of all stakeholders, the Debtors agreed to file chapter 11 bankruptcies and
25 consummate an asset sale with the Plan Sponsor. Notably, at about this time, an industry-wide
26 class-action lawsuit was filed, naming a number of defendants, including SHC, for alleged
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1 violations of certain advertising and competition laws, including the Lanham Act (the “Class
2 Action Lawsuit”).

3 After extended negotiations among the Debtors, NML and the Plan Sponsor, it became
4 uncertain whether terms for the asset sale pursuant to Bankruptcy Code section 363 could be
5 agreed upon. At a meeting of the Board, NML, as a Board observer, expressed that it was not in
6 favor of the Debtors pursuing a transaction with the Plan Sponsor because of the provisions in
7 the proposed asset purchase agreement providing for (i) a \$4 million indemnity holdback for
8 breaches of, among other things, SHC’s representations and warranties and a \$6 million
9 indemnity holdback for losses related to the Class Action Lawsuit, (ii) a termination fee payable
10 to the Plan Sponsor in the event SHC breached its obligations under the proposed asset purchase
11 agreement, and (iii) the broadly worded representations and warranties of SHC. Based, in part,
12 on this presentation made by NML, the Board determined that it would not go forward with a
13 transaction with the Plan Sponsor on the current terms offered. The Board determined that it
14 would be willing to consummate a transaction with the Plan Sponsor if the terms were modified
15 to be more favorable to the Debtors.

16 After negotiations continued between the Debtors and the Plan Sponsor and the Plan
17 Sponsor agreed to certain further changes, a final asset purchase agreement was approved by the
18 Board and the Debtors prepared to file chapter 11 bankruptcies and propose a sale of SHC’s
19 assets pursuant to Bankruptcy Code section 363. At this time, NML went further than merely
20 indicating it would object to the sale when proposed in bankruptcy court. NML took the
21 position, via electronic correspondence to SHC, that, even if the Debtors signed an agreement to
22 sell SHC’s assets through an open and fair bankruptcy process, such a sale would be a violation
23 of the Subordinated Note Agreement. Moreover, NML specifically sent the same e-mail to the
24 Plan Sponsor, stating that NML wanted the Plan Sponsor to take notice of NML’s position. The
25 Plan Sponsor and its third-party financing source took this communication to be a direct threat
26 that NML would sue them if a purchase agreement was signed, even if that purchase agreement
27 specifically contemplated obtaining bankruptcy court approval for any sale. While the Plan
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1 Sponsor was prepared to proceed with the transaction in spite of this frivolous threat from NML,
2 the Plan Sponsor's financing source was not.

3 At this point, the Plan Sponsor, the Agent, certain Senior Secured Lenders and the
4 Debtors determined that they could proceed to support a plan of reorganization for SHC, on the
5 terms now contained in the Plan. The reorganization would provide the Debtors with all of the
6 prior benefits of the proposed sale transaction by having the Plan Sponsor infuse the same
7 amount of new equity in exchange for the newly issued equity interests of the Reorganized
8 Debtor, with the Senior Secured Lenders receiving a significant cash pay-down on their debt
9 and agreeing to take \$35 million of restructured debt from the Reorganized Debtor (the
10 "Transaction"). The cash remaining after paying down the Senior Secured Lenders' debt would
11 be available to distribute to unsecured creditors (including the Subordinated Lender and any
12 claims in the Class Action Lawsuit). After taking into consideration the substantial efforts that
13 took place over the past year to resolve the Debtors' financial problems, the Board, based upon
14 information and belief that the Plan Sponsor continues to represent the best proposal for
15 returning the most value to the Debtors' creditors and other stakeholders, agreed to act as the
16 Plan Proponent and submit the Plan for approval. The Board specifically noted that, throughout
17 the months of extended negotiations with the Plan Sponsor, Imperial continued to investigate
18 and have discussions with NML and third parties regarding possible refinancing, restructuring
19 or asset sale options, but that these options never provided anywhere near the value provided by
20 the Plan Sponsor.

21 This reorganization transaction is embodied in the Plan, the Investment Agreement,
22 dated as of December 20, 2010 among the Plan Sponsor and SHC (the "Investment
23 Agreement"), and a Plan Support Agreement among the Plan Sponsor, the Agent and a
24 supermajority of the Senior Secured Lenders (the "Plan Support Agreement").

25 **3. The Plan Support Agreement**

26 On December 21, 2010, the Plan Sponsor and Senior Secured Lenders constituting more
27 than one-half (1/2) of the voting lenders under the Credit Agreement and holding more than
28 two-thirds (2/3) in dollar amount of the voting claims thereunder (the "Consenting Senior

1 Secured Lenders”) entered into the Plan Support Agreement, pursuant to which the Consenting
2 Senior Secured Lenders agreed to support the Plan and the reorganization contemplated thereby.
3 Specifically, subject to certain terms and conditions specified in the Plan Support Agreement,
4 the Plan Sponsor and the Consenting Senior Secured Lenders agreed to, among other things: (i)
5 support the Plan, (ii) not pursue, propose, support, or encourage the pursuit, proposal or support
6 of, any chapter 11 plan or other restructuring or reorganization for, or the liquidation of, the
7 Debtors (directly or indirectly) other than through the Plan; (iii) not, nor encourage any other
8 person or entity to, delay, impede, appeal, or take any other negative action to interfere with, the
9 acceptance or implementation of the Plan; and (iv) not commence any proceeding or prosecute,
10 join in, or otherwise support any objection to oppose or object to the Plan. In addition, based on
11 the information given to the Senior Secured Lenders prior to the Petition Date (including this
12 Disclosure Statement), acceptances of the Plan were delivered to SHC prior to the Petition Date,
13 in accordance with Bankruptcy Code section 1125(g).

14 Pursuant to the Plan Support Agreement, BMO also agreed to provide (itself or via an
15 affiliate) (i) debtor in possession financing to SHC (as further described below) in accordance
16 with the terms and conditions set forth in the Plan Support Agreement and, upon entry of an
17 order approving such agreement by the Bankruptcy Court, and (ii) upon consummation of the
18 Plan, an exit revolver facility (as further described below).

19 **4. The Class Action Lawsuit**

20 SHC is currently involved in a hair-care product industry-wide class action lawsuit
21 entitled *Salon Fad, et al. v. L’Oreal USA, Inc., et al.*, pending before the United States District
22 Court for the Southern District of New York (the “New York District Court”) under case
23 number 10-cv-5063 (the “Class Action Lawsuit”). The putative class plaintiffs alleged
24 violations by SHC and other industry participants of certain advertising and marketing laws.
25 Specifically, in the Class Action Lawsuit, the plaintiffs allege that some of SHC’s product
26 packaging and advertising is misleading, by stating that such products are sold only in
27 professional salons or through licensed cosmetologists. Although the first amended complaint
28 in the Class Action Lawsuit does not specify the precise amount of damages that the putative

1 class plaintiffs are seeking, there is alleged data in the complaint that would suggest that the
2 asserted damages against SHC might be significant; in addition, the putative class plaintiffs
3 assert that they are entitled to treble damages. SHC disputes both the allegations of liability and
4 damages, on a variety of grounds. All of the defendants, including SHC, have filed motions to
5 dismiss the first amended complaint in the Class Action Lawsuit. Those motions have been
6 fully briefed as of late November 2010; however, there is no indication as to when the New
7 York District Court might rule. It can be expected that even if SHC prevails on its motion to
8 dismiss, the plaintiffs would appeal. No assurance can be given as to the outcome of the Class
9 Action Lawsuit, as to either liability issues or damages. The Class Action Lawsuit is currently
10 stayed with respect to SHC pursuant to Bankruptcy Code section 362.

11 **E. Significant Events During the Bankruptcy**

12 **1. Bankruptcy Proceedings**

13 SHC does not expect the Chapter 11 Case to be protracted. To expedite the Transaction,
14 on the Commencement Date, or shortly thereafter, the Debtors filed a series of motions (the
15 “First Day Motions”) seeking various relief from the Bankruptcy Court designed to minimize
16 any disruption of business operations. Unless otherwise noted herein, all relief requested in the
17 First Day Motions was granted by the Bankruptcy Court:

18 a. Joint Administration.

19 The Debtors sought authority to consolidate under a single case name, in a single
20 docket, for administrative purposes only, the separate filings that would result if the Bankruptcy
21 Court maintained entirely separate dockets for each of the Debtors’ cases. This relief, among
22 other things, reduces costs for parties making filings with the Bankruptcy Court and obviates the
23 need for duplicative pleadings and files maintained by the Bankruptcy Court.

24 b. Approval of Disclosure Statement and Scheduling of Confirmation Hearing

25 To facilitate the prompt confirmation and consummation of the Plan, SHC sought an
26 order from the Bankruptcy Court scheduling a combined hearing to (i) approve the solicitation
27 procedures, including this Disclosure Statement, and (ii) confirm the Plan for a date
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1 immediately following the end of the applicable notice period therefor, or as soon as thereafter
2 as the Bankruptcy Court's calendar permits.

3 c. Authority to Maintain Lockbox Account

4 Because of the administrative hardship that operating changes would impose on SHC,
5 SHC sought authority from the Bankruptcy Court to continue using its existing lockbox account
6 and business forms. Absent authorization to continue using its lockbox account, SHC's cash
7 flow could be impeded, to the detriment of SHC's estates and creditors.

8 d. Customer-Related Programs and Practices

9 SHC sought authority to honor, continue, or modify as necessary, in the ordinary course
10 of its business, the various programs and practices currently in place with its customers. These
11 programs are designed to ensure customer satisfaction, increase sales, respond to competitive
12 pressures, maintain customer loyalty, improve profitability, and generate good will for SHC and
13 its products.

14 e. Motion to Pay Administrative Vendor Claims

15 SHC sought authority to pay, in the ordinary course of business, the priority
16 administrative expenses, pursuant to Bankruptcy Code section 503(b)(9), for goods received
17 from its vendors within twenty days of the commencement of the case, provided that such
18 vendors agreed to continue to provide goods to SHC on ordinary business terms.

19 f. Motion to Assume Administaff Contract

20 SHC sought approval from the Bankruptcy Court of SHC's assumption of that certain
21 Client Service Agreement between SHC and Administaff Companies II, L.P. ("Administaff"),
22 pursuant to which, among other things, Administaff provides personnel services, including the
23 payment of wages and benefits to the vast majority of SHC's employees.

24 g. Motion to Assume Management Agreements

25 SHC sought authority from the Bankruptcy Court for SHC's assumption of the executive
26 management's employment and bonus-related agreements, pursuant to which, among other
27 things, the executive management would continue to be employed by SHC and SHC would
28 continue to honor its contractual compensation obligations to the executive management.

1 h. Retention of Professionals

2 The Debtors sought authority from the Bankruptcy Court to retain and employ certain
3 professionals to represent and assist them in connection with the Chapter 11 Cases. The
4 professionals that have been intimately involved in the negotiation and development of the Plan
5 and other aspects of the Debtors' reorganization include: (i) PWK, (ii) Imperial, and (iii) CRG.

6 **2. Use of Cash Collateral and Debtor in Possession Financing**

7 Although SHC is profitable on an operating basis (absent debt service) and is continuing
8 to grow its business with significant going concern value, it believes that it will not be able to
9 service its debt under the Credit Agreement and the SPGA in accordance with the terms of such
10 agreements, and that it should reorganize pursuant to the Plan. To accomplish this goal,
11 however, SHC must continue to have access to the Senior Secured Lenders' Cash Collateral in
12 order to operate during the pendency of the Chapter 11 Case. SHC has, together with the Senior
13 Secured Lenders, prepared a budget based on its anticipated cash needs for approximately
14 thirteen (13) weeks, through mid-March (as may be amended or modified, the "Budget"). As
15 set forth in the Budget, SHC requires cash for, among other things: (1) payroll, (2) office
16 expenses, (3) purchasing inventory, which in turn is sold to customers and generates
17 receivables, and (4) other ordinary course obligations. With respect to the purchase of
18 inventory, SHC historically has contracted with independent facilities that manufacture and
19 package its products, and SHC intends to continue that practice post-petition.

20 Because budget projections are forward-looking, they can never be entirely accurate.
21 Thus, to protect against unpredictable fluctuations in expenses and costs, SHC has requested
22 that it be permitted the flexibility to increase expenditures by up to 15% for any particular line
23 item in the Budget, or 10% in the aggregate. Under this structure, SHC will have the flexibility
24 to operate its business without disruption. The proposed terms of SHC's use of Cash Collateral
25 and post-petition financing are provided in a proposed order (the "Proposed Order") attached to
26 the Debtors' Emergency Motion for Interim and Final Orders Under 11 U.S.C. §§ 361, 363 and
27 364: (A) Authorizing Use of Cash Collateral, (B) Authorizing Debtor to Incur Post-Petition
28

1 Indebtedness, (C) Granting Security Interests, (D) Authorizing Adequate Protection, and (E)
2 Granting Other Relief.

3 a. Proposed Use of Cash Collateral

4 Subject to the terms of the Proposed Order, the Senior Secured Lenders have agreed to
5 consent to the use of Cash Collateral to pay those expenses identified in the Budget and amounts
6 and post-petition charges allowable pursuant to Bankruptcy Code section 506(b). The
7 procedure for the use of Cash Collateral, as agreed upon by the Senior Secured Lenders and
8 SHC, provides that, upon receipt by SHC of any Cash Collateral in excess of a minimum cash
9 threshold, SHC shall deposit the Cash Collateral in a blocked account. SHC may use the Cash
10 Collateral to fund Budget expenses, subject to the terms of the Proposed Order. SHC further
11 agreed that, except as provided in the Proposed Order, it would not seek to use Cash Collateral,
12 unless (i) it satisfied section 363 of the Bankruptcy Code and the Agent consents to such order,
13 or (ii) there is no obligation of the DIP Lenders (defined below) to extend postpetition debt and
14 Cash Collateral has been provided to the Agent in an amount sufficient to enable the repayment
15 in full of all outstanding the Postpetition Debt (defined below) and postpetition charges.

16 b. Incurring Post-Petition Debt and the Need for Post-Petition Financing

17 As of the Petition Date, the actual and projected income to SHC generated from the sales
18 of its products was not likely sufficient to cover its business operations post-petition, with the
19 additional costs of effectuating the restructuring. Over the next thirteen (13) weeks (the time
20 period covered by the Budget), SHC anticipates that it may need to borrow approximately \$3.3
21 million under the DIP Agreement. Moreover, fluctuations in the market and unforeseen
22 circumstances could lead to unlikely, but additional, cash flow problems. To instill confidence
23 in SHC's creditors, vendors, customers, employees and other parties in interest, SHC desires to
24 have debtor-in-possession financing in place to draw upon in the event of an emergency or an
25 unexpected adverse change in its business. As provided for in the Proposed Order and that
26 certain Debtor In Possession Credit Agreement, dated as of [●] (the "DIP Agreement"), by and
27 among SHC, as borrower, and Ecoly and Midco, as guarantors (the "Postpetition Guarantors"),
28 BMO and certain other lenders that may become party thereto from time to time (collectively,

1 the “DIP Lenders”), the cost of establishing the DIP financing is a fee of only \$100,000, which
2 SHC believes is far outweighed by the benefits to the estate.

3 Subject to the Bankruptcy Court’s approval, SHC, the Postpetition Guarantors, BMO
4 and the DIP Lenders negotiated and executed the DIP Agreement on the terms set forth in the
5 Proposed Order. The Debtors desired to obtain junior post-petition financing to be used for
6 SHC’s working capital, general business purposes and post-petition ongoing expenses. Without
7 obtaining post-petition financing, SHC would not be in the optimal position to successfully
8 continue the turnaround of its business and consummate a reorganization.

9 c. Proposed Agreement to Incur Post Petition Debt

10 Subject to the Proposed Order, the DIP Lenders have agreed to authorize the Debtors to
11 incur post petition debt and enter into the DIP Agreement. The terms on which the DIP
12 Lenders agree to extend post-petition debt to SHC provide that, in the event that there is
13 insufficient Cash Collateral, SHC will be allowed to incur postpetition debt under the DIP
14 Agreement (the “Postpetition Debt”) to pay expenses as enumerated in the Budget and to pay
15 allowable amounts pursuant to section 506(b) of the Bankruptcy Code and certain postpetition
16 charges. If the DIP Lenders advance money to SHC and the money is not used in accordance
17 with the terms of the Proposed Order, such advances shall still be considered Postpetition Debt.
18 In addition, the terms of the proposed debtor in possession financing include: (1) an interim
19 borrowing limit of \$2.5 million, (2) a final maximum borrowing limit of \$5 million, (3) an
20 interest rate per annum equal to the Base Rate, plus 5.0% per annum (payable monthly), (4) that
21 the Postpetition Debt will mature and become due, among other circumstances, on the Effective
22 Date, and (5) that certain guaranty set forth in the DIP Agreement will remain in effect
23 notwithstanding the entry of the Proposed Order and each Postpetition Guarantor shall remain
24 jointly and severally liable on the Postpetition Debt.

25 The Postpetition Debt was granted superpriority administrative expense status under
26 section 364(c)(1) of the Bankruptcy Code. The Postpetition Debt is secured by certain liens (the
27 “Postpetition Liens”) granted to the DIP Agent (as defined in the DIP Agreement), for the
28 benefit of the DIP Lenders, which, in addition to other terms set forth in the Proposed Order, are

1 junior liens pursuant to sections 364(c)(2) and (c)(3) of the Bankruptcy Code. The Debtors
2 must also refrain from incurring or seeking to incur additional debt secured by a lien equal or
3 superior to the Senior Secured Lenders' prepetition liens, the Postpetition Liens or which is
4 given superpriority administrative status, unless, in addition to complying with section 364 of
5 the Bankruptcy Code, the DIP Lenders consent to such order or there is no obligation of the DIP
6 Lenders to extend Postpetition Debt and Cash Collateral has been provided to pay the Agent in
7 an amount sufficient to enable the repayment in full of all outstanding Postpetition Debt and
8 postpetition charges.

9 The terms of the proposed financing further provide that the prepetition liens of the
10 Senior Secured Lenders constitute priority liens, that the Debtors' debt under the Credit
11 Agreement constitutes a legal, valid and binding obligation of the Debtors, that no offsets,
12 defenses or counterclaims to such prepetition debt exist, and that the Senior Secured Lenders'
13 prepetition claim, with respect to such prepetition debt, constitutes an allowed secured claim
14 within the meaning of Bankruptcy Code section 506.

15 Further, the Senior Secured Lenders have been granted replacement liens as security for
16 the payment of their prepetition debt. As an additional adequate protection for the Senior
17 Secured Lenders, SHC will make all interest payments, fees, costs and other charges in respect
18 of their prepetition debt that has accrued prior to the Petition Date and all allowable 506(b)
19 amounts. Moreover, the Agent is authorized to cause such amounts to be paid by making
20 advances under the DIP Agreement. To the extent the collateral under the Credit Agreement is
21 insufficient to adequately protect the interests of the Senior Secured Lenders, they shall have an
22 allowable claim under Bankruptcy Code section 507(b), with priority over administrative costs
23 and expenses of the case and claims of any other party in interest under Bankruptcy Code
24 section 507(b).

25 **3. Other Legal Proceedings**

26 In addition to the bankruptcy proceedings and the Class Action Lawsuit, the Debtors are
27 involved in certain other nonbankruptcy legal proceedings which have also been stayed as of the
28 Petition Date pursuant to Bankruptcy Code section 362.

1 **4. Procedures Implemented to Resolve Financial Problems**

2 Pursuant to the Plan, SHC proposes to deleverage its balance sheet by paying down a
3 portion of, and restructuring the remaining outstanding amount of, the Senior Secured Lenders'
4 debt, and by paying down a portion of and discharging the remainder of SHC's obligations to
5 NML. As a result, after the Effective Date, SHC's business will have a markedly lower debt
6 service obligation going forward.

7 In addition, the Plan Sponsor has indicated that it intends to change certain aspects of
8 product packaging and advertising, to eliminate any potential for liability such as has been
9 asserted in the Class Action Lawsuit. In the Investment Agreement, SHC has agreed to begin to
10 implement reasonable changes to the packaging during the pendency of the chapter 11 cases.

11 **5. Current and Historical Financial Conditions**

12 Currently, SHC has secured obligations to the Senior Secured Lenders totaling
13 approximately \$62 million. SHC has an unsecured obligation to NML totaling approximately
14 \$24 million. SHC's remaining unsecured claims, including, among other types of obligations,
15 trade debt, total approximately \$4 million. SHC's historical financial information is contained
16 in its audited financial statements. SHC's 2008 audited financial statements are attached hereto
17 as Exhibit A, and the 2009 audited financial statements are attached hereto as Exhibit B. SHC's
18 November 2010 financial statements are also attached hereto as Exhibit C, however, these have
19 not been audited and have not been prepared in accordance with generally accepted accounting
20 principles. Projected financial statements for 2011 are attached hereto as Exhibit D.

21 **III.**

22 **SUMMARY OF THE PLAN OF REORGANIZATION**

23 **A. What Creditors and Interest Holders Will Receive Under The Proposed Plan**

24 As required by the Bankruptcy Code, the Plan classifies claims and interests in various
25 classes according to their right to priority. The Plan states whether each class of claims or
26 interests is impaired or unimpaired. The Plan provides the treatment each class will receive.

27 **B. Unclassified Claims**

28 Certain types of claims are not placed into voting classes; instead they are unclassified.

1 Such claims are not considered impaired and they do not vote on the Plan because they are
2 automatically entitled to specific treatment pursuant to the Bankruptcy Code. As such, the
3 Debtors have not placed the following claims in a class.

4 **1. Administrative Claims**

5 Administrative claims are claims for costs or expenses of administering SHC's
6 Chapter 11 Case which are allowed under Bankruptcy Code section 507(a)(1). The Bankruptcy
7 Code requires that all administrative claims be paid on the Effective Date of the Plan, unless a
8 particular claimant agrees to a different treatment.

9 The Bankruptcy Court must rule on all professional fees before the fees will be owed.
10 For all fees, except Clerk's Office fees and U.S. Trustee's fees, the Professional in question
11 must file and serve a properly noticed fee application and the Bankruptcy Court must rule on
12 such application. Only the amount of fees allowed by the Bankruptcy Court will be owed and
13 required to be paid under the Plan.

14 As indicated above, it is expected that SHC will need to pay approximately \$2,600,000
15 in administrative claims on the Effective Date of the Plan unless the claimant has agreed to be
16 paid later or the Bankruptcy Court has not yet ruled on the claim at issue. As indicated in
17 section VI.B of the Disclosure Statement, SHC will have approximately \$43,000,000.00 amount
18 of cash on hand on the Effective Date of the Plan. The source of this cash will be cash from that
19 the Plan Sponsor pays pursuant to the Investment Agreement.

20 **2. Priority Tax Claims**

21 Priority tax claims are certain unsecured income, employment and other taxes described
22 in section 507(a)(8) of the Bankruptcy Code. The Bankruptcy Code requires that each holder of
23 such a priority tax claim receive no less than the present value of such claim in deferred cash
24 payments, over a period not exceeding six (6) years from the date of the assessment of such tax.

25 **3. DIP Financing Claims**

26 On the Effective Date, each holder of an allowed claim arising under the DIP Agreement
27 (each such claim, a "DIP Financing Claim") shall receive Cash in an amount equal to such
28 Claim in full and complete satisfaction of such Claim.

