UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
	:	
Value City Holdings, Inc., et al.,	:	Case No. 08-14197 (JMP)
	:	
Debtors.[1]	:	(Jointly Administered)

DISCLOSURE STATEMENT WITH RESPECT TO THE JOINT PLAN OF LIQUIDATION FOR VALUE CITY HOLDINGS, INC. AND ITS AFFILIATED DEBTORS

THIS IS NOT A SOLICITATION OF ACCEPTANCES OF THE JOINT PLAN OF LIQUIDATION FOR VALUE CITY HOLDINGS, INC. AND ITS AFFILIATED DEBTORS, DATED FEBRUARY 4, 2010. ACCEPTANCES OR REJECTIONS OF SUCH PLAN MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL, BUT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT. INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT.

Dated: March ___, 2010
New York, New York

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Counsel for Debtors
and Debtors In Possession

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THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY ORDER OF THE BANKRUPTCY COURT.

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[1] This Disclosure Statement and the proposed Plan (as defined herein) relate to the following debtors and debtors-in-possession: Value City Holdings, Inc.; Value City Department Stores LLC; Value City Department Stores Services, Inc.; Value City of Michigan, Inc.; Gramex Retail Stores, Inc.; GB Retailers, Inc.; J.S. Overland Delivery, Inc.; Retail Ventures Jewelry, Inc.; and VCHI Acquisition Co.

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THIS DISCLOSURE STATEMENT AND ITS RELATED DOCUMENTS ARE THE ONLY DOCUMENTS AUTHORIZED BY THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (THE "BANKRUPTCY COURT") TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ACCEPTING THE JOINT PLAN OF LIQUIDATION FOR VALUE CITY HOLDINGS, INC. AND ITS AFFILIATED DEBTORS, DATED FEBRUARY 4, 2010 (AS MAY BE AMENDED, THE "PLAN"). NO REPRESENTATIONS HAVE BEEN AUTHORIZED BY THE BANKRUPTCY COURT CONCERNING THE DEBTORS (AS DEFINED BELOW), THEIR BUSINESS OPERATIONS OR THE VALUE OF THEIR ASSETS, EXCEPT AS EXPLICITLY SET FORTH IN THIS DISCLOSURE STATEMENT OR SUCH RELATED DOCUMENTS.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. THIS DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN, BUT TO AID AND SUPPLEMENT SUCH REVIEW. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED PROVISIONS SET FORTH IN THE PLAN (WHICH IS INCLUDED AS EXHIBIT A TO THIS DISCLOSURE STATEMENT). IN THE EVENT OF A CONFLICT BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE PROVISIONS OF THE PLAN WILL GOVERN. ALL HOLDERS OF CLAIMS ARE ENCOURAGED TO REVIEW THE FULL TEXT OF THE PLAN AND TO READ CAREFULLY THIS ENTIRE DISCLOSURE STATEMENT, INCLUDING ALL EXHIBITS ANNEXED HERETO, BEFORE DECIDING WHETHER TO VOTE TO ACCEPT THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT WILL NOT, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO THE DATE HEREOF.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS, AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS.

HOLDERS OF CLAIMS AND INTERESTS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH SUCH HOLDER SHOULD, THEREFORE, CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE SOLICITATION, THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN WILL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PERSON, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PERSON, OR BE

DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR INTERESTS.

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

IF THE PLAN IS CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS AGAINST, AND HOLDERS OF INTERESTS IN, THE DEBTORS (INCLUDING, WITHOUT LIMITATION, THOSE HOLDERS OF CLAIMS OR INTERESTS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN OR WHO ARE NOT ENTITLED TO VOTE ON THE PLAN) WILL BE BOUND BY THE TERMS OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS **4:00 P.M. PREVAILING EASTERN TIME ON [ ], 2010** (AS APPLICABLE, "THE VOTING DEADLINE")**,** UNLESS EXTENDED BY THE DEBTORS. TO BE COUNTED, BALLOTS MUST BE RECEIVED BY THE VOTING AGENT (AS DEFINED HEREIN) ON OR BEFORE THE VOTING DEADLINE.

THE DEBTORS AND THE OFFICIAL COMMITTEE OF THE DEBTORS' UNSECURED CREDITORS (THE "CREDITORS' COMMITTEE") SUPPORT CONFIRMATION OF THE PLAN. THE DEBTORS URGE ALL HOLDERS OF CLAIMS WHOSE VOTES ARE BEING SOLICITED TO ACCEPT THE PLAN.

ARTICLE I.

INTRODUCTION

A. General Background

Capitalized terms used and not defined herein have the meanings ascribed to such terms in the Plan unless the context requires otherwise.

On the Petition Date, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. This Disclosure Statement and the accompanying Plan relate to Value City Holdings, Inc. and the other debtors and debtors-in-possession in the above-captioned cases (the "Debtors"). The Chapter 11 Cases have been procedurally consolidated and are being jointly administered, with the Debtors managing their businesses and affairs in the ordinary course as debtors-in-possession, subject to the control and supervision of the Bankruptcy Court.

The Debtors submit this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code") in connection with the solicitation of acceptances of the Plan, a copy of which is annexed hereto as Exhibit A.

The Bankruptcy Court has [**NOT YET]** approved this Disclosure Statement as containing "adequate information" in accordance with section 1125(b) of the Bankruptcy Code to enable a hypothetical, reasonable investor in the Voting Class to make an informed judgment about the Plan. The term "claim," unless capitalized herein, shall have the meaning ascribed to such term in section 101(5) of the Bankruptcy Code.

