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Possession  
8

9 UNITED STATES BANKRUPTCY COURT  
10 CENTRAL DISTRICT OF CALIFORNIA  
11 SAN FERNANDO VALLEY DIVISION  
12

13 In re:

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

16 Debtor and Debtor in Possession  
17  
18  
19

Case No.: 10-bk-25922-GM  
Chapter 11

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

Disclosure Statement Hearing

Date: February 24, 2011  
Time: 9:00 a.m.  
Place: Courtroom 303  
21041 Burbank Blvd.  
Woodland Hills, CA  
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**TABLE OF CONTENTS**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

	Page
I. INTRODUCTION.....	5
A. Purpose of This Document.....	5
B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing.....	6
1. Time and Place of the Confirmation Hearing.....	6
2. Deadline For Voting For or Against the Plan.....	7
3. Deadline For Objecting to the Confirmation of the Plan.....	7
4. Identity of Person to Contact for More Information Regarding the Plan..	7
C. Disclaimer .....	7
II. BACKGROUND.....	8
A. Description and History of SHC’s Business.....	8
B. Management of SHC.....	8
C. Prepetition Corporate and Capital Structure .....	8
1. Credit Facility .....	9
2. Subordinated Unsecured Notes.....	10
D. Events Leading to Chapter 11 Filings.....	10
1. Attempted Financial Restructuring and Initial Sale Efforts.....	11
2. Initial Negotiations with Plan Sponsor .....	13
3. The Class Action Lawsuit.....	16
E. Significant Events During the Bankruptcy .....	17
1. Bankruptcy Proceedings .....	17
2. Assumption of the Investment Agreement .....	19
3. Use of Cash Collateral and Debtor in Possession Financing.....	20
4. Objections to Process.....	21
5. The Settlement .....	22
6. Other Legal Proceedings.....	23
7. Procedures Implemented to Resolve Financial Problems.....	23

1	8.	Current and Historical Financial Conditions .....	23
2	III.	SUMMARY OF THE PLAN OF REORGANIZATION.....	24
3	A.	What Creditors and Interest Holders Will Receive Under The Proposed Plan ...	24
4	B.	Unclassified Claims .....	24
5	1.	Administrative Claims .....	24
6	2.	Priority Tax Claims.....	25
7	3.	DIP Financing Claims.....	25
8	C.	Classified Claims and Interests.....	25
9	1.	Classes of Secured Claims.....	25
10	2.	Classes of Priority Unsecured Claims .....	26
11	3.	Trade Claims.....	26
12	4.	Class of General Unsecured Claims .....	27
13	5.	Class of Old Equity Interests .....	27
14	D.	Means of Effectuating the Plan.....	28
15	1.	Funding for the Plan .....	28
16	2.	Section 1145 Exemption.....	28
17	3.	Issuance and Distribution of the Reorganized Debtor Equity Interests...	29
18	4.	New Credit Agreement.....	29
19	5.	Exit Revolver Facility.....	30
20	6.	The Plan Trust.....	31
21	7.	Voting of Class Action Lawsuit Claims .....	32
22	8.	Protective Injunction for the Reorganized Debtor .....	32
23	9.	Corporate Structure of the Reorganized Debtor .....	33
24	10.	Board of Directors of the Reorganized Debtor.....	33
25	11.	Disbursing Agent .....	33
26	E.	Risk Factors .....	33
27	1.	Certain Bankruptcy Considerations.....	34
28	2.	Competitive Conditions .....	35

1	3.	Hart-Scott-Rodino Act.....	35
2	F.	Certain Tax Considerations.....	35
3	1.	Tax Consequences to SHC .....	38
4	2.	Tax Consequences to Holders of Claims.....	39
5	3.	Backup Withholding.....	44
6	G.	Other Provisions of the Plan .....	45
7	1.	Retention of Jurisdiction.....	45
8		IV. PROCEDURES FOR DISPUTED CLAIMS.....	47
9	A.	Objections to Claims.....	47
10	B.	Payments and Distributions with Respect to Disputed Claims.....	47
11	C.	Estimation of Claims.....	47
12	D.	Distributions Relating to Disputed Claims.....	48
13	E.	Distributions after Allowance.....	48
14	F.	Preference Actions.....	48
15	G.	Preservation of Rights to Settle Claims.....	48
16		V. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES .....	49
17	A.	Executory Contracts and Unexpired Leases Not Expressly Assumed Are	
18		Rejected.....	49
19	B.	Rejection Claims.....	50
20		VI. CONFIRMATION REQUIREMENTS AND PROCEDURES.....	50
21	A.	Who May Vote or Object.....	51
22	1.	Who May Object to Confirmation of the Plan.....	51
23	2.	Who May Vote to Accept/Reject the Plan.....	51
24	3.	Who is <u>Not</u> Entitled to Vote .....	52
25	4.	Who Can Vote in More Than One Class .....	52
26	5.	Votes Necessary to Confirm the Plan.....	53
27	6.	Votes Necessary for a Class to Accept the Plan.....	53
28	7.	Treatment of Nonaccepting Classes .....	53

1	8. Request for Confirmation Despite Nonacceptance by Impaired Classes	53
2	B. Liquidation Analysis.....	54
3	C. Feasibility.....	59
4	VII. EFFECT OF CONFIRMATION OF PLAN.....	60
5	A. Discharge of Claims and Termination of Equity Interests.....	60
6	B. Injunction Against Products-Related Actions.....	61
7	C. Injunction Against Interference with Plan of Reorganization .....	61
8	D. Releases.....	61
9	1. Releases by SHC.....	62
10	2. Releases by Holders of Claims and Equity Interests .....	62
11	E. Retention of Causes of Action/Reservation of Rights .....	63
12	F. Waiver of Section 547 Claims.....	64
13	G. Board of Directors of Reorganized Debtor.....	64
14	H. Revesting of Property in SHC.....	65
15	I. Modification of Plan .....	65
16	J. Post-Confirmation Status Report.....	65
17	K. Quarterly Fees.....	65
18	L. Post-Confirmation Conversion/Dismissal .....	66
19	M. Final Decree.....	67
20	VIII. DECLARATION OF T. SCOTT AVILA .....	Error! Bookmark not defined.
21	IX. DECLARATION OF ROBERT WARSHAUER.....	Error! Bookmark not defined.
22		
23		
24		
25		
26		
27		
28		

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 10-bk-25955-GM. 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”)<sup>1</sup> 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 [●], 2011 (the “Effective Date”).<sup>2</sup>

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.

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

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

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

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

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

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

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

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

25 1. Time and Place of the Confirmation Hearing

26 The hearing to determine whether or not to confirm the Plan will take place on [●], at [●]  
27 {A.M./P.M.}, in the Bankruptcy Court, in Courtroom [●], at 21041 Burbank Blvd., Woodland  
28 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 [●], 2011 at 5:00 pm. (Pacific time) or it will not be  
7 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, Peitzman, Weg & Kempinsky LLP, Attention Scott F.  
11 Gautier, Esq., 10100 Santa Monica Blvd., Suite 1450, Los Angeles, CA 90067, (ii) counsel for  
12 the Senior Secured Lenders, Goldberg Kohn Ltd., Attention Dimitri G. Karcazes, Esq., 55 East  
13 Monroe, Suite 3300, Chicago, IL 60603, (iii) counsel for the Plan Sponsor, Ropes & Gray LLP,  
14 Attention D. Ross Martin, Esq., Prudential Tower, 800 Boylston, St., Boston, MA 02199, (iv)  
15 counsel to the creditors' committee appointed in the Debtors' chapter 11 cases (the "Creditors'  
16 Committee"), Klee, Tuchin, Bogdanoff & Stern LLP, Attention Jonathan S. Shenson, Esq., 1999  
17 Avenue of the Stars, 39<sup>th</sup> Floor, Los Angeles, CA 90067, and (v) the Office of the United States  
18 Trustee, by March [●], 2011.

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

20           Any interested party desiring further information about the Plan should contact counsel  
21 for the Debtor or counsel for the Creditors' Committee.

22           C.       Disclaimer

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



1 II.

2 BACKGROUND

3 A. Description and History of SHC's Business

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

13 B. Management of SHC

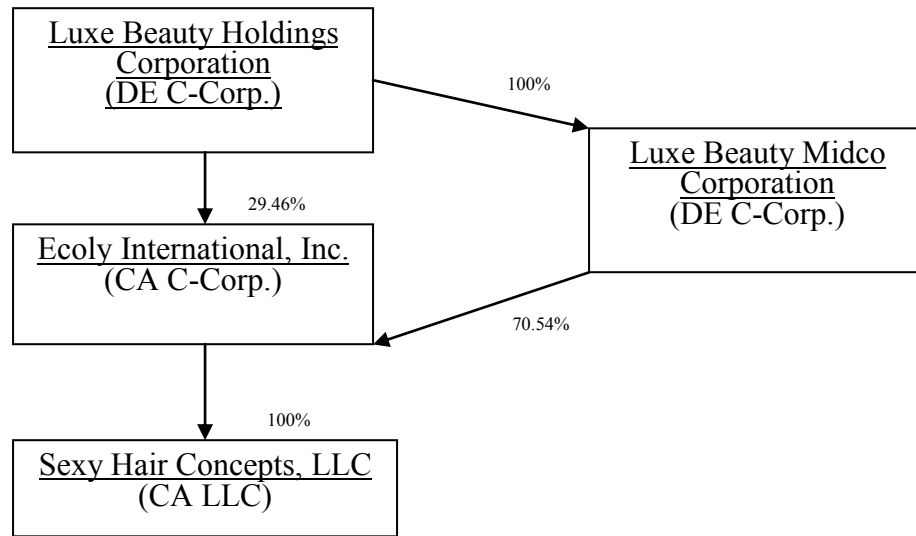
14 The Debtors' current chief executive officer ("CEO"), Karl-Heinz Pitsch ("Pitsch"), was  
15 initially hired by the Debtors in November 2008 to act as the chief operating officer. In the  
16 spring of 2009 he was appointed as the CEO. Mark Milner, the Debtors' current chief financial  
17 officer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

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

22 C. Prepetition Corporate and Capital Structure

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

26 The Debtors and their corporate parents consist of the following structure:  
27  
28



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. Credit Facility

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

Pursuant to the terms of the Credit Agreement and an executed Security Agreement between Debtors and Senior Secured Lenders, the Debtors and Holdings granted the Agent a

1 security interest in all of the their assets. The Agent asserts that it holds, for the benefit of the  
2 Senior Secured Lenders, a valid, perfected and enforceable security interest in all of the  
3 Debtors' assets, including assets that constitute "cash collateral" as defined in section 363(a) of  
4 the Bankruptcy Code (the "Cash Collateral"). SHC is not aware of any defects in the collateral  
5 coverage over the assets pledged to the Agent. Additionally, pursuant to the terms of an  
6 executed pledge agreement between Debtors and Senior Secured Lenders, the Debtors and  
7 Holdings pledged their respective shares and membership interests to the Senior Secured  
8 Lenders.