C. Classified Claims and Interests

1. Classes of Secured Claims

Secured claims are claims secured by liens on property of the estate. The following chart lists all classes containing SHC’s secured pre-petition claims and their treatment under this Plan (see Exhibit E for more detailed information about Allowed Secured Lender Claims and Allowed Other Secured Claims):

Class	Description	Insider (y/n)	Impaired (y/n)	Treatment
A-1	Allowed Secured Lender Claims	N	Y	On the Effective Date, each of the Senior Secured Lenders shall receive on account of its Allowed Claims (x) its pro rata share of Cash in an amount sufficient to reduce the aggregate principal amount of all Secured Lender Claims, plus all accrued and unpaid interest through the Effective Date, to \$35 million and (y) its pro rata share of 100% of the Loans under the New Credit Facility.
A-2	Allowed Other Secured Claims	N	N	To the extent not satisfied by SHC prior to the Effective Date, at the option of the Reorganized Debtor, on or after the Effective Date, (i) an Allowed Other Secured Claim shall be Reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code, (ii) a Holder of an Allowed Other Secured Claim shall receive the Collateral securing both its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, or (iii) a Holder of an Allowed Other Secured Claim shall receive such treatment as to which such holder and the Reorganized Debtor otherwise agree.

2. Classes of Priority Unsecured Claims

Certain priority claims that are referred to in Bankruptcy Code sections 507(a)(3), (4), (5), (6), and (7) are required to be placed in classes. These types of claims are entitled to priority treatment as follows: the Bankruptcy Code requires that each holder of such a claim receive cash on the Effective Date equal to the allowed amount of such claim. However, a class of unsecured priority claim holders may vote to accept deferred cash payments of a value, as of the Effective Date, equal to the allowed amount of such claims.

The following chart lists all classes containing SHC’s priority unsecured claims pursuant to Bankruptcy Code sections 507(a)(3), (a)(4), (a)(5), (a)(6), and (a)(7) and their proposed treatment under this Plan (see Exhibit F for more detailed information about each priority

1 unsecured claim).

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Class	Description	Impaired	Treatment
B	Allowed Priority Non-Tax Claims	N	Each Holder of an Allowed Priority Non-Tax Claim shall receive Cash in an amount equal to such Allowed Priority Non-Tax Claim on the later of the Effective Date and the date such Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, or as soon thereafter as is practicable, unless the Holder of an Allowed Priority Non-Tax Claim and the Reorganized Debtor or SHC, with the consent of the Plan Sponsor, otherwise agree.

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9 **3. Trade Claims**

10 Trade claims are claims for the value of goods or services provided to SHC in the
11 ordinary course of business prior to the Petition Date that are not entitled to priority under
12 Bankruptcy Code section 507(a) (“Trade Claims”). Trade Claims are not impaired by the Plan
13 and are deemed to accept the Plan. The following chart identifies this Plan’s proposed treatment
14 of the class containing all of the Trade Claims (see Exhibit G for more detailed information
15 about each Trade Claim):

16

Class	Description	Impaired	Treatment
C	Trade Claims	N	On the Effective Date, all Allowed Trade Claims shall be assumed by the Reorganized Debtor and each Holder of an Allowed Trade Claim shall be paid Cash in the amount of 100% of its Allowed Claim from the Reorganized Debtor on customary payment terms consistent with past practice, plus, if such payment is made after the date on which such payment would have been due by its terms, at the discretion of the Reorganized Debtor, interest at the Federal Judgment Rate, except as any such Holder and the Reorganized Debtor shall otherwise agree.

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24 **4. Class of General Unsecured Claims**

25 General unsecured claims are unsecured claims not entitled to priority under Bankruptcy
26 Code section 507(a), and that are not Trade Claims. These claims include, among others, the
27 Class Action Lawsuit claims and any other litigation creditors, the claims of the Subordinated
28

1 Lender and any Rejection Damages Claim that may arise. The following chart identifies this
 2 Plan’s treatment of the class containing all of SHC’s general unsecured claims (see Exhibit H
 3 for more detailed information about each Allowed General Unsecured Claim):

Class	Description	Impaired	Treatment
D	Allowed General Unsecured Claims	Y	On the Effective Date, each Holder of an Allowed General Unsecured Claim shall receive its pro rata share of the Plan Trust Interests allocable to the Holders of General Unsecured Claims on account of its Allowed Claim.

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 9 **5. Class of Old Equity Interests**

10 Old Equity Interests holders are parties who hold any (a) equity security, including all
 11 issued, unissued, authorized, or outstanding shares of stock together with any warrants, options,
 12 or contractual rights to purchase or acquire such equity securities at any time and all rights
 13 arising with respect thereto and (b) partnership, limited liability company or similar interest in
 14 SHC and any rights, options, warrants, calls, subscriptions or other similar rights or agreements,
 15 commitments or outstanding securities obligating SHC to issue, transfer or sell any of the
 16 foregoing.

17 The following chart identifies the Plan’s treatment of the class of interest holders (see
 18 Exhibit I for more detailed information about Old Equity Interests):

Class	Description	Impaired	Treatment
E	Old Equity Interests	Y	Each holder of an Old Equity Interest shall not be entitled to, and shall not receive or retain any property or interest in property on account of such Old Equity Interest.

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 23 **D. Means of Effectuating the Plan**

24 **1. Funding for the Plan**

25 Except as otherwise provided in the Plan or the order confirming the Plan, distributions
 26 under the Plan will be funded by (i) a capital infusion, made pursuant to the Investment
 27 Agreement in exchange for 100% of the newly issued common stock of the Reorganized
 28

1 Debtor, from the Plan Sponsor in the amount of approximately \$43 million, plus or minus
2 certain adjustments, and (ii) existing cash balances of SHC at the Effective Date.

3 **2. Section 1145 Exemption**

4 Pursuant to Bankruptcy Code section 1145, the offering, issuance, and distribution of
5 any securities contemplated by the Plan and any and all settlement agreements incorporated
6 therein, specifically the Plan Trust beneficial interests (to the extent they are securities), shall, to
7 the fullest extent permitted by applicable law, be exempt from, among other things, the
8 registration requirements of section 5 of the Securities Act and any other applicable law
9 requiring registration prior to the offering, issuance, distribution, or sale of Securities. In
10 addition, under Bankruptcy Code section 1145, any securities contemplated by the Plan,
11 including the Plan Trust beneficial interests will be freely tradable and transferable by the
12 recipients thereof, subject to (i) the provisions of Bankruptcy Code section 1145(b)(1) relating
13 to the definition of an underwriter in section 2(a)(11) of the Securities Act, and compliance with
14 any rules and regulations of the Securities and Exchange Commission, if any, applicable at the
15 time of any future transfer of such Securities or instruments; (ii) the restrictions, if any, on the
16 transferability of such Securities and instruments set forth in the Plan Trust Agreement; and (iii)
17 applicable regulatory approval.

18 **3. Issuance and Distribution of the Reorganized Debtor Equity Interests**

19 The Reorganized Debtor Equity Interests, when issued or distributed as provided in the
20 Plan, will be duly authorized, validly issued, and, if applicable, fully paid and nonassessable.
21 Each distribution and issuance will be governed by the terms and conditions set forth in the Plan
22 applicable to such distribution or issuance and by the terms and conditions of the instruments
23 evidencing or relating to such distribution or issuance.

24 **4. New Credit Agreement**

25 On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized
26 Debtor will enter into a credit agreement with respect to a new term facility and the Exit
27 Revolver Facility (the "New Credit Agreement"), on the terms to be set forth in the Plan
28 Supplement. The Reorganized Debtor will be further authorized to execute, deliver, file, record

1 and issue any other agreements, instruments or documents reasonably requested by the agent
2 under the New Credit Agreement, in each case without further notice to or order of the
3 Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote,
4 consent, authorization or approval of any person (other than as expressly required under or by
5 the New Credit Agreement).

6 Upon the effectiveness of and in accordance with the terms of the New Credit
7 Agreement, (i) the Reorganized Debtor will be authorized to perform its obligations thereunder
8 including, without limitation, the payment or reimbursement of any fees, expenses, losses,
9 damages or indemnities, (ii) the New Credit Agreement will constitute the legal, valid and
10 binding obligation of the Reorganized Debtor, enforceable with its terms, and (iii) no obligation,
11 payment, transfer or grant of security under the New Credit Agreement will be stayed,
12 restrained, voidable, or recoverable under the Bankruptcy Code or under any applicable law or
13 subject to any defense, reduction, recoupment, setoff or counterclaim. Confirmation of the Plan
14 will be deemed approval of the New Credit Agreement (including the transactions contemplated
15 thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred by
16 the Reorganized Debtor in connection therewith, including the payment of all fees, indemnities,
17 and expenses provided for therein) and authorization for the Reorganized Debtor to enter into
18 and execute the New Credit Agreement.

19 **5. Exit Revolver Facility**

20 On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized
21 Debtor will enter into a revolving credit facility substantially on the terms set forth in the Plan
22 Supplement (the "Exit Revolver Facility"), and the Reorganized Debtor will be further
23 authorized to execute, deliver, file, record and issue any other agreements, instruments or
24 documents reasonably requested by the agent under the Exit Revolver Facility, in each case
25 without further notice to or order of the Bankruptcy Court, act or action under applicable law,
26 regulation, order or rule or the vote, consent, authorization or approval of any person (other than
27 as expressly required under or by the Exit Revolver Facility).

28

1 Upon the effectiveness of and in accordance with the terms of the Exit Revolver Facility,
2 (i) the Reorganized Debtor will be authorized to perform its obligations thereunder including,
3 without limitation, the payment or reimbursement of any fees, expenses, losses, damages or
4 indemnities, (ii) the Exit Revolver Facility will constitute the legal, valid and binding obligation
5 of the Reorganized Debtor, enforceable with its terms, and (iii) no obligation, payment, transfer
6 or grant of security under the Exit Revolver Facility will be stayed, restrained, voidable, or
7 recoverable under the Bankruptcy Code or under any applicable law or subject to any defense,
8 reduction, recoupment, setoff or counterclaim. Confirmation of the Plan will be deemed
9 approval of the Exit Revolver Facility (including the transactions contemplated thereby, and all
10 actions to be taken, undertakings to be made, and obligations to be incurred by the Reorganized
11 Debtor in connection therewith, including the payment of all fees, indemnities, and expenses
12 provided for therein) and authorization for the Reorganized Debtor to enter into and execute the
13 Exit Revolver Facility.

14 **6. The Plan Trust**

15 On the Effective Date, a plan trust (together with any related advisory board or similar
16 oversight committee, the “Plan Trust”) will be implemented pursuant to the terms of that certain
17 trust agreement, substantially on the terms set forth in the Plan Supplement (the “Plan Trust
18 Agreement”). The identity of the Plan Trustee shall be set forth in the Plan Supplement. On the
19 Effective Date, pursuant to the terms of the Plan Trust Agreement, SHC will transfer the Plan
20 Trust Assets for and on behalf of the Holders of Allowed Claims in Class D (the “Plan Trust
21 Beneficiaries”). For all federal income tax purposes, the beneficiaries of the Plan Trust shall be
22 treated as grantors and owners thereof and it is intended that the Plan Trust be classified as a
23 liquidating trust under Section 301.7701-4 of the Treasury Regulations and that such trust is
24 owned by its beneficiaries. Accordingly, for federal income tax purposes, it is intended that the
25 Plan Trust Beneficiaries be treated as if they had received a distribution of an undivided interest
26 in the Plan Trust Assets and then contributed such interests to the Plan Trust. The Plan Trust
27 Assets will fund the Plan Trust.
28

1 The Plan Trust Beneficiaries have the right to object to the claims of other beneficiaries
2 of the Plan Trust. The Plan Trustee does not have any standing to object to claims. Also, any
3 objections will be prosecuted at the expense of each party thereto, as neither the Reorganized
4 Debtor nor the Plan Trust will pay the costs or expenses of any such objections. Any objections
5 to the claims of other beneficiaries of the Plan Trust shall be served and filed on or before the
6 later of (i) sixty (60) days after the Effective Date, and (ii) such date as may be fixed by the
7 Bankruptcy Court.

8 **7. Class Action Lawsuit Claims**

9 The class of creditors party to the Class Action Lawsuit shall be certified as a class,
10 solely for purposes of voting on the Plan, and not for any other purposes in connection with
11 allowance of claims, settlement, liability or damages in the action pending in the United States
12 District Court for the Southern District of New York, and shall be entitled to vote on the Plan
13 their claims in the dollar amount and number of claims to be set forth in the proof of claim filed
14 by or on behalf of such certified class.

15 **8. Protective Injunction for the Reorganized Debtor**

16 The Investment Agreement and Plan contemplate that SHC shall seek, in the
17 Confirmation Order, an injunction against any person asserting against the Reorganized Debtor
18 certain claims relating to the product packaging and marketing of hair-care products. This
19 injunction is necessary and beneficial to the going-concern operation of SHC because SHC
20 already has on-hand, and in inventory pipelines, product packaging that has printed on it
21 statements of the type that are the subject of the allegations in the Class Action Lawsuit. Unless
22 the Reorganized Debtor can continue to sell and distribute its products in such inventory during
23 a transition period, the value of such on-hand, in-transit and on-order packaging inventory will
24 be lost, substantially reducing the value of the Reorganized Debtor's business and the
25 distributions that could be made to creditors. Moreover, if the Reorganized Debtor's business
26 cannot continue to use such inventory in the ordinary course, there would be an interruption in
27 product flow to the market as new packaging is ordered, produced and shipped to the
28 Reorganized Debtor and its contract manufacturers. This might have an even greater adverse

1 affect on the value of the Reorganized Debtor. Accordingly, the proposed injunction allows the
2 Reorganized Debtor to use such packaging and related advertising for a period of twelve
3 months, and precludes suits based on such use.

4 The Investment Agreement provides that in the event that the Bankruptcy Court does not
5 grant the requested injunction, then a larger amount of the cash investment to be made by the
6 Plan Sponsor will be escrowed, and the entire escrow will be available to indemnify the Plan
7 Sponsor for any losses incurred for claims during the twelve-month period following the
8 Effective Date that are similar to the claims in the Class Action Lawsuit, all subject to the
9 specific terms and conditions set forth in the Investment Agreement.

10 **9. Corporate Structure of the Reorganized Debtor**

11 Immediately following the closing of the transaction contemplated by the Plan and the
12 Investment Agreement, the Reorganized Debtor will be domesticated as a Delaware corporation
13 and will be wholly owned by the Plan Sponsor.

14 **10. Board of Directors of the Reorganized Debtor**

15 The size and composition of the board of directors of the Reorganized Debtor on and
16 after the Effective Date has not been determined, but will consist of certain individuals to be
17 designated in the Plan Supplement to be filed with the Bankruptcy Court prior to the hearing to
18 confirm the Plan.

19 **11. Disbursing Agent**

20 All distributions under the Plan shall be made, and the reserve on account of Accrued
21 Professional Compensation shall be set, by the Plan Trustee (or such other entity designated by
22 the Reorganized Debtor, as Disbursing Agent, on or after the Effective Date, as otherwise
23 provided in the Plan, or in the Plan Trust Agreement; provided, however, that the Agent (or such
24 other entity designated by each such Administrative Agent) will be the Disbursing Agent for the
25 Senior Secured Lenders, and the Reorganized Debtor will be the Disbursing Agent for Trade
26 Claims. A Disbursing Agent will not be required to give any bond or surety or other security for
27 the performance of its duties.
28

1 **E. Risk Factors**

2 ELIGIBLE HOLDERS OF CLAIMS AGAINST SHC SHOULD READ AND
3 CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE
4 OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE
5 DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED BY
6 REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN.
7 THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS
8 CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN
9 AND ITS IMPLEMENTATION. ADDITIONAL RISKS AND UNCERTAINTIES NOT
10 PRESENTLY KNOWN TO SHC, OR THAT IT CURRENTLY DEEMS IMMATERIAL,
11 MAY ALSO HARM ITS BUSINESS.

12 THE PROPOSED PLAN HAS THE FOLLOWING RISKS:

13 **1. Certain Bankruptcy Considerations**

14 Although SHC believes that the Plan will satisfy all requirements necessary for
15 confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will
16 reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan
17 will not be required for confirmation or that such modifications would not necessitate the re-
18 solicitation of votes. Also, although SHC believes that the Effective Date will occur soon after
19 the Confirmation Date, there can be no assurance as to such timing. In the event the conditions
20 precedent described in Article VIII of the Plan have not been satisfied, or waived (to the extent
21 possible) by SHC or the applicable party or parties (as provided for in the Plan) as of the
22 Effective Date, then the Confirmation Order will be vacated, no distributions under the Plan will
23 be made, and SHC and all holders of Claims and Equity Interests will be restored to the *status*
24 *quo ante* as of the day immediately preceding the Confirmation Date as though the
25 Confirmation Date had never occurred.

26 The Plan provides for no distribution to Class E. The Bankruptcy Code conclusively
27 deems this Class to have rejected the Plan. Notwithstanding the fact that this Class is deemed to
28 have rejected the Plan, the Bankruptcy Court may confirm the Plan if at least one impaired class

1 votes to accept the Plan (with such acceptance being determined without including the vote of
2 any “insider” in such class). Thus, for the Plan to be confirmed, one impaired Class, among
3 Classes A-1 and D, must vote to accept the Plan. The Consenting Senior Secured Lenders in
4 Class A-1 have already, prior to the Petition Date, delivered acceptance of the Plan sufficient to
5 create an impaired accepting class. However, under certain circumstances set forth in the Plan
6 Support Agreement (such as certain modifications to the Plan or the occurrence of certain
7 adverse events), such Consenting Senior Secured Lenders would be permitted to change their
8 acceptances. As to each impaired class that has not accepted the Plan, the Plan may be
9 confirmed if the Bankruptcy Court determines that the Plan “does not discriminate unfairly” and
10 is “fair and equitable” with respect to these classes. SHC believes that the Plan satisfies these
11 requirements. For more information, see Article VI below.

12 **2. Competitive Conditions**

13 The hair care products industry is highly competitive. The Reorganized Debtor will face
14 competition from other hair care products companies. Competition puts downward pressure on
15 prices, creates scarcity in shelf space at material retailers, and may result in reduced production.

16 **3. Hart-Scott-Rodino Act**

17 The Restructuring Transactions contemplated under the Investment Agreement and Plan
18 require SHC and the Plan Sponsor to file a Premerger Notification and Report Form (“HSR
19 Filing”) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The
20 Plan Sponsor and SHC have previously completed the HSR Filing and the notification and
21 waiting period applicable to SHC and the Plan Sponsor under such Act expired on May 28,
22 2010 at 11:59 p.m. Further, under the Agreement, if a Legal Proceeding is asserted or
23 threatened by any governmental body or agency, then SHC and the Plan Sponsor each have a
24 right to terminate the Investment Agreement.

25 **F. Certain Tax Considerations**

26 CIRCULAR 230 DISCLOSURE: ANY U.S. TAX ADVICE CONTAINED HEREIN
27 (A) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE
28

1 TRANSACTION OR MATTERS ADDRESSED IN THIS DISCLOSURE STATEMENT,
2 AND (B) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY
3 ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING U.S. TAX PENALTIES. EACH
4 HOLDER OF CLAIMS SHOULD SEEK ADVICE BASED ON THE HOLDER'S
5 PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

6 The following is a discussion of certain significant federal income tax considerations of
7 the Plan under the U.S. Internal Revenue Code of 1986, as amended (the "Tax Code"). This
8 discussion is limited to certain tax considerations for Holders of Claims that are U.S. Holders
9 who, except to the extent otherwise discussed herein, hold Secured Lender or general unsecured
10 claims as capital assets (generally, property held for investment within the meaning of Section
11 1221 of the Tax Code) and will hold the Loans or Plan Trust Interests, as applicable, as capital
12 assets. It does not address the U.S. federal income tax consequences to holders whose Claims
13 are unimpaired or otherwise entitled to payment in full in cash under the Plan, to holders of
14 Claims extinguished without a distribution in exchange therefor, to holders of Equity Interests ,
15 to Holders of Trade Claims, or generally those holders who negotiated their own settlements
16 with the Debtors.

17 A "U.S. Holder" means a beneficial owner of a Claim that is, for U.S. federal income
18 tax purposes:

- 19 • an individual citizen or resident of the U.S., including an alien individual who is a lawful
20 permanent resident of the U.S. or who meets the "substantial presence" test under
21 Section 7701(b) of the Tax Code;
- 22 • a corporation or other entity taxable as a corporation for U.S. federal income tax
23 purposes created or organized in the U.S. or under the laws of the U.S., any state thereof
24 or the District of Columbia;
- 25 • an estate, the income of which is subject to U.S. federal income tax regardless of its
26 source;
- 27
- 28

- or a trust, if (i) a U.S. court can exercise primary supervision over the administration of the trust and one or more United States persons (within the meaning of the Tax Code) have the authority to control all substantial trust decisions or (ii) a valid election is in place to treat the trust as a United States person.

This general discussion does not address all aspects of U.S. federal income tax that may be relevant to a Holder of Claims in light of such Holder's specific circumstances, or to certain types of Holders of Claims subject to special treatment under the federal income tax laws, including but not limited to (i) banks, financial institutions, insurance companies, expatriates or former long-term residents of the United States, Holders subject to the alternative minimum tax, individual retirement accounts or other tax-deferred accounts, tax-exempt organizations, regulated investment companies, real estate investment trusts, insurance companies, employee stock ownership plans, brokers, dealers in securities or currencies, partnerships or other pass-through entities, (ii) Holders who hold Claims or who will hold the Loans or Plan Trust Interests as part of a straddle, hedge, conversion transaction or other integrated investment, (iii) Holders whose functional currency is not the U.S. dollar and (iv) Holders who use the mark-to-market method of accounting. In addition, this discussion does not address state, local or foreign taxes, or estate or gift tax issues. Finally, this discussion does not address the tax consequences of actions that might be taken on or after the Effective Date by Holders with respect to distributions received pursuant to the Plan, including actions that might be integrated for federal tax purposes with and thereby affect the tax consequences of the transactions contemplated by the Plan.

This discussion is based on the Tax Code, U.S. treasury regulations promulgated thereunder ("Treasury Regulations"), Internal Revenue Service ("IRS") rulings and judicial decisions now in effect or in existence as of the date of this discussion, all subject to change (possibly with retroactive effect) or to differing interpretations. No opinion of counsel has been sought or obtained with respect to the federal income tax consequences of the Plan and no tax opinion is given by this Disclosure Statement. No rulings or determination from the IRS or any

1 other taxing authorities have been obtained or sought with respect to the Plan, and the
2 description below is not binding on the IRS or such other taxing authorities. With respect to
3 some of the federal income tax consequences discussed herein, the tax law is unclear.
4 Accordingly, it is possible that the IRS will disagree with the description of the tax
5 consequences, and there can be no certainty that the IRS would not prevail in any challenge it
6 may decide to make in that regard.

7 FOR THE FOREGOING REASONS, ALL HOLDERS OF CLAIMS ARE URGED TO
8 CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX
9 CONSEQUENCES (FOREIGN, FEDERAL, STATE AND LOCAL) OF THE PLAN TO
10 THEM. SHC IS NOT MAKING ANY REPRESENTATIONS REGARDING THE
11 PARTICULAR TAX CONSEQUENCES OF THE CONFIRMATION AND
12 CONSUMMATION OF THE PLAN AS TO SHC OR TO ANY SPECIFIC HOLDER OF A
13 CLAIM.

14 **1. Tax Consequences to SHC**

15 For U.S. federal income tax purposes, SHC is an entity disregarded as separate from its
16 owner, Ecoly, Inc., which is a member of a consolidated group of corporations constituted by
17 SHC and the Debtor Ecoly (the "Corporate Debtors"). As a result of implementation of the
18 Plan, the Plan Sponsor will, solely for U.S. federal income tax purposes, be deemed to acquire
19 by purchase all of the assets of SHC; such treatment results from the fact that SHC is a
20 disregarded entity for tax purposes. Because the issuance of Reorganized Debtor Equity
21 Interests will, solely for U.S. federal income tax purposes, constitute an asset sale, all tax
22 attributes relating to those interests will remain with the corporate Debtor Ecoly.