The Plan contemplates and is predicated upon the substantive consolidation of the Operating Debtors' Estates into a single chapter 11 case solely for the purposes of all actions associated with confirmation and consummation of the Plan.

B. Voting

With respect to Claims in the Voting Class (as defined below), each holder of a Claim in such Class will receive this Disclosure Statement and a ballot for the acceptance or rejection of the Plan (the "Ballot") and other related voting materials. Any creditor or Equity Interest holder whose legal, contractual or equitable rights are altered, modified or changed by the proposed treatment under the Plan or whose treatment under the Plan is not provided for in section 1124 of the Bankruptcy Code is considered "impaired."

Under the Plan, holders of Allowed Claims in Class 4 (the "Voting Class") are impaired and entitled to vote on the Plan. Holders of Allowed Claims in Classes 1, 2, 3, 5, and 7, and holders of allowed BofA Claims, Administrative Expense Claims, Fee Claims, U.S. Trustee Fee Claims, and Priority Tax Claims are unimpaired under the Plan and are deemed to have accepted the Plan. Finally, holders of Interests in Classes 6 and 8, each of whom will receive no distribution under the Plan, are deemed to have rejected the Plan. For a description of the Classes of Claims and Interests and their treatment under the Plan, see Section D below.

The Bankruptcy Court has fixed _________, 2010 as the "Voting Record Date." Only Persons who hold Claims or Interests on the Voting Record Date are entitled to receive a copy of this Disclosure Statement and related materials. Only Persons who hold Claims that are impaired under the Plan and are not deemed to have rejected the Plan are entitled to vote whether to accept the Plan. Thus, the only Persons that are entitled to vote on the Plan are the holders of General Unsecured Claims.

The Ballots have been specifically designed for the purpose of soliciting votes on the Plan from each Class entitled to vote with respect thereto. Accordingly, in voting on the Plan, please use only the Ballot sent to you with this Disclosure Statement. Please complete and sign your Ballot and return it in the enclosed pre-addressed envelope to Epiq Bankruptcy Solutions, LLC, 757 Third Avenue, 3rd Floor, New York, NY 10017, Attn: Angharad Bowdler (the "Voting Agent"). If you have any questions about the voting procedures or the Solicitation Package (as defined herein), please contact the Voting Agent at (646) 282-2500.

ALL PROPERLY COMPLETED BALLOTS RECEIVED BY THE VOTING AGENT PRIOR TO 5:00 P.M. (PREVAILING EASTERN TIME) ON **__________________**, 2010, WILL BE COUNTED FOR PURPOSES OF DETERMINING WHETHER EACH CLASS OF IMPAIRED CLAIMS ENTITLED TO VOTE ON THE PLAN HAS ACCEPTED THE PLAN. ANY BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED NOR WILL ANY BALLOTS RECEIVED BY FACSIMILE BE ACCEPTED. The Voting Agent will prepare and file with the Bankruptcy Court a certification of the results of the balloting with respect to the Plan on a Class-by-Class basis.

Your vote on the Plan is important. The Bankruptcy Code requires as a condition to confirmation of a plan of reorganization that each class that is impaired under such plan vote to accept such plan, unless the "cramdown" provisions of the Bankruptcy Code are employed with respect to such class. The Debtors have reserved their rights to seek to "cramdown" the Plan on certain non-accepting Classes of creditors and Interest holders. See Article VI.H.4 below.

C. Recommendations

IN THE DEBTORS' AND THE CREDITORS' COMMITTEE'S VIEW, THE TREATMENT OF HOLDERS OF CLAIMS IN THE IMPAIRED CLASS ELIGIBLE TO VOTE CONTEMPLATES A GREATER POTENTIAL RECOVERY FOR SUCH HOLDERS THAN WOULD BE AVAILABLE IN A CHAPTER 7 LIQUIDATION. SEE LIQUIDATION ANALYSIS ANNEXED HERETO AS EXHIBIT B. ACCORDINGLY, THE DEBTORS AND THE CREDITORS' COMMITTEE BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF HOLDERS OF CLAIMS IN SUCH CLASS, AND RECOMMEND THAT ALL HOLDERS OF CLAIMS IN THE IMPAIRED CLASS ENTITLED TO DO SO VOTE TO ACCEPT THE PLAN.

D. Summary of Distributions to be Made Pursuant to the Plan

The following tables set forth a brief summary of the classification and treatment of Claims and Interests and the consideration distributable to the holders of such Claims and

Interests under the Plan. The information set forth in the tables is for convenience of reference only. Each holder of a Claim or Interest should refer to Articles III, IV, and V of the Plan and the Liquidation Analysis annexed as Exhibit B hereto for a full understanding of the classification and treatment of Claims and Interests provided under the Plan. **THE ESTIMATES SET FORTH IN THESE TABLES MAY DIFFER FROM ACTUAL DISTRIBUTIONS BY REASON OF, AMONG OTHER THINGS, VARIATIONS IN THE ASSERTED OR ESTIMATED AMOUNTS OF ALLOWED CLAIMS AND THE EXISTENCE OF DISPUTED CLAIMS. STATEMENTS REGARDING PROJECTED AMOUNTS OF CLAIMS OR DISTRIBUTIONS (OR THE VALUE OF SUCH DISTRIBUTIONS) ARE ESTIMATES BY THE DEBTORS BASED ON CURRENT INFORMATION AND ARE NOT REPRESENTATIONS AS TO THE ACCURACY OF THESE AMOUNTS.** Unless otherwise noted, these estimates are as of February 4, 2010. For an explanation of the basis for the limitations and uncertainties regarding these calculations, see Article VIII ("Certain Risk Factors to Be Considered"), below.