## 9 2. Subordinated Unsecured Notes

10 The subordinated unsecured notes (the "Subordinated Notes") were issued on April 9,  
11 2008 to The Northwestern Mutual Life Insurance Company and its affiliate, Northwestern  
12 Mutual Capital Mezzanine Fund I, LP (collectively, "NML" or the "Subordinated Lender")  
13 pursuant to the terms of the Securities Purchase and Guaranty Agreement of the same date (the  
14 "SPGA"). The Subordinated Notes are guaranteed by the same entities that guaranteed the  
15 Credit Agreement: Holdings, Ecoly and Midco. However, the Subordinated Notes were  
16 provided on an unsecured basis. Furthermore, the Subordinated Notes are contractually  
17 subordinated to all amounts owed to the Senior Secured Lenders pursuant to an Intercreditor  
18 Agreement between the Agent and the Subordinated Lender. The outstanding prepetition  
19 amount owed in respect of the Subordinated Notes is in excess of \$26,600,000.<sup>3</sup>

## 20 D. Events Leading to Chapter 11 Filings

21 In December of 2008, SHC reported to the Agent and the Subordinated Lender that, due  
22 in part to the state of the global economy and a substantial drop in consumer spending, it would  
23 be in default of certain financial covenants under the Credit Agreement, and that it was unable  
24 to fill certain orders, had overestimated manufacturer rebates and was concerned about the  
25 ability of one of its largest customers to pay, which led to a need to increase account receivable  
26

27 <sup>3</sup> The Northwestern Mutual Life Insurance Company and its affiliate, Northwestern Mutual Capital Mezzanine  
28 Fund I, LP, filed proofs of claim on January 13, 2011 in the amounts of \$20,768,063.80 and \$5,820,162.80,  
respectively, in each of the Debtors' cases.

1 reserves.

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

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

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

19 Initially, Andre Laus attempted to negotiate with the Debtors, NML and the Senior  
20 Secured Lenders to facilitate a refinancing or restructuring of the Debtors' loan obligations.  
21 When it became obvious that the parties were at an impasse, the Board elected to retain the law  
22 firm of Peitzman, Weg & Kempinsky LLP ("PWK") and the investment banking firm of  
23 Imperial Capital, LLC ("Imperial") to assist the Debtors in, among other things, negotiations  
24 with the Senior Secured Lenders and NML, attempts to refinance or restructure their debt  
25 obligations or, failing those alternatives, facilitating a sale of SHC to maximize value for  
26 creditors and stakeholders. Although the Senior Secured Lenders would not agree to a written  
27 forbearance agreement, the Senior Secured Lenders and Agent orally agreed to work with the  
28

1 Debtors from month to month provided that the Debtors continued to work in good faith to  
2 remedy existing defaults under the Credit Agreement, refinance the debt obligations, or  
3 liquidate their assets for the benefit of creditors and stakeholders. Specifically, although the  
4 Agent delivered a notice of intent to conduct a public foreclosure sale of all of the equity  
5 interests of Midco and Ecoly and, subsequently, all of the assets of SHC, the Agent also  
6 extended the sale date from time to time.

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

24       Upon this decision, Imperial worked with SHC to prepare marketing materials and to  
25 identify potential purchasers. Through this process, Imperial contacted over 180 potential  
26 purchasers and provided them with marketing materials regarding SHC's assets. As a result of  
27 these efforts, Imperial assisted the Debtors in having potential purchasers with further interest in  
28

1 the assets sign non-disclosure agreements under which they could perform due diligence on the  
2 Debtors. Over 100 potential purchasers signed such agreements and began to further investigate  
3 the Debtors' business and assets, including the review of a proposed asset purchase agreement  
4 jointly drafted by PWK and commented on by counsel for NML. This marketing process  
5 occurred during continued month to month extensions of a foreclosure sale deadline from the  
6 Agent.

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

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

## 22 2. Initial Negotiations with Plan Sponsor

23 Through the late spring and early summer of 2010, the Debtors and Plan Sponsor  
24 (collectively, the "Parties") anticipated consummating a sale to the Plan Sponsor outside of  
25 bankruptcy. Debtors' counsel began drafting, with comments from NML's counsel, and  
26 negotiating and drafting an asset purchase agreement with the Plan Sponsor's counsel. The  
27 Parties ultimately agreed on most of the material terms of a cash purchase transaction, including  
28

1 the purchase price. The Plan Sponsor had, in addition to its own cash, arranged for \$35 million  
2 of committed outside financing in order to consummate the transaction. However, as the Plan  
3 Sponsor began its diligence process, it discovered structural, financial, regulatory and general  
4 industry risks affecting the Debtors. Due to these issues, the Plan Sponsor believed there were  
5 risks associated with a consensual out-of-court transaction.

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

19 After extended negotiations among the Debtors, NML and the Plan Sponsor, it became  
20 uncertain whether terms for the asset sale pursuant to Bankruptcy Code section 363 could be  
21 agreed upon. At a meeting of the Board, NML, as a Board observer, expressed that it was not in  
22 favor of the Debtors pursuing a transaction with the Plan Sponsor because of the provisions in  
23 the proposed asset purchase agreement providing for (i) a \$4 million indemnity holdback for  
24 breaches of, among other things, SHC's representations and warranties and a \$6 million  
25 indemnity holdback for losses related to the Class Action Lawsuit, (ii) a termination fee payable  
26 to the Plan Sponsor in the event SHC breached its obligations under the proposed asset purchase  
27 agreement, and (iii) the broadly worded representations and warranties of SHC. Based, in part,  
28

1 on this presentation made by NML, the Board determined that it would not go forward with a  
2 transaction with the Plan Sponsor on the current terms offered. The Board determined that it  
3 would be willing to consummate a transaction with the Plan Sponsor if the terms were modified  
4 to be more favorable to the Debtors.

5 After negotiations continued between the Debtors and the Plan Sponsor and the Plan  
6 Sponsor agreed to certain further changes, a final asset purchase agreement was approved by the  
7 Board and the Debtors prepared to file chapter 11 bankruptcies and propose a sale of SHC's  
8 assets pursuant to Bankruptcy Code section 363.

9 At this point, the Plan Sponsor, the Agent, certain Senior Secured Lenders and the  
10 Debtors determined that they could proceed to support a plan of reorganization for SHC, on the  
11 terms contained in the originally filed plan of reorganization, without further notice to, or input  
12 from NML. The reorganization would provide the Debtors with all of the prior benefits of the  
13 proposed sale transaction by having the Plan Sponsor infuse the same amount of new equity in  
14 exchange for the newly issued equity interests of the Reorganized Debtor, with the Senior  
15 Secured Lenders receiving a significant cash pay-down on their debt and agreeing to take \$35  
16 million of restructured debt from the Reorganized Debtor (the "Transaction"). The cash  
17 remaining after paying down the Senior Secured Lenders' debt would be available to distribute  
18 to unsecured creditors (including the Subordinated Lender and any claims in the Class Action  
19 Lawsuit). After taking into consideration the substantial efforts that took place over the past  
20 year to resolve the Debtors' financial problems, the Board, based upon information and belief  
21 that the Plan Sponsor continues to represent the best proposal for returning the most value to the  
22 Debtors' creditors and other stakeholders, agreed to act as the Plan Proponent and submit the  
23 Plan for approval. The Board specifically noted that, throughout the months of extended  
24 negotiations with the Plan Sponsor, Imperial continued to investigate and have discussions with  
25 NML and third parties regarding possible refinancing, restructuring or asset sale options, but  
26 that these options never provided anywhere near the value provided by the Plan Sponsor. This  
27 reorganization transaction was embodied in the originally filed plan of reorganization, and the  
28



1 original Investment Agreement, dated as of December 20, 2010, among the Plan Sponsor and  
2 SHC.

3 3. The Class Action Lawsuit

4 SHC is currently involved in a hair-care product industry-wide putative class action  
5 lawsuit entitled *Salon Fad, et al. v. L'Oreal USA, Inc., et al.*, pending before the United States  
6 District Court for the Southern District of New York (the "New York District Court") under  
7 case number 10-cv-5063 (the "Class Action Lawsuit"). The putative class plaintiffs alleged  
8 violations by SHC and other industry participants of certain advertising and marketing laws.  
9 Specifically, in the Class Action Lawsuit, the plaintiffs allege that some of SHC's product  
10 packaging and advertising is misleading, by stating that such products are sold only in  
11 professional salons or through licensed cosmetologists. Although the first amended complaint  
12 in the Class Action Lawsuit does not specify the precise amount of damages that the putative  
13 class plaintiffs are seeking, there is alleged data in the complaint that would suggest that the  
14 asserted damages against SHC might be significant; in addition, the putative class plaintiffs  
15 assert that they are entitled to treble damages. SHC disputes both the allegations of liability and  
16 damages, on a variety of grounds. All of the defendants, including SHC, have filed motions to  
17 dismiss the first amended complaint in the Class Action Lawsuit. Those motions were fully  
18 briefed as of late November 2010 and, on or about January 10, 2011, the New York District  
19 Court denied the defendants' motions to dismiss. No assurance can be given as to the outcome  
20 of the Class Action Lawsuit, as to either liability issues or damages. Also, on or about January  
21 13, 2011, SHC filed a *Notice of Bankruptcy Filing by Defendant Sexy Hair Concepts, LLC and*  
22 *Applicability of Automatic Stay of 11 U.S.C § 362(a)* with the New York District Court,  
23 notifying parties that the Class Action Lawsuit is subject to the automatic stay with respect to  
24 SHC pursuant to Bankruptcy Code section 362. A class proof of claim has been filed with  
25 respect to the claims asserted in the putative Class Action Lawsuit, but the Debtor and NML  
26 have reserved their rights to object to such claim on all ground, including class certification and  
27 the merits of the claim, while they have undertaken negotiations to settle the claim under the  
28 auspices of a plan of reorganization.

1 E. Significant Events During the Bankruptcy

2 1. Bankruptcy Proceedings

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

8 a. Joint Administration.

9 The Debtors sought authority to consolidate under a single case name, in a single  
10 docket, for administrative purposes only, the separate filings that would result if the Bankruptcy  
11 Court maintained entirely separate dockets for each of the Debtors’ cases. This relief, among  
12 other things, reduces costs for parties making filings with the Bankruptcy Court and obviates the  
13 need for duplicative pleadings and files maintained by the Bankruptcy Court. The Bankruptcy  
14 Court entered an order authorizing the joint administration of the Debtors’ cases on December  
15 28, 2010.

16  
17 b. Authority to Maintain Lockbox Account

18 Because of the administrative hardship that operating changes would impose on SHC,  
19 SHC sought authority from the Bankruptcy Court to continue using its existing lockbox account  
20 and business forms. Absent authorization to continue using its lockbox account, SHC’s cash  
21 flow could be impeded, to the detriment of SHC’s estates and creditors. On December 28,  
22 2010, the Bankruptcy Court entered an order authorizing SHC to continue using its existing  
23 lockbox account and business forms.