23 The Debtors will treat the transfer of the Plan Trust Assets to the Plan Trust as (i) a
24 transfer of such assets to the initial beneficiaries of the Plan Trust (i.e., those holders of Claims
25 that are entitled to receive Beneficial Interests under the Plan) followed by (ii) a transfer of such
26 assets by such beneficiaries to the Plan Trust, with the beneficiaries being treated as the grantors
27 and owners of the Plan Trust. SHC's transfer of assets to the initial beneficiaries of the Plan
28

1 Trust will constitute a taxable disposition of such assets. The Debtors will be required to use the
2 valuation of the assets provided by the Plan Trustee for all federal income tax purposes.

3 As a result of the implementation of the Plan, the Corporate Debtors could incur
4 cancellation of indebtedness (“COD”) income for U.S. federal income tax purposes. In
5 particular, Corporate Debtors may have COD income as a result of the transfer of assets to the
6 Plan Trust. COD income is generally the amount by which the adjusted issue price of the
7 indebtedness discharged exceeds the amount of cash and the fair market value of any other
8 consideration given in exchange therefor, subject to certain limitations. COD income may be
9 excludable under a special bankruptcy exception in the Tax Code.

10 For U.S. federal income tax purposes, any net operating losses (“NOLs”) will remain
11 within the Corporate Debtors and will not be transferred to the Plan Sponsor as a result of the
12 implementation of the Plan. Such NOLs, therefore, will not be available to offset any income
13 that is realized by SHC following the implementation of the Plan.

14 In general, the alternative minimum tax (“AMT”) is imposed on a corporation’s
15 alternative minimum taxable income at a 20% rate to the extent that such tax exceeds the
16 corporation’s regular federal income tax. For purposes of computing taxable income for AMT
17 purposes, certain tax deductions and other beneficial allowances are modified or eliminated. In
18 particular, even though a corporation might otherwise be able to offset all of its taxable income
19 for regular tax purposes by available NOL carryovers, only 90% of a corporation’s taxable
20 income for AMT purposes generally may be offset by available NOL carryovers (as recomputed
21 for AMT purposes). Accordingly, it is possible that the Debtors may have an AMT liability as a
22 result of the transactions contemplated by the Plan.

23 **2. Tax Consequences to Holders of Claims**

24 a. Receipt of Plan Trust Interests

25 The Plan Trust is intended to qualify as a liquidating trust for U.S. federal income tax
26 purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for
27 U. S. federal income tax purposes as a “grantor trust” (*i.e.*, a pass-through entity). However,
28 merely establishing a trust as a liquidating trust does not ensure that it will be treated as a

1 grantor trust for U.S. federal income tax purposes. The IRS, in Revenue Procedure 94-45,
2 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust
3 status of a liquidating trust under a chapter 11 plan. The Plan Trust has been structured with the
4 intention of complying with such general criteria.

5 Pursuant to the Plan, and in conformity with Rev. Proc. 94-45, the Plan Trust Assets will
6 be transferred to the Plan Trust. All parties will be required to treat, for U.S. federal income tax
7 purposes, the transfer of the Plan Trust Assets to the Plan Trust as (i) a transfer of such assets to
8 the initial beneficiaries of the Plan Trust (i.e., those holders of Claims that are entitled to receive
9 Plan Trust Interests, i.e., the Plan Trust Beneficiaries) followed by (ii) a transfer of such assets
10 by such beneficiaries to the Plan Trust, with the beneficiaries being treated as the grantors and
11 owners of the Plan Trust.

12 The following discussion assumes that the Plan Trust will be so respected for U.S.
13 federal income tax purposes. However, no ruling has been requested from the IRS and no
14 opinion of counsel has been requested concerning the tax status of the Plan Trust as a grantor
15 trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. If
16 the IRS were to challenge successfully the classification of the Plan Trust, the U.S. federal
17 income tax consequences to the Plan Trust, the Plan Trust Beneficiaries and the Debtors could
18 vary from those discussed herein (including the potential for an entity-level tax on any income
19 of the Plan Trust).

20 Each Holder of a Claim that receives Plan Trust Interests pursuant to the Plan generally
21 will recognize gain or loss in an amount equal to the difference between the amount realized in
22 respect of its Claim and its adjusted tax basis in such Claim. The amount realized for this
23 purpose should generally equal the amount of cash and the fair market value of any other assets
24 received or deemed received for federal income tax purposes under the Plan in respect of such
25 Holder's Claim. See sections B.3 and B.4 below regarding the allocation of distributions
26 received between principal and interest and the character of any gain or loss realized. A Holder
27 that receives or is deemed to receive for U.S. federal income tax purposes a non-cash asset
28

1 under the Plan in respect of its Claim should generally have a tax basis in such asset in an
2 amount equal to the fair market value of such asset on the date of receipt.

3 The Plan Trustee shall value the Plan Trust Assets as of the Effective Date and shall
4 notify in writing the Plan Trust Beneficiaries of such valuations from time to time as relevant
5 for tax reporting purposes. Each of the Plan Trust, the Plan Trustee and the Plan Trust
6 Beneficiaries shall be required to use such valuations for all applicable reporting purposes,
7 including for U.S. federal income tax purposes.

8 A grantor trust (as the Plan Trust is intended to be) is treated as a pass-through entity for
9 U.S. federal income tax purposes. If so treated, then in general no tax should be imposed on the
10 deemed transfer of assets by a Holder to the Plan Trust. In addition, no tax should be imposed
11 on the Plan Trust on the receipt (or deemed receipt) of such assets or on income earned or gain
12 recognized by the Plan Trust with respect to those assets. Instead, the Plan Trust Beneficiaries
13 will be taxed on their respective allocable shares of such net income or gain in each taxable year
14 and will be responsible for paying the taxes associated with such income or gain whether or not
15 they received any distributions from the Plan Trust in such taxable year.

16 Allocations of taxable income of the Plan Trust among the Plan Trust Beneficiaries shall
17 be determined by reference to the manner in which an amount of cash equal to such taxable
18 income would be distributed (were such cash permitted to be distributed at such time) if,
19 immediately prior to such deemed distribution, the Plan Trust had distributed all its assets
20 (valued at their tax book value) to the holders of the Beneficial Interests in the Plan Trust,
21 adjusted for prior taxable income and loss and taking into account all prior and concurrent
22 distributions from the Plan Trust. Similarly, taxable loss of the Plan Trust shall be allocated by
23 reference to the manner in which an economic loss would be borne immediately after a
24 liquidating distribution of the remaining Plan Trust Assets. The tax book value of the Plan Trust
25 Assets for this purpose shall equal their fair market value on the Effective Date, adjusted in
26 accordance with tax accounting principles prescribed by the Tax Code, the applicable Treasury
27 Regulations, and other applicable administrative and judicial authorities and pronouncements.

28

1 The Plan Trustee is required to file returns for the grantor trust pursuant to Treasury
2 Regulation Section 1.671-4(a). The Plan Trustee also shall annually send to each Plan Trust
3 Beneficiary a separate statement setting forth the holder's share of items of income, gain, loss,
4 deduction or credit and will instruct all such holders to report such items on their U.S. federal
5 income tax returns or to forward the appropriate information to such holder's underlying
6 beneficial holders with instructions to report such items on their U.S. federal income tax returns.

7 b. Exchange of the Secured Lender Claims for Loans Under the New Credit
8 Agreement (the "Exchange")

9 Whether and to what extent Holders of Claims will be required to recognize gain or loss
10 in connection with their participation in the exchange of their Secured Lender Claims for the
11 Exchange will depend on whether the Exchange qualifies as a reorganization pursuant to
12 Section 368 of the Tax Code. In general, the Exchange will qualify as a reorganization if,
13 among other requirements, the Secured Lender Claims constitute "securities" for purposes of the
14 reorganization provisions of the Tax Code. The rules for determining whether a debt instrument
15 constitutes a security under the reorganization provisions of U.S. federal income tax laws are
16 unclear. The term "security" is not defined for this purpose in the Tax Code or the Treasury
17 Regulations and has not been clearly defined by judicial decisions. The determination of
18 whether a debt instrument is a security involves an overall evaluation of the nature of the debt
19 instrument, the debt holder's exposure to the substantial risks of the enterprise, the extent of the
20 debt holder's proprietary interest in the issuer compared with the similarity of the debt
21 instrument to a right to receive a cash payment and certain other considerations.

22 One of the most significant factors considered in determining whether a particular debt
23 instrument is a security is its original term. In general, debt instruments with a term of less than
24 five years are not likely to (but may in certain circumstances) be considered securities, debt
25 instruments with a term of ten years or more are likely to be considered securities, and debt
26 instruments with an initial term at issuance of five to ten years are often considered securities,
27 but their status may be unclear.

28

1 Under these circumstances, it is unlikely that the exchange of Secured Lender Claims for
2 Loans will constitute an exchange of securities for these purposes. Holders should consult their
3 tax advisors as to whether the Secured Lender Claims are properly classified as securities and
4 accordingly whether the Exchange will be treated for U.S. federal income tax purposes in whole
5 – or in part if certain of the Secured Lender Claims were treated as securities and others were
6 not – as a reorganization.

7 The tax consequences to a Holder of a Secured Lender Claim may also depend on
8 whether any cash that is or has been received by such Holder from SHC is treated as a separate
9 and independent payment with respect to its Secured Lender Claim, or whether the distribution
10 of any such cash is instead integrated for U.S. federal income tax purposes with the Exchange of
11 Loans for Secured Lender Claims pursuant to the Plan. Holders of Secured Lender Claims
12 should consult their tax advisors regarding the U.S. federal income tax treatment of distributions
13 to them of cash from SHC.

14 If, as expected, the Exchange is not treated as a reorganization, a Holder of
15 Secured Lender Claims generally will recognize gain or loss equal to the difference between the
16 amount realized and the Holder's adjusted tax basis in the Secured Lender Claims. The amount
17 realized on a Holder's exchange of Secured Lender Claims will be equal to the fair market value
18 of the consideration (including the Loans), and other cash, if any – received or deemed received
19 by the Holder in the exchange, but excluding any amount treated as received in respect of
20 accrued but unpaid interest not previously included in income by the Holder. See Sections B.3
21 and B.4 below for further discussion on amounts received or deemed received under the Plan in
22 respect of interest income and the character of such gain or loss.

23 c. Allocation of Plan Distributions between Principal and Interest

24 In general, to the extent that consideration received pursuant to the Plan by a holder of
25 an Allowed Claim is received in satisfaction of accrued interest or original issue discount
26 (“OID”) including imputed interest (if any) during its holding period, such amount will be
27 taxable to the Holder as interest income (to the extent such accrued interest or OID was not
28 previously included in the Holder's gross income). Conversely, a Holder generally recognizes a

1 deductible loss to the extent any accrued interest claim or amortized OID was previously
2 included in its gross income and not paid in full. The Plan provides that any distribution
3 received pursuant to the Plan in satisfaction of Claims shall, to the extent permitted by
4 applicable law, be allocated for U.S. federal income tax purposes first to the principal amount of
5 the Claim and second, to the extent the distribution exceeds the principal amount of the Claim,
6 to the portion of the Claim representing accrued but unpaid interest. Current U.S. federal
7 income tax law is unclear on this point, and no assurance can be given that the IRS will not
8 challenge the allocation set forth in the Plan. If, contrary to the intended position, such a
9 distribution were treated as allocated first to accrued but unpaid interest, a Holder would realize
10 ordinary income with respect to such distribution in an amount equal to any accrued but unpaid
11 interest not already taken into income under the Holder's method of accounting, regardless of
12 whether the Holder would otherwise realize a loss as a result of the Plan.

13 If a Holder holds Claims acquired at a market discount, any gain recognized by the
14 Holder pursuant to the Exchange normally would be recharacterized as ordinary income to the
15 extent of the accrued market discount that has not been previously included as ordinary income.
16 In general, the Claims will have accrued market discount if they were acquired after their
17 original issuance at a discount to their adjusted issue price.

18 d. Character of Gain or Loss

19 Assuming that a Holder of a Claim holds its Claim as a capital asset, gain or loss will be
20 treated as long-term or short-term capital gain or loss depending on the Holder's holding period
21 for the Claim. The deductibility of capital losses is subject to limitations under the Tax Code.
22 If a Claim is not held as a capital asset, any gain or loss normally will be treated as ordinary
23 income. Holders are urged to consult their own tax advisors regarding the character of any gain
24 or loss realized.

25
26 **3. Backup Withholding**

27 Under certain circumstances a Holder (other than an exempt recipient, such as a
28 corporation) may be subject to backup withholding with respect to "reportable payments". SHC

1 will be required to deduct and withhold the prescribed amount if (a) the Holder fails to furnish a
2 taxpayer identification number to us in the manner required, (b) the IRS notifies us that the
3 taxpayer identification number furnished by the Holder is incorrect, (c) there has been a failure
4 of the Holder to certify under penalties of perjury that the Holder is not subject to withholding,
5 or (d) the Holder is notified by the IRS that he or she failed to report properly payments of
6 interest and dividends and the IRS has notified us that he or she is subject to backup
7 withholding.

8 Backup withholding is not an additional tax. Any amount withheld from a
9 payment to a Holder under the backup withholding rules is allowable as a credit against such
10 Holder's U.S. federal income tax liability (and may entitle such Holder to a refund), provided
11 that the required information is furnished to the IRS on a timely basis. Holders should consult
12 their own tax advisors regarding the application of backup withholding to their particular
13 situation, the availability of an exemption from backup withholding and the procedure for
14 obtaining such exemption, if available.

15 Treasury Regulations generally require disclosure by a taxpayer on its U.S.
16 federal income tax return of certain types of transactions in which the taxpayer participated,
17 including, among other types of transactions, certain transactions that result in the taxpayer's
18 claiming of a loss in excess of certain thresholds. Holders are urged to consult their own tax
19 advisors regarding these regulations and whether the transactions contemplated under the Plan
20 would be subject to these regulations and require disclosure on such Holders' tax return.
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1 **G. Other Provisions of the Plan**

2 **1. Retention of Jurisdiction**

3 On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all
4 matters arising in, arising under, and related to SHC's Chapter 11 Case for, among other things,
5 the following purposes:

6 a. Hear and determine motions and/or applications for the assumption or rejection
7 of executory contracts or unexpired leases and the allowance, classification, priority,
8 compromise, estimation, or payment of Claims resulting therefrom;

9 b. determine any motion, adversary proceeding, application, contested matter, and
10 other litigated matter pending on or commenced after the Confirmation Date;

11 c. ensure that distributions to holders of Allowed Claims are accomplished as
12 provided herein;

13 d. consider Claims or the allowance, classification, priority, compromise,
14 estimation, or payment of any Claim;

15 e. enter, implement, or enforce such orders as may be appropriate in the event the
16 Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

17 f. issue injunctions, enter and implement other orders, and take such other actions
18 as may be necessary or appropriate to restrain interference by any person with the
19 consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any
20 other order of the Bankruptcy Court;

21 g. hear and determine any application to modify the Plan in accordance with
22 Bankruptcy Code section 1127, to remedy any defect or omission or reconcile any inconsistency
23 in the Plan, the disclosure statement for the Plan, or any order of the Bankruptcy Court,
24 including the Confirmation Order, in such a manner as may be necessary to carry out the
25 purposes and effects thereof;

26 h. hear and determine all applications under Bankruptcy Code sections 330, 331,
27 and 503(b) for awards of compensation for services rendered and reimbursement of expenses
28 incurred prior to the Confirmation Date;

1 i. hear and determine disputes arising in connection with the interpretation,
2 implementation, or enforcement of the Plan, the Confirmation Order, any transactions or
3 payments contemplated hereby or under the Agreement, or any agreement, instrument, or other
4 document governing or relating to any of the foregoing;

5 j. take any action and issue such orders as may be necessary to construe, enforce,
6 implement, execute, and consummate the Plan or to maintain the integrity of the Plan following
7 consummation;

8 k. hear any disputes arising out of, and to enforce, the order approving alternative
9 dispute resolution procedures to resolve personal injury, employment litigation, and similar
10 claims pursuant to Bankruptcy Code section 105(a);

11 l. determine such other matters and for such other purposes as may be provided in
12 the Confirmation Order;

13 m. hear and determine matters concerning state, local, and federal taxes in
14 accordance with Bankruptcy Code sections 346, 505, and 1146 (including any requests for
15 expedited determinations under Bankruptcy Code section 505(b));

16 n. hear and determine any other matters related hereto and not inconsistent with the
17 Bankruptcy Code and title 28 of the United States Code;

18 o. enter a final decree closing SHC's Chapter 11 Case;

19 p. recover all assets of SHC and property of SHC's estate, wherever located; and

20 q. hear and determine any rights, Claims, or causes of action held by or accruing to
21 SHC pursuant to the Bankruptcy Code or pursuant to any federal statute or legal theory.

22 **IV.**

23 **PROCEDURES FOR DISPUTED CLAIMS**

24 **A. Objections to Claims.**

25 The Reorganized Debtor shall be entitled to and have the sole right to file objections to
26 any Trade Claim, to be served and filed on or before the later of (i) sixty (60) days after the
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1 Effective Date, and (ii) such date as may be fixed by the Bankruptcy Court, whether fixed
2 before or after the date specified in clause (i) above.

3 Plan Trust Beneficiaries shall be entitled to file objections to, and proceedings to seek
4 subordination of, the Claim of any other Plan Trust Beneficiary, as described above.

5 **B. Payments and Distributions with Respect to Disputed Claims.**

6 Notwithstanding any other provision hereof, if any portion of a claim is a disputed claim,
7 no payment or distribution provided hereunder shall be made on account of such claim unless
8 and until such disputed Claim becomes an allowed claim.

9 **C. Estimation of Claims.**

10 Following the Effective Date, the Reorganized Debtor may at any time request that the
11 Bankruptcy Court estimate any contingent claim or Disputed Trade Claim pursuant to
12 Bankruptcy Code section 502(c), regardless of whether an objection was previously filed with
13 the Bankruptcy Court with respect to such claim, or whether the Bankruptcy Court has ruled on
14 any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any claim at
15 any time during litigation concerning any objection to any claim, including, without limitation,
16 during the pendency of any appeal relating to any such objection. If the estimated amount
17 constitutes a maximum limitation on the amount of such claim, the Reorganized Debtor may
18 pursue supplementary proceedings to object to the allowance of such claim. All of the
19 aforementioned objection, estimation, and resolution procedures are intended to be cumulative
20 and not exclusive of one another. Except as provided in the Plan and in the Investment
21 Agreement, claims may be estimated and subsequently compromised, settled, withdrawn, or
22 resolved by any mechanism approved by the Bankruptcy Court.

23 **D. Distributions Relating to Disputed Claims.**

24 At such time as a disputed claim becomes an allowed claim, the Disbursing Agent shall
25 distribute to the holder of such claim, such holder's pro rata portion of the property distributable
26 with respect to the Class in which such claim belongs. To the extent that all or a portion of a
27 disputed claim is disallowed, the holder of such claim shall not receive any distribution on
28

1 account of the portion of such claim that is disallowed and any property withheld pending the
2 resolution of such claim shall be reallocated pro rata to the holders of allowed claims in the
3 same class.

4 **E. Distributions after Allowance.**

5 To the extent that a disputed claim becomes an allowed claim after the Effective Date, a
6 distribution shall be made to the holder of such allowed claim in accordance with the provisions
7 of the Plan. As soon as practicable after the date that the order or judgment of the Bankruptcy
8 Court allowing any disputed claim becomes a final order, the Disbursing Agent shall provide to
9 the holder of such claim, the distribution to which such holder is entitled hereunder.

10 **F. Preference Actions.**

11 As of the Effective Date, SHC and the Plan Trustee will waive any claims which may be
12 brought pursuant to Bankruptcy Code section 547 (a "Preference Action") against (i) any Holder
13 of an Allowed Trade Claim, (ii) any supplier of goods or services that would become a Holder
14 of a Trade Claim if a Preference Action was successfully brought against it, and (iii) any person
15 employed by the Reorganized Debtor.

16 **G. Preservation of Rights to Settle Claims.**

17 In accordance with Bankruptcy Code section 1123(b), the Reorganized Debtor or the
18 Plan Trustee, as applicable, shall retain and may enforce, sue on, settle, or compromise (or
19 decline to do any of the foregoing) all claims, rights, causes of action, suits, and proceedings,
20 whether in law or in equity, whether known or unknown, that SHC or its estate may hold against
21 any person or entity without the approval of the Bankruptcy Court, subject to the terms of
22 section VI.A of the Plan, an order confirming the Plan, the Investment Agreement, and any
23 contract, instrument, release, indenture, or other agreement entered into in connection herewith.
24 The Reorganized Debtor or their successor(s) may pursue such retained claims, rights, or causes
25 of action, suits, or proceedings, as appropriate, in accordance with the best interests of the
26 Reorganized Debtor or the Plan Trust, or their successor(s) who hold such rights. In the case of
27
28

1 the Plan Trust, the Plan Trustee shall have the right, but not the obligation, to seek approval of
2 any such compromises from the Bankruptcy Court, pursuant to Bankruptcy Rule 9019.

3
4 **V.**

5 **TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

6 **A. Executory Contracts and Unexpired Leases Not Expressly Assumed Are Rejected**

7 Except as otherwise provided in the Plan, SHC's executory contracts or unexpired leases
8 not assumed or rejected pursuant to a Bankruptcy Court order prior to the Effective Date shall
9 be deemed rejected pursuant to Bankruptcy Code sections 365 and 1123, except for those
10 executory contracts or unexpired leases: (1) listed on the schedule of "Assumed Executory
11 Contracts and Unexpired Leases" attached hereto as Exhibit J (to be provided prior to
12 solicitation); (2) that are the subject of a motion to assume or reject pending on the Effective
13 Date (in which case such assumption or rejection and the effective date thereof shall remain
14 subject to a Bankruptcy Court order); (3) that are subject to a motion to reject with a requested
15 effective date of rejection after the Effective Date; or (4) that are otherwise expressly assumed
16 or rejected pursuant to the Plan. Entry of the Confirmation Order shall constitute a Bankruptcy
17 Court order approving the assumptions or rejections of such executory contracts or unexpired
18 leases as set forth in the Plan, all pursuant to Bankruptcy Code sections 365(a) and 1123.
19 Unless otherwise indicated, all assumptions or rejections of such executory contracts and
20 unexpired leases in the Plan are effective as of the Effective Date. Each such executory contract
21 and unexpired lease assumed pursuant to the Plan or by Bankruptcy Court order but not
22 assigned to a third party prior to the Effective Date shall revert in and be fully enforceable by
23 the Reorganized Debtor in accordance with its terms, except as such terms may have been
24 modified by such order. Notwithstanding anything to the contrary in the Plan, the Plan Sponsor
25 and SHC, as applicable, reserve the right to alter, amend, modify, or supplement the schedules
26 of executory contracts or unexpired leases identified in the Plan Supplement at any time through
27 and including fifteen days after the Effective Date.

28

1 **B. Rejection Claims**

2 In the event that the rejection of an executory contract or unexpired lease by SHC
3 pursuant to the Plan results in damages to the other party or parties to such contract or lease, a
4 Claim for such damages, if not previously evidenced by a timely filed proof of claim, will be
5 forever barred and will not be enforceable against (i) the Reorganized Debtor, or its properties
6 or interests in property, or (ii) unless a proof of claim is filed with the Bankruptcy Court and
7 served upon counsel for SHC and the Reorganized Debtor on or before the date that is thirty
8 (30) days after the Confirmation Date or such later rejection date that occurs as a result of a
9 dispute concerning amounts necessary to cure any defaults, the Plan Trust.