UNIMPAIRED CLASSES OF CLAIMS AND EQUITY INTERESTS:			
CLASS	**TYPE OF CLAIM OR EQUITY INTEREST**	**ESTIMATED ALLOWABLE AMOUNT**	**TREATMENT UNDER THE PLAN**
Unclassified	BofA Claims	$0	To the extent that as of the Effective Date any Letter of Credit is outstanding, nothing in the Plan will affect the BofA Master Agreement, BofA Claims and/or the liens securing the BofA Claims and the BofA Master Agreement, the BofA Claims and related liens will survive the Plan and be treated, satisfied, and/or released (as applicable) in the ordinary course pursuant to the terms of the BofA Master Agreement.
Unclassified	Administrative Expense Claims	$3.3 million	Except to the extent that a holder of an Allowed Administrative Expense Claim agrees to different treatment, on, or as soon as is reasonably practicable after, the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date an Administrative Expense Claim becomes an Allowed Claim, the holder of such Allowed Administrative Expense Claim will receive Cash in an amount equal to such Allowed Claim; provided, however, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business by the Debtors, as debtors in possession, may be paid by the Debtors in the ordinary course, consistent with past practice and in accordance with the terms and subject to the conditions of any orders or agreements governing, instruments evidencing, or other documents relating to, such transactions.
Unclassified	Fee Claims	$1.3 million[2]	A Fee Claim in respect of which a final fee application has been properly filed and served pursuant to Section 3.3(a) of the Plan will be payable to the extent approved by order of

2 The estimate of Professional Fees is as of the Effective Date.

UNIMPAIRED CLASSES OF CLAIMS AND EQUITY INTERESTS:			
CLASS	**TYPE OF CLAIM OR EQUITY INTEREST**	**ESTIMATED ALLOWABLE AMOUNT**	**TREATMENT UNDER THE PLAN**
			the Bankruptcy Court. Subject to the Holdback Amount, on the Effective Date, or as soon thereafter as reasonably practicable, to the extent not otherwise paid, all Allowed Professional Fees (including estimated fees through the Effective Date) will be paid in full in Cash. To receive payment on the Effective Date for unbilled fees and expenses incurred through the Effective Date, each Professional will reasonably estimate fees and expenses due for unbilled fees and expenses for periods that will not have been billed as of the Effective Date and will deliver such estimates to the Debtors and the U.S. Trustee prior to the Effective Date.
Unclassified	U.S. Trustee Fee Claims	n/a	On the Effective Date or as soon as reasonably practicable thereafter, the Debtors will pay all U.S. Trustee Fees that are due and owing on the Effective Date.
Unclassified	Priority Tax Claims	$900,000	Except to the extent that a holder of an Allowed Priority Tax Claim agrees to less favorable treatment, each holder of an Allowed Priority Tax Claim will receive, in the Debtors' discretion, either (a) on, or as soon thereafter as is reasonably practicable, the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date a Priority Tax Claim becomes an Allowed Claim, Cash in an amount equal to such Allowed Claim, or (b) deferred Cash payments following the Effective Date, over a period ending not later than five (5) years after the Petition Date, in an aggregate amount equal to the Allowed amount of such Priority Tax Claim; provided, however, that all Allowed Priority Tax Claims that are not due and payable on or before the Effective Date will be paid in the ordinary course of business as such obligations become due.
1	Priority Non-Tax Claims	$4.7 million	Except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to less favorable treatment, on, or as soon as is reasonably practicable after, the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date a Priority Non-Tax Claim becomes an Allowed Claim, the holder of such Allowed Priority Non-Tax Claim will receive Cash in an amount equal to such Allowed Claim.
2	Other Secured Claims	$10,000	Except to the extent that a holder of an Allowed Other Secured Claim agrees to different treatment, on or as soon as is reasonably practicable after the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date an Other Secured Claim becomes an Allowed Claim, the holder of each Other Secured Claim will release any and all liens against and security interests in the Debtors' (and the Estates') property held by the Prepetition Lenders and the holder of an Allowed Other Secured Claim will receive, at the election of the Debtors: (i) Cash in an amount equal to such Claim; or (ii) such other