24 c. Customer-Related Programs and Practices

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

1 its products. On December 28, 2010, the Bankruptcy Court entered an order authorizing SHC  
2 to, among other things, honor certain prepetition obligations to customers and otherwise  
3 continue, in the ordinary course of business, its customer programs and practices.

4 d. Motion to Pay Administrative Vendor Claims

5 SHC sought authority to pay, in the ordinary course of business, the priority  
6 administrative expenses, pursuant to Bankruptcy Code section 503(b)(9), for goods received  
7 from its vendors within twenty days of the commencement of the case, provided that such  
8 vendors agreed to continue to provide goods to SHC on ordinary business terms. On January  
9 21, 2011, the Bankruptcy Court entered an order authorizing SHC to pay certain administrative  
10 expenses to vendors pursuant to Bankruptcy Code section 503(b)(9).

11 e. Motion to Assume Administaff Contract

12 SHC sought approval from the Bankruptcy Court of SHC's assumption of that certain  
13 Client Service Agreement (the "CSA") between SHC and Administaff Companies II, L.P.  
14 ("Administaff"), pursuant to which, among other things, Administaff provides personnel  
15 services, including the payment of wages and benefits to the vast majority of SHC's employees.  
16 On December 28, 2010, the Bankruptcy Court entered an order approving SHC's assumption  
17 of the CSA.

18 f. Motion to Assume Management Agreements

19 SHC sought authority from the Bankruptcy Court for SHC's assumption of the executive  
20 management's employment and bonus-related agreements, pursuant to which, among other  
21 things, the executive management would continue to be employed by SHC and SHC would  
22 continue to honor its contractual compensation obligations to the executive management (the  
23 "Management Agreement Motion").

24 Due to both formal and informal objections to the Management Agreement Motion  
25 interposed by counsel for NML and the Creditors' Committee, the hearing on the Management  
26 Agreement Motion was continued and is now scheduled for hearing on March 3, 2011 at 10:00  
27 a.m. (Pacific time).

28 g. Approval of Disclosure Statement and Scheduling of Confirmation Hearing

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

7 h. Retention of Professionals

8 The professionals that have been intimately involved in the negotiation and development  
9 of the Plan and other aspects of the Debtors' reorganization include: (i) PWK, (ii) Imperial, and  
10 (iii) CRG. On or about January 19, 2011, the Debtors sought authority from the Bankruptcy  
11 Court to retain and employ PWK, Imperial, and CRG to represent and assist them in connection  
12 with the Chapter 11 Cases.

13 On or about February 11, 2011, the Bankruptcy Court entered orders authorizing SHC,  
14 pursuant to Bankruptcy Code sections 327 and 328, to employ (i) PWK as bankruptcy counsel  
15 and (ii) CRG as financial advisors, effective as of the Petition Date. Due to objections  
16 interposed to SHC's application to retain Imperial as its investment banker (the "Imperial  
17 Retention Application") by the Creditors' Committee and NML, the hearing on the Imperial  
18 Retention Application has been continued to March 29, 2011 at 10:00 a.m. (Pacific time) in an  
19 effort to reach a consensual resolution to the objecting parties' concerns.

20 2. Assumption of the Investment Agreement

21 To implement the Transaction, on the Petition Date, SHC filed a motion (the  
22 "Investment Agreement Assumption Motion") requesting approval of its assumption of the  
23 Investment Agreement, and approval of the termination fee, filing timelines, and exclusivity  
24 provision contained therein (all such provisions as further described below). On February [●],  
25 2011, the Bankruptcy Court approved SHC's assumption of the Investment Agreement.

26 The Investment Agreement contains provisions related to the approval process,  
27 including a termination fee to be paid to the Plan Sponsor (in certain specified circumstances) in  
28 exchange for the Plan Sponsor's financial commitment to restructure SHC. By assuming the

1 Investment Agreement, the debtor SHC is seeking to effectuate these procedural provisions. The  
2 principle terms of the Investment Agreement that are implicated by the assumption of the  
3 Investment Agreement are as follows:

4 a) Termination Fee: The Investment Agreement includes a termination fee  
5 (the "Termination Fee"), equal to \$2,340,000, payable by SHC to the Plan Sponsor in the event  
6 the Plan Sponsor is not in material breach of the Investment Agreement and certain events  
7 enumerated in Section 12 the Investment Agreement occur.

8 b) Exclusivity: The Investment Agreement includes an exclusivity provision  
9 requiring that SHC and its affiliates to not (i) solicit, initiate, or encourage the submission of any  
10 proposal or offer from any person or entity relating to, or enter into or consummate any  
11 transaction relating to, the acquisition of any equity interests in SHC, or any merger,  
12 recapitalization, share exchange, sale of substantial assets (other than sales of inventory in the  
13 ordinary course of business) or any similar transaction or alternative to the Transaction, or (ii)  
14 participate in any discussions or negotiations regarding, knowingly furnish any information with  
15 respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any  
16 person to do or seek any of the foregoing, except to send out notices as required under the  
17 Investment Agreement.

18 The Investment Agreement commits the Plan Sponsor to pursue a Transaction,  
19 but consummation of that Transaction is subject to approval of the Bankruptcy Court,  
20 specifically in a plan confirmation hearing.

### 21 3. Use of Cash Collateral and Debtor in Possession Financing

22 Although SHC is profitable on an operating basis (absent debt service) and is  
23 continuing to grow its business with significant going concern value, it believes that it will not  
24 be able to service its debt under the Credit Agreement and the SPGA in accordance with the  
25 terms of such agreements, and that it should reorganize pursuant to the Plan. To accomplish this  
26 goal, however, SHC must continue to have access to the Senior Secured Lenders' Cash  
27 Collateral in order to operate during the pendency of the Chapter 11 Case. SHC has, together  
28 with the Senior Secured Lenders, prepared a budget based on its anticipated cash needs for

1 approximately thirteen (13) weeks, through mid-March (as may be amended or modified, the  
2 “Budget”). As set forth in the Budget, SHC requires cash for, among other things: (1) payroll,  
3 (2) office expenses, (3) purchasing inventory, which in turn is sold to customers and generates  
4 receivables, and (4) other ordinary course obligations. With respect to the purchase of  
5 inventory, SHC historically has contracted with independent facilities that manufacture and  
6 package its products, and SHC intends to continue that practice post-petition.

7 Because budget projections are forward-looking, they can never be entirely  
8 accurate. Thus, to protect against unpredictable fluctuations in expenses and costs, SHC has  
9 requested that it be permitted the flexibility to increase expenditures by up to 15% for any  
10 particular line item in the Budget, or 10% in the aggregate. Under this structure, SHC will have  
11 the flexibility to operate its business without disruption.

12 Since the Petition Date, SHC has been authorized to use cash collateral pursuant  
13 to stipulation among the various parties in interest on an interim basis, subject to certain terms  
14 and conditions ordered by the Bankruptcy Court, SHC has to date been able to meet its  
15 projected expenses and obligations during the Chapter 11 Case (the “Budget”) by relying solely  
16 on cash collateral, without the need to incur debtor in possession financing. A final hearing on  
17 SHC’s use of cash collateral took place on March [●], 2011, where SHC’s use of Cash  
18 Collateral was approved on a consensual basis.

#### 19 4. Objections to Process

20 In the days immediately following the Petition Date, SHC sought a continuance of  
21 certain substantive first-day motions in an effort to provide parties in interest sufficient time to  
22 evaluate the Transaction and an opportunity to raise concerns related thereto. NML raised many  
23 concerns and objections about the sale and negotiation process leading up to the initial version  
24 of the Investment Agreement and Plan of Reorganization and due to the alleged violation of its  
25 consent and board observation rights and the economics of the transaction as originally  
26 proposed. SHC, the Plan Sponsor and BMO disagreed with these concerns and objections.  
27 During this period, SHC and the Plan Sponsor participated in communications among the  
28 various constituencies, including, BMO, SHC, the Creditors’ Committee, the Class Action

1 plaintiffs, and NML. These discussions culminated in a settlement proposal between NML and  
2 the Plan Sponsor that was communicated to the various parties (the “Initial Settlement  
3 Proposal”).

4 The initial efforts to explore settlement were put on hold, however, due to a series of  
5 disputes concerning SHC’s use of the Cash Collateral, retention of professionals, and the  
6 Transaction’s proposed timeline. In early February, when it became clear that the process  
7 would be delayed approximately six weeks due to the various disputes, the Plan Sponsor  
8 indicated to the other parties that it would no longer extend milestone deadlines in the  
9 Investment Agreement because such extensions could substantively affect the Transaction’s  
10 dynamics and economics.

#### 11 5. The Settlement

12 Subsequent to the February 3, 2011 hearing, SHC, BMO, NML, and the Plan Sponsor  
13 resumed talks, using the Initial Settlement Proposal as a baseline. The parties identified a  
14 \$353,000 tax refund that could provide additional value for the various stakeholders and on or  
15 about February 16, 2011, reached a consensual resolution by signing a non-binding term sheet  
16 for modification of the Transaction (the “Settlement”). The following are certain highlighted  
17 terms of the Settlement:

- 18 a) The Plan Sponsor’s Transaction purchase price increased by \$1,092,000.
- 19 b) If the Closing occurs on or before April 30, 2011, the Senior Secured  
20 Lenders agree to waive \$728,000 of the default interest accrued under the Credit Agreement  
21 through March 31, 2011; such default interest will stop accruing on and after March 31, 2011.
- 22 c) Imperial Capital’s fee, as calculated for the originally proposed  
23 Transaction, to be reduced by \$350,000.
- 24 d) NML to withdraw its various objections to the Transaction and other SHC  
25 pleadings, including use of cash collateral (as further discussed below).
- 26 e) All parties to minimize go-forward professional fees required to  
27 consummate the Plan.

28

1 f) To the extent any debtor in possession financing is necessary, the Plan  
2 Sponsor will offer a process neutral junior facility using the Plan Sponsor's \$2.4 million deposit  
3 under the Investment Agreement as the source of such financing, priced at a favorable interest  
4 rate.

5 The Settlement is embodied in the Plan, mailed to you in this package, and that certain  
6 Amended and Restated Investment Agreement (the "Investment Agreement"), also included in  
7 this package. The plan also proposes a settlement of the Class Action Lawsuit, as more fully set  
8 forth below.

#### 9 6. Other Legal Proceedings

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

#### 13 7. Procedures Implemented to Resolve Financial Problems

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

19 In addition, the Plan Sponsor has indicated that it intends to change certain aspects of  
20 product packaging and advertising, to eliminate any potential for liability such as has been  
21 asserted in the Class Action Lawsuit. SHC has begun to implement reasonable changes to the  
22 packaging during the pendency of the chapter 11 cases.

#### 23 8. Current and Historical Financial Conditions

24 Currently, SHC has secured obligations to the Senior Secured Lenders totaling  
25 approximately \$62 million. SHC has an unsecured obligation to NML totaling approximately  
26 \$25 million. SHC's remaining unsecured claims, including, among other types of obligations,  
27 trade debt, total approximately \$4 million. SHC's historical financial information is contained  
28 in its audited financial statements. SHC's 2008 audited financial statements are attached hereto



1 as Exhibit A, and the 2009 audited financial statements are attached hereto as Exhibit B. SHC's  
2 November 2010 financial statements are also attached hereto as Exhibit C, however, these have  
3 not been audited and have not been prepared in accordance with generally accepted accounting  
4 principles. Projected financial statements for 2011 are attached hereto as Exhibit D.