10 THE BAR DATE FOR FILING A PROOF OF CLAIM BASED ON A CLAIM
11 ARISING FROM THE REJECTION OF A LEASE OR CONTRACT IS THIRTY (30) DAYS
12 AFTER THE DATE OF ENTRY OF THE ORDER AUTHORIZING THE REJECTION, OR
13 JANUARY 17, 2011, WHICHEVER IS LATER.

14 Any claim based on the rejection of a contract or lease will be barred if the proof of
15 claim is not timely filed, unless the Bankruptcy Court later orders otherwise.

16 **VI.**

17 **CONFIRMATION REQUIREMENTS AND PROCEDURES**

18 PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN
19 SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON
20 CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The following
21 discussion is intended solely for the purpose of alerting readers about basic confirmation issues,
22 which they may wish to consider, as well as certain deadlines for filing claims. The proponent
23 CANNOT and DOES NOT represent that the discussion contained below is a complete
24 summary of the law on this topic.

25 Many requirements must be met before the Bankruptcy Court can confirm a Plan. Some
26 of the requirements include that the Plan must be proposed in good faith, acceptance of the Plan,
27 whether the Plan pays creditors at least as much as creditors would receive in a chapter 7
28 liquidation, and whether the Plan is feasible. These requirements are not the only requirements

1 for confirmation.

2 **A. Who May Vote or Object**

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

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

6 **2. Who May Vote to Accept/Reject the Plan**

7 A creditor or interest holder has a right to vote for or against the Plan if that creditor or
8 interest holder has a claim which is both (1) allowed or allowed for voting purposes and
9 (2) classified in an impaired class.

10 a. What Is an Allowed Claim/Interest

11 As noted above, a creditor or interest holder must first have an allowed claim or interest
12 to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a
13 party in interest brings a motion objecting to the claim. When an objection to a claim or interest
14 is filed, the creditor or interest holder holding the claim or interest cannot vote unless the
15 Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim or
16 interest for voting purposes.

17 THE BAR DATE FOR FILING A PROOF OF CLAIM IN THIS CASE WAS
18 JANUARY 17, 2011 at 5:00 pm. Pacific time. A creditor or interest holder may have an
19 allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is
20 deemed allowed if (1) it is scheduled on SHC's schedules and such claim is not scheduled as
21 disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An
22 interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.
23 Consult Exhibits E through H to see how SHC has characterized your claim or interest.

24 b. What Is an Impaired Claim/Interest

25 As noted above, an allowed claim or interest only has the right to vote if it is in a class
26 that is impaired under the Plan. A class is impaired if the Plan alters the legal, equitable, or
27 contractual rights of the members of that class. For example, a class comprised of general
28 unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what

1 they are owed.

2 SHC believes that Classes A-1 and D are impaired and that holders of claims in each of
3 these classes are therefore entitled to vote to accept or reject the Plan. SHC believes that
4 Classes A-2, B, and C are unimpaired and that holders of claims in each of these classes
5 therefore do not have the right to vote to accept or reject the Plan. Parties who dispute SHC's
6 characterization of their claim or interest as being impaired or unimpaired may file an objection
7 to the Plan contending that SHC has incorrectly characterized the class.

8 **3. Who is Not Entitled to Vote**

9 The following four types of claims are not entitled to vote: (1) claims that have been
10 disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to
11 Bankruptcy Code sections 507(a)(1), (a)(2), and (a)(8); and (4) claims in classes that do not
12 receive or retain any value under the Plan. Claims in unimpaired classes are not entitled to vote
13 because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant
14 to Code sections 507(a)(1), (a)(2), and (a)(7) are not entitled to vote because such claims are not
15 placed in classes and they are required to receive certain treatment specified by the Code.
16 Claims in classes that do not receive or retain any value under the Plan do not vote because such
17 classes are deemed to have rejected the Plan. EVEN IF YOUR CLAIM IS OF THE TYPE
18 DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE
19 CONFIRMATION OF THE PLAN.

20 **4. Who Can Vote in More Than One Class**

21 A creditor whose claim has been allowed in part as a secured claim and in part as an
22 unsecured claim is entitled to accept or reject a Plan in both capacities by casting one ballot for
23 the secured part of the claim and another ballot for the unsecured claim.

24 **5. Votes Necessary to Confirm the Plan**

25 The Bankruptcy Court cannot confirm the Plan unless (1) at least one impaired class has
26 accepted the Plan without counting the votes of any insiders within that class, and (2) all
27 impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by
28 "cramdown" on non-accepting classes, as further discussed in Section IV.A.8 herein.

1 **6. Votes Necessary for a Class to Accept the Plan**

2 A class of claims is considered to have accepted the Plan when more than one-half (1/2)
3 in number and at least two-thirds (2/3) in dollar amount of the claims which actually voted,
4 voted in favor of the Plan. A class of interests is considered to have accepted the Plan when at
5 least two-thirds (2/3) in amount of the interest-holders of such class which actually voted, voted
6 to accept the Plan.

7 **7. Treatment of Nonaccepting Classes**

8 As noted above, even if all impaired classes do not accept the proposed Plan, the
9 Bankruptcy Court may nonetheless confirm the Plan if the nonaccepting classes are treated in
10 the manner required by the Code. The process by which nonaccepting classes are forced to be
11 bound by the terms of the Plan is commonly referred to as “cramdown.” The Bankruptcy Code
12 allows the Plan to be “crammed down” on nonaccepting classes of claims or interests if it meets
13 all consensual requirements except the voting requirements of Bankruptcy Code section
14 1129(a)(8) and if the Plan does not “discriminate unfairly” and is “fair and equitable” toward
15 each impaired class that has not voted to accept the Plan as referred to in Bankruptcy Code
16 section 1129(b) and applicable case law.

17 **8. Request for Confirmation Despite Nonacceptance by Impaired Classes**

18 If the requisite acceptances to the Plan are not received, SHC has requested the
19 Bankruptcy Court confirm the Plan despite nonacceptance by the impaired Classes. In such an
20 instance, the Bankruptcy Court may confirm the Plan pursuant to the “cramdown” provisions of
21 the Bankruptcy Code which allow the Bankruptcy Court to confirm a Plan that has been rejected
22 by an impaired class of claims or equity interests if it determines that the rejecting class is being
23 treated appropriately given the relative priority of the claims or equity interests in such class. In
24 order to confirm the Plan against dissenting impaired class or classes, the Bankruptcy Court
25 must also find that at least one impaired class has accepted the Plan, with such acceptance being
26 determined without including the acceptance of any “insider” in such class.

27 SHC has asked the Bankruptcy Court to confirm this Plan by “cramdown” on impaired
28 Classes A-1 or D if any of these classes do not vote to accept the Plan.

1 **B. Liquidation Analysis**

2 Another confirmation requirement is the “Best Interest Test,” which requires a
3 liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an
4 impaired class and that claimant or interest holder does not vote to accept the Plan, then that
5 claimant or interest holder must receive or retain under the Plan property of a value not less than
6 the amount that such holder would receive or retain if SHC were liquidated pursuant to chapter
7 7 of the Bankruptcy Code.

8 In a case under chapter 7, SHC’s assets are usually sold by a trustee. Secured creditors
9 are paid first from the sales proceeds of properties on which the secured creditor has a lien.
10 Administrative claims are paid next. Next, unsecured creditors are paid from any remaining
11 sales proceeds, according to their rights to priority. Unsecured creditors with the same priority
12 share in proportion to the amount of their allowed claim in relationship to the amount of total
13 allowed unsecured claims. Finally, interest holders receive the balance that remains after all
14 creditors are paid, if any.

15 For the Bankruptcy Court to be able to confirm this Plan, the Bankruptcy Court must
16 find that all creditors and interest holders who do not accept the Plan will receive at least as
17 much under the Plan as such holders would receive under a liquidation effectuated pursuant to
18 chapter 7 of the Bankruptcy Code. SHC maintains that this requirement is met here for the
19 following reasons:

20 **1.** In a chapter 7 case, a trustee is appointed and entitled to compensation from the
21 bankruptcy estate in an amount not to exceed 25% on the first \$5,000 or less of all moneys
22 disbursed or turned over by the trustee to parties in interest, 10% on any amount in excess of
23 \$5,000 but not in excess of \$50,000, 5% on any amount in excess of \$50,000 but not in excess
24 of \$1,000,000, and reasonable compensation not to exceed 3% of such moneys in excess of
25 \$1,000,000. In this Chapter 11 Case, a chapter 7 trustee’s compensation is estimated to equal
26 between \$1,160,023.35 and \$1,526,751.

27 **2.** In a chapter 7 case, the trustee would be required to replace the professionals
28 currently employed by the Debtor’s Estate, which would burden the Estate with additional fees

1 as the new professionals would be required to familiarize themselves with the issues and parties
2 in this Chapter 11 Case. For this case, a chapter 7 trustee's professionals likely would incur fees
3 and expenses of at least \$100,000 to administer and liquidate the Estates.

4 **3.** In a chapter 7 case, distribution to creditors would be delayed due to, among
5 other things: (a) the setting of a new bar date for the filing of proofs of claim, which also could
6 result in the filing of additional claims and thus reduce the pro rata distribution to creditors, (b)
7 the preparation of the Debtor's final report to the Office of the United States Trustee, and (c) the
8 administrative activities of the Office of the United States Trustee and the Bankruptcy Court
9 clerk's office in connection with, among other activities, converting and closing the case.

10 **4.** In a chapter 7 case, the Debtor's Estate would lose the exceptional value and
11 benefit realized from the extended negotiations with the Plan Sponsor and the Senior Secured
12 Lenders whereby the Plan Sponsor will invest \$43 million into the Debtor and the Reorganized
13 Debtor will assume \$35 million of the Senior Secured Loans. As a result of this deal, the
14 Reorganized Debtor will emerge from bankruptcy as an operating entity that will continue to
15 operate the Debtor's business, with continued employment of all employees. The Reorganized
16 Debtor will be able to make payments to certain of its creditors from the capital invested by the
17 Plan Sponsor, its cash on hand and the cash generated from its business operations. Without
18 such investment, which was agreed to only through a consensual joint chapter 11 plan, the
19 Estate would face significantly greater Claims, much of which would be Secured Claims or
20 Administrative Claims, substantially reducing the amount ultimately distributed to the holders
21 of general unsecured claims. It is expected that the distribution under the Plan to General
22 Unsecured Creditors will far exceed any distribution pursuant to a chapter 7 liquidation.

23 **5.** The Debtor's business is a consumer branded products business, with a large part
24 of its value residing in intellectual property and going-concern goodwill. In a chapter 7, the
25 business would not be operated, and all going concern value would be lost. While intellectual
26 property might be sold, liquidation sales of such property, especially trademarks, copyrights and
27 formulary of the types that the Debtor owns, are typically far lower than values that are achieved
28 on a going concern basis.

Below is a demonstration, in balance sheet format, that all creditors and interest holders will receive at least as much under the Plan as such creditor or interest holder would receive under a liquidation effectuated pursuant to chapter 7 of the Bankruptcy Code. (See Exhibit K for a detailed explanation of how the following assets are valued.

<i>Sources of Funds</i>	Unaudited Book Value	%	High Gross Recovery	%	Low Gross Recovery
<i>Assets</i>					
Cash					
<i>Checking</i>	\$1,423,555	100%	\$1,423,555	100%	\$1,423,555
Accounts Receivable, net					
<i>Trade</i>	5,416,600	85%	4,604,110	75%	4,062,450
<i>Other</i>	952,443	85%	809,577	75%	714,332
Total Receivables	6,369,043	85%	5,413,686	75%	4,776,782
Inventories					
<i>Inventory</i>	9,555,456	80%	7,644,364	65%	6,211,046
Total Inventories	9,555,456	80%	7,644,364	65%	6,211,046
Prepaid, Deposits, Other					
<i>Prepaid Expenses</i>	1,143,383	0%	0	0%	0
Total Current & Other Assets	18,491,436	78%	14,481,606	67%	12,411,384
Fixed Assets, at Cost					
<i>Molds, Tools & Dies</i>	260,023	25%	65,006	15%	39,003
<i>Furniture and Fixtures</i>	590,282	25%	147,570	15%	88,542
<i>Machines and Equipment</i>	123,936	25%	30,984	15%	18,590
<i>Computers and Printers</i>	1,132,161	10%	113,216	5%	56,608
<i>Leaseholds</i>	367,794	0%	0	0%	0
<i>Trucks</i>	27,949	50%	13,975	50%	13,975
<i>Accumulated Depreciation</i>	(1,791,103)	0%	0	0%	0
Total Fixed Assets	711,042	52%	370,751	30%	216,719
Other Assets					
<i>Income Tax Receivable</i>	409,000	0%	0	0%	0
<i>Deposits</i>	1,299,178	80%	1,039,343	80%	1,039,343
Total Other Assets	1,708,178	61%	1,039,343	61%	1,039,343
Total Assets	\$20,910,656	76%	\$15,891,700	65%	\$13,667,445
Sale Proceeds of Intellectual Proceeds/IP			35,000,000		25,000,000
Available to Pay Debts			\$50,891,700		\$38,667,445

<i>Uses of Funds</i>	Unaudited Book Value	High Gross Recovery	Low Gross Recovery
Available to Pay Debts		50,891,700	38,667,445
Liabilities			

1	Liquidation Administrative Costs					
	<i>Professional Fees</i>		(500,000)			
2	<i>Ch 11 Operating Expense</i>		(550,000)			
	<i>Ch 7 Trustee Fees</i>		(1,526,751)			
3	<i>Commissions on liquidation of equipment</i>	15%	(55,613)			
4	Total Liquidation Costs		(2,632,364)	100%	(2,142,531)	100%
5	Available Funds after Administrative Costs		48,259,336		36,524,914	
6	Secured Claims – W/O Costs					
	<i>BMO Principal</i>	57,262,879	(48,259,336)	84%	(36,524,914)	64%
7	Available / (Shortfall) for Secured Lender					
	Accrued Interest		(9,003,542)		(20,737,965)	
8	<i>BMO Accrued Pre-petition Interest</i>	4,289,141	0	0%	0	0%
9	Available / (Shortfall) for Priority		(13,292,683)		(25,027,106)	
10	Priority Claims					
	<i>Estimated Priority – Employee Wages</i>	0	(0)	0%	(0)	0%
11	<i>Estimated Priority – Taxes/Employee Health</i>	0	(0)	0%	(0)	0%
12	Available / (Shortfall) for Trade and Other					
	Unsecured		(13,292,683)		(25,027,106)	
13	Unsecured Claims					
	<i>NML Principal</i>	20,000,000	0		0	
	<i>NML Interest</i>	5,000,000	0		0	
14	<i>Prepetition Trade AP</i>	6,727,263	0		0	
	<i>Other / Claims</i>	0	0	0%	0	0%
15	Total Unsecured Claims		0	0%	0	0%
16	Available / (Shortfall) for Equity		(45,019,946)		(56,754,368)	
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PERCENTAGE OF THEIR CLAIMS WHICH UNSECURED CREDITORS WOULD RECEIVE OR RETAIN IN
A CHAPTER 7 LIQUIDATION³: = 0%

PERCENTAGE OF THEIR CLAIMS WHICH GENERAL UNSECURED CREDITORS WILL RECEIVE OR
RETAIN UNDER THIS PLAN:= 19-49% (depending on return from escrow hold-backs)

Below is a demonstration, in tabular format, that all creditors and interest holders will
receive at least as much under the Plan as such creditor or holder would receive under a
liquidation effectuated pursuant to chapter 7 of the Bankruptcy Code.

Claims and Classes	Payout Percentage Under The Plan	Payout Percentage in a Chapter 7 Liquidation
Administrative Claims	100%	100%
Priority Tax Claims	100%	100%
Class A-1 (Allowed Senior Secured Lender Claims)	95-100%*	Approx. 64 – 84%
Class A-2 (Allowed Other Secured Claims)	100%	0%
Class B (Allowed Priority Non-Tax Claims)	100%	0%
Class C (Trade Claims)	100%	0%
Class D (General Unsecured Claims)	Approx. 19 – 49% ⁴	0%
Class E	0%	0%

***Class A-1 will receive cash equal to 44% of their claims plus new secured notes valued at 51-56% of their claims.**

³ Note: If this percentage is greater than the amount to be paid to the unsecured creditors on a “present value basis” under the Plan, the Plan is not confirmable unless Proponent obtains acceptance by every creditor in the general unsecured class.

⁴ Note: This percentage does not take into account the allowance of Class Action Lawsuit Claims. However, while there is no assurance that the total amount of General Unsecured Claims would be higher, if the plaintiffs in the Class Action Lawsuit were to prevail, the recovery to Class D would still be greater than under a chapter 7 liquidation.

1 **C. Feasibility**

2 Another requirement for confirmation involves the feasibility of the Plan, which means
3 that confirmation of the Plan is not likely to be followed by the liquidation, or the need for
4 further financial reorganization, of the Reorganized Debtor under the Plan, unless such
5 liquidation or reorganization is proposed in the Plan.

6 There are at least two important aspects of a feasibility analysis. The first aspect
7 considers whether SHC will have enough cash on hand on the Effective Date of the Plan to pay
8 all the claims and expenses which are entitled to be paid on such date. SHC maintains that this
9 aspect of feasibility is satisfied as illustrated here:

10	Cash Debtor will have on hand by Effective Date	\$43,000,000
11	To Pay: Administrative claims	-5,288,000
12	To Pay: Allowed Secured Lender Claims	-25,680,000
13	To Pay: Other Plan Payments due on Effective Date	-7,850,000
14	Balance after paying these amounts	\$4,182,000

15 The sources of the cash Debtor will have on hand by the Effective Date, as shown above
16 are:

17	\$337,000	Cash in DIP Account now
18	-3,356,000	Less net cash flow
19	+3,019,000	Borrowing (in connection with DIP Agreement)
20	+43,000,000	Capital Contribution (per Investment Agreement)
21	\$43,000,000	Total

22 The second aspect considers whether SHC will have enough cash over the life of the
23 Plan to make the required Plan payments. On the Effective Date, pursuant to the terms of the
24 Plan Trust Agreement, SHC will transfer the Plan Trust Assets for and on behalf of the Plan
25 Trust Beneficiaries. All payments required to be made under the Plan after the Effective Date
26 will be made out of the Plan Trust in accordance with its terms as outlined in section III.D.
27 above. In addition, the Reorganized Debtor will assume and be liable for all Trade Claims.
28

1 Because SHC is profitable on an operating basis, absent its debt service, and continues to grow
2 its business with significant going concern value, SHC is confident of the Reorganized Debtor's
3 ability to operate profitably and to make all such post-Confirmation payments in respect of the
4 Trade Claims. SHC has provided financial statements which include both historical and
5 projected financial information for the duration of the chapter 11 case. Please refer to Exhibit A
6 through D for the relevant financial statements. As such, the Plan is both feasible and in the
7 best interest of creditors.

8 YOU ARE ADVISED TO CONSULT WITH YOUR ACCOUNTANT OR
9 FINANCIAL ADVISOR IF YOU HAVE ANY QUESTIONS PERTAINING TO THESE
10 FINANCIAL STATEMENTS.

11 VII.

12 EFFECT OF CONFIRMATION OF PLAN

13 A. Discharge of Claims and Termination of Equity Interests

14 Confirmation of the Plan will, on the Effective Date, discharge all existing debts and
15 Claims, and terminate all Equity Interests in SHC of any kind, nature, or description whatsoever
16 against or in SHC or any of their assets or properties to the fullest extent permitted by
17 Bankruptcy Code section 1141. All holders of Claims and Equity Interests shall be precluded
18 and enjoined from asserting against the Reorganized Debtor or any of their assets or properties,
19 any other or further Claim or Equity Interest based upon any act or omission, transaction, or
20 other activity of any kind or nature that occurred prior to the Effective Date, whether or not such
21 holder has filed a proof of Claim or proof of Equity Interest. Notwithstanding any provision
22 herein, any valid setoff or recoupment rights held against SHC shall not be affected by the Plan
23 of Reorganization and shall be expressly preserved in the Confirmation Order.

24 B. Injunction Against Products-Related Actions

25 Upon confirmation of the Plan, all persons and entities holding claims of any kind
26 against SHC (including, but not limited to, those holding Class Action Claims) (whether known
27 or unknown, legal or equitable, matured or unmatured, contingent or noncontingent, liquidated
28 or unliquidated, asserted or unasserted, whether arising prior to or subsequent to the Petition

1 Date, whether imposed by agreement, understanding, the Lanham Act, or otherwise), arising
2 under or out of, in connection with, or in any way relating to (i) the Reorganized Debtor's
3 marketing, distribution, or sale of any Product packaged in the same manner as it is packaged at
4 the time of the Closing within the twelve (12) months following the Closing Date; and(ii) the
5 Reorganized Debtor's marketing, advertising, or making of any public statement with respect to
6 the Products (whether explicitly or impliedly), in accordance with, or pursuant to, the terms of
7 any Assumed Contract for marketing, advertising, or any other similar service, that the Products
8 are sold only in professional salons or through licensed cosmetologists, without diversion into
9 non professional retail channels, shall be forever barred, estopped and permanently enjoined
10 from asserting, prosecuting, or otherwise pursuing any such claims (including, but not limited
11 to, the Class Action Claims) against the Reorganized Debtor or its property.

12 **C. Injunction Against Interference with Plan of Reorganization**

13 Upon the entry of the Confirmation Order, all holders of Claims and Equity Interests and
14 other parties in interest, along with their respective present or former employees, agents,
15 officers, directors, or principals, shall be enjoined from taking any actions to interfere with the
16 implementation or consummation of the Plan.

17 **D. Releases**

18 **1. Releases by SHC**

19 As of the Confirmation Date, but subject to occurrence of the Effective Date, for good
20 and valuable consideration, the adequacy of which is hereby confirmed, SHC, the Reorganized
21 Debtor, and any person seeking to exercise the rights of SHC's estate, including, without
22 limitation, any successor to SHC or any estate representative appointed or selected pursuant to
23 Bankruptcy Code section 1123(b)(3), shall be deemed to unconditionally forever release, waive,
24 and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes
25 of action and liabilities whatsoever (other than for gross negligence, willful misconduct,
26 intentional fraud, or criminal conduct) in connection with or related to SHC, the Chapter 11
27 Cases, or the Plan (other than the rights of the Reorganized Debtor to enforce the Plan and the
28 contracts, instruments, indentures, and other agreements or documents delivered or assumed

1 thereunder, including, without limitation, the Investment Agreement and other than retained
2 claims), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known
3 or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or
4 otherwise, that are based in whole or part on any act, omission, transaction, event, or other
5 occurrence taking place on or prior to the Effective Date in any way relating to SHC, the
6 Reorganized Debtor, the Chapter 11 Cases, or the Plan, and that may be asserted by or on behalf
7 of SHC or the Reorganized Debtor against the Released Parties; *provided, however*, that nothing
8 in the Plan will be deemed to prohibit SHC or the Reorganized Debtor from asserting and
9 enforcing any claims, obligations, suits, judgments, demands, debts, rights, causes of action or
10 liabilities they may have against any employee (other than any director or officer) that is based
11 upon an alleged breach of a confidentiality, non-compete or any other contractual or fiduciary
12 obligation owed to SHC through the Effective Date; *provided, further, however*, that nothing in
13 the Plan will operate as a waiver or release from any claims or causes of action arising out of (i)
14 any retained claim, (ii) the gross negligence, willful misconduct, intentional fraud, or criminal
15 liability of any person, and (iii) as to the directors of SHC, a breach of fiduciary duty prior to the
16 Commencement Date.