UNIMPAIRED CLASSES OF CLAIMS AND EQUITY INTERESTS:			
CLASS	**TYPE OF CLAIM OR EQUITY INTEREST**	**ESTIMATED ALLOWABLE AMOUNT**	**TREATMENT UNDER THE PLAN**
			treatment such that it will not be impaired pursuant to section 1124 of the Bankruptcy Code; provided, however, that Allowed Other Secured Claims incurred by a Debtor in the ordinary course of business may be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto, in the discretion of the applicable Debtor or the Liquidating Companies, without further notice to or order of the Bankruptcy Court. Each holder of an Allowed Other Secured Claim will retain the liens securing its Allowed Other Secured Claim as of the Effective Date until full and final satisfaction of such Allowed Other Secured Claim is made as provided in the Plan. Notwithstanding anything in the Plan to the contrary, upon the full payment or other satisfaction of such obligations, the liens securing such Allowed Other Secured Claim will be deemed released, terminated and extinguished, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person.
3	Insurance Claims	n/a	Except to the extent that a holder of an Allowed Insurance Claim agrees to different treatment, each holder of an Allowed Insurance Claim will be paid 100% of the unpaid Allowed amount of such Claim in Cash, solely from any proceeds available under applicable Insurance Policies or programs, in each case as funded by third parties. If and to the extent the allowed amount of such Allowed Claim is not entitled to be paid in full under the applicable Insurance Policy, such portion not entitled to proceeds available under the Applicable Insurance Policies will be treated as a General Unsecured Claim or as a Claim in such other Class as is applicable.
5	VCHI Acquisition General Unsecured Claims	$0	Except to the extent that a holder of an Allowed VCHI Acquisition General Unsecured Claim agrees to different treatment, on or as soon as is reasonably practicable after the later of the Effective Date and the first Business Day after the date that is thirty (30) calendar days after the date a VCHI Acquisition General Unsecured Claim becomes an Allowed Claim, each holder of an Allowed VCHI Acquisition General Unsecured Claim will receive Cash in an amount equal to such Allowed VCHI Acquisition General Unsecured Claim.
7	VCHI Acquisition Equity Interests	n/a	The holders of VCHI Acquisition Equity Interests will retain their Interests in VCHI Acquisition Co. and will be entitled to the residual value of VCHI Acquisition Co., following satisfaction in full of the Allowed VCHI Acquisition General Unsecured Claims.

IMPAIRED CLASSES OF CLAIMS AND EQUITY INTERESTS:			
CLASS	**TYPE OF CLAIM OR EQUITY INTEREST**	**ESTIMATED ALLOWABLE AMOUNT**	**TREATMENT UNDER THE PLAN**
4	General Unsecured Claims	$133 million	Each holder of an Allowed General Unsecured Claim will receive, on account of such Allowed Claim, on the Initial Distribution Date and each Subsequent Distribution Date, as applicable in accordance with Section 8.4 of the Plan, Cash in the amount of such holder's Pro-Rata Share of the Distributable Cash in the Claims Distribution Fund.
6	Operating Debtors' Equity Interests	n/a	Each holder of an Equity Interest in Value City will receive no Distribution on account of such Equity Interest. All Interests in Value City will be deemed canceled as of the Effective Date. All holders of Equity Interests in Value City will be deemed to have rejected the Plan. All Equity Interests in the Operating Debtors other than Value City, will not be canceled, and will continue in place following the Effective Date, solely for the purpose of maintaining the existing corporate structure of the Debtors and the Liquidating Companies. If and to the extent the terms of the immediately preceding sentence are not approved by the Bankruptcy Court, and Equity Interests in the Operating Debtors other than Value City are required to be canceled, then such Operating Debtors (other than Value City) will issue such new common stock, to the Liquidating Companies that are the successors to the Operating Debtor holders of such Equity Interests, as may be required to maintain through the Liquidating Companies the existing corporate structure of the Debtors.
8	Other Interests	n/a	On the Effective Date, all Other Interests will be cancelled. Holders of Other Interests will not receive or retain any distribution under the Plan on account of such Other Interests.

ARTICLE II.

BACKGROUND

A. Overview of the Debtors' Business

As of the Petition Date, the Debtors (collectively, the "Company") operated as a full-line, value-price retailer carrying men's, women's and children's apparel, accessories, jewelry, shoes, home fashions, electronics and seasonal items. The Company (and its predecessors) operated stores in the Midwest, Mid-Atlantic and Southeastern United States for more than 80 years. The Company's stores were traditionally filled with a wide assortment of designer, department, discount and specialty store deals at prices substantially lower than competing department and discount stores. In recent years, the Company operated in an increasingly competitive discount retail market that included stores such as TJ Maxx, Burlington Coat Factory, Big Lots, Kmart, and Marshall's. The Company strove to separate its businesses from their competition by offering name brand products at value-based discount prices -- offering inventory for at least 30 to 40 percent below regular department store prices. These brand names included Black and Decker, Sunbeam, Calphalon, Sanyo, RCA, Rubbermaid, Cuisinart, Kitchen Aid, Nike, New Balance, Rockport, Liz Claiborne, Calvin Klein, Joseph Abboud, Vidal Sassoon, Hanes and many others.

B. Corporate Structure

The predecessor of the current Company first opened its doors in Columbus, Ohio, in 1917. From 1917 through the initial public offering of Value City Department Stores, Inc. ("VCDSI") on June 18, 1991, the Company's predecessor operated as a division of Schottenstein Stores Corporation ("SSC"). VCDSI went public on the New York Stock Exchange in 1991.

In October 2003, as a result of a corporate restructuring of SSC, VCDSI became a wholly-owned subsidiary of Retail Ventures, Inc. ("RVI"), which then owned the Filenes Basement and DSW Shoes retail chains and was indirectly partially owned by SSC. The restructuring was completed through a merger with RVI, in which common shares of VCDSI were exchanged for an identical number of common shares of RVI. In December, 2004, another corporate reorganization was completed, whereby, VCDSI merged with and into Value City Department Stores, LLC ("VCDS"), a newly created and wholly-owned subsidiary of RVI.