5 III.

6 SUMMARY OF THE PLAN OF REORGANIZATION

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

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

11 B. Unclassified Claims

12 Certain types of claims are not placed into voting classes; instead they are unclassified.  
13 Such claims are not considered impaired and they do not vote on the Plan because they are  
14 automatically entitled to specific treatment pursuant to the Bankruptcy Code. As such, the  
15 Debtors have not placed the following claims in a class.

16 1. Administrative Claims

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

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

26 As indicated above, it is expected that SHC will need to pay approximately \$3,923,000  
27 in administrative claims on the Effective Date of the Plan unless the claimant has agreed to be  
28 paid later or the Bankruptcy Court has not yet ruled on the claim at issue. As indicated in

1 section VI.B of the Disclosure Statement, SHC will have approximately \$48,726,000.00 amount  
 2 of cash on hand on the Effective Date of the Plan.<sup>4</sup> The source of this cash will be cash from  
 3 that the Plan Sponsor pays pursuant to the Investment Agreement and projected cash on hand  
 4 from the Debtor’s operations.

5 2. Priority Tax Claims

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

10 3. DIP Financing Claims

11 On the Effective Date, each holder of an allowed claim arising under the debtor in  
 12 possession financing facility (to the extent the Bankruptcy Court approves debtor in possession  
 13 financing) (each such claim, a “DIP Financing Claim”), if any, shall receive Cash in an amount  
 14 equal to such Claim in full and complete satisfaction of such Claim.

15 C. Classified Claims and Interests

16 1. Classes of Secured Claims

17 Secured claims are claims secured by liens on property of the estate. The following  
 18 chart lists all classes containing SHC’s secured pre-petition claims and their treatment under this  
 19 Plan (see Exhibit E for more detailed information about Allowed Secured Lender Claims and  
 20 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 Claims, (x) its pro rata share of Cash in an amount sufficient to reduce the aggregate outstanding amount of all Senior Secured Lender Claims from their Allowed amount to \$35 million and (y) its pro rata share of 100% of the Loans under the New Term Facility.

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28 <sup>4</sup> Subject to Working Capital Adjustment.

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Class	Description	Insider (y/n)	Impaired (y/n)	Treatment
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 unsecured claim).

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.

**3. Trade Claims**

Trade claims are claims for the value of goods or services provided to SHC in the ordinary course of business prior to the Petition Date that are not entitled to priority under

1 Bankruptcy Code section 507(a) (“Trade Claims”). Trade Claims are not impaired by the Plan  
 2 and are deemed to accept the Plan. The following chart identifies this Plan’s proposed treatment  
 3 of the class containing all of the Trade Claims (see Exhibit G for more detailed information  
 4 about each Trade Claim):

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, for each such Claim, if such payment is made after the date on which such payment would have been due by its terms, interest, as determined by the Bankruptcy Court, sufficient to render such Claim unimpaired.

13 4. Class of General Unsecured Claims

14 General unsecured claims are unsecured claims not entitled to priority under Bankruptcy  
 15 Code section 507(a), and that are not Trade Claims. These claims include, among others, the  
 16 Class Action Lawsuit claims and any other litigation creditors, the claims of the Subordinated  
 17 Lender and any Rejection Damages Claim that may arise. The following chart identifies this  
 18 Plan’s treatment of the class containing all of SHC’s general unsecured claims (see Exhibit H  
 19 for more detailed information about each Allowed General Unsecured Claim):  
 20

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.

21 5. Class of Old Equity Interests

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

6 The following chart identifies the Plan’s treatment of the class of interest holders (see  
 7 Exhibit I for more detailed information about Old Equity Interests):  
 8

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

13 **1. Funding for the Plan**

14 Except as otherwise provided in the Plan or the order confirming the Plan, distributions  
 15 under the Plan will be funded by (i) a capital infusion, made pursuant to the Investment  
 16 Agreement in exchange for 100% of the newly issued common stock of the Reorganized  
 17 Debtor, from the Plan Sponsor in the amount of approximately \$43 million, plus or minus  
 18 certain adjustments, and (ii) existing cash balances of SHC at the Effective Date.

19 **2. Section 1145 Exemption**

20 Pursuant to Bankruptcy Code section 1145, the offering, issuance, and distribution of  
 21 any securities contemplated by the Plan and any and all settlement agreements incorporated  
 22 therein, specifically the Plan Trust beneficial interests (to the extent they are securities), shall, to  
 23 the fullest extent permitted by applicable law, be exempt from, among other things, the  
 24 registration requirements of section 5 of the Securities Act and any other applicable law  
 25 requiring registration prior to the offering, issuance, distribution, or sale of Securities. In  
 26 addition, under Bankruptcy Code section 1145, any securities contemplated by the Plan,  
 27 including the Plan Trust beneficial interests will be freely tradable and transferable by the  
 28 recipients thereof, subject to (i) the provisions of Bankruptcy Code section 1145(b)(1) relating

1 to the definition of an underwriter in section 2(a)(11) of the Securities Act, and compliance with  
2 any rules and regulations of the Securities and Exchange Commission, if any, applicable at the  
3 time of any future transfer of such Securities or instruments; (ii) the restrictions, if any, on the  
4 transferability of such Securities and instruments set forth in the Plan Trust Agreement; and (iii)  
5 applicable regulatory approval.

### 6 3. Issuance and Distribution of the Reorganized Debtor Equity Interests

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

### 12 4. New Credit Agreement

13 On the Effective Date or as soon as reasonably practicable thereafter, the Reorganized  
14 Debtor will enter into a credit agreement with respect to a new term facility and the Exit  
15 Revolver Facility (the "New Credit Agreement"), on the terms to be set forth in the Plan  
16 Supplement. The Reorganized Debtor will be further authorized to execute, deliver, file, record  
17 and issue any other agreements, instruments or documents reasonably requested by the agent  
18 under the New Credit Agreement, in each case without further notice to or order of the  
19 Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote,  
20 consent, authorization or approval of any person (other than as expressly required under or by  
21 the New Credit Agreement).

22 Upon the effectiveness of and in accordance with the terms of the New Credit  
23 Agreement, (i) the Reorganized Debtor will be authorized to perform its obligations thereunder  
24 including, without limitation, the payment or reimbursement of any fees, expenses, losses,  
25 damages or indemnities, (ii) the New Credit Agreement will constitute the legal, valid and  
26 binding obligation of the Reorganized Debtor, enforceable with its terms, and (iii) no obligation,  
27 payment, transfer or grant of security under the New Credit Agreement will be stayed,  
28 restrained, voidable, or recoverable under the Bankruptcy Code or under any applicable law or

1 subject to any defense, reduction, recoupment, setoff or counterclaim. Confirmation of the Plan  
2 will be deemed approval of the New Credit Agreement (including the transactions contemplated  
3 thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred by  
4 the Reorganized Debtor in connection therewith, including the payment of all fees, indemnities,  
5 and expenses provided for therein) and authorization for the Reorganized Debtor to enter into  
6 and execute the New Credit Agreement.

7 5. Exit Revolver Facility

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

16 Upon the effectiveness of and in accordance with the terms of the Exit Revolver Facility,  
17 (i) the Reorganized Debtor will be authorized to perform its obligations thereunder including,  
18 without limitation, the payment or reimbursement of any fees, expenses, losses, damages or  
19 indemnities, (ii) the Exit Revolver Facility will constitute the legal, valid and binding obligation  
20 of the Reorganized Debtor, enforceable with its terms, and (iii) no obligation, payment, transfer  
21 or grant of security under the Exit Revolver Facility will be stayed, restrained, voidable, or  
22 recoverable under the Bankruptcy Code or under any applicable law or subject to any defense,  
23 reduction, recoupment, setoff or counterclaim. Confirmation of the Plan will be deemed  
24 approval of the Exit Revolver Facility (including the transactions contemplated thereby, and all  
25 actions to be taken, undertakings to be made, and obligations to be incurred by the Reorganized  
26 Debtor in connection therewith, including the payment of all fees, indemnities, and expenses  
27 provided for therein) and authorization for the Reorganized Debtor to enter into and execute the  
28 Exit Revolver Facility.

1           6.     The Plan Trust

2           On the Effective Date, a plan trust (together with any related advisory board or similar  
3 oversight committee, the “Plan Trust”) will be implemented pursuant to the terms of that certain  
4 trust agreement, substantially on the terms set forth in the Plan Supplement (the “Plan Trust  
5 Agreement”). The identity of the Plan Trustee shall be set forth in the Plan Supplement. On the  
6 Effective Date, pursuant to the terms of the Plan Trust Agreement, SHC will transfer the Plan  
7 Trust Assets for and on behalf of the Holders of Allowed Claims in Class D (the “Plan Trust  
8 Beneficiaries*provided, however,* that, if the holder of the Class Action claim votes in favor of  
9 the Plan, the Class Action claims will be proposed to be certified as settlement class without  
10 opt-out rights and receive \$1 million in Cash on the Effective Date from the Plan Trust and  
11 other non-cash agreements to be embodied in a separate settlement agreement approved by the  
12 Bankruptcy Court in full and complete satisfaction of their claims and have no other right to a  
13 distribution from the Plan Trust. For all federal income tax purposes, the beneficiaries of the  
14 Plan Trust shall be treated as grantors and owners thereof and it is intended that the Plan Trust  
15 be classified as a liquidating trust under Section 301.7701-4 of the Treasury Regulations and  
16 that such trust is owned by its beneficiaries. Accordingly, for federal income tax purposes, it is  
17 intended that the Plan Trust Beneficiaries be treated as if they had received a distribution of an  
18 undivided interest in the Plan Trust Assets and then contributed such interests to the Plan Trust.  
19 The Plan Trust Assets will fund the Plan Trust.

20           The Plan Trust Beneficiaries and the Plan Trustee shall have the right to object to the  
21 claims of beneficiaries of the Plan Trust. Any objections prosecuted solely by a Plan Trust  
22 Beneficiary will be prosecuted at the expense of each party thereto, as neither the Reorganized  
23 Debtor nor the Plan Trust will pay the costs or expenses of any such beneficiary’s objections.  
24 Any objections to the claims of beneficiaries of the Plan Trust shall be served and filed on or  
25 before the later of (i) sixty (60) days after the Effective Date, and (ii) such date as may be fixed  
26 by the Bankruptcy Court.

27  
28



1           7.       Voting of Class Action Lawsuit Claims

2           The class of creditors party to the Class Action Lawsuit shall be certified as a class,  
3 solely for purposes of voting on the Plan, and not for any other purposes in connection with  
4 allowance of claims, settlement, liability or damages in the action pending in the United States  
5 District Court for the Southern District of New York, and shall be entitled to vote on the Plan in  
6 an amount set forth in the order approving this Disclosure Statement.