17 **2. Releases by Holders of Claims and Equity Interests**

18 As of the Effective Date, for good and valuable consideration, the adequacy of which is
19 hereby confirmed, (i) each Holder of a Claim that votes in favor of the Plan (or is deemed to
20 accept the Plan) and (ii) to the fullest extent permissible under applicable law, as such law may
21 be extended or integrated after the Effective Date, each holder of a Claim or Equity Interest that
22 does not vote to accept the Plan or is deemed to reject the Plan, as applicable, shall be deemed to
23 unconditionally, forever release, waive and discharge each of the Released Parties, from any and
24 all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and
25 liabilities whatsoever in connection with or related to SHC, the Chapter 11 Cases, or the Plan
26 whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or
27 unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise,
28 that are based in whole or part on any act, omission, transaction, event, or other occurrence

1 taking place on or prior to the Effective Date in any way relating to SHC, the Reorganized
2 Debtor, the Chapter 11 Cases, or the Plan; *provided, however*, that the foregoing shall not
3 operate as a waiver or release from any causes of action arising out of the gross negligence,
4 willful misconduct, intentional fraud, or criminal liability of any such person or entity; *provided,*
5 *further, however*, that each Holder of a Class Action Claim shall be deemed to unconditionally,
6 forever release, waive and discharge the Reorganized Debtor from any and all claims,
7 obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities
8 whatsoever in connection with any use, within twelve (12) months after the Effective Date of
9 existing or pre-ordered advertising materials, inventory, labeling, or packaging.

10 **E. Retention of Causes of Action/Reservation of Rights**

11 Nothing contained herein or in the Confirmation Order shall be deemed to be a waiver or
12 the relinquishment of any rights or causes of action that SHC or the Reorganized Debtor may
13 have or which the Reorganized Debtor may choose to assert on behalf of its estate under any
14 provision of the Bankruptcy Code or any applicable non-bankruptcy law or rule, common law,
15 equitable principle or other source of right or obligation, including, without limitation, (i) any
16 and all Claims against any person or entity, to the extent such person or entity asserts a
17 crossclaim, counterclaim, and/or Claim for setoff which seeks affirmative relief against SHC,
18 the Reorganized Debtor, their officers, directors, or representatives; (ii) the turnover of any
19 property of SHC's estate; and (iii) the retained claims; *provided, however*, that Section IX.H of
20 the Plan shall not apply to any claims released in Section IX.G of the Plan.

21 Nothing contained herein or in the Confirmation Order shall be deemed to be a waiver or
22 relinquishment of any claim, cause of action, right of setoff, or other legal or equitable defense
23 which SHC had immediately prior to the Petition Date, against or with respect to any Claim left
24 unimpaired by the Plan. The Reorganized Debtor shall have, retain, reserve, and be entitled to
25 assert all such claims, causes of action, rights of setoff, and other legal or equitable defenses
26 which they had immediately prior to the Petition Date fully as if the Chapter 11 Cases had not
27 been commenced, and all of the Reorganized Debtor's legal and equitable rights respecting any
28 Claim left unimpaired by the Plan may be asserted after the Confirmation Date to the same

1 extent as if the Chapter 11 Cases had not been commenced.

2 **F. Revesting of Property in SHC**

3 On the Effective Date, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all
4 property of SHC's estate shall vest in the Reorganized Debtor free and clear of all Claims, liens,
5 encumbrances, charges, and other interests, except for the Plan Trust Assets, which shall vest in
6 the Plan Trust. The Reorganized Debtor may operate its business and may use, acquire, and
7 dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and
8 in all respects as if there were no pending cases under any chapter or provision of the
9 Bankruptcy Code, except as provided herein.

10 **G. Modification of Plan**

11 Subject to the terms and conditions of the Investment Agreement and the Plan Support
12 Agreement, SHC may modify the Plan at any time before confirmation. However, the
13 Bankruptcy Court may require a new disclosure statement and/or revoting on the Plan.

14 SHC may also seek to modify the Plan at any time after confirmation only if (1) the Plan
15 has not been substantially consummated and (2) the Bankruptcy Court authorizes the proposed
16 modifications after notice and a hearing.

17 **H. Post-Confirmation Status Report**

18 Within one hundred twenty (120) days of the entry of the order confirming the Plan,
19 SHC shall file a status report with the Bankruptcy Court explaining what progress has been
20 made toward consummation of the confirmed Plan. The status report shall be served on the
21 United States Trustee, the twenty largest unsecured creditors, and those parties who have
22 requested special notice. Further status reports shall be filed every 120 days and served on the
23 same entities.

24 **I. Quarterly Fees**

25 Quarterly fees accruing under 28 U.S.C. § 1930(a)(6) to date of confirmation shall be
26 paid to the United States Trustee on or before the effective date of the plan. Quarterly fees
27 accruing under 28 U.S.C. § 1930(a)(6) after confirmation shall be paid by the Plan Trust to the
28 United States Trustee in accordance with 28 U.S.C. § 1930(a)(6) until entry of a final decree, or

1 entry of an order of dismissal or conversion to Chapter 7.

2

3 **J. Post-Confirmation Conversion/Dismissal**

4 A creditor or party in interest may bring a motion to convert or dismiss the case under
5 Bankruptcy Code section 1112(b), after the Plan is confirmed, if there is a default in performing
6 the Plan. If the Bankruptcy Court orders the case converted to a case under chapter 7 of the
7 Bankruptcy Code after the Plan is confirmed, then all property that had been property of the
8 Chapter 11 estate, and that has not been disbursed pursuant to the Plan, will revert in the
9 Chapter 7 estate. The automatic stay will be reimposed upon the revested property, but only to
10 the extent that relief from stay was not previously authorized by the Bankruptcy Court during
11 this case.

12 The order confirming the Plan may also be revoked under very limited circumstances.
13 The Bankruptcy Court may revoke the order if the order of confirmation was procured by fraud
14 and if the party in interest brings an adversary proceeding to revoke confirmation within one
15 hundred eighty (180) days after the entry of the order of confirmation.

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K. Final Decree

Once the estates have been fully administered as referred to in Bankruptcy Rule 3022, the Debtors, or other party as the Court shall designate in the order confirming the Plan, shall file a motion with the Court to obtain a final decree to close the case.

Date: _____

BY: Sexy Hair Concepts, LLC

T. Scott Avila

Submitted By:
PEITZMAN, WEG & KEMPINSKY LLP

By: /s/ Scott F. Gautier
Scott F. Gautier
Lorie A. Ball
Thor McLaughlin

Proposed Counsel for Sexy Hair Concept, LLC
Debtor and Debtor-in-possession

VIII.

DECLARATION OF T. SCOTT AVILA

I, T. Scott Avila, declare as follows:

1. I am the Chief Restructuring Officer (“CRO”) of Sexy Hair Concepts, LLC (“SHC” or the “Debtor”), as well as its parent-affiliates, Ecoly International, Inc. (“Ecoly”) and Luxe Beauty Midco Corporation (“Midco”) (collectively, the “Debtors”). I have personal knowledge of the facts set forth herein and, if called and sworn as a witness, I could and would competently testify thereto.

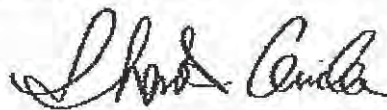
2. In my capacity as CRO, I am responsible for all issues related to, *inter alia*, the Debtors’ business plans and strategies with respect to a workout, restructuring or reorganization of its financial obligations, including (i) communicating and negotiating with the Debtors’ senior secured and subordinated lenders, (ii) the investigation and execution of the Debtors’ options with respect to a restructuring or refinancing and (iii) any proposed reorganization of the Debtors to satisfy creditor claims and provide value to stakeholders.

3. I have been involved in all aspects of the Debtors’ planning process with respect to their petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) including the negotiation of the proposed plan of reorganization.

4. I have reviewed the Disclosure Statement For Plan Of Reorganization Pursuant To Chapter 11 Of The Bankruptcy Code For Sexy Hair Concepts, LLC (the “Disclosure Statement”), and the information contained therein is true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 17th day of December, 2010 at Los Angeles, CA.



T. Scott Avila

IX.

DECLARATION OF ROBERT WARSHAUER

I, Robert Warshauer, hereby declare as follows:

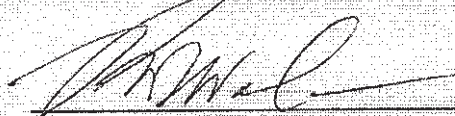
1. I am the Managing Director and Co-head of the Restructuring Advisory Practice of Imperial Capital, LLC ("Imperial"). In October, 2009, Sexy Hair Concepts, LLC ("SHC" or the "Debtor"), Luxe Beauty Midco Corporation ("Midco") and Ecoly International, Inc. ("Ecoly," together with SHC and Midco, the "Debtors") employed Imperial, an investment banking firm, to assist the Debtors in, among other things, negotiations with the Senior Secured Lenders and NML, attempts to refinance or restructure their debt obligations or, failing those alternatives, facilitating a sale of SHC to maximize value for creditors and stakeholders.

2. I have been involved in most aspects of SHC's planning process with respect to its petitions for relief under chapter 11 of title 11 of the Bankruptcy Code including the negotiation of SHC's proposed plan of reorganization ("Plan"). I have personal knowledge of the facts set forth herein and, if called and sworn as a witness, I could and would competently testify thereto.

3. I have reviewed the Disclosure Statement For Plan Of Reorganization Pursuant To Chapter 11 Of The Bankruptcy Code For Sexy Hair Concepts, LLC (the "Disclosure Statement"), and all information with respect to any valuation of the company and the economics of the Plan are true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 10 day of December, 2010 at New York, New York.



Robert Warshauer

Exhibit A

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
PERIOD FROM APRIL 1, 2008
TO DECEMBER 31, 2008

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

PERIOD FROM APRIL 1, 2008 TO DECEMBER 31, 2008

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ecoly International, Inc.
dba Sexy Hair Concepts and Subsidiary


We have audited the accompanying consolidated balance sheet of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary as of December 31, 2008, and the related consolidated statements of operations and changes in accumulated deficit, and cash flows for the period from April 1, 2008 to December 31, 2008. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary as of December 31, 2008 and the results of its operations and its cash flows for the period from April 1, 2008 to December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Green Hasson & Janks LLP

September 15, 2010
Los Angeles, California

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A world-wide organization of accounting firms and business advisers

10990 Wilshire Boulevard | Sixteenth Floor | Los Angeles, CA 90024-3929
TEL: (310) 873-1600 | FAX: (310) 873-6600 | www.ghjadvisors.com

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
December 31, 2008

ASSETS	
CURRENT ASSETS:	
Cash	\$ 520
Accounts Receivable - Trade (Net of Allowance for Doubtful Accounts and Sales Returns of \$3,843,800)	12,056,064
Inventories	9,377,026
Prepaid Expenses and Other Current Assets	2,683,066
Debt Issuance Costs (Net)	482,360
Deferred Income Taxes	<u>1,534,000</u>
TOTAL CURRENT ASSETS	\$ 26,133,036
PROPERTY AND EQUIPMENT (Net)	781,615
OTHER ASSETS:	
Note Receivable - Related Party	2,250,482
Debt Issuance Costs (Net)	2,104,602
Trademarks (Net)	198,345
Deposits and Other Assets	<u>189,742</u>
TOTAL OTHER ASSETS	4,743,171
TOTAL ASSETS	\$ 31,657,822
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Book Overdraft	\$ 401,808
Accounts Payable	7,394,384
Accrued Expenses	3,511,881
Income Taxes Payable	445,000
Current Portion of Long-Term Debt	<u>3,370,000</u>
TOTAL CURRENT LIABILITIES	\$ 15,123,073
OTHER LIABILITIES:	
Line of Credit	5,950,000
Long-Term Debt	71,265,000
Deferred Income Taxes	<u>225,000</u>
TOTAL OTHER LIABILITIES	77,440,000
TOTAL LIABILITIES	92,563,073
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT:	
Common Stock - No Par Value, 1,000,000 Shares Authorized; 56,774 Shares Issued and Outstanding	10,330,090
Accumulated Deficit	<u>(71,235,341)</u>
TOTAL STOCKHOLDERS' DEFICIT	(60,905,251)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 31,657,822

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF OPERATIONS AND
CHANGES IN ACCUMULATED DEFICIT**
Period from April 1, 2008 to December 31, 2008

	Amount	% of Net Sales
NET SALES	\$ 52,009,295	100.0
COST OF SALES	26,604,970	51.2
<i>GROSS PROFIT</i>	25,404,325	48.8
OPERATING EXPENSES:		
General and Administrative	8,343,310	16.1
Selling and Marketing	11,666,335	22.4
<i>TOTAL OPERATING EXPENSES</i>	20,009,645	38.5
<i>INCOME FROM OPERATIONS</i>	5,394,680	10.3
OTHER INCOME (EXPENSES):		
Interest Expense	(6,145,443)	(11.8)
Other Expenses	(991,825)	(1.9)
Amortization Expense	(361,770)	(0.7)
Interest Income	66,480	0.1
<i>TOTAL OTHER INCOME (EXPENSES)</i>	(7,432,558)	(14.3)
<i>LOSS BEFORE BENEFIT FROM INCOME TAXES</i>	(2,037,878)	(4.0)
Benefit from Income Taxes	(864,000)	(1.7)
<i>NET LOSS</i>	(1,173,878)	(2.3)
Accumulated Deficit - April 1, 2008	(24,660,298)	
Distributions to Stockholders	(45,401,165)	
<i>ACCUMULATED DEFICIT - DECEMBER 31, 2008</i>	\$ (71,235,341)	

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Period from April 1, 2008 to December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss	\$ (1,173,878)	
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Bad Debt Provision	3,089,000	
Inventory Reserve	500,000	
Amortization	361,770	
Depreciation	181,588	
Loss on Disposal of Property and Equipment	28,353	
Deferred Income Tax Benefit	(1,309,000)	
Interest Accrued on Note Receivable - Related Party	(66,480)	
Increase in:		
Accounts Receivable - Trade	(5,425,774)	
Inventories	(1,189,811)	
Prepaid Expenses and Other Current Assets	(1,479,565)	
Increase (Decrease) in:		
Book Overdraft	401,808	
Accounts Payable	1,207,891	
Accrued Expenses	(94,463)	
Income Taxes Payable	445,000	
	<hr/>	
NET CASH USED IN OPERATING ACTIVITIES		\$ (4,523,561)

CASH FLOWS USED IN INVESTING ACTIVITIES:

Payments for Debt Issuance Costs	(2,948,732)	
Purchases of Property and Equipment	(587,685)	
Payments for Deposits and Other Assets	(139,007)	
Payments for Acquisition of Trademarks	(63,400)	
	<hr/>	
NET CASH USED IN INVESTING ACTIVITIES		(3,738,824)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net Borrowings on Line of Credit	5,950,000	
Proceeds from Long Term Debt	80,600,000	
Payments on Long Term Debt	(33,982,426)	
Distributions to Stockholders	(45,401,165)	
	<hr/>	
NET CASH PROVIDED BY FINANCING ACTIVITIES		7,166,409

NET DECREASE IN CASH

		(1,095,976)
Cash - Beginning of Period		<hr/> 1,096,496
CASH - END OF PERIOD		\$ 520

**SUPPLEMENTAL DISCLOSURE OF
CASH FLOW INFORMATION**

Cash Paid During the Period for Interest	\$ 5,639,139
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The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) NATURE OF BUSINESS

Ecoly International, Inc. dba Sexy Hair Concepts (Ecoly) and Subsidiary (collectively, the company) develops and distributes hair care products, which are created for the professional hair care market. The manufacturing of the products is performed by third party processors. These products are primarily sold through distributors who sell to professional hair salons. The company sells to distributors located primarily in the United States and also to distributors located internationally.

On April 9, 2008, pursuant to a securities purchase agreement, the outstanding stock of Ecoly International, Inc. was acquired by Luxe Beauty Holdings Corporation and Luxe Beauty Midco Corporation.

Luxe Beauty Holdings Corporation owns 100% of Luxe Beauty Midco Corporation (Holdings) and 29.46% of Ecoly International, Inc.

Luxe Beauty Midco Corporation (Midco) owns 70.54% of Ecoly International, Inc. and is a wholly-owned subsidiary of Luxe Beauty Holdings Corporation.

(b) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Ecoly and its wholly-owned subsidiary, Sexy Hair Concepts, LLC (Sexy Hair). All significant intercompany balances and transactions have been eliminated on consolidation.

(c) MANAGEMENT'S USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates are appropriate, changes in assumptions utilized in preparing such estimates could cause these estimates to change some time in the future.

(d) CASH

The company maintains its cash in bank checking and deposit accounts which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) TRADE, NOTES AND OTHER RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. Interest income on long-term interest-bearing notes receivable is recognized as the interest accrues under the terms of the notes.

(f) INVENTORIES

Inventories consist primarily of purchased hair care products and are stated at the lower of cost or market, using standard costs.

(g) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation of property and equipment has been determined principally by using straight-line and accelerated methods over their useful lives as follows:

Equipment	5 - 7 Years
Furniture and Fixtures	7 Years
Molds	5 Years
Transportation Equipment	5 Years
Leasehold Improvements	Remaining Life of Lease

The company follows the policy of capitalizing expenditures that materially increase asset lives and charging ordinary repairs and maintenance to operations as incurred.

(h) LONG-LIVED ASSETS

The company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated realizable value. No such impairment losses have been recognized for the period ended December 31, 2008.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) TRADEMARKS

Trademarks consist of costs incurred in connection with the procurement of trademarks for certain of the company's products.

The company reviews trademarks for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. There was no impairment of trademarks for the period ended December 31, 2008.

(j) REVENUE RECOGNITION

Revenue is recognized at the time of product shipment, net of allowance for returns.

(k) SHIPPING AND HANDLING FEES AND COSTS

The company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are included in cost of sales. Shipping and handling costs associated with outbound freight of \$1,829,280 for the period ended December 31, 2008 are included in selling and marketing expenses.

(l) ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs incurred for the period ended December 31, 2008 was \$1,785,563.

(m) DEFERRED FINANCING COSTS AND OTHER ASSETS

Fees and costs incurred in obtaining long-term financing are capitalized as deferred financing costs and amortized over the term of the related loan agreement. The capitalized costs are included in debt issuance costs. The amortization of these costs is included in other expenses.

The company complies with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (Statement No. 133). Statement No. 133 requires that all derivative financial instruments be carried on the balance sheet as assets or liabilities at fair value, with changes in fair value recorded in net income or other comprehensive income depending on the nature of the instrument. The company was required to purchase an interest rate collar. During the term that the agreement comes into effect after an interest rate collar is purchased, changes in the fair value of the collar are recorded as realized gains or losses in the consolidated statement of operations as interest expense. Interest expense was decreased by \$18,500 during the period ended December 31, 2008 due to the change in the fair value of the collar.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) FAIR VALUE MEASUREMENTS

The company reports that the carrying amounts of cash, accounts receivable - trade, inventories, prepaid expenses and other current assets, book overdraft, accounts payable, accrued expenses, income taxes payable, holdback payable and other current liabilities approximate fair value due to the short-term maturity of these instruments. In addition, management believes that the carrying amounts of notes receivable and notes payable approximate their fair value due to the relative similarity of their effective interest rates as compared to current market rates.

(o) INCOME TAXES

Income taxes are provided based on income reported in the consolidated financial statements adjusted for transactions that do not enter into the computation of income taxes payable.

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying currently enacted statutory tax rates to future years to differences between the consolidated financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(p) RECENT ACCOUNTING PRONOUNCEMENT

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's consolidated financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken, or expected to be taken, on a tax return. FIN 48 was initially effective for fiscal years beginning after December 15, 2006. The implementation date for non-public corporations for FIN 48 has been delayed and is now effective for fiscal years beginning after December 15, 2008. The company has elected to defer the adoption of FIN 48 until January 1, 2009 and has not currently determined the impact of FIN 48 on its consolidated financial position and results of operations. However, until FIN 48 is adopted, the company will continue to account for uncertain tax positions using the guidance in FASB Statement 5, "Accounting for Contingencies." The cumulative effect, if any, of adopting FIN 48 will be recorded as an adjustment to accumulated deficit on January 1, 2009.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) SUBSEQUENT EVENTS

The company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2008 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through September 15, 2010, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred other than as disclosed in Note 13.

NOTE 2 - NOTE RECEIVABLE - RELATED PARTY

On March 9, 2006, a stockholder of the parent company purchased 8,516 shares of common stock for a note receivable, including accrued interest, of \$2,250,482 at December 31, 2008. The note receivable is secured by a 50% interest in a New York LLC.

Interest is accrued annually at the bank's prime rate (3.25% at December 31, 2008) and is added to principal. Interest accrued on this for the period ended December 31, 2008 was \$66,480.

NOTE 3 - INVENTORIES

Inventories consist of the following at December 31, 2008:

Raw Materials	\$ 2,513,767
Finished Goods	<u>6,863,259</u>
TOTAL INVENTORIES	<u>\$ 9,377,026</u>

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2008:

Equipment	\$ 1,046,582
Furniture and Fixtures	586,697
Molds	260,023
Transportation Equipment	24,683
Leasehold Improvements	<u>66,413</u>
TOTAL	1,984,398
Less: Accumulated Depreciation	<u>(1,202,783)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 781,615</u>

Depreciation expense was \$181,588 for the period ended December 31, 2008.

NOTE 5 - DEBT ISSUANCE COSTS

Debt issuance costs consist of the following:

Costs Relating to Notes Payable Issued in Connection with Business Acquisition	\$ 2,948,732
Less: Accumulated Amortization	<u>(361,770)</u>
TOTAL	2,586,962
Less: Current Portion	<u>(482,360)</u>
NET DEBT ISSUANCE COSTS	<u>\$ 2,104,602</u>

Amortization expense relating to debt issuance costs charged to operations was \$361,770 for the period ended December 31, 2008.

Amortization expense relating to debt issuance costs for each of the next five succeeding years amounts to \$482,360 in each year.

NOTE 6 - INCOME TAXES

The benefit from income taxes consists of the following for the period ended December 31, 2008:

Current - Federal	\$ 334,000
Current - State	111,000
Deferred Income Tax Benefit	<u>(1,309,000)</u>
BENEFIT FROM INCOME TAXES	<u>\$ (864,000)</u>

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 6 - INCOME TAXES (continued)

Deferred tax assets (liabilities) are comprised of the following:

DEFERRED TAX ASSETS:	
Allowance for Doubtful Accounts	\$ 1,323,000
Allowance for Sales Returns	139,000
Inventory Reserve	193,000
Inventory Capitalization	160,000
Accrued Expenses	<u>189,000</u>
GROSS DEFERRED TAX ASSETS	2,004,000
DEFERRED TAX LIABILITIES:	
Prepaid Expenses and Loan Fees	(246,000)
Depreciation	(368,000)
State Taxes	<u>(81,000)</u>
GROSS DEFERRED TAX LIABILITIES	(695,000)
NET DEFERRED INCOME TAXES	<u>\$ 1,309,000</u>
DEFERRED INCOME TAXES:	
Current	\$ 1,534,000
Long-Term	<u>(225,000)</u>
NET DEFERRED INCOME TAXES	<u>\$ 1,309,000</u>

The difference between the benefit from income taxes as a percentage of loss before benefit from income taxes and the federal statutory rate of 34% is due primarily to the non-deductibility of certain items, state income taxes and deferred income taxes.

NOTE 7 - LINE OF CREDIT

On April 9, 2008, the company entered into a loan agreement with the bank. In terms of the loan agreement, the company has a revolving credit loan and letter of credit facility up to \$10,000,000 and a term loan facility in the aggregate original principal amount of \$61,600,000 (See Note 7). The revolving credit facility expires in April 2013 and the term loan facility expires in April 2014.