On January 23, 2008, VCHI Acquisition Co. ("VC Acquisition"), one of the Debtors, a newly formed entity owned by VCDS Acquisition Holdings, LLC, Emerald Capital Management LLC and Crystal Value, LLC, acquired an indirect 81% interest in VCDS from RVI (the "VCDS Acquisition"). RVI continues indirectly to own 19% of VCDS. To facilitate the change in ownership and operation of VCDS, RVI agreed to provide or arrange for the provision of certain transition services principally related to information technology, finance and human resources to the Company for a period of one year, subject to extension by agreement of the parties (the "Transition Services Agreement"). After the acquisition, VCDS continued to operate under the "Value City" name and all related trademarks and trade names were transferred as part of the VCDS Acquisition. A detailed chart depicting the Company's corporate structure as of the Petition Date is annexed hereto as Exhibit C.

C. Description of the Company's Business and Products

1. Business Segment and Revenue

The Company operated as "Value City Department Stores," with its main operations conducted out of its headquarters in Columbus, Ohio and its buying offices in New York, New York. As of October 15, 2008, the Company employed over 4,500 employees, over 4,000 of whom were hourly employees, and a small percentage of whom were union members. Further, as of the Petition Date, the Company operated out of sixty-six open stores in Delaware, Georgia, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, two distribution centers (a Flat Apparel Distribution Center and a Hanging Apparel Distribution Center), and five warehouses. Eighteen additional stores and warehouses were "dark," and the related leases were being marketed to potential assignees, prior to the commencement of these cases.

The Company's business was subject to substantial seasonal variations. Historically, the Company had realized a significant portion of its net sales for the year during the third and fourth quarters (i.e., surrounding the "back to school" and holiday seasons). The quarterly results of operations, however, fluctuated significantly as a result of a variety of other factors affecting sales. A substantial portion of these recorded losses relate to the acceleration of rent obligations with respect to "dark" stores as well as additional expenses incurred in connection with closing the stores (e.g., severance payments), as opposed to actual operating losses.

For the seven months ending August 31, 2008, the Company recorded net sales of approximately $288,542,992, and incurred net losses of $70,041,247.

2. Store Operations

As of the Petition Date, the Company's stores were open seven days a week, generally from 10:00 a.m. to 9:00 p.m. Monday through Saturday and 11:00 a.m. to 6:00 p.m. on Sunday, unless affected by local laws.

3. Products and Merchandising

As of the Petition Date, the Company's stores offered a wide-range of products and merchandise, ranging from women's, men's, and children's apparel and shoes to bath and body products, toys, and home electronics. The Company's inventory was made up of (i) current fashion and recognizable brand names, and (ii) opportunistic merchandise available at significantly less than the cost to the original retailer. These branded special buys provided a reason for customers to shop frequently at the Company's stores in order to take advantage of the latest values.

The Company's retail product mix, as of April 2008, was as follows:

- **Shoes (18.1% of total)** - Footwear in men's, women's and children's sizes.
- **Men's Apparel (17.9%)** - Dress shirts, suits, pants, knits, neckwear, sportswear, swimwear and related accessories in men's sizes and styles.
- **Ladies' Apparel (13.1%)** - Dresses, bottoms, tops, suits, knits, sportswear, swimwear and related accessories in women's sizes and styles.
- **Domestics (11.2%)** - Decorative pillows, luggage, bath products, bedding, towels, window coverings, area rugs and kitchen supplies.
- **Housewares (10.5%)** - Home décor items, plastics, small appliances, food preparation units, tabletop accessories, wallpaper and pet supplies.
- **Entertainment (9.3%)** - Toys, sporting goods, food, electronics, cards, gift supplies and other small items available in checkout lines.

- **Children's Apparel (7.0%)** - Basic apparel in boys' and girls' sizes as well as infant and toddler clothing.

- **Jewelry (6.9%)** - Watches, gold jewelry, diamonds, giftware, eyewear, gemstones, sterling silver items and costume jewelry.

- **Others (5.9%)** - Other merchandise categories included seasonal products, cosmetics, intimate apparel and hosiery.

The Company had developed a centralized merchandise procurement system, rather than having each store responsible for purchasing its merchandise. Beginning in 2005, the Company initiated a new merchandising strategy in an effort to revitalize the business. This strategy placed a greater emphasis on ensuring that current fashion from recognized brands was in stock on a regular basis. Historically, opportunistic buys accounted for a substantial amount of the Company's business. As of 2007, the Company believed opportunistic buys were about one-half of the mix; however, the Company's goal was to drop that percentage to 35%, with the remainder of the mix being pre-planned. The Company believed that the change in strategy would make it easier to satisfy the needs of customers, as the new approach would provide the Company with greater control over the selection, sizing, quality, consistency and fashion timeliness of its inventory. The women's and men's departments were the first to implement the new merchandising strategy in 2005, and other departments, such as the children's and home fashion areas, were integrated in the later half of 2006 and completed as of February 2007.

Additionally, in the last few years, the Company implemented assortment planning and space management initiatives to maximize productivity. In an effort to build complete assortments while continuing to provide great value, the Company expanded its exclusive brand program using its and RVI's own private label brands, such as Leslie Fay, F.R. Trippler and Outdoor Outfitters. By utilizing such programs, the Company had the ability to design and coordinate its fashion assortments, thus controlling all aspects of the design process. By 2007, the private label business had grown substantially.