7           8.       Protective Injunction for the Reorganized Debtor

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

24           The Investment Agreement provides that in the event that the Bankruptcy Court does not  
25 grant the requested injunction, the closing escrow will be available to indemnify the Plan  
26 Sponsor for any losses incurred for claims during the twelve-month period following the  
27 Effective Date that are similar to the claims in the Class Action Lawsuit, all subject to the  
28 specific terms and conditions set forth in the Investment Agreement.

1 9. Corporate Structure of the Reorganized Debtor

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

5 10. Board of Directors of the Reorganized Debtor

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

10 11. Disbursing Agent

11 All distributions under the Plan shall be made, and the reserve on account of Accrued  
12 Professional Compensation shall be set, by the Plan Trustee (or such other entity designated by  
13 the Reorganized Debtor, as Disbursing Agent, on or after the Effective Date, as otherwise  
14 provided in the Plan, or in the Plan Trust Agreement; provided, however, that the Agent (or such  
15 other entity designated by each such Administrative Agent) will be the Disbursing Agent for the  
16 Senior Secured Lenders, and the Reorganized Debtor will be the Disbursing Agent for Trade  
17 Claims. A Disbursing Agent will not be required to give any bond or surety or other security for  
18 the performance of its duties.

19 E. Risk Factors

20 ELIGIBLE HOLDERS OF CLAIMS AGAINST SHC SHOULD READ AND  
21 CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE  
22 OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE  
23 DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED BY  
24 REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN.  
25 THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS  
26 CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN  
27 AND ITS IMPLEMENTATION. ADDITIONAL RISKS AND UNCERTAINTIES NOT  
28 PRESENTLY KNOWN TO SHC, OR THAT IT CURRENTLY DEEMS IMMATERIAL,

1 MAY ALSO HARM ITS BUSINESS.

2 THE PROPOSED PLAN HAS THE FOLLOWING RISKS:

3 1. Certain Bankruptcy Considerations

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

16 The Plan provides for no distribution to Class E. The Bankruptcy Code conclusively  
17 deems this Class to have rejected the Plan. Notwithstanding the fact that this Class is deemed to  
18 have rejected the Plan, the Bankruptcy Court may confirm the Plan if at least one impaired class  
19 votes to accept the Plan (with such acceptance being determined without including the vote of  
20 any “insider” in such class). Thus, for the Plan to be confirmed, one impaired Class, among  
21 Classes A-1 and D, must vote to accept the Plan. The Consenting Senior Secured Lenders in  
22 Class A-1 have already, prior to the Petition Date, delivered acceptance of the Plan sufficient to  
23 create an impaired accepting class. However, under certain circumstances set forth in the Plan  
24 Support Agreement (such as certain modifications to the Plan or the occurrence of certain  
25 adverse events), such Consenting Senior Secured Lenders would be permitted to change their  
26 acceptances. As to each impaired class that has not accepted the Plan, the Plan may be  
27 confirmed if the Bankruptcy Court determines that the Plan “does not discriminate unfairly” and  
28 is “fair and equitable” with respect to these classes. SHC believes that the Plan satisfies these

1 requirements. For more information, see Article VI below.

2 2. Competitive Conditions

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

6 3. Hart-Scott-Rodino Act

7 The Restructuring Transactions contemplated under the Investment Agreement and Plan  
8 require SHC and the Plan Sponsor to file a Premerger Notification and Report Form (“HSR  
9 Filing”) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The  
10 Plan Sponsor and SHC have previously completed the HSR Filing and the notification and  
11 waiting period applicable to SHC and the Plan Sponsor under such Act expired on May 28,  
12 2010 at 11:59 p.m. Further, under the Agreement, if a Legal Proceeding is asserted or  
13 threatened by any governmental body or agency, then SHC and the Plan Sponsor each have a  
14 right to terminate the Investment Agreement.

15 F. Certain Tax Considerations

16 CIRCULAR 230 DISCLOSURE: ANY U.S. TAX ADVICE CONTAINED HEREIN  
17 (A) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE  
18 TRANSACTION OR MATTERS ADDRESSED IN THIS DISCLOSURE STATEMENT,  
19 AND (B) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY  
20 ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING U.S. TAX PENALTIES. EACH  
21 HOLDER OF CLAIMS SHOULD SEEK ADVICE BASED ON THE HOLDER’S  
22 PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

23 The following is a discussion of certain significant federal income tax considerations of  
24 the Plan under the U.S. Internal Revenue Code of 1986, as amended (the “Tax Code”). This  
25 discussion is limited to certain tax considerations for Holders of Claims that are U.S. Holders  
26 who, except to the extent otherwise discussed herein, hold Secured Lender or general unsecured  
27 claims as capital assets (generally, property held for investment within the meaning of Section  
28

1 1221 of the Tax Code) and will hold the Loans or Plan Trust Interests, as applicable, as capital  
2 assets. It does not address the U.S. federal income tax consequences to holders whose Claims  
3 are unimpaired or otherwise entitled to payment in full in cash under the Plan, to holders of  
4 Claims extinguished without a distribution in exchange therefor, to holders of Equity Interests ,  
5 to Holders of Trade Claims, or generally those holders who negotiated their own settlements  
6 with the Debtors.

7 A “U.S. Holder” means a beneficial owner of a Claim that is, for U.S. federal income  
8 tax purposes:

- 9 • an individual citizen or resident of the U.S., including an alien individual who is a lawful  
10 permanent resident of the U.S. or who meets the “substantial presence” test under  
11 Section 7701(b) of the Tax Code;
- 12 • a corporation or other entity taxable as a corporation for U.S. federal income tax  
13 purposes created or organized in the U.S. or under the laws of the U.S., any state thereof  
14 or the District of Columbia;
- 15 • an estate, the income of which is subject to U.S. federal income tax regardless of its  
16 source;
- 17 • or a trust, if (i) a U.S. court can exercise primary supervision over the administration of  
18 the trust and one or more United States persons (within the meaning of the Tax Code)  
19 have the authority to control all substantial trust decisions or (ii) a valid election is in  
20 place to treat the trust as a United States person.

21  
22 This general discussion does not address all aspects of U.S. federal income tax that may  
23 be relevant to a Holder of Claims in light of such Holder’s specific circumstances, or to certain  
24 types of Holders of Claims subject to special treatment under the federal income tax laws,  
25 including but not limited to (i) banks, financial institutions, insurance companies, expatriates or  
26 former long-term residents of the United States, Holders subject to the alternative minimum tax,  
27 individual retirement accounts or other tax-deferred accounts, tax-exempt organizations,  
28 regulated investment companies, real estate investment trusts, insurance companies, employee

1 stock ownership plans, brokers, dealers in securities or currencies, partnerships or other pass-  
2 through entities, (ii) Holders who hold Claims or who will hold the Loans or Plan Trust Interests  
3 as part of a straddle, hedge, conversion transaction or other integrated investment, (iii) Holders  
4 whose functional currency is not the U.S. dollar and (iv) Holders who use the mark-to-market  
5 method of accounting. In addition, this discussion does not address state, local or foreign taxes,  
6 or estate or gift tax issues. Finally, this discussion does not address the tax consequences of  
7 actions that might be taken on or after the Effective Date by Holders with respect to  
8 distributions received pursuant to the Plan, including actions that might be integrated for federal  
9 tax purposes with and thereby affect the tax consequences of the transactions contemplated by  
10 the Plan.

11 This discussion is based on the Tax Code, U.S. treasury regulations promulgated  
12 thereunder ("Treasury Regulations"), Internal Revenue Service ("IRS") rulings and judicial  
13 decisions now in effect or in existence as of the date of this discussion, all subject to change  
14 (possibly with retroactive effect) or to differing interpretations. No opinion of counsel has been  
15 sought or obtained with respect to the federal income tax consequences of the Plan and no tax  
16 opinion is given by this Disclosure Statement. No rulings or determination from the IRS or any  
17 other taxing authorities have been obtained or sought with respect to the Plan, and the  
18 description below is not binding on the IRS or such other taxing authorities. With respect to  
19 some of the federal income tax consequences discussed herein, the tax law is unclear.  
20 Accordingly, it is possible that the IRS will disagree with the description of the tax  
21 consequences, and there can be no certainty that the IRS would not prevail in any challenge it  
22 may decide to make in that regard.

23 FOR THE FOREGOING REASONS, ALL HOLDERS OF CLAIMS ARE URGED TO  
24 CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX  
25 CONSEQUENCES (FOREIGN, FEDERAL, STATE AND LOCAL) OF THE PLAN TO  
26 THEM. SHC IS NOT MAKING ANY REPRESENTATIONS REGARDING THE  
27 PARTICULAR TAX CONSEQUENCES OF THE CONFIRMATION AND  
28

1 CONSUMMATION OF THE PLAN AS TO SHC OR TO ANY SPECIFIC HOLDER OF A  
2 CLAIM.

3  
4 1. Tax Consequences to SHC

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

13 The Debtors will treat the transfer of the Plan Trust Assets to the Plan Trust as (i) a  
14 transfer of such assets to the initial beneficiaries of the Plan Trust (i.e., those holders of Claims  
15 that are entitled to receive Beneficial Interests under the Plan) followed by (ii) a transfer of such  
16 assets by such beneficiaries to the Plan Trust, with the beneficiaries being treated as the grantors  
17 and owners of the Plan Trust. SHC's transfer of assets to the initial beneficiaries of the Plan  
18 Trust will constitute a taxable disposition of such assets. The Debtors will be required to use the  
19 valuation of the assets provided by the Plan Trustee for all federal income tax purposes.

20 As a result of the implementation of the Plan, the Corporate Debtors could incur  
21 cancellation of indebtedness ("COD") income for U.S. federal income tax purposes. In  
22 particular, Corporate Debtors may have COD income as a result of the transfer of assets to the  
23 Plan Trust. COD income is generally the amount by which the adjusted issue price of the  
24 indebtedness discharged exceeds the amount of cash and the fair market value of any other  
25 consideration given in exchange therefor, subject to certain limitations. COD income may be  
26 excludable under a special bankruptcy exception in the Tax Code.

27 For U.S. federal income tax purposes, any net operating losses ("NOLs") will remain  
28 within the Corporate Debtors and will not be transferred to the Plan Sponsor as a result of the

1 implementation of the Plan. Such NOLs, therefore, will not be available to offset any income  
2 that is realized by SHC following the implementation of the Plan.

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

## 12 2. Tax Consequences to Holders of Claims

### 13 a. Receipt of Plan Trust Interests

14 The Plan Trust is intended to qualify as a liquidating trust for U.S. federal income tax  
15 purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for  
16 U. S. federal income tax purposes as a “grantor trust” (*i.e.*, a pass-through entity). However,  
17 merely establishing a trust as a liquidating trust does not ensure that it will be treated as a  
18 grantor trust for U.S. federal income tax purposes. The IRS, in Revenue Procedure 94-45,  
19 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust  
20 status of a liquidating trust under a chapter 11 plan. The Plan Trust has been structured with the  
21 intention of complying with such general criteria.