As of December 31, 2008, the outstanding balance under the line of credit was \$5,950,000. At December 31, 2008, the maximum borrowing available under the line of credit subject to the terms of the related agreement was \$4,050,000. Borrowings under the line of credit facility bear interest at the higher of the prime rate or the Federal Funds Rate plus 4%. As of December 31, 2008, the bank's prime rate was 3.25% and the Federal Funds Rate was approximately 0.1%. The unused portion of the line of credit bear commitment fees equal to 0.50%. The credit facilities are secured by certain assets of the company and a stock pledge agreement.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 7 - LINE OF CREDIT (continued)

The credit facilities contain various covenants and restrictions which include, among others, (i) the maintenance of a maximum total leverage ratio; (ii) the maintenance of a maximum senior leverage ratio and; (iii) the maintenance of a minimum fixed charge coverage ratio.

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2008:

Note Payable - Bank, Secured by Certain Assets of the Company, Payable in Quarterly Installments of \$842,500 (2009-2010) and \$1,155,000 (2011-2013), Plus Interest at the Prime Rate, Outstanding Balance Due in April 2014	\$ 55,635,000
Note Payable - Stockholder, Secured by Certain Assets of the Company, Interest Accruing at 14%, Payable Semi-Annually at 12% and the Remaining Accrued Interest Added Semi-Annually to the Outstanding Principal Amount of the Subordinated Note, Outstanding Balance Due in April 2015	<u>19,000,000</u>
TOTAL	74,635,000
Less: Current Maturities	<u>(3,370,000)</u>
LONG-TERM DEBT	<u>\$ 71,265,000</u>

The bank prime rate was 3.25% at December 31, 2008.

Future maturities of long-term debt as of December 31, 2008 are as follows:

Years Ending December 31	
2010	\$ 3,370,000
2011	4,620,000
2012	4,620,000
2013	4,620,000
Thereafter	<u>54,035,000</u>
TOTAL	<u>\$71,265,000</u>

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 9 - FAIR VALUE MEASUREMENTS

Effective April 1, 2008, the company implemented SFAS 157 for those assets and liabilities that are re-measured and reported at fair value at each reporting period.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table presents information about the company's interest rate collar, which is measured at its fair value on a recurring basis at December 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

Period Ended	Fair Value Measurements Using		
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2008	\$ 18,500	\$ -	\$ -

LIABILITIES:

Interest Rate Collar

The fair values of the interest rate collar within Level 2 inputs were derived from third-party pricing models using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the use of different assumptions and/or estimated methodologies could have a material effect on the estimated fair values. The fair value estimates are based on information available as of December 31, 2008. These amounts have not been revalued since that date, and current estimates of fair value could differ significantly from the amounts presented.

The company uses a cash flow hedge derivative to manage interest rate risk principally by the use of an interest rate collar agreement which effectively protects the interest rate for a portion of the term of the credit facilities with the bank. The interest rate collar agreement that is outstanding as of December 31, 2008 is as follows:

Notional Amount	\$ 38,150,000
Cap Rate (Pay)	5%
Floor Rate (Receive)	1.45875%
Floating Rate Option	3 Month LIBOR
Maturity	June 30, 2011
Asset under Interest Rate Collar	\$ 18,500

At December 31, 2008, the three month LIBOR rate was 1.41%.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The notional amount under the interest rate collar agreement decreases as principal payments are made on the note so that the notional amount equals the principal outstanding under the note. The interest rate collar agreement does not qualify for hedge accounting under the provisions of Statement No. 133 and, accordingly, the company recognizes the changes in the fair value immediately in interest expense. During the period ended December 31, 2008, there was a decrease of \$18,500 in interest expense.

NOTE 10 - EMPLOYEE BENEFIT PLAN

The company adopted a 401(K) Retirement Plan (the Plan) under the provisions of Section 401(K) of the Internal Revenue Code (the Code). The company personnel who meet prescribed service requirements are eligible to participate in the Plan administered by the company. Participant contributions consist of voluntary salary reduction contributions up to the limit set by the Code. The company matches 100% up to 3% of employee compensation, and 50% on the next 2% of employee compensation up to a maximum matching contribution of 4%. The company's matching contributions vest evenly over three years of credited service. During the period ended December 31, 2008, the company contributed \$71,016 to the plan.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The company leases its facilities and certain equipment under non-cancelable operating leases which expire on various dates through May 2013. The minimum lease commitments remaining under these agreements as of December 31, 2008 are as follows:

Years Ending December 31	Facilities	Equipment	Total
2009	\$ 765,623	\$ 78,418	\$ 844,041
2010	765,623	71,819	837,442
2011	765,626	55,474	821,100
2012	765,725	34,631	800,356
2013	319,094	14,430	333,524
TOTAL	\$ 3,381,691	\$ 254,772	\$ 3,636,463

Rental expense under these leases was \$817,659 for the period ended December 31, 2008.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Period from April 1, 2008 to December 31, 2008

NOTE 11 - COMMITMENTS AND CONTINGENCIES (continued)

(b) LITIGATION

In the ordinary course of conducting its business, the company becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the company, which, from time to time, may have an impact on its net income or financial position. The company does not believe that these proceedings individually, or in the aggregate, are material to its business or financial condition.

(c) EMPLOYMENT CONTRACT

The company currently has an employment contract with one of the company's executives. The contract provides for annual salaries and participation in year end bonuses. Although the employment contract has no stated expiration date, the company has the right to terminate this contract at any time. Should the company terminate the contract without cause, it is obligated to pay salary and continuation of various benefits for twelve months following termination of employment.

NOTE 12 - BUSINESS ACQUISITION RELATED EXPENSES

Costs related to the business acquisition, which include legal, accounting, and valuation fees, in the amount of approximately \$992,000 have been charged directly to operations and are included in other expenses in the consolidated statement of operations for the period ended December 31, 2008.

NOTE 13 - SUBSEQUENT EVENTS

As the note payable - bank and note payable - stockholder were in default as of December 31, 2009, the bank asserted its exclusive right to exercise all voting and consensual rights relating to the pledged shares as provided for in the pledge agreement. Furthermore, any rights to receive dividends and interest in respect of the pledged shares shall be attributed to the bank. In connection with the bank assertion of its rights:

- (a) An impairment loss on due from affiliates for \$579,628 was recorded during the year ended December 31, 2009 because, in the opinion of management, the outstanding advances due from the parent company may not be collectible due to the underlying financial condition of the parent company;
- (b) As management doubts the collectability of the note receivable - related party, an allowance for doubtful note receivable was recorded against 100% of the outstanding balance as of December 31, 2009;
- (c) All remaining unamortized debt issuance costs were written off during the year ended December 31, 2009; and
- (d) In April 2010, the company signed a letter of intent to sell all of the assets of its wholly owned subsidiary, Sexy Hair Concepts LLC.

**ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY**

SUPPLEMENTAL INFORMATION

**PERIOD FROM APRIL 1, 2008
TO DECEMBER 31, 2008**



GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors of
Ecoly International, Inc.
dba Sexy Hair Concepts and Subsidiary

Our report on our audit of the consolidated financial statements of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary for the period from April 1, 2008 to December 31, 2008 appears on Page 1. This audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as whole. The consolidating balance sheet as of December 31, 2008 and the consolidating statement of operations and changes in accumulated and member's deficit for the period from April 1, 2008 to December 31, 2008 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Green Hasson & Janks LLP

September 15, 2010
Los Angeles, California

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ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2008

ASSETS	Ecoly International, Inc.	Sexy Hair Concepts, LLC	Eliminations	Consolidated
CURRENT ASSETS:				
Cash	\$ 520	\$ -	\$ -	\$ 520
Accounts Receivable - Trade (Net)	-	12,056,064	-	12,056,064
Inventories	-	9,377,026	-	9,377,026
Prepaid Expenses and Other Current Assets	-	2,683,066	-	2,683,066
Debt Issuance Costs (Net)	-	482,360	-	482,360
Deferred Income Taxes	1,534,000	-	-	1,534,000
TOTAL CURRENT ASSETS	1,534,520	24,598,516	-	26,133,036
PROPERTY AND EQUIPMENT (Net)	-	781,615	-	781,615
OTHER ASSETS:				
Note Receivable - Related Party	2,250,482	-	-	2,250,482
Debt Issuance Costs (Net)	-	2,104,602	-	2,104,602
Trademarks (Net)	-	198,345	-	198,345
Deposits and Other Assets	-	189,742	-	189,742
Due from Affiliates	-	3,042,504	(3,042,504)	-
TOTAL OTHER ASSETS	2,250,482	5,535,193	(3,042,504)	4,743,171
TOTAL ASSETS	\$ 3,785,002	\$ 30,915,324	\$ (3,042,504)	\$ 31,657,822
LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY (DEFICIT)				
CURRENT LIABILITIES:				
Book Overdraft	\$ -	\$ 401,808	\$ -	\$ 401,808
Accounts Payable	-	7,394,384	-	7,394,384
Accrued Expenses	67,642	3,444,239	-	3,511,881
Income Taxes Payable	445,000	-	-	445,000
Current Portion of Long-Term Debt	-	3,370,000	-	3,370,000
Due to Affiliates	3,042,504	-	(3,042,504)	-
TOTAL CURRENT LIABILITIES	3,555,146	14,610,431	(3,042,504)	15,123,073
OTHER LIABILITIES:				
Line of Credit	-	5,950,000	-	5,950,000
Long-Term Debt	-	71,265,000	-	71,265,000
Deferred Income Taxes	225,000	-	-	225,000
Deficit from Subsidiary	41,077,833	-	(41,077,833)	-
TOTAL OTHER LIABILITIES	41,302,833	77,215,000	(41,077,833)	77,440,000
TOTAL LIABILITIES	44,857,979	91,825,431	(44,120,337)	92,563,073
STOCKHOLDERS' AND MEMBER'S EQUITY (DEFICIT):				
Common Stock	10,330,090	-	-	10,330,090
Accumulated and Member's Deficit	(51,403,067)	(60,910,107)	41,077,833	(71,235,341)
TOTAL STOCKHOLDERS' AND MEMBER'S EQUITY (DEFICIT)	(41,072,977)	(60,910,107)	41,077,833	(60,905,251)
TOTAL LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY (DEFICIT)	\$ 3,785,002	\$ 30,915,324	\$ (3,042,504)	\$ 31,657,822

See Independent Auditors' Report on Supplemental Information

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS
AND CHANGES IN ACCUMULATED AND MEMBER'S DEFICIT
Period from April 1, 2008 to December 31, 2008

	Ecoly International Inc.	Sexy Hair Concepts, LLC	Eliminations	Consolidated
NET SALES	\$ -	\$ 52,009,295	\$ -	\$ 52,009,295
COST OF SALES	-	26,604,970	-	26,604,970
GROSS PROFIT	-	25,404,325	-	25,404,325
OPERATING EXPENSES:				
General and Administrative	3,057	8,340,253	-	8,343,310
Selling and Marketing	-	11,666,335	-	11,666,335
TOTAL OPERATING EXPENSES	3,057	20,006,588	-	20,009,645
INCOME (LOSS) FROM OPERATIONS	(3,057)	5,397,737	-	5,394,680
OTHER INCOME (EXPENSES):				
Interest Expense	-	(6,145,443)	-	(6,145,443)
Other Expenses	(20,025)	(971,800)	-	(991,825)
Amortization Expense	-	(361,770)	-	(361,770)
Interest Income	66,480	-	-	66,480
Equity in Loss of Subsidiary	(2,081,276)	-	2,081,276	-
TOTAL OTHER INCOME (EXPENSES)	(2,034,821)	(7,479,013)	2,081,276	(7,432,558)
LOSS BEFORE BENEFIT FROM INCOME TAXES	(2,037,878)	(2,081,276)	2,081,276	(2,037,878)
Benefit from Income Taxes	(864,000)	-	-	(864,000)
NET LOSS	(1,173,878)	(2,081,276)	2,081,276	(1,173,878)
Accumulated and Member's Deficit - April 1, 2008	(4,828,024)	(13,427,666)	(6,404,608)	(24,660,298)
Distributions to Stockholders and Member	(45,401,165)	(45,401,165)	45,401,165	(45,401,165)
TOTAL ACCUMULATED AND MEMBER'S DEFICIT - DECEMBER 31, 2008	<u>\$ (51,403,067)</u>	<u>\$ (60,910,107)</u>	<u>\$ 41,077,833</u>	<u>\$ (71,235,341)</u>

See Independent Auditors' Report on Supplemental Information

Exhibit B

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ecoly International, Inc.
dba Sexy Hair Concepts and Subsidiary

We have audited the accompanying consolidated balance sheet of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary as of December 31, 2009, and the related consolidated statements of operations and changes in accumulated deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary as of December 31, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 12 to the consolidated financial statements, the company has a stockholders' deficit, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 12. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Green Hasson & Janks LLP

September 15, 2010
Los Angeles, California

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ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET
December 31, 2009

ASSETS	
CURRENT ASSETS:	
Cash	\$ 5,549,229
Accounts Receivable - Trade (Net of Allowance for Doubtful Accounts and Sales Returns of \$1,292,430)	5,079,920
Inventories	4,855,848
Prepaid Expenses and Other Current Assets	2,267,819
Income Taxes Receivable	<u>409,000</u>
TOTAL CURRENT ASSETS	\$ 18,161,816
PROPERTY AND EQUIPMENT (Net)	715,602
OTHER ASSETS:	
Trademarks (Net)	227,320
Deposits and Other Assets	<u>231,618</u>
TOTAL OTHER ASSETS	458,938
TOTAL ASSETS	<u>\$ 19,336,356</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES:	
Accounts Payable	\$ 2,640,350
Accrued Expenses	8,505,317
Line of Credit	6,993,750
Current Portion of Long-Term Debt	72,107,500
Due to Affiliates	<u>544,264</u>
TOTAL CURRENT LIABILITIES	\$ 90,791,181
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIT:	
Common Stock - No Par Value, 1,000,000 Shares Authorized; 56,774 Shares Issued and Outstanding	10,330,090
Accumulated Deficit	<u>(81,784,915)</u>
TOTAL STOCKHOLDERS' DEFICIT	(71,454,825)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u>\$ 19,336,356</u>

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF OPERATIONS AND
CHANGES IN ACCUMULATED DEFICIT
Year Ended December 31, 2009**

	<u>Amount</u>	<u>% of Net Sales</u>
NET SALES	\$ 58,843,042	100.0
COST OF SALES	<u>30,354,090</u>	<u>51.6</u>
<i>GROSS PROFIT</i>	28,488,952	48.4
OPERATING EXPENSES:		
General and Administrative	7,914,166	13.4
Selling and Marketing	<u>15,519,377</u>	<u>26.4</u>
<i>TOTAL OPERATING EXPENSES</i>	<u>23,433,543</u>	<u>39.8</u>
<i>INCOME FROM OPERATIONS</i>	5,055,409	8.6
OTHER EXPENSES:		
Impairment Loss on Due from Affiliate	(579,628)	(0.9)
Interest Expense	(8,758,923)	(14.9)
Amortization Expense	(2,977,370)	(5.1)
Provision for Doubtful Note Receivable - Related Party (Net of Accrued Interest of \$48,635)	(2,250,483)	(3.9)
Other Expenses	<u>(6,579)</u>	<u>-</u>
<i>TOTAL OTHER EXPENSES</i>	<u>(14,572,983)</u>	<u>(24.8)</u>
<i>LOSS BEFORE PROVISION FOR INCOME TAXES</i>	(9,517,574)	(16.2)
Provision for Income Taxes	<u>1,032,000</u>	<u>1.8</u>
<i>NET LOSS</i>	(10,549,574)	<u>(18.0)</u>
Accumulated Deficit - Beginning of Year	<u>(71,235,341)</u>	
<i>ACCUMULATED DEFICIT - END OF YEAR</i>	<u>\$ (81,784,915)</u>	

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Loss	\$ (10,549,574)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:	
Impairment Loss on Due from Affiliate	579,628
Amortization	2,977,370
Provision for Doubtful Note Receivable - Related Party	2,250,483
Bad Debt Provision	48,034
Depreciation	253,801
Deferred Income Tax Expense	1,309,000
(Increase) Decrease in:	
Accounts Receivable - Trade	6,928,110
Inventories	4,521,178
Prepaid Expenses and Other Current Assets	415,247
Income Taxes Receivable	(409,000)
Due from Affiliates	(35,364)
Deposits and Other Assets	(41,876)
Increase (Decrease) in:	
Book Overdraft	(401,808)
Accounts Payable	(4,754,035)
Accrued Expenses	4,993,436
Income Taxes Payable	(445,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,639,630

CASH FLOWS USED IN INVESTING ACTIVITIES:

Payments for Debt Issuance Costs	(390,408)
Purchases of Property and Equipment	(187,788)
Purchase of Trademarks	(28,975)
NET CASH USED IN INVESTING ACTIVITIES	(607,171)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on Long-Term Debt	(2,527,500)
Net Borrowings on Line of Credit	1,043,750
NET CASH USED IN FINANCING ACTIVITIES	(1,483,750)

NET INCREASE IN CASH

5,548,709

Cash - Beginning of Year

520

CASH - END OF YEAR

\$ 5,549,229

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for:

Interest	\$ 6,893,519
Income Taxes	552,000

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) NATURE OF BUSINESS

Ecoly International, Inc. dba Sexy Hair Concepts (Ecoly) and Subsidiary (collectively, the company) develops and distributes hair care products, which are created for the professional hair care market. The manufacturing of the products is performed by third party processors. These products are primarily sold through distributors who sell to professional hair salons. The company sells to distributors located primarily in the United States and also to distributors located internationally.

On April 9, 2008, pursuant to a securities purchase agreement, the outstanding stock of Ecoly International, Inc. was acquired by Luxe Beauty Holdings Corporation and Luxe Beauty Midco Corporation.

Luxe Beauty Holdings Corporation owns 100% of Luxe Beauty Midco Corporation (Holdings) and 29.46% of Ecoly International, Inc.

Luxe Beauty Midco Corporation (Midco) owns 70.54% of Ecoly International, Inc. and is a wholly-owned subsidiary of Luxe Beauty Holdings Corporation.

(b) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Ecoly and its wholly-owned subsidiary, Sexy Hair Concepts, LLC (Sexy Hair). All significant intercompany balances and transactions have been eliminated on consolidation.

(c) MANAGEMENT'S USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes its estimates are appropriate, changes in assumptions utilized in preparing such estimates could cause these estimates to change some time in the future.

(d) CASH

The company maintains its cash in bank checking and deposit accounts which, at times, may exceed federally insured limits. The company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) TRADE, NOTES AND OTHER RECEIVABLES

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. Interest income on long-term interest-bearing notes receivable is recognized as the interest accrues under the terms of the notes.

(f) INVENTORIES

Inventories consist primarily of purchased hair care products and are stated at the lower of cost or market, using standard costs.

(g) PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation of property and equipment has been determined principally by using straight-line and accelerated methods over their useful lives as follows:

Equipment	5 - 7 Years
Furniture and Fixtures	3 - 5 Years
Molds	5 Years
Transportation Equipment	5 Years
Leasehold Improvements	Remaining Life of Lease

The company follows the policy of capitalizing expenditures that materially increase asset lives and charging ordinary repairs and maintenance to operations as incurred.

(h) LONG-LIVED ASSETS

The company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the assets, in which case a write-down is recorded to reduce the related asset to its estimated realizable value. No such impairment losses have been recognized for the year ended December 31, 2009.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) TRADEMARKS

Trademarks consist of costs incurred in connection with the procurement of trademarks for certain of the company's products.

The company reviews trademarks for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. There was no impairment of trademarks for the year ended December 31, 2009.

(j) REVENUE RECOGNITION

Revenue is recognized at the time of product shipment, net of allowance for returns.

(k) SHIPPING AND HANDLING FEES AND COSTS

The company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are included in cost of sales. Shipping and handling costs associated with outbound freight of \$1,821,275 for the year ended December 31, 2009 are included in selling and marketing expenses.

(l) ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs incurred for the year ended December 31, 2009 was \$1,626,857.

(m) DEFERRED FINANCING COSTS

Fees and costs incurred in obtaining long-term financing are capitalized as deferred financing costs and amortized over the term of the related loan agreement. The capitalized costs are included in debt issuance costs. The amortization of these costs is included in other expenses. Due to debt defaults discussed in Notes 5, 7, and 8, deferred financing costs of \$2,977,370 were written off as of December 31, 2009.

(n) FAIR VALUE MEASUREMENTS

The company reports that the carrying amounts of cash, accounts receivable - trade, inventories, prepaid expenses and other current assets, income taxes receivable, accounts payable, accrued expenses, and other current liabilities approximate fair value due to the short-term maturity of these instruments. In addition, management believes that the carrying amounts of notes payable approximate their fair value due to the relative similarity of their effective interest rates as compared to current market rates.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) INCOME TAXES

Income taxes are provided based on income reported in the consolidated financial statements adjusted for transactions that do not enter into the computation of income taxes payable.

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying currently enacted statutory tax rates applicable to future years differences between the consolidated financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not to be realized.

In accordance with the newly adopted accounting pronouncement, Accounting for Uncertainty in Income Taxes, the company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The company is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2006 and state examinations for the years before 2005.

(p) RECENT ACCOUNTING PRONOUNCEMENT

In June 2009, FASB issued the FASB Accounting Standards Codification (the ASC). The ASC has become the single source of non-governmental accounting principles generally accepted in the United States (GAAP) recognized by the FASB in the preparation of consolidated financial statements. The company adopted the ASC as of December 31, 2009. The ASC does not change GAAP and did not have an effect on the company's consolidated financial position, results of operations or cash flows.

(q) SUBSEQUENT EVENTS

The Company has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2009, for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through September 15, 2010, the date these consolidated financial statements were available to be issued. No such material events or transactions were noted to have occurred other than as disclosed in Note 11(c) and 13.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 2 - RELATED PARTY TRANSACTIONS

(a) IMPAIRMENT LOSS ON DUE FROM AFFILIATE

An impairment loss of \$579,628 was recorded during the year ended December 31, 2009 because, in the opinion of management, the outstanding advances due from the parent company may not be collectible due to the underlying financial condition of the parent company.

(b) NOTE RECEIVABLE - RELATED PARTY

Note receivable - related party (net) consists of the following:

Note Receivable (Including Accrued Interest)	\$ 2,299,118
Provision for Doubtful Note Receivable	<u>(2,299,118)</u>
NOTE RECEIVABLE - RELATED PARTY (NET)	<u>\$ -</u>

On March 9, 2006, a stockholder of the parent company purchased 8,516 shares of common stock for a note receivable, including accrued interest, of \$2,299,118 at December 31, 2009. The note receivable is secured by a 50% interest in a New York LLC. As management doubts the collectability of such note receivable, an allowance for doubtful note receivable was recorded for \$2,299,118 as of December 31, 2009.

Interest is accrued annually at the bank's prime rate less 1% (2.25% at December 31, 2009) and is added to principal. Interest accrued on this note receivable for the year ended December 31, 2009 was \$48,635.

(c) DUE TO AFFILIATES

The company received various funds from its affiliates. These advances are non-interest bearing.

NOTE 3 - INVENTORIES

Inventories consist of the following at December 31, 2009:

Raw Materials	\$ 1,141,157
Finished Goods	<u>3,714,691</u>
TOTAL INVENTORIES	<u>\$ 4,855,848</u>

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2009:

Equipment	\$ 1,188,964
Furniture and Fixtures	590,282
Molds	260,023
Transportation Equipment	27,949
Leasehold Improvements	<u>104,966</u>
TOTAL	2,172,184
Less: Accumulated Depreciation	<u>(1,456,582)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 715,602</u>

Depreciation expense was \$253,801 for the year ended December 31, 2009.

NOTE 5 - DEBT ISSUANCE COSTS

Debt issuance costs consist of the following:

Costs Relating to Notes Payable Issued in Connection with Business Acquisition	\$ 3,339,140
Less: Accumulated Amortization	<u>(3,339,140)</u>
NET DEBT ISSUANCE COSTS	<u>\$ -</u>

Amortization expense relating to debt issuance costs charged to operations was \$2,977,370 for the year ended December 31, 2009, which represents the remaining balance of debt issuance costs. Such deferred issuance costs were written off, as the associated debts were in default as of December 31, 2009, as discussed in Note 7 and 8.