4. Product Procurement and Distribution

Prior to the Petition Date, the Company purchased merchandise from more than 3,000 suppliers, none of which accounted for a material percentage of purchases. In recent years, the Company began to seek advantageous buying opportunities and sources overseas.

The Company employed several different purchasing strategies. One methodology was planned purchasing of brand name goods, which occurred in advance of the targeted season, and as discussed above, represented a growing portion of the Company's overall merchandising needs. The Company also purchased in-season merchandise opportunistically during the selling season when merchandise presented itself and the cost of the acquisition allowed for sufficient markup. Further, the Company purchased overstocked and overproduced items from manufacturers and other retailers, including end-of-season, out-of-season and end-of-run merchandise and manufacturers' slight irregulars. Finally, from time to time, the Company purchased all or substantially all of the inventories of financially distressed retailers and made other special purchases such as "packaway" merchandise.

Prior to the Petition Date, overstock and packaway merchandise were stored in the Company's distribution centers located in the Columbus, Ohio. It also used third-party logistics companies to supplement its distribution centers when necessary. The Company managed the distribution process centrally from its corporate headquarters, utilizing an automatic replenishment system, whereby inventory restocking was triggered by actual sales rather than relying upon long-range forecasts and safety stock buffers. Store shipments were based on a monthly and seasonal model, adjusted for current and projected business results provided by the corporate allocation department. The store shipping strategy aimed to provide a frequent, fresh supply of recently purchased and allocated merchandise to the stores via multiple (store) destination truckloads.

While the Company was operating, outbound deliveries were primarily executed via a private fleet of leased tractors and trailers operated by the Company's drivers. Additional delivery capacity needs caused by sales and seasonal volume surges were filled by contracting with trip-lease and single-lease carrier providers.

5. Advertising and Customer Programs

The Company used its advertising programs in an attempt to communicate, build and strengthen the "Value City" brand. The Company had a multi-tiered marketing campaign which sought to broaden its reach by utilizing a more diversified mix of marketing through print (primarily circulars), television, radio, and direct mail and email marketing. The Company focused its advertising programs during key selling seasons such as spring/summer, back-to-school and holidays. In addition to seasonal promotions, the Company advertised weekly storewide sales events, highlighting recent buy-outs and other specially purchased brand name merchandise designed to maximize customer interest.

Further, the Company sought to develop and sustain a positive reputation in the marketplace as well as to increase the size of the Company's customer database of mail and email addresses through the implementation of a number of customer programs, including but not limited to a loyalty card program, a private label credit card, gift cards, store credits, and a warranty program for electronics products.

D. Real Estate

As of the Petition Date, the Company operated out of sixty-six leased stores in Delaware, Georgia, Illinois, Indiana, Kentucky, Maryland, Michigan, Missouri, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia and West Virginia, two distribution centers (a Flat Apparel Distribution Center and a Hanging Apparel Distribution Center), and five warehouses. The Company leased its corporate headquarters which, prior to February 2009, was located at 3241 Westerville Road in Columbus, Ohio.[3] Eighteen additional stores and warehouses were "dark," and the related leases were being marketed to potential assignees, prior to the commencement of

[3] Following the Petition Date, the Debtors' corporate headquarters was relocated to a smaller space located at 2720 Airport Drive, Suite 100 in Columbus, Ohio. The Debtors no longer operate out of a corporate headquarters.

these Chapter 11 Cases. Further, the Company owned one store located at 2700 S. Arlington Road, Akron, Ohio.

The Company's stores averaged approximately 88,000 square feet, with approximately 75% of the total area of each store representing selling space. The Company's leases provided for original lease terms that generally ranged from 10 to 20 years and most of the leases provided for one or more renewal options ranging from five to 20 years in total. Most of the Company's leases required it to pay costs such as real estate taxes and common area maintenance costs. As of February 3, 2007, the Company operated out of one hundred thirteen stores, all, with the exception of one, located in leased facilities. Of the one hundred and thirteen stores, thirty-two were freestanding, fifty-six located in shopping centers and twenty-five were located in enclosed malls.

After several months of declining profits, in late 2007, RVI announced that it was pursuing strategic alternatives for the reorganization of VCDS. As part of this reorganization effort, VCDS and certain of its affiliates entered into an agreement (as amended, the "Burlington Lease Acquisition Agreement") with Burlington Coat Factory Warehouse Corporation and certain of its affiliates (collectively, "Burlington") and SSC to assign or sublease up to 24 store locations, with the affected stores to close their operations on or before the end of March 2008 (as amended, the "Burlington Transaction"). The March 2008 date was subsequently extended for several stores where (a) Burlington and VCDS so agreed in writing prior to December 31, 2007, and/or (b) litigation arising out of disputes with landlords under the leases precluded closing by the applicable closing date. The aggregate purchase price for the Burlington Transaction was $24 million, which price was allocated and discounted among the various locations pursuant to agreed schedules.

At the same time, through an agreement with Tiger Capital Group, LLC ("Tiger"), a nationally recognized liquidator and financial consultant, the Company commenced store-closings, liquidations and/or other promotional type sales ("GOB Sales") at the vast majority of stores covered by the Burlington Transaction. As of the Petition Date, only two locations that were part of the Burlington Transaction had yet to be taken over by Burlington.