22 Pursuant to the Plan, and in conformity with Rev. Proc. 94-45, the Plan Trust Assets will  
23 be transferred to the Plan Trust. All parties will be required to treat, for U.S. federal income tax  
24 purposes, the transfer of the Plan Trust Assets to the Plan Trust as (i) a transfer of such assets to  
25 the initial beneficiaries of the Plan Trust (*i.e.*, those holders of Claims that are entitled to receive  
26 Plan Trust Interests, *i.e.*, the Plan Trust Beneficiaries) followed by (ii) a transfer of such assets  
27  
28



1 by such beneficiaries to the Plan Trust, with the beneficiaries being treated as the grantors and  
2 owners of the Plan Trust.

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

11 Each Holder of a Claim that receives Plan Trust Interests pursuant to the Plan generally  
12 will recognize gain or loss in an amount equal to the difference between the amount realized in  
13 respect of its Claim and its adjusted tax basis in such Claim. The amount realized for this  
14 purpose should generally equal the amount of cash and the fair market value of any other assets  
15 received or deemed received for federal income tax purposes under the Plan in respect of such  
16 Holder's Claim. See sections B.3 and B.4 below regarding the allocation of distributions  
17 received between principal and interest and the character of any gain or loss realized. A Holder  
18 that receives or is deemed to receive for U.S. federal income tax purposes a non-cash asset  
19 under the Plan in respect of its Claim should generally have a tax basis in such asset in an  
20 amount equal to the fair market value of such asset on the date of receipt.

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

26 A grantor trust (as the Plan Trust is intended to be) is treated as a pass-through entity for  
27 U.S. federal income tax purposes. If so treated, then in general no tax should be imposed on the  
28 deemed transfer of assets by a Holder to the Plan Trust. In addition, no tax should be imposed

1 on the Plan Trust on the receipt (or deemed receipt) of such assets or on income earned or gain  
2 recognized by the Plan Trust with respect to those assets. Instead, the Plan Trust Beneficiaries  
3 will be taxed on their respective allocable shares of such net income or gain in each taxable year  
4 and will be responsible for paying the taxes associated with such income or gain whether or not  
5 they received any distributions from the Plan Trust in such taxable year.

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

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

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

26 Whether and to what extent Holders of Claims will be required to recognize gain or loss  
27 in connection with their participation in the exchange of their Secured Lender Claims for the  
28 Exchange will depend on whether the Exchange qualifies as a reorganization pursuant to

1 Section 368 of the Tax Code. In general, the Exchange will qualify as a reorganization if,  
2 among other requirements, the Secured Lender Claims constitute “securities” for purposes of the  
3 reorganization provisions of the Tax Code. The rules for determining whether a debt instrument  
4 constitutes a security under the reorganization provisions of U.S. federal income tax laws are  
5 unclear. The term “security” is not defined for this purpose in the Tax Code or the Treasury  
6 Regulations and has not been clearly defined by judicial decisions. The determination of  
7 whether a debt instrument is a security involves an overall evaluation of the nature of the debt  
8 instrument, the debt holder’s exposure to the substantial risks of the enterprise, the extent of the  
9 debt holder’s proprietary interest in the issuer compared with the similarity of the debt  
10 instrument to a right to receive a cash payment and certain other considerations.

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

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

23 The tax consequences to a Holder of a Secured Lender Claim may also depend on  
24 whether any cash that is or has been received by such Holder from SHC is treated as a separate  
25 and independent payment with respect to its Secured Lender Claim, or whether the distribution  
26 of any such cash is instead integrated for U.S. federal income tax purposes with the Exchange of  
27 Loans for Secured Lender Claims pursuant to the Plan. Holders of Secured Lender Claims  
28

1 should consult their tax advisors regarding the U.S. federal income tax treatment of distributions  
2 to them of cash from SHC.

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

12 c. Allocation of Plan Distributions between Principal and Interest

13 In general, to the extent that consideration received pursuant to the Plan by a holder of  
14 an Allowed Claim is received in satisfaction of accrued interest or original issue discount  
15 (“OID”) including imputed interest (if any) during its holding period, such amount will be  
16 taxable to the Holder as interest income (to the extent such accrued interest or OID was not  
17 previously included in the Holder's gross income). Conversely, a Holder generally recognizes a  
18 deductible loss to the extent any accrued interest claim or amortized OID was previously  
19 included in its gross income and not paid in full. The Plan provides that any distribution  
20 received pursuant to the Plan in satisfaction of Claims shall, to the extent permitted by  
21 applicable law, be allocated for U.S. federal income tax purposes first to the principal amount of  
22 the Claim and second, to the extent the distribution exceeds the principal amount of the Claim,  
23 to the portion of the Claim representing accrued but unpaid interest. Current U.S. federal  
24 income tax law is unclear on this point, and no assurance can be given that the IRS will not  
25 challenge the allocation set forth in the Plan. If, contrary to the intended position, such a  
26 distribution were treated as allocated first to accrued but unpaid interest, a Holder would realize  
27 ordinary income with respect to such distribution in an amount equal to any accrued but unpaid  
28

1 interest not already taken into income under the Holder’s method of accounting, regardless of  
2 whether the Holder would otherwise realize a loss as a result of the Plan.

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

8 d. Character of Gain or Loss

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

15 3. Backup Withholding

16 Under certain circumstances a Holder (other than an exempt recipient, such as a  
17 corporation) may be subject to backup withholding with respect to “reportable payments”. SHC  
18 will be required to deduct and withhold the prescribed amount if (a) the Holder fails to furnish a  
19 taxpayer identification number to us in the manner required, (b) the IRS notifies us that the  
20 taxpayer identification number furnished by the Holder is incorrect, (c) there has been a failure  
21 of the Holder to certify under penalties of perjury that the Holder is not subject to withholding,  
22 or (d) the Holder is notified by the IRS that he or she failed to report properly payments of  
23 interest and dividends and the IRS has notified us that he or she is subject to backup  
24 withholding.

25 Backup withholding is not an additional tax. Any amount withheld from a  
26 payment to a Holder under the backup withholding rules is allowable as a credit against such  
27 Holder’s U.S. federal income tax liability (and may entitle such Holder to a refund), provided  
28

1 that the required information is furnished to the IRS on a timely basis. Holders should consult  
2 their own tax advisors regarding the application of backup withholding to their particular  
3 situation, the availability of an exemption from backup withholding and the procedure for  
4 obtaining such exemption, of available.

5 Treasury Regulations generally require disclosure by a taxpayer on its U.S.  
6 federal income tax return of certain types of transactions in which the taxpayer participated,  
7 including, among other types of transactions, certain transactions that result in the taxpayer's  
8 claiming of a loss in excess of certain thresholds. Holders are urged to consult their own tax  
9 advisors regarding these regulations and whether the transactions contemplated under the Plan  
10 would be subject to these regulations and require disclosure on such Holders' tax return.

#### 11 G. Other Provisions of the Plan

##### 12 1. Retention of Jurisdiction

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

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

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

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

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

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

27 f. issue injunctions, enter and implement other orders, and take such other actions  
28 as may be necessary or appropriate to restrain interference by any person with the

1 consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any  
2 other order of the Bankruptcy Court;

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

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

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

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

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

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

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

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

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

- 1 p. recover all assets of SHC and property of SHC's estate, wherever located; and  
2 q. hear and determine any rights, Claims, or causes of action held by or accruing to  
3 SHC pursuant to the Bankruptcy Code or pursuant to any federal statute or legal theory.

4  
5 IV.

6 PROCEDURES FOR DISPUTED CLAIMS

7 A. Objections to Claims.

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

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

14 B. Payments and Distributions with Respect to Disputed Claims.

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

18 C. Estimation of Claims.

19 Following the Effective Date, the Reorganized Debtor may at any time request that the  
20 Bankruptcy Court estimate any contingent claim or Disputed Trade Claim pursuant to  
21 Bankruptcy Code section 502(c), regardless of whether an objection was previously filed with  
22 the Bankruptcy Court with respect to such claim, or whether the Bankruptcy Court has ruled on  
23 any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any claim at  
24 any time during litigation concerning any objection to any claim, including, without limitation,  
25 during the pendency of any appeal relating to any such objection. If the estimated amount  
26 constitutes a maximum limitation on the amount of such claim, the Reorganized Debtor may  
27 pursue supplementary proceedings to object to the allowance of such claim. All of the  
28 aforementioned objection, estimation, and resolution procedures are intended to be cumulative



1 and not exclusive of one another. Except as provided in the Plan and in the Investment  
2 Agreement, claims may be estimated and subsequently compromised, settled, withdrawn, or  
3 resolved by any mechanism approved by the Bankruptcy Court.

4 D. Distributions Relating to Disputed Claims.

5 At such time as a disputed claim becomes an allowed claim, the Disbursing Agent shall  
6 distribute to the holder of such claim, such holder's pro rata portion of the property distributable  
7 with respect to the Class in which such claim belongs. To the extent that all or a portion of a  
8 disputed claim is disallowed, the holder of such claim shall not receive any distribution on  
9 account of the portion of such claim that is disallowed and any property withheld pending the  
10 resolution of such claim shall be reallocated pro rata to the holders of allowed claims in the  
11 same class.

12 E. Distributions after Allowance.

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

18 F. Preference Actions.

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

24 G. Preservation of Rights to Settle Claims.

25 In accordance with Bankruptcy Code section 1123(b), the Reorganized Debtor or the  
26 Plan Trustee, as applicable, shall retain and may enforce, sue on, settle, or compromise (or  
27  
28

1 decline to do any of the foregoing) all claims, rights, causes of action, suits, and proceedings,  
2 whether in law or in equity, whether known or unknown, that SHC or its estate may hold against  
3 any person or entity without the approval of the Bankruptcy Court, subject to the terms of  
4 section VI.A of the Plan, an order confirming the Plan, the Investment Agreement, and any  
5 contract, instrument, release, indenture, or other agreement entered into in connection herewith.  
6 The Reorganized Debtor or their successor(s) may pursue such retained claims, rights, or causes  
7 of action, suits, or proceedings, as appropriate, in accordance with the best interests of the  
8 Reorganized Debtor or the Plan Trust, or their successor(s) who hold such rights. In the case of  
9 the Plan Trust, the Plan Trustee shall have the right, but not the obligation, to seek approval of  
10 any such compromises from the Bankruptcy Court, pursuant to Bankruptcy Rule 9019.