NOTE 6 - INCOME TAXES

The provision for income taxes consists of the following for year ended December 31, 2009:

Current - Federal	\$ -
Current - State	13,000
Federal Net Operating Loss Carryback	(376,000)
Prior Year Under Provision	86,000
Deferred Income Tax Expense	<u>1,309,000</u>
PROVISION FOR INCOME TAXES	<u>\$ 1,032,000</u>

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 6 - INCOME TAXES (continued)

Deferred tax assets (liabilities) are comprised of the following:

DEFERRED TAX ASSETS:	
Allowance for Doubtful Accounts	\$ 95,000
Allowance for Sales Returns	459,000
Allowance for Doubtful Note Receivable - Related Party	985,000
Inventory Reserve	321,000
Inventory Capitalization	120,000
Accrued Expenses	71,000
Loan Fees	1,183,000
Net Operating Losses	<u>1,673,000</u>
GROSS DEFERRED TAX ASSETS	4,907,000
DEFERRED TAX LIABILITIES:	
Prepaid Expenses	(289,000)
Depreciation	(272,000)
State Taxes	<u>(302,000)</u>
GROSS DEFERRED TAX LIABILITIES	(863,000)
NET DEFERRED INCOME TAX ASSETS BEFORE VALUATION ALLOWANCE	4,044,000
Less: Valuation Allowance	<u>(4,044,000)</u>
NET DEFERRED INCOME TAXES	\$ -

The difference between income tax expense as a percentage of loss before taxes and the federal statutory rate of 34% is due primarily to the effect of the valuation allowance.

As of December 31, 2009, the company has net operating loss carryforwards available to be utilized for federal and state income tax purposes of approximately \$4,000,000 and \$5,000,000, respectively which will begin to expire in the year 2030 for federal tax purposes and 2019 for state tax purposes.

A valuation allowance has been established against net deferred income tax assets, which may not be realized. During the year ended December 31, 2009, the valuation allowance increased by \$4,044,000.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 7 - LINE OF CREDIT

On April 9, 2008, the company entered into a loan agreement with the bank. In terms of the loan agreement, the company has a revolving credit loan and letter of credit facility up to \$10,000,000 and a term loan facility in the aggregate original principal amount of \$61,600,000 (See Note 8). The revolving credit facility expires in April 2013 and the term loan facility expires in April 2014.

As of December 31, 2009, the outstanding balance under the line of credit was \$6,993,750. At December 31, 2009, the maximum borrowing available under the line of credit subject to the terms of the related agreement was \$3,006,250. Borrowings under the line of credit facility bear interest at the higher of the prime rate or the Federal Funds Rate plus 6% (default rate). As of December 31, 2009, the bank's prime rate was 3.25% and the Federal Funds Rate was approximately 0.25%. The unused portion of the line of credit bear commitment fees equal to 0.50%. The credit facilities are secured by certain assets of the company and a stock pledge agreement.

The credit facilities contain various covenants and restrictions which include, among others, (i) the maintenance of a maximum total leverage ratio; (ii) the maintenance of a maximum senior leverage ratio and; (iii) the maintenance of a minimum fixed charge coverage ratio. The line of credit agreement was in default as of December 31, 2009 (See Note 8).

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2009:

Note Payable - Bank, Secured by Certain Assets of the Company, Payable in Quarterly Installments of \$842,500 (2010) and \$1,155,000 (2011-2013), In Default and Interest at the Prime Rate Plus 6%, Outstanding Balance Due in April 2014	\$53,107,500
Note Payable - Stockholder, Secured by Certain Assets of the Company, In Default and Interest Accruing at 16%, Payable Semi-Annually at 12% and the Remaining Accrued Interest Added Semi-Annually to the Outstanding Principal Amount of the Subordinated Note, Outstanding Balance Due in April 2015	<u>19,000,000</u>
TOTAL	72,107,500
Less: Current Maturities	<u>(72,107,500)</u>
LONG-TERM DEBT	<u>\$ -</u>

The bank prime rate was 3.25% at December 31, 2009.

**ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009**

NOTE 8 - LONG-TERM DEBT (continued)

The note payable - bank and note payable - stockholder were in default as of December 31, 2009. In connection with the default of notes payable - bank, the bank asserted its exclusive right to exercise all voting and consensual rights relating to the pledged shares as provided for in the pledge agreement. Furthermore, any rights to receive dividends and interest in respect of the pledged shares shall be attributed to the bank.

At December 31, 2009, unpaid interest of \$5,028,395 on the above notes is included in accrued expenses.

NOTE 9 - CONCENTRATIONS

The company had net sales of approximately \$13,100,000 to two major customers representing approximately 22% of net product sales. Included in accounts receivable - trade at December 31, 2009 was approximately \$1,200,000 related to these customers representing approximately 21% of accounts receivable - trade.

For the year ended December 31, 2009 approximately 87% of the company's net purchases were from four vendors. At December 31, 2009 the amounts due to these vendors were \$1,389,925. The company believes that should it not be able to purchase from these four vendors in the future, suitable replacements could be utilized so as to not interrupt the company's business.

NOTE 10 - EMPLOYEE BENEFIT PLAN

The company adopted a 401(K) Retirement Plan (the Plan) under the provisions of Section 401(K) of the Internal Revenue Code (the Code). The company personnel who meet prescribed service requirements are eligible to participate in the Plan administered by the company. Participant contributions consist of voluntary salary reduction contributions up to the limit set by the Code. The company matches 100% up to 3% of employee compensation, and 50% on the next 2% of employee compensation up to a maximum matching contribution of 4%. The company's matching contributions vest evenly over three years of credited service. During the year ended December 31, 2009, the company contributed \$147,089 to the plan.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 11 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The company leases its facilities and certain equipment under non-cancelable operating leases which expire on various dates through May 2013. The minimum lease commitments remaining under these agreements as of December 31, 2009 are as follows:

Years Ending December 31	Facilities	Equipment	Total
2010	\$ 798,438	\$ 71,819	\$ 870,257
2011	822,391	55,474	877,865
2012	847,062	34,631	881,693
2013	502,660	14,430	517,090
TOTAL	\$ 2,970,551	\$ 176,354	\$ 3,146,905

Rental expense under these leases was \$885,988 for the year ended December 31, 2009.

(b) LITIGATION

In the ordinary course of conducting its business, the company becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the company, which, from time to time, may have an impact on its net income or financial position. The company does not believe that these proceedings individually, or in the aggregate, are material to its business or financial condition.

(c) LETTERS OF CREDIT

As of the December 31, 2009, the company has \$506,500 of available irrevocable letters of credit with the bank, intended to provide for salary continuation to certain executives in connection with their severance agreements.

As of February 2010, the irrevocable letters of credit available balance was increased to \$825,000 to provide for other executive benefits.

The letters of credit expire in December 2010.

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2009

NOTE 12 - GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the company will continue as a going concern. As shown in the accompanying consolidated financial statements, the company incurred a net loss of \$10,549,574 during the year ended December 31, 2009 and, as of that date, the company's current liabilities exceeded its current assets by \$72,629,365 and its total liabilities exceeded its total assets by \$71,454,825. Those factors, as well as the defaults on the line of credit and notes payable agreements with the bank and stockholder (as discussed in Notes 7 and 8), raise substantial doubt about the company's ability to continue as a going concern.

While the company believes that they are a going concern, there is no assurance to that effect. The company plans on selling its operating assets in the near future (See Note 13). The consolidated financial statements do not include any adjustments that might be necessary if the company is unable to continue as a going concern.

NOTE 13 - SUBSEQUENT EVENT

In April 2010, the company signed a letter of intent to sell all of the assets of its wholly owned subsidiary, Sexy Hair Concepts LLC.

**ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY**

**SUPPLEMENTAL INFORMATION
YEAR ENDED DECEMBER 31, 2009**



GREEN HASSON & JANKS LLP
BUSINESS ADVISORS AND CPAs

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors of
Ecoly International, Inc.
dba Sexy Hair Concepts and Subsidiary

Our report on our audit of the consolidated financial statements of Ecoly International, Inc. dba Sexy Hair Concepts and Subsidiary for the year ended December 31, 2009 appears on Page 1. This audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as whole. The consolidating balance sheet as of December 31, 2009 and the consolidating statement of operations and changes in accumulated and member's deficit for the year then ended are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Green Hasson & Janks LLP

September 15, 2010
Los Angeles, California

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ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2009

ASSETS	Ecoly International, Inc.	Sexy Hair Concepts, LLC	Eliminations	Consolidated
CURRENT ASSETS:				
Cash	\$ -	\$ 5,549,229	\$ -	\$ 5,549,229
Accounts Receivable - Trade (Net)	-	5,079,920	-	5,079,920
Inventories	-	4,855,848	-	4,855,848
Prepaid Expenses and Other Current Assets	-	2,267,819	-	2,267,819
Income Taxes Receivable	409,000	-	-	409,000
TOTAL CURRENT ASSETS	409,000	17,752,816	-	18,161,816
PROPERTY AND EQUIPMENT (Net)	-	715,602	-	715,602
OTHER ASSETS:				
Trademarks (Net)	-	227,320	-	227,320
Deposits and Other Assets	-	231,618	-	231,618
Due from Affiliates	-	3,064,136	(3,064,136)	-
TOTAL OTHER ASSETS	-	3,523,074	(3,064,136)	458,938
TOTAL ASSETS	\$ 409,000	\$ 21,991,492	\$ (3,064,136)	\$ 19,336,356
LIABILITIES AND STOCKHOLDERS' AND MEMBER'S DEFICIT				
CURRENT LIABILITIES:				
Accounts Payable	\$ -	\$ 2,640,350	\$ -	\$ 2,640,350
Accrued Expenses	67,643	8,437,674	-	8,505,317
Line of Credit	-	6,993,750	-	6,993,750
Current Portion of Long-Term Debt	-	72,107,500	-	72,107,500
Due to Affiliates	3,608,400	-	(3,064,136)	544,264
Deficit from Subsidiary	48,355,508	-	(48,355,508)	-
TOTAL CURRENT LIABILITIES	52,031,551	90,179,274	(51,419,644)	90,791,181
STOCKHOLDERS' AND MEMBER'S DEFICIT:				
Common Stock	10,330,090	-	-	10,330,090
Accumulated and Member's Deficit	(61,952,641)	(68,187,782)	48,355,508	(81,784,915)
TOTAL STOCKHOLDERS' AND MEMBER'S DEFICIT	(51,622,551)	(68,187,782)	48,355,508	(71,454,825)
TOTAL LIABILITIES AND STOCKHOLDERS' AND MEMBER'S DEFICIT	\$ 409,000	\$ 21,991,492	\$ (3,064,136)	\$ 19,336,356

See Independent Auditors' Report on Supplemental Information

ECOLY INTERNATIONAL, INC.
dba SEXY HAIR CONCEPTS AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS
AND CHANGES IN ACCUMULATED AND MEMBER'S DEFICIT
Year Ended December 31, 2009

	Ecoly International Inc.	Sexy Hair Concepts, LLC	Eliminations	Consolidated
NET SALES	\$ -	\$ 58,843,042	\$ -	\$ 58,843,042
COST OF SALES	-	30,354,090	-	30,354,090
GROSS PROFIT	-	28,488,952	-	28,488,952
OPERATING EXPENSES:				
General and Administrative	1,416	7,912,750	-	7,914,166
Selling and Marketing	-	15,519,377	-	15,519,377
TOTAL OPERATING EXPENSES	1,416	23,432,127	-	23,433,543
INCOME (LOSS) FROM OPERATIONS	(1,416)	5,056,825	-	5,055,409
OTHER EXPENSES:				
Impairment Loss on Due from Affiliate	-	(579,628)	-	(579,628)
Interest Expense	-	(8,758,923)	-	(8,758,923)
Amortization Expense	-	(2,977,370)	-	(2,977,370)
Provision for Doubtful Note Receivable - Related Party	(2,250,483)	-	-	(2,250,483)
Other Expenses	-	(6,579)	-	(6,579)
Equity in Loss of Subsidiary	(7,277,675)	-	7,277,675	-
TOTAL OTHER EXPENSES	(9,528,158)	(12,322,500)	7,277,675	(14,572,983)
LOSS BEFORE PROVISION FOR INCOME TAXES	(9,529,574)	(7,265,675)	7,277,675	(9,517,574)
Provision for Income Taxes	1,020,000	12,000	-	1,032,000
NET LOSS	(10,549,574)	(7,277,675)	7,277,675	(10,549,574)
Accumulated and Member's Deficit - Beginning of Year	(51,403,067)	(60,910,107)	41,077,833	(71,235,341)
TOTAL ACCUMULATED AND MEMBER'S DEFICIT - END OF YEAR	\$ (61,952,641)	\$ (68,187,782)	\$ 48,355,508	\$ (81,784,915)

See Independent Auditors' Report on Supplemental Information

Exhibit C

Sexy Hair Concepts
CONSOLIDATED BALANCE SHEET
November 30, 2010

	<u>11/30/2010</u>
CURRENT ASSETS	
Cash	\$1,423,555
Accounts Receivable Net	\$5,416,772
Inventory	\$9,430,456
Prepaid Expenses and Other Current Assets	\$2,091,626
Income Tax Receivable	\$409,000
TOTAL CURRENT ASSETS	<u>18,771,409</u>
PROPERTY AND EQUIPMENT	
Furniture, Equipment, Staging Accesories	\$2,502,145
Less: Accumulated Depreciation	(\$1,791,103)
NET PROPERTY AND EQUIPMENT	<u>\$711,042</u>
OTHER ASSETS	
Goodwill	
Note Receivable - Stockholder	-
Trademarks (Net)	\$263,221
Deposits	\$1,299,178
TOTAL OTHER ASSETS	<u>1,562,399</u>
TOTAL ASSETS	<u><u>21,044,849</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	\$4,820,846
Accrued Expenses	\$1,838,158
Accrued Interest	\$9,800,470
Line of Credit	6,675,250
Current Portion of Long Term Debt	3,370,000
TOTAL CURRENT LIABILITIES	<u>26,504,725</u>
LONG TERM LIABILITIES	
Term Loan - Bank of America	47,210,000
Term Loan - North Western Bank	20,060,190
Deferred Income Tax	
TOTAL LONG TERM LIABILITIES	<u>67,270,190</u>
TOTAL LIABILITIES	<u>93,774,915</u>
STOCKHOLDERS EQUITY	
TOTAL STOCKHOLDERS EQUITY	(72,730,065)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<u><u>21,044,850</u></u>

Sexy Hair Concepts
CONSOLIDATED STATEMENT OF OPERATIONS
November 30, 2010

	November <u>ACTUAL</u>	YTD <u>ACTUAL</u>
Net Sales	4,811,193	62,246,023
Cost Of Goods Sold	(2,209,253)	(27,136,872)
Gross Profit	2,601,939	35,109,151
	54.1%	56.4%
Selling Expenses:		
Commission	9,989	203,554
Coop Expenses	141,149	1,368,179
Detailing	16,314	197,853
Education - Distributors	94,285	914,054
Education - Spiffs	-	-
Entertainment	-	4,795
Freight Out	151,668	1,703,626
Postage and Supplies	46,395	73,180
Sales Incentives	64,200	545,488
Sales Literature - Printing	16,715	275,566
Sales Meetings	46,768	484,397
Sales Salaries	276,310	2,488,212
Sales Salaries - Pension	4,835	50,422
Sales Samples	73,150	951,899
Telephone	2,738	49,063
Tradeshows - Distributor	35,585	701,031
Total Selling Expenses	980,100	10,011,318
	20.4%	16.1%
Marketing Expenses:		
Advertising Media	400	79,232
Artwork - Production/Supplies	12,675	290,473
Travel	429	13,247
Dues and Subscriptions	25,200	55,641
Education - Corporate	81,263	1,345,565
Education - Print Materials	-	-
Entertainment	-	147
Independent Contractors	6,856	22,496
Marketing Salaries	208,986	1,375,484
Marketing Salaries - Pension	1,306	15,071
POP Materials and Displays	-	296
Promotions/Samples	(31,238)	698,224
Publicity Expenses	55,006	350,342
Publicity Fees	-	-
Research & Development	19,664	201,701
Tradeshows - Major	22,106	852,274
Academy	(645)	68,444
Website	-	70,052
Total Marketing Expense	402,006	5,438,689
	8.4%	8.7%
Profit Contribution	1,219,834	19,659,144
	25.4%	31.6%

Sexy Hair Concepts
CONSOLIDATED STATEMENT OF OPERATIONS
November 30, 2010

	<u>November</u> <u>ACTUAL</u>	<u>YTD</u> <u>ACTUAL</u>
General & Administrative:		
Amortization	-	
Bad Debts	-	796,102
Bank Charges	5,121	39,679
Computer	23,288	130,065
Depreciation	34,239	336,190
Dues and Subscriptions	128	1,626
Equipment Rental and Lease	10,417	106,069
Independant Contractors	1,080	62,745
Insurance	21,549	281,563
Janitorial	1,495	15,275
Professional Fees	438,010	6,165,339
Licenses and Taxes	1,394	35,525
Meals and Entertainment	1,654	28,901
Miscellaneous	-	-
Office and Warehouse Supplies	13,779	143,081
Pension Administration	-	1,878
Printing and Postage	1,352	24,166
Recruiting	162	38,103
Rent - Office/Warehouse	78,963	908,140
Repairs and Maintenance	6,130	58,518
Salaries	374,291	3,673,428
Salaries - Pension	2,983	62,056
Staff Expenses	29,697	87,726
Telephone	2,544	65,796
Travel and Auto	3,223	86,881
Utilities	7,167	79,218
Total General & Administrative	1,058,667	13,228,068
	22.0%	21.3%
Total Operating Expenses	2,440,773	28,678,075
	50.7%	48.1%
Net Income (Loss) From Operations	161,166	6,431,076
	3.3%	10.3%
Other (Income) Expense:		
Interest Income / Other	(3,997)	(44,504)
Interest Expense	695,669	7,989,433
Other Expenses	3,889	240,291
Management Fee	-	-
Total Other (Income) Expense	695,560	8,185,220
	14.5%	13.1%
Net Income Before Tax (Loss)	(534,394)	(1,754,144)
	-11.1%	-2.8%
Tax	1,000	11,000
Net Income (Loss)	(535,394)	(1,765,144)

Sexy Hair Concepts
Projected Monthly Income Statement
Fiscal Year ended 12/31/2011
Monthly Income Statements (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
INCOME STATEMENT													
Net Sales	5,323	5,885	6,092	5,573	6,525	5,703	6,620	5,853	6,528	5,615	5,869	5,913	71,500
Cost of Goods	2,379	2,605	2,781	2,520	2,963	2,606	3,160	2,862	3,083	2,688	2,707	2,728	33,081
Gross Profit	2,944	3,279	3,311	3,054	3,562	3,097	3,460	2,991	3,445	2,927	3,162	3,185	38,419
Sales Expense	810	884	971	1,179	929	938	884	898	1,143	964	886	722	11,209
Marketing Expense	845	488	531	571	437	658	674	510	567	478	407	456	6,622
General & Administrative:	570	545	587	593	559	555	579	552	565	566	565	548	6,782
Operating Expenses	2,225	1,917	2,089	2,343	1,925	2,151	2,137	1,960	2,276	2,008	1,857	1,725	24,613
Income from Operations	719	1,362	1,222	711	1,638	947	1,323	1,031	1,169	919	1,305	1,460	13,806
Other Expenses (Income)	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest (Income)	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	715	715	716	716	717	717	718	718	719	719	719	720	8,609
Amortization Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other / Transaction Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Add backs	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Expenses (Income)	715	715	716	716	717	717	718	718	719	719	719	720	8,609
Net Income before Taxes	4	647	506	(6)	921	229	605	313	451	200	585	740	5,197
Deferred Tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Tax	299	575	515	295	692	396	558	433	492	385	550	617	5,807
Net Income after taxes	(296)	72	(8)	(300)	229	(167)	47	(120)	(41)	(184)	35	123	(611)
Income from Operations	719	1,362	1,222	711	1,638	947	1,323	1,031	1,169	919	1,305	1,460	13,806
Depreciation	35	35	35	36	36	36	36	37	37	37	37	37	434
EBITDA	754	1,397	1,257	747	1,674	983	1,359	1,068	1,206	956	1,342	1,497	14,240

Exhibit D

Sexy Hair Concepts
Projected Monthly Income Statement
Fiscal Year ended 12/31/2011
Monthly Income Statements (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
BALANCE SHEET													
Cash	741	1,358	2,820	3,242	4,112	4,320	4,721	5,071	5,347	5,470	5,851	6,216	6,216
Accounts Receivable - Trade (Net of Allowances)	6,279	7,862	7,380	7,166	7,068	7,059	7,020	6,970	7,061	6,994	7,099	7,318	7,318
Accounts Receivable-Other	1,066	1,094	308	364	446	515	598	673	757	826	901	978	978
Inventory	9,818	8,272	7,952	7,547	7,716	7,758	7,797	7,791	7,921	7,886	8,018	8,270	8,270
Prepaid Expenses	1,093	1,068	1,043	1,068	1,093	1,068	1,093	1,068	1,043	1,018	993	968	968
Income Tax Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	18,998	19,654	19,503	19,388	20,435	20,721	21,230	21,573	22,130	22,195	22,862	23,751	23,751
PROPERTY AND EQUIPMENT													
Furniture, Equipment	2,585	2,629	2,672	2,715	2,759	2,802	2,845	2,889	2,932	2,975	3,019	3,062	3,062
Less: Accumulated Depreciation	(1,859)	(1,894)	(1,929)	(1,965)	(2,001)	(2,037)	(2,073)	(2,110)	(2,147)	(2,184)	(2,221)	(2,258)	(2,258)
NET PROPERTY AND EQUIPMENT	726	734	743	750	757	765	772	778	785	791	797	804	804
OTHER ASSETS													
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
Note Receivable - Stockholder	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Issuance Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
Trademarks	263	263	263	263	263	263	263	263	263	263	263	263	263
Deposits and Other Assets	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299	1,299
TOTAL OTHER ASSETS	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562	1,562
TOTAL ASSETS	21,287	21,951	21,808	21,700	22,755	23,048	23,564	23,914	24,477	24,548	25,222	26,117	26,117
LIABILITIES													
CURRENT LIABILITIES													
Accounts Payable	4,887	4,854	4,155	4,153	4,237	4,250	4,262	4,248	4,311	4,281	4,345	4,475	4,475
Accrued Expenses	2,073	2,123	2,173	2,073	2,123	2,173	2,073	2,123	2,173	2,073	2,098	2,123	2,123
Accrued Interest	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499	10,499
Income Tax Payable	312	887	1,402	1,697	2,389	2,785	3,343	3,776	4,268	4,653	5,203	5,820	5,820
Hold Back Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Portion of Long Term Debt	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370
TOTAL CURRENT LIABILITIES	21,140	21,733	21,598	21,791	22,617	23,077	23,546	24,016	24,620	24,875	25,514	26,286	26,286
OTHER LIABILITIES													
Line of Credit	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675	6,675
Long Term Debt - BNP	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218	47,218
Long Term Debt - North Western Mutual Bank	20,517	20,551	20,586	20,620	20,654	20,689	20,723	20,758	20,792	20,827	20,862	20,896	20,896
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL LONG TERM LIABILITIES	74,410	74,444	74,478	74,513	74,547	74,582	74,616	74,651	74,685	74,720	74,755	74,789	74,789
TOTAL LIABILITIES	95,550	96,177	96,077	96,304	97,164	97,658	98,162	98,666	99,305	99,595	100,269	101,075	101,075
STOCKHOLDERS EQUITY													
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Stock	20	20	20	20	20	20	20	20	20	20	20	20	20
Additional Paid In Capital	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058	17,058
Stock Subscription Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)	(91,012)
Net Income for the Year (Loss)	(330)	(292)	(335)	(669)	(475)	(677)	(664)	(818)	(894)	(1,113)	(1,113)	(1,024)	(1,024)
TOTAL STOCKHOLDERS EQUITY	(74,264)	(74,226)	(74,269)	(74,603)	(74,409)	(74,611)	(74,598)	(74,752)	(74,828)	(75,047)	(75,047)	(74,958)	(74,958)
TOTAL LIABILITIES AND EQUITY	21,287	21,951	21,808	21,700	22,755	23,048	23,564	23,914	24,477	24,548	25,222	26,117	26,117