E. Summary of Prepetition Indebtedness

As of the Petition Date, the Debtors' debt structure consisted of the following:

1. Prepetition Credit Facility

Certain of the Debtors were parties to that certain Credit and Security Agreement (as amended, the "Prepetition Credit Agreement"), dated as of January 23, 2008, by and among VCDS, as the Lead Borrower, Gramex Retail Stores, Inc., Value City of Michigan, Inc., GB Retailers, Inc., and Retail Ventures Jewelry, Inc., as Borrowers (the "Borrowers"); Value City Holdings, Inc., J.S. Overland Delivery, Inc., and Value City Department Stores Services, Inc., as Guarantors (the "Guarantors"); National City Business Credit, Inc., as Administrative Agent and Collateral Agent ("National City" and/or the "Agent"); Wells Fargo Retail Finance, LLC, as Co-Agent (the "Co-Agent"); National City Bank, as L/C Issuer and Lead Arranger ("NCB"); and certain other lenders (together with National City and NCB, the "Prepetition Lenders").

The Prepetition Credit Agreement consisted of two components: (a) a revolving credit facility of up to $75 million with a borrowing base tied to certain credit card receivables and eligible inventory (the "Prepetition Revolver"); and (b) certain letters of credit not to exceed $20 million in the aggregate (the "Prepetition L/Cs").

Amounts outstanding under the Prepetition Credit Agreement were secured by a first priority security interest in all or substantially all of each of the Borrowers' and Guarantors' (a) accounts; (b) inventory; (c) equipment and fixtures; (d) other goods; (e) general intangibles, payment intangibles and intellectual property; (f) investment property and security entitlements; (g) deposit accounts, and monies credited by or due from any financial institution or any other depository; (h) rights as a consignor, consignee, unpaid vendor, mechanic, artisan or other lienor, including stoppage in transit, setoff, detinue, replevin, reclamation and repurchase; (i) instruments, letter of credit rights, supporting obligations, documents, policies and certificates of insurance, choses in action, and chattel paper; (j) certain commercial tort claims; (k) accessions to, substitutions for, and all replacements, products and proceeds of property, including proceeds of insurance policies insuring such property, and proceeds of any insurance, indemnity, warranty or guaranty; (l) books, records, and other property (including credit files, programs, printouts, computer software (owned by such person or in which it had an interest), and disks, magnetic tape and other magnetic media, and other materials and records) pertaining to any such above-referenced property; and (m) to the extent not otherwise included above, other tangible and intangible personal property (collectively (a)-(m), the "Prepetition Collateral").

As of October 19, 2008, approximately $26 million was outstanding under the Prepetition Revolver, and approximately $10.5 million in Prepetition L/Cs had been issued. As further discussed in Section IV.A.6 herein, the Debtors' obligations under the Prepetition Credit Agreement have been satisfied, the Prepetition Credit Agreement has been terminated, and the Prepetition L/Cs have been drawn or replaced.

2. Trade Debt

As of the Petition Date, the Company also had current liabilities consisting of, among other things, accounts payable and accrued expenses, including accounts payable to vendors who sold merchandise to the Company for sale in its stores. As an operator of a chain of department stores, the Company purchased inventory from over 1,000 vendors. As of October 31, 2009, the aggregate amount of the Company's accounts payable was approximately $43.6 million. The 50 largest unsecured claims accounted for approximately $22.3 million of the total accounts payable.

ARTICLE III.

EVENTS LEADING TO THE CHAPTER 11 CASES

Prior to the commencement of these cases, the Company had experienced declining sales and profitability over the last several years. Beginning in the last quarter of 2007, RVI announced that it was exploring alternatives for the restructuring of the Company and instituted a long-term turnaround plan designed to grow sales and improve store productivity and thereby improve profitability and cash flow. This plan included the closure of several stores in an effort to significantly cut back on operating costs, and to realize profits generated from the assignment of valuable leases and to eliminate burdensome arrangements. Since December 2007, the Company closed numerous stores across the country through a series of out of court GOB Sales. As part of this process, as discussed in further detail above, the Company entered into the Burlington Transaction for the assignment and/or sublease of approximately twenty-four store leases, realizing over $24 million in value for the Company. Further, through arrangements with lessors and other third parties, certain of the Company's lease obligations were terminated, reducing the Company's costs.

In early 2008, RVI sold 81% of its interest in the Company as part of the VCDS Acquisition. The VCDS Acquisition was intended to permit the Company to eliminate certain inter-company debt (e.g., RVI cancelled an existing $34,441,000 promissory note payable by VCDS to RVI and intercompany balances were eliminated), and to conduct an operational restructuring under new management. During the first half of 2008, the Company's new management initiated an operational restructuring through the closing of an additional thirty-six stores, the purchasing of designer name merchandise for sale throughout the Company's stores, and the repayment of outstanding obligations that significantly threatened the Company's operational capabilities at that time.

During the summer of 2008, in an effort to continue its operational restructuring, the Company sought to obtain additional financing under the Prepetition Credit Agreement and to increase its revolving loan borrowing limit to $90 million (the "Prepetition Credit Agreement Amendment"). As part of these negotiations, the Company was required to increase its liquidity, which the Company accomplished through the sale of a number of leases, including certain arrangements with affiliates of SSC in which the purchaser licensed back to the Company the rights to operate the relevant stores. The gross purchase price for the sale of the Company's leases was approximately $20 million, which significantly increased the Company's liquidity and facilitated the execution of the Prepetition Credit Agreement Amendment. Unfortunately, these financing transactions coincided with a variety of external economic factors which led to a significant decline in the Company's profitability and liquidity.