11 V.

12 TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

13  
14 A. Executory Contracts and Unexpired Leases Not Expressly Assumed Are Rejected

15 Except as otherwise provided in the Plan, SHC's executory contracts or unexpired leases  
16 not assumed or rejected pursuant to a Bankruptcy Court order prior to the Effective Date shall  
17 be deemed rejected pursuant to Bankruptcy Code sections 365 and 1123, except for those  
18 executory contracts or unexpired leases: (1) listed on the schedule of "Assumed Executory  
19 Contracts and Unexpired Leases" attached hereto as Exhibit J (to be provided prior to  
20 solicitation); (2) that are the subject of a motion to assume or reject pending on the Effective  
21 Date (in which case such assumption or rejection and the effective date thereof shall remain  
22 subject to a Bankruptcy Court order); (3) that are subject to a motion to reject with a requested  
23 effective date of rejection after the Effective Date; or (4) that are otherwise expressly assumed  
24 or rejected pursuant to the Plan. Entry of the Confirmation Order shall constitute a Bankruptcy  
25 Court order approving the assumptions or rejections of such executory contracts or unexpired  
26 leases as set forth in the Plan, all pursuant to Bankruptcy Code sections 365(a) and 1123.  
27 Unless otherwise indicated, all assumptions or rejections of such executory contracts and  
28 unexpired leases in the Plan are effective as of the Effective Date. Each such executory contract

1 and unexpired lease assumed pursuant to the Plan or by Bankruptcy Court order but not  
2 assigned to a third party prior to the Effective Date shall revert in and be fully enforceable by  
3 the Reorganized Debtor in accordance with its terms, except as such terms may have been  
4 modified by such order. Notwithstanding anything to the contrary in the Plan, the Plan Sponsor  
5 and SHC, as applicable, reserve the right to alter, amend, modify, or supplement the schedules  
6 of executory contracts or unexpired leases identified in the Plan Supplement at any time through  
7 and including fifteen days after the Effective Date.

8 **B. Rejection Claims**

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

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

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

23 **VI.**

24 **CONFIRMATION REQUIREMENTS AND PROCEDURES**

25 **PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN**  
26 **SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON**  
27 **CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The following**  
28 **discussion is intended solely for the purpose of alerting readers about basic confirmation issues,**

1 which they may wish to consider, as well as certain deadlines for filing claims. The proponent  
2 CANNOT and DOES NOT represent that the discussion contained below is a complete  
3 summary of the law on this topic.

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

9 A. Who May Vote or Object

10 1. Who May Object to Confirmation of the Plan

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

13 2. Who May Vote to Accept/Reject the Plan

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

17 a. What Is an Allowed Claim/Interest

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

24 THE BAR DATE FOR FILING A PROOF OF CLAIM IN THIS CASE WAS  
25 JANUARY 17, 2011 at 5:00 pm. Pacific time. A creditor or interest holder may have an  
26 allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is  
27 deemed allowed if (1) it is scheduled on SHC's schedules and such claim is not scheduled as  
28 disputed, contingent, or unliquidated, and (2) no party in interest has objected to the claim. An

1 interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.  
2 Consult Exhibits E through H to see how SHC has characterized your claim or interest.

3 b. What Is an Impaired Claim/Interest

4 As noted above, an allowed claim or interest only has the right to vote if it is in a class  
5 that is impaired under the Plan. A class is impaired if the Plan alters the legal, equitable, or  
6 contractual rights of the members of that class. For example, a class comprised of general  
7 unsecured claims is impaired if the Plan fails to pay the members of that class 100% of what  
8 they are owed.

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

15 3. Who is Not Entitled to Vote

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

27 4. Who Can Vote in More Than One Class

28 A creditor whose claim has been allowed in part as a secured claim and in part as an

1 unsecured claim is entitled to accept or reject a Plan in both capacities by casting one ballot for  
2 the secured part of the claim and another ballot for the unsecured claim.

3 5. Votes Necessary to Confirm the Plan

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

8 6. Votes Necessary for a Class to Accept the Plan

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

14 7. Treatment of Nonaccepting Classes

15 As noted above, even if all impaired classes do not accept the proposed Plan, the  
16 Bankruptcy Court may nonetheless confirm the Plan if the nonaccepting classes are treated in  
17 the manner required by the Code. The process by which nonaccepting classes are forced to be  
18 bound by the terms of the Plan is commonly referred to as “cramdown.” The Bankruptcy Code  
19 allows the Plan to be “crammed down” on nonaccepting classes of claims or interests if it meets  
20 all consensual requirements except the voting requirements of Bankruptcy Code section  
21 1129(a)(8) and if the Plan does not “discriminate unfairly” and is “fair and equitable” toward  
22 each impaired class that has not voted to accept the Plan as referred to in Bankruptcy Code  
23 section 1129(b) and applicable case law.

24 8. Request for Confirmation Despite Nonacceptance by Impaired Classes

25 If the requisite acceptances to the Plan are not received, SHC has requested the  
26 Bankruptcy Court confirm the Plan despite nonacceptance by the impaired Classes. In such an  
27 instance, the Bankruptcy Court may confirm the Plan pursuant to the “cramdown” provisions of  
28 the Bankruptcy Code which allow the Bankruptcy Court to confirm a Plan that has been rejected

1 by an impaired class of claims or equity interests if it determines that the rejecting class is being  
2 treated appropriately given the relative priority of the claims or equity interests in such class. In  
3 order to confirm the Plan against dissenting impaired class or classes, the Bankruptcy Court  
4 must also find that at least one impaired class has accepted the Plan, with such acceptance being  
5 determined without including the acceptance of any “insider” in such class.

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

#### 8 B. Liquidation Analysis

9 Another confirmation requirement is the “Best Interest Test,” which requires a  
10 liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an  
11 impaired class and that claimant or interest holder does not vote to accept the Plan, then that  
12 claimant or interest holder must receive or retain under the Plan property of a value not less than  
13 the amount that such holder would receive or retain if SHC were liquidated pursuant to chapter  
14 7 of the Bankruptcy Code.

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

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

27 1. In a chapter 7 case, a trustee is appointed and entitled to compensation from the  
28 bankruptcy estate in an amount not to exceed 25% on the first \$5,000 or less of all moneys

1 disbursed or turned over by the trustee to parties in interest, 10% on any amount in excess of  
2 \$5,000 but not in excess of \$50,000, 5% on any amount in excess of \$50,000 but not in excess  
3 of \$1,000,000, and reasonable compensation not to exceed 3% of such moneys in excess of  
4 \$1,000,000. In this Chapter 11 Case, a chapter 7 trustee's compensation is estimated to equal  
5 between \$1,160,023.35 and \$1,526,751.

6 2. In a chapter 7 case, the trustee would be required to replace the professionals  
7 currently employed by the Debtor's Estate, which would burden the Estate with additional fees  
8 as the new professionals would be required to familiarize themselves with the issues and parties  
9 in this Chapter 11 Case. For this case, a chapter 7 trustee's professionals likely would incur fees  
10 and expenses of at least \$100,000 to administer and liquidate the Estates.

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

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



1 Unsecured Creditors will far exceed any distribution pursuant to a chapter 7 liquidation.

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

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

<b>SHC Corporation</b>					
<b>Liquidation Analysis</b>					
<b>Estimated 1/31/11 Balance Sheet</b>					
	<i>Unaudited Book Value</i>	<i>%</i>	<i>High Gross Liquidation Recovery</i>	<i>%</i>	<i>Low Gross Liquidation Recovery</i>
<b>Assets</b>					
Cash					
<i>Checking</i>	53,372,518	100%	53,372,518	100%	53,372,518
Accounts Receivable, net					
<i>Trade</i>	6,892,675	85%	5,858,774	75%	5,169,507
<i>Other</i>	0	85%	0	75%	0
Total Receivables	6,892,675	85%	5,858,774	75%	5,169,507
Inventories					
<i>Inventory (incl \$1.9mm prepaid)</i>	8,655,816	80%	6,924,652	65%	5,626,280
Total Inventories	8,655,816	80%	6,924,652	65%	5,626,280
Prepaid, Deposits, Other					
<i>Prepaid Expenses (\$1.9mm moved to Inv)</i>	884,482	0%	0	0%	0
Total Current & Other Assets	19,805,491	82%	16,155,944	72%	14,168,304
Fixed Assets, at Cost					
<i>Molds, Tools &amp; Dies</i>	260,444	25%	65,111	15%	39,067
<i>Furniture and Fixtures</i>	591,238	25%	147,809	15%	88,686
<i>Machines and Equipment</i>	124,137	25%	31,034	15%	18,621
<i>Computers and Printers</i>	1,133,994	10%	113,399	5%	56,700
<i>Leaseholds</i>	368,390	0%	0	0%	0
<i>Trucks</i>	27,994	50%	13,997	50%	13,997
<i>Accumulated Depreciation</i>	(1,854,276)	0%	0	0%	0
Total Fixed Assets	651,920	57%	371,351	33%	217,070
Other Assets					
<i>Income Tax Receivable</i>	409,000	0%	0	0%	0
<i>Deposits</i>	1,291,852	80%	1,033,482	80%	1,033,482
Total Other Assets	1,700,852	61%	1,033,482	61%	1,033,482
<b>Total Assets</b>	<b>\$22,158,263</b>	<b>79%</b>	<b>\$17,560,777</b>	<b>70%</b>	<b>\$15,418,856</b>
Sale Proceeds of Intellectual Proceeds/IP			35,000,000		25,000,000
<b>Available to Pay Debts</b>			<b>\$52,560,777</b>		<b>\$40,418,856</b>

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			Liquidation		Liquidation				
Estimated Claim Payments	Plan Recovery		High Recovery		Low Recovery		Recovery Range		
							Plan	H	L
Available to Pay Claims	48,726,000	(Note 1)	52,560,777		40,418,856				
Administrative Claims									
Professional Fees / Success Fees	3,244,000		500,000		400,000				
Ch 11 Operating Exp	250,000		550,000		550,000				
Post Petition AP	0		700,000		700,000				
Ch 7 Trustee Fees	0		1,576,823		1,212,566				
Commission on Liquidated Equipment	0		55,703		32,560				
Senior Management Bonus	379,000		0		0				
Miscellaneous Expense	50,000		0		0				
Escrow	3,000,000		0		0				
Subtotal Administrative Claims	6,923,000		3,382,526		2,895,126				
Amount Paid	6,923,000		3,382,526		2,895,126		100%	100%	100%
Amount Remaining For Claim Class A-1	41,803,000		49,178,251		37,523,730				
Senior Secured Lender Claims	62,580,138		62,580,138		62,580,138				
Amount Paid (Note 2)	26,985,000		49,178,251		37,523,730		43%	79%	60%
Amount Remaining For Claim Class A-2	14,818,000		0		0				
Other Secured Claims	170,337		170,337		170,337				
Amount Paid	170,337		0		0		100%	0%	0%
Amount Remaining For Claim Class B	14,647,663		0		0				
Priority Non-tax Claims	246,342		246,342		246,342				
Amount Paid	246,342		0		0		100%	0%	0%
Amount Remaining For Claim Class C	14,401,321		0		0				
Trade Claims	3,144,330		3,144,330		3,144,330				
Amount Paid	3,144,330	(Note 3)	0		0		100%	0%	0%
Amount Remaining For Claim Class D	11,256,991		0		0				

1	General Unsecured Claims	26,600,000		26,600,000		26,600,000			
2	Amount Paid (Note 4)	11,256,991		0		0		42%	0%
3	Amount Remaining For Claim Class E	0		0		0			
4	Other Equity Interests	0		0		0			
5	Amount Paid	0		0		0		0%	0%

**NOTE**

**Claim estimates are based on the statements and schedules and subject to claim reconciliation process**

- 1 - Does not include the Working Capital Adjustment to be determined following the Effective Date.
- 2 - Does not include the \$35,000,000 of Senior Secured Lender Claims that are being assumed by the Plan Sponsor.
- 3 - 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, for each such Claim, if such payment is made after the date on which such payment would have been due by its terms, interest, as determined by the Bankruptcy Court, sufficient to render such Claim unimpaired.
- 4 - Does not include potential return of escrow holdback. In addition, 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.