Sexy Hair Concepts
Projected Monthly Income Statement
Fiscal Year ended 12/31/2011
Monthly Income Statements (000's)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
WORKING CAPITAL													
Accounts Receivable - Trade (Net of Allowances)	6,279	7,862	7,380	7,166	7,068	7,059	7,020	6,970	7,061	6,994	7,099	7,318	7,318
Accounts Receivable-Other	1,066	1,094	308	364	446	515	598	673	757	826	901	978	978
Inventory	9,818	8,272	7,952	7,547	7,716	7,758	7,797	7,791	7,921	7,886	8,018	8,270	8,270
Prepaid Expenses	1,093	1,068	1,043	1,068	1,093	1,068	1,093	1,068	1,043	1,018	993	968	968
Accounts Payable	(4,887)	(4,854)	(4,155)	(4,153)	(4,237)	(4,250)	(4,262)	(4,248)	(4,311)	(4,281)	(4,345)	(4,475)	(4,475)
Accrued Expenses	(2,073)	(2,123)	(2,173)	(2,073)	(2,123)	(2,173)	(2,073)	(2,123)	(2,173)	(2,073)	(2,098)	(2,123)	(2,123)
Income Tax Payable	(312)	(887)	(1,402)	(1,697)	(2,389)	(2,785)	(3,343)	(3,776)	(4,268)	(4,653)	(5,203)	(5,820)	(5,820)
Subtotal	10,986	10,432	8,954	8,224	7,575	7,192	6,831	6,355	6,031	5,718	5,366	5,118	5,118
Cash	741	1,358	2,820	3,242	4,112	4,320	4,721	5,071	5,347	5,470	5,851	6,216	6,216
WC plus Cash	11,727	11,790	11,773	11,466	11,687	11,513	11,552	11,426	11,379	11,188	11,217	11,334	11,334

Exhibit E

EXHIBIT E

Senior Secured Lender Claims (Class A-1)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Bank of Montreal		Not less than \$61,702,783.68

EXHIBIT E

Other Secured Claims (Class A-2)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
NMHG Financial Services		\$55,620.24 (subject to investigation/verification)
Wells Fargo Bank, N.A.		\$114,717.20

Exhibit F

EXHIBIT F

Priority Non-Tax Claim (Class B)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Aguirre, Oscar G		\$2225.65
Alvarez, Araceli		\$1219.29
Amezcuca, Marlene		\$4575.80
Arias Tamayo, Juan M		\$586.04
Baker, Lisa		1811.92
Barrientos, Juan F		\$00.00
Beltran Del Rio, Luisanna		\$643.71
Bickar, Cheri M		\$3446.91
Brandt, Renee M		\$3807.86
Burnett, Alicia R		\$7819.41
Camporeddondo, Doreen A		\$4817.28
Carranza, Horacio O		\$1143.97
Correa, Michael A		\$342.72
Costic, Megan		\$2705.02
Dart, Cynthia S		\$3850.60
Escamilla, Mario		\$1807.80
Fabian, Rene		\$493.93
Flores, Homero R		\$6536.00
Foss, Scott M		\$3911.79
Frost, Heather A		\$2192.25
Garcia, Cipriano		\$2225.60
Garcia, Luis A		\$00.00
Geisinger, Jeffrey S		\$2972.31
Gill, Christopher J		\$1102.31
Godinez Cobar, Sergio G		\$325.62
Goranson, Stephanie P		\$4564.14
Graham, Wendy M		\$2446.61
Greaves, Janice L		\$1005.18
Guiboa, Anjanette R		\$3640.45
Gulbranson, Keith D		\$1825.55
Hardy Rafe V		\$6292.83
Harte, Kathleen J		\$5148.41
Hebron, Heather A		\$108.67
Hernandez, Esvin		\$3552.09
Hill, Margaret L		\$4144.36
Ibarra, Lizeth		\$1216.71
Jacobson, Lisa M		\$4383.73
Jarvi, Stephen M		\$00.00
Jimenez, Jeremias		\$00.00
Jimenez, Martha P		\$832.70
Joya, Anna L		\$686.22
Judson, Richard S		\$6867.00
Laurutis, Jodi L		\$1633.34
Lope, Xarlin R		\$4241.24
Lopez, Chona L		\$6598.04
Lopez, Josefina		\$1048.13
Lucht, Heather A		\$2859.90

Lutzy, Karina	\$4849.47
Martinez, Alejandro	\$951.44
Martinez, Carlos R	\$716.04
McKee, Kimberly P	\$2929.72
Medina Juarez, Silvino	\$1732.10
Milner, Mark	\$10,950.00
Montero Mendez, Luis E	\$1641.18
Mundell, Lindsay M	\$757.69
Munguia, Daniel	\$932.53
Nixon, Nicole M	\$1931.38
Ottomanelli, Denise J	\$4378.09
Parks, Jennifer	\$13460.80
Pitsch, Karl Heinz	\$10950.00
Raglin Robinson, Alison M	\$2521.68
Reyes, Liza G	\$4758.92
Rivera, Maria E	\$1189.00
Roque, Antonio R	\$1320.00
Sanchez, Alberto	\$1148.82
Snyder, Jillynn V	\$2270.26
Still, Denise R	\$373.02
Strickland, Leslie M	\$4031.93
Tanjuaquio, Jane	\$1427.70
Teasley, Kendra D	\$3378.71
Themaras, Erika H	\$1587.83
Townsend, Rachel R	\$884.66
Urias, Mark J	\$307.23
Vaquerano, Glenda L	\$00.00
Venegas, Maria	\$4199.73
Vides, Francisco	\$718.11
Villalobos, Monique N	\$00.00
Westlind, Tricia M	\$2512.22
Wiener, Ashley J	\$70.11
Yaeger, David A	\$8913.60
Zavala, Christina	\$774.91

Exhibit G

EXHIBIT G

Trade Claims (Class C)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Kik Custom Products		\$1,156,936.08
Cosway Company, Inc.		\$522,142.86
Design Worx Packaging		\$481,389.73
220 Laboratories		\$407,588.64
Pda Group		\$389,037.43
Ccl Container		\$103,180.57
Aware Products		\$99,440.60
Ubs Printing Group, Inc.		\$42,238.82
Laural Packaging Group		\$37,235.72
Premier Logistics Inc		\$29,245.00
Paradigm Packaging		\$19,455.86
Jc Print Packaging & Display		\$15,372.00
Easy Way Transportation		\$13,870.00
Jova Laboratories		\$12,831.84
Edi Express		\$10,562.61
Diplomat Packaging Co		\$10,532.14
C.H. Robinson Worldwide Inc.		\$9,192.35
Canadian Sales Agency		\$8,021.25
Southwest Sales		\$7,417.00
Grahics Plus		\$5,926.50
Onebeacon		\$5,886.58
Hairart Inc		\$5,875.43
Arl Trucking Inc.		\$4,825.00
Sprint		\$4,781.95
Neway Packaging Corp		\$4,462.00
MMA		\$3,500.00
Creative Age Commun. Inc.		\$3,250.00
Z Studios Photography		\$2,935.00
Bradley Component Supplies		\$2,784.98
Eric Augusta		\$2,670.00
Tailwind Logistics		\$1,900.00
Motion Picture Duplication Lab		\$1,805.87
24 Seven Staffing, Inc.		\$1,659.00
Jennifer Pietrzak		\$1,602.00
Hyde, Jennifer		\$1,583.00
Canon Business Solutions, Inc		\$1,427.37
Leane Coladonato		\$1,403.70
Mariott Warner Center		\$1,375.96
John Woddman		\$1,300.00

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Proulx - GERLEMAN, DEB		\$1,209.60
Crown Transportation, Inc		\$1,170.00
Counterman, Tamara		\$1,133.20
Missy Croquart		\$1,052.80
Merisel Inc		\$936.00
Bullet Transportation		\$890.93
Laura Hickenboth		\$876.24
Michelle Napierala		\$792.35
Lisa Clements		\$786.50
Hugo Mena		\$750.00
Axiom Label Group		\$686.12
Tsociet		\$600.00
Michele Aguilar		\$566.60
Dahlhouse Productions		\$561.00
Melissa Paldino		\$559.05
Tracey Heath		\$532.00
Christopher Farmer		\$523.60
Tammie L Trissel		\$480.80
Samantha Sanchez		\$479.12
United Sanitary Supply, Inc.		\$473.79
Michelle Rouzer		\$467.60
Elizabeth Gopwani Ngiuyen		\$461.41
Citrix Online		\$460.75
Liz Mefford		\$452.00
John Sherlock		\$452.00
Miranda Griffith		\$444.51
Connie Sutherland		\$442.26
Rachel Power		\$441.12
Federal Express		\$438.97
Tiffany Ferrill		\$435.00
Jesseca Turner		\$427.20
Juhasz, Carrie		\$411.20
Cynthia Freeman		\$391.64
Travlers		\$383.27
Coronet Printing		\$355.59
Aeronet		\$345.00
Sparkletts		\$340.19
Danielle Lee		\$330.00
Jessica Biggs		\$306.50
Lipton Corporation Group, Inc.		\$300.00
Beth Medina		\$299.40
Amy Robinson		\$271.60
Burrelle's Luce		\$252.19
Kathy Moon		\$238.00
Cynthia Gaudet		\$231.20
Tanya Boos		\$225.00

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Kaitlan Wilson		\$218.69
Americgas-Gardena 5402		\$213.34
Heather Sprinkle		\$211.80
Diane Zahuranec		\$209.00
Absolute Messenger Service		\$208.00
Christie Wilhelm		\$192.40
Rita Dziedzic		\$186.80
Printing Safari		\$183.05
Marcia Thornhill		\$178.00
Serena Rizo		\$166.24
Kristina Loy		\$158.04
Kari Harper		\$150.00
Shred It		\$120.00
Contemporary Catering		\$2,866.19

Exhibit H

EXHIBIT H

General Unsecured Claims (Class D)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Northwestern Mutual Life Ins. Co.		\$25,000,000.00
Plaintiffs Of Salon Fad V. L'Oreal USA, Inc.,	Disputed, Contingent, Unliquidated	Unknown
Deborah M. St., Rose	Disputed, Contingent, Unliquidated	Unknown

Exhibit I

EXHIBIT I

Old Equity Interests (Class E)

Creditor Name	Disputed, Contingent, Unliquidated	Amount of Claim
Ecoly International, Inc.		100%

Exhibit J

Exhibit K

Sexy Hair Concepts
Fixed Asset & Accumulated Depreciation
YTD NOVEMBER 30, 2010

Act #	Description	Asset				Accumulated Depreciation				Fixed Assets Report	
		1/1/10		11/30/10		1/1/10		11/30/10		Asset	Accum.Dep.
		Beginning Bal	Additions	Disposals	Ending Balance	Beginning Bal	Additions	Disposals	Ending Balance		
1500	Molds, Tools, & Dies	260,022.62			260,022.62	(187,194.11)	(42,483.28)		(229,677.39)	260,022.62	(229,677.39)
1630	Furniture & Fixtures	590,281.81			590,281.81	(414,902.97)	(58,003.88)		(472,906.85)	590,281.81	(472,906.85)
1640	Machines & Equipment	121,972.87	1,963.23		123,936.10	(108,821.65)	(4,288.87)		(113,110.52)	123,936.10	(113,110.52)
1670	Computers & Printers	1,066,991.71	66,837.61	(1,668.50)	1,132,160.82	(668,674.77)	(170,020.78)	1,668.50	(837,027.05)	1,132,160.82	(837,027.05)
1680	Leaseholds	104,965.94	262,828.27		367,794.21	(52,097.70)	(60,435.21)		(112,532.91)	367,794.21	(112,532.91)
1690	Trucks	27,949.17			27,949.17	(24,890.35)	(958.10)		(25,848.45)	27,949.17	(25,848.45)
Totals		2,172,184.12	331,629.11	(1,668.50)	2,502,144.73	(1,456,581.55)	(336,190.12)	1,668.50	(1,791,103.17)	2,502,144.73	(1,791,103.17)

Exhibit 3

Scott F. Gautier (State Bar No. 211742) Peitzman, Weg & Kempinsky, LLP 10100 Santa Monica Blvd, Suite 1450 Los Angeles, CA 90067 Telephone: (310) 552-3100 Fax: (310) 552-3101 <input checked="" type="checkbox"/> Attorney for Plan Proponent <u>Sexy Hair Concepts, LLC, Debtor and Debtor in Possession</u>	FOR COURT USE ONLY
<p style="text-align: center;">UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA</p>	CHAPTER 11 CASE No.: 10- [●]
In re: Sexy Hair Concepts, LLC <p style="text-align: center;">Debtor and Debtor-In-Possession.</p>	DATE: TIME: CTRM:

BALLOT FOR ACCEPTING OR REJECTING PLAN

1. Proponent of the Plan, Sexy Hair Concepts, LLC (“SHC”) is soliciting acceptances or rejections for its *Plan Of Reorganization Pursuant To Chapter 11 of the Bankruptcy Code For Sexy Hair Concepts, LLC* (the “Plan”).
2. If you are, as of _____[●], _____ at 5:00 PM (Pacific Time), a holder of a claim (a “*insert type of claim*”) arising from [*insert description of claim*], please use this ballot to cast your vote to accept or reject the Plan. A copy of the Plan accompanies this ballot.
3. SHC commenced a case (the “Chapter 11 Case”) under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”). Class [*insert Class*] under the Plan – which consists of [*insert types of claims Class consists of*] – will accept the Plan if holders of at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the claims of such class vote to accept the Plan (based on the claims actually voted).
4. The *Disclosure Statement For Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code for Sexy Hair Concepts, LLC* (as may be amended, the “Disclosure Statement”), which accompanies this ballot, provides information to assist you in deciding how to vote your ballot. Court approval of the Disclosure Statement does not indicate approval of the Plan by the Court.
5. You should review the Disclosure Statement and the Plan before you vote. You may wish to seek legal advice concerning the Plan and your classification and treatment under the Plan.

Your [*check one box only*] **claim** **equity interest** has been placed in Class [*insert Class*] under the Plan. If you hold claim(s) or equity interest(s) in more than one Class, you will receive a ballot for each Class in which you are entitled to vote.

In re: Sexy Hair Concepts, LLC	CHAPTER 11
Debtor and Debtor-in-Possession.	CASE NO.:

6. Votes in favor of acceptance of the Plan from Class *[insert Class]* must be delivered to Sexy Hair Ballot Processing Center c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, CA 90245, prior to 5:00 PM, Pacific Time, _____ (the "Voting Deadline").
7. If the Plan is confirmed by the Bankruptcy Court, it will be binding on you whether or not you vote.

ACCEPTANCE OR REJECTION OF THE PLAN

8. Complete the appropriate line below that describes your claim or equity interest *[select only one]*:
- 8.1 The undersigned is the holder of a Class *[insert class]* *[check one]* secured priority unsecured **nonpriority** claim against the SHC in the principal amount of \$ _____.
- 8.2 The undersigned is the holder of a Class *[insert Class]* _____ *[check one]* **bond** **debenture** **debt security** claim against the Debtor, consisting of \$ _____, principal amount of *[describe bond, debenture, or other debt security]* _____ of the Debtor. (For purposes of this Ballot, you should not adjust the principal amount for any accrued or unmatured interest.)
- 8.3 The undersigned is the holder of a Class *[insert Class]* _____ equity interest in the Debtor, consisting of *[number shares]* _____ of _____ or other interests *[describe equity interest]* _____ in the Debtor.

9. **The undersigned** *[check one box only]*:

- ACCEPTS THE PLAN** **REJECTS THE PLAN**

Dated: _____

Name *[Print or type]*: _____

Signature: _____

Title *[if corporation or partnership]*: _____

Address: _____

Telephone No.: _____

Fax No.: _____

RETURN THIS BALLOT TO:

Sexy Hair Ballot Processing Center c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, CA 90245

<p>In re: Sexy Hair Concepts, LLC</p> <p style="text-align: right;">Debtor and Debtor-In-Possession.</p>	<p>CHAPTER 11</p> <p>CASE NO.:</p>
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PROOF OF SERVICE

STATE OF CALIFORNIA

COUNTY OF _____

I. I am employed in the County of _____, State of California. I am over the age of 18 and not a party to the within action. My business address is as follows:

2. Regular Mail Service:

On [insert date] _____, I served the document described as: **BALLOT FOR ACCEPTING OR REJECTING PLAN** on the interested parties at their last known address in this action by placing a true and correct copy thereof in a sealed envelope with postage thereon fully prepaid in the United States Mail at _____, California, addressed as set forth below.

Addresses continued on attached page

I declare under penalty of perjury, under the laws of the United States of America, that the foregoing is true and correct.

Dated:

Type Name

Signature

Exhibit 4

1 Scott F. Gautier (State Bar No. 211742)
sgautier@pwkllp.com
2 Lorie A. Ball (State Bar No. 210703)
lball@pwkllp.com
3 Thor D. McLaughlin (State Bar No. 257864)
tmclaughlin@pwkllp.com
4 PEITZMAN, WEG & KEMPINSKY LLP
10100 Santa Monica Boulevard, Suite 1450
5 Los Angeles, CA 90067
Telephone: (310) 552-3100
6 Facsimile: (310) 552-3101

7 Proposed Attorneys for Debtor and Debtor-in-Possession

8
9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA**
11 **SAN FERNANDO VALLEY DIVISION**

12 In re:

13 **SEXY HAIR CONCEPTS, LLC,**
a Delaware limited liability company,
14 Debtor and Debtor-in-Possession.

Case No.:

Chapter 11

**NOTICE OF HEARING ON PLAN
CONFIRMATION**

15 Date: To be set
16 Time: To be set
17 Place: Courtroom []
21041 Burbank Blvd.
Woodland Hills, CA 91367

18
19 **TO THE HONORABLE [], UNITED STATES BANKRUPTCY JUDGE, THE UNITED**
20 **STATES TRUSTEE, ALL CREDITORS AND PARTIES IN INTEREST:**

21 **PLEASE TAKE NOTICE** that on [] at [] [].m., or as soon thereafter as the matter can be
22 heard, before the Honorable [], United States Bankruptcy Judge, in Courtroom [], located at 21041
23 Burbank Blvd., Woodland Hills, California, the Bankruptcy Court will consider confirmation of the
24 Debtor's Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code For Sexy Hair
25 Concepts, LLC (the "Plan").

26 **PLEASE TAKE FURTHER NOTICE** that if you have received only this Notice and not the
27 Plan and the Disclosure Statement summarizing the Plan, the Debtor's records reflect that you are not a
28 creditor of the Debtor whose claims are affected by the Plan, and are not entitled to vote on the Plan.

1 Upon written request to the Debtor's bankruptcy counsel Scott F. Gautier, Esq., Peitzman, Weg &
2 Kempinsky LLP, 10100 Santa Monica Blvd., Ste. 1450, Los Angeles, CA 90067, facsimile 310-552-
3 3101, the Disclosure Statement and Plan (and a ballot, if appropriate) will be transmitted to you.

4 **PLEASE TAKE FURTHER NOTICE** that, if you are a creditor of the Debtor, your rights
5 may be "impaired" under the Plan. Please review and consider the voting package carefully, and return
6 your ballot accepting or rejecting the Plan promptly and timely.

7 **PLEASE TAKE FURTHER NOTICE** that if you are the holder of a claim that has been
8 objected to or was scheduled by the Debtor as contingent, unliquidated, or disputed, you are not entitled
9 to vote on the Plan unless you file and serve a motion for an order temporarily allowing the claim for
10 voting purposes under Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

11 **PLEASE TAKE FURTHER NOTICE** that the confirmation of the Plan will enjoin all holders
12 of Claims and Equity Interests from asserting against Reorganized SHC or any of their assets or
13 properties, any other or further Claim or Equity Interest based upon any act or omission, transaction, or
14 other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder
15 has filed a proof of Claim or proof of Equity Interest. Notwithstanding any provision herein, any valid
16 setoff or recoupment rights held against SHC shall not be affected by the Plan of Reorganization and
17 shall be expressly preserved in the Confirmation Order.

18 **PLEASE TAKE FURTHER NOTICE** that the confirmation of the Plan will permanently
19 enjoin all persons and entities holding claims of any kind against SHC, arising under or out of, in
20 connection with, or in any way relating to (i) Reorganized SHC's marketing, distributing, or selling,
21 within twelve (12) months following the Effective Date, of any products manufactured by the Debtors
22 since January 1, 2004 (to the extent the packaging of such products remains unchanged by Reorganized
23 SHC) or (ii) Reorganized SHC's marketing, advertising or making any public statement with respect to
24 any products manufactured by the Debtors since January 1, 2004, whether explicitly or impliedly, in
25 accordance with or pursuant to the terms of any assumed contract for marketing, advertising, or any
26 other similar service, that such products are sold only in professional salons or through licensed
27 cosmetologists, without diversion into-non-professional retail channels, from asserting, prosecuting, or
28 otherwise pursuing any such claims (including, but not limited to, the Class Action Claims) against

1 Reorganized SHC or its property.

2 **PLEASE TAKE FURTHER NOTICE** that the confirmation of the Plan will enjoin all holders
3 of Claims and Equity Interests and other parties in interest, along with their respective present or
4 former employees, agents, officers, directors, or principals, from taking any actions to interfere with the
5 implementation or consummation of the Plan.

6 **PLEASE TAKE FURTHER NOTICE** that any objections to confirmation of the Plan must be
7 filed with the Bankruptcy Court and served upon the following parties by []: (1) counsel for the
8 Debtor: Scott F. Gautier, Esq., Peitzman, Weg & Kempinsky LLP, 10100 Santa Monica Blvd., Suite
9 1450, Los Angeles, CA 90067, fax: (310) 552-3101; (2) counsel for the Plan Sponsor: Christopher D.
10 Comeau, Esq., Ropes & Gray LLP, One International Place, Boston, MA 02110, fax: (617) 951-7050;
11 (3) counsel for the Agent: Dimitri G. Karcazes, Esq. Goldberg Kohn, 55 East Monroe, Suite 3300,
12 Chicago, IL 60603, fax: (312) 863-7476; (4) counsel for any committee appointed under the Code; and
13 (5) the Office of the United States Trustee: 21051 Warner Center Lane, Suite 115, Woodland Hills, CA
14 91367, fax: (818) 716-1576.

15 **PLEASE TAKE FURTHER NOTICE** that the last day for the receipt of ballots accepting or
16 rejecting the Plan is [], at 5:00 p.m., Los Angeles time (the "Voting Deadline"). For a ballot to be
17 counted it must be actually received prior to the Voting Deadline by Scott F. Gautier, Esq., Peitzman,
18 Weg & Kempinsky LLP, 10100 Santa Monica Blvd., Suite 1450, Los Angeles, CA 90067.

19
20 Dated: December __, 2010

PEITZMAN, WEG & KEMPINSKY LLP

21
22 By: /s/ Scott F. Gautier

23 Scott F. Gautier

24 Lorie A. Ball

25 Thor D. McLaughlin

26 Proposed Attorneys for Debtor and Debtor-in-Possession
27
28