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.

Summary of Payout Percentages:

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 79% - 60%
Class A-2 (Allowed Other Secured Claims)	100%	0%

1	Class B (Allowed Priority Non-Tax Claims)	100%	0%
2	Class C (Trade Claims)	100% **	0%
3	Class D (General Unsecured Claims) <sup>5</sup>	Approx 42%	0%
4	Class E	0%	0%
5			
6	* Class A-1 will receive cash equal to 43% of their claim plus new secured notes		
7	** Assumed and paid by Reorganized Debtor post Effective Date		
8			

9 C. Feasibility

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

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

19	Cash Debtor will have on hand by Effective Date	\$48,726,000 <sup>6</sup>
20	To Pay: Escrow	-3,000,000
21	To Pay: Administrative claims	-3,923,000
22	To Pay: Senior Secured Claims (Class A-1)	-26,985,000
23	To Pay: Other Secured Claims (Class A-2)	-170,337
24	To Pay: Priority Non-Tax Claims (Class B)	-246,342
25	To Pay: Trade Claims (Class C)	<u>-3,144,330</u>
26	<u>Balance after paying these amounts</u>	\$11,256,991

27 <sup>5</sup> Subject to resolution for Working Capital Adjustment.

28 <sup>6</sup> Subject to Working Capital Adjustment on Effective Date.

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

2	\$43,000,000	Original Equity Purchase Price
3	+1,092,000	Supplemental Equity Purchase Price
4	+ \$4,634,000	Cash
5	<b>\$48,726,000</b>	<b>Total</b>

6 The second aspect considers whether SHC will have enough cash over the life of the  
7 Plan to make the required Plan payments. On the Effective Date, pursuant to the terms of the  
8 Plan Trust Agreement, SHC will transfer the Plan Trust Assets for and on behalf of the Plan  
9 Trust Beneficiaries. All payments required to be made under the Plan after the Effective Date  
10 will be made out of the Plan Trust in accordance with its terms as outlined in section III.D.  
11 above. In addition, the Reorganized Debtor will assume and be liable for all Trade Claims.  
12 Because SHC is profitable on an operating basis, absent its debt service, and continues to grow  
13 its business with significant going concern value, SHC is confident of the Reorganized Debtor's  
14 ability to operate profitably and to make all such post-Confirmation payments in respect of the  
15 Trade Claims. SHC has provided financial statements which include both historical and  
16 projected financial information for the duration of the chapter 11 case. Please refer to Exhibit A  
17 through D for the relevant financial statements. As such, the Plan is both feasible and in the  
18 best interest of creditors.

19 YOU ARE ADVISED TO CONSULT WITH YOUR ACCOUNTANT OR  
20 FINANCIAL ADVISOR IF YOU HAVE ANY QUESTIONS PERTAINING TO THESE  
21 FINANCIAL STATEMENTS.

## 22 VII.

### 23 EFFECT OF CONFIRMATION OF PLAN

#### 24 A. Discharge of Claims and Termination of Equity Interests

25 Confirmation of the Plan will, on the Effective Date, discharge all existing debts and  
26 Claims, and terminate all Equity Interests in SHC of any kind, nature, or description whatsoever  
27 against or in SHC or any of their assets or properties to the fullest extent permitted by  
28 Bankruptcy Code section 1141. All holders of Claims and Equity Interests shall be precluded

1 and enjoined from asserting against the Reorganized Debtor or any of their assets or properties,  
2 any other or further Claim or Equity Interest based upon any act or omission, transaction, or  
3 other activity of any kind or nature that occurred prior to the Effective Date, whether or not such  
4 holder has filed a proof of Claim or proof of Equity Interest. Notwithstanding any provision  
5 herein, any valid setoff or recoupment rights held against SHC shall not be affected by the Plan  
6 of Reorganization and shall be expressly preserved in the Confirmation Order.

7 **B. Injunction Against Products-Related Actions**

8 Upon confirmation of the Plan, all persons and entities holding claims of any kind  
9 against SHC (including, but not limited to, those holding Class Action Claims) (whether known  
10 or unknown, legal or equitable, matured or unmatured, contingent or noncontingent, liquidated  
11 or unliquidated, asserted or unasserted, whether arising prior to or subsequent to the Petition  
12 Date, whether imposed by agreement, understanding, the Lanham Act, or otherwise), arising  
13 under or out of, in connection with, or in any way relating to (i) the Reorganized Debtor's  
14 marketing, distribution, or sale of any Product packaged in the same manner as it is packaged at  
15 the time of the Closing within the twelve (12) months following the Closing Date; and(ii) the  
16 Reorganized Debtor's marketing, advertising, or making of any public statement with respect to  
17 the Products (whether explicitly or impliedly), in accordance with, or pursuant to, the terms of  
18 any Assumed Contract for marketing, advertising, or any other similar service, that the Products  
19 are sold only in professional salons or through licensed cosmetologists, without diversion into  
20 non professional retail channels, shall be forever barred, estopped and permanently enjoined  
21 from asserting, prosecuting, or otherwise pursuing any such claims (including, but not limited  
22 to, the Class Action Claims) against the Reorganized Debtor or its property.

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

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

28 **D. Releases**

1           1.       Releases by SHC

2           As of the Confirmation Date, but subject to occurrence of the Effective Date, for good  
3 and valuable consideration, the adequacy of which is hereby confirmed, SHC, the Reorganized  
4 Debtor, and any person seeking to exercise the rights of SHC's estate, including, without  
5 limitation, any successor to SHC or any estate representative appointed or selected pursuant to  
6 Bankruptcy Code section 1123(b)(3), shall be deemed to unconditionally forever release, waive,  
7 and discharge all claims, obligations, suits, judgments, damages, demands, debts, rights, causes  
8 of action and liabilities whatsoever (other than for gross negligence, willful misconduct,  
9 intentional fraud, or criminal conduct) in connection with or related to SHC, the Chapter 11  
10 Cases, or the Plan (other than the rights of the Reorganized Debtor to enforce the Plan and the  
11 contracts, instruments, indentures, and other agreements or documents delivered or assumed  
12 thereunder, including, without limitation, the Investment Agreement and other than retained  
13 claims), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known  
14 or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or  
15 otherwise, that are based in whole or part on any act, omission, transaction, event, or other  
16 occurrence taking place on or prior to the Effective Date in any way relating to SHC, the  
17 Reorganized Debtor, the Chapter 11 Cases, or the Plan, and that may be asserted by or on behalf  
18 of SHC or the Reorganized Debtor against the Released Parties; *provided, however*, that nothing  
19 in the Plan will be deemed to prohibit SHC or the Reorganized Debtor from asserting and  
20 enforcing any claims, obligations, suits, judgments, demands, debts, rights, causes of action or  
21 liabilities they may have against any employee (other than any director or officer) that is based  
22 upon an alleged breach of a confidentiality, non-compete or any other contractual or fiduciary  
23 obligation owed to SHC through the Effective Date; *provided, further, however*, that nothing in  
24 the Plan will operate as a waiver or release from any claims or causes of action arising out of (i)  
25 any retained claim, (ii) the gross negligence, willful misconduct, intentional fraud, or criminal  
26 liability of any person, and (iii) as to the directors of SHC, a breach of fiduciary duty prior to the  
27 Commencement Date.

28           2.       Releases by Holders of Claims and Equity Interests

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

21 E. Retention of Causes of Action/Reservation of Rights

22 Nothing contained herein or in the Confirmation Order shall be deemed to be a waiver or  
23 the relinquishment of any rights or causes of action that SHC or the Reorganized Debtor may  
24 have or which the Reorganized Debtor may choose to assert on behalf of its estate under any  
25 provision of the Bankruptcy Code or any applicable non-bankruptcy law or rule, common law,  
26 equitable principle or other source of right or obligation, including, without limitation, (i) any  
27 and all Claims against any person or entity, to the extent such person or entity asserts a  
28 crossclaim, counterclaim, and/or Claim for setoff which seeks affirmative relief against SHC,



1 the Reorganized Debtor, their officers, directors, or representatives; (ii) the turnover of any  
2 property of SHC's estate; and (iii) the retained claims; *provided, however*, that Section IX.H of  
3 the Plan shall not apply to any claims released in Section IX.G of the Plan.

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

13 F. Waiver of Section 547 Claims.

14 As of the Effective Date, the Debtor and the Plan Trustee will waive any and all claims  
15 brought pursuant to section 547 of the Bankruptcy Code against (i) any Holder of an Allowed  
16 Trade Claim, (ii) any supplier of goods or services who would become a Holder of a Trade  
17 Claim if an action pursuant to section 547 of the Bankruptcy Code was successfully brought  
18 against it, and (iii) any person employed by the Reorganized Debtor. The Debtor believes such  
19 waiver is critical to maximizing value for stakeholders. Without such waiver, any actions  
20 brought against the trade relationship the Debtor has identified as most critical would negatively  
21 impact business relationships, perhaps causing critical suppliers to raise prices on the  
22 Reorganized Debtor. The Debtor believes the specter of any such litigation would depress the  
23 Reorganized Debtor's value, and thus, the purchase price the Plan Sponsor is willing to pay in  
24 connection with the Transaction, ultimately harming the intended beneficiaries of Bankruptcy  
25 Section 547.

26 G. Board of Directors of Reorganized Debtor

27 On the Effective Date, the term of each member of the board of directors will expire.  
28 The size and composition of the board of directors of the Reorganized Debtor on and after the

1 Effective Date has not been determined. Such board of directors will consist of certain  
2 individuals to be designated by the Plan Sponsor in the Plan Supplement filed with the  
3 Bankruptcy Court prior to the hearing to confirm the Plan, pursuant to Bankruptcy Code section  
4 1129(a)(5).

5 H. Revesting of Property in SHC

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

13 I. Modification of Plan

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

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

20 J. Post-Confirmation Status Report

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

27 K. Quarterly Fees

28 Quarterly fees accruing under 28 U.S.C. § 1930(a)(6) to date of confirmation shall be

1 paid to the United States Trustee on or before the effective date of the plan. Quarterly fees  
2 accruing under 28 U.S.C. § 1930(a)(6) after confirmation shall be paid by the Plan Trust to the  
3 United States Trustee in accordance with 28 U.S.C. § 1930(a)(6) until entry of a final decree, or  
4 entry of an order of dismissal or conversion to Chapter 7.

5

6 L. Post-Confirmation Conversion/Dismissal

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

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

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M. 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

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 20th day of February, 2011 at Los Angeles, CA.



T. Scott Avila

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**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 20th day of February, 2011 at New York, New York.



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Robert Warshauer

# Exhibit B