Among those external factors were declines in the housing market and the tightening of the credit markets, which led to a decline in consumer discretionary spending and tightening of credit terms by the Company's suppliers and factors. The decline in consumer discretionary spending, coupled with increasing gasoline prices and increasing unemployment rates, decimated the Company's core market. Without sufficient liquidity, the ability of the Company to maintain an uninterrupted flow of merchandise into the stores and to service its debt under the Prepetition Credit Agreement was severely negatively impacted. Because availability under the Prepetition Credit Agreement was tied to, among other things, the level of inventory maintained by the Company in its stores and distribution centers, and its ability to purchase additional inventory was tied to its credit terms, the Company was unable to maintain sufficient levels of inventory for its operations to continue at profitable levels.

Due to the constriction or elimination of existing trade credit and restrictions on availability under their Prepetition Credit Agreement, the Company was unable to replenish inventory in its stores and continue to pay operating expenses. Defaults under the Prepetition

Credit Agreement left the Company with no access to capital to purchase new merchandise for its stores.

After several weeks of negotiations, on September 25, 2008, the Debtors entered into a forbearance agreement (the "Forbearance Agreement") with the Agent, pursuant to which the Prepetition Lenders, the Agent, and the Co-Agent agreed to forbear from exercising certain of their rights in respect of certain defaults and events of default existing under the Prepetition Credit Agreement. Pursuant to the terms of the Forbearance Agreement, the Debtors agreed to conduct GOB Sales at an additional twenty-nine stores, and to comply with an agreed budget. Shortly thereafter, worldwide credit and equity markets experienced virtually unprecedented declines, and the resulting decline in consumer confidence negatively impacted sales throughout the retail industry. Partially as a result of these factors, the Debtors were unable to maintain the revenue levels necessary to comply with the Forbearance Agreement, and the Prepetition Lenders notified the Debtors on October 13, 2008, that the Debtors were in default under the Forbearance Agreement. On October 10, 2008, the Prepetition Lenders informed the Debtors that they would immediately cease honoring checks issued by the Debtors for merchandise purchases. The Debtors immediately ceased all purchasing activity for new merchandise, convened a meeting of significant creditors to discuss the situation, accelerated their program for liquidation and the GOB Sales, and, on October 26 and 27, 2008, commenced the Chapter 11 Cases.

Absent the commencement of the Chapter 11 Cases, the Debtors would have faced a potentially insurmountable liquidity crisis, may have been subject to remedies exercisable by the Prepetition Lenders and would not have been able to purchase necessary merchandise and pay required expenses in the ordinary course. As a result of the filing of the Chapter 11 Cases, the Debtors achieved access to the necessary liquidity, through the DIP Facility.

ARTICLE IV.

THE CHAPTER 11 CASES

A. Continuation of the Businesses After the Petition Date

1. General Case Background

On October 26, 2008,[4] the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 23) authorizing the joint administration of the Chapter 11 Cases, for procedural purposes only, under Case No. 08-14197 (JMP). The Honorable James M. Peck is presiding over the Chapter 11 Cases. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. As of the date hereof, no request has been made for the appointment of a trustee or examiner in these cases.

[4] Retail Ventures Jewelry, Inc. and VCHI Acquisition Company filed petitions for relief under chapter 11 of the Bankruptcy Code on October 27, 2008.

The following is a general summary of the Chapter 11 Cases, including, without limitation, the administration of the Chapter 11 Cases and the orderly wind-down of the Debtors' operations following the chapter 11 filings.

2. Employment and Compensation of Professionals

The Debtors filed retention applications for certain professionals to represent and assist them in the administration of the Chapter 11 Cases. Many of these professionals were intimately involved in the various sales of the Debtors' assets and with negotiating and developing the terms of the Plan, and all of these professionals will continue to provide vital services throughout the duration of the Chapter 11 Cases.

(a) *Willkie Farr & Gallagher LLP*

To assist them in carrying out their duties as debtors in possession, and to otherwise represent their interests in the Chapter 11 Cases, the Debtors, on October 27, 2008, filed with the Bankruptcy Court an application (Docket No. 5) seeking entry of an order authorizing the Debtors to retain Willkie Farr & Gallagher LLP as their counsel. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 155) approving the application.

(b) *Epiq Bankruptcy Solutions, LLC*

On October 27, 2008, the Debtors filed with the Bankruptcy Court an application (Docket No. 7) seeking entry of an order authorizing the Debtors to retain Epiq Bankruptcy Solutions, LLC as the Debtors' claims, noticing, and balloting agent. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 34) approving the application.

(c) *Verdolino & Lowey, P.C.*

On November 19, 2008, the Debtors filed with the Bankruptcy Court an application (Docket No. 157) seeking authority to retain Verdolino & Lowey, P.C. as tax and financial Services consultants. On December 5, 2009, the Bankruptcy Court entered an order (Docket No. 236) granting the application.

(d) *Hilco Real Estate, LLC*

On November 25, 2008, the Debtors filed with the Bankruptcy Court an application (Docket No. 194), seeking authority to employ Hilco Real Estate, LLC ("Hilco") as real estate consultants. On December 11, 2008, the Bankruptcy Court entered an order (Docket No. 259) granting the application.

(e) *Clingman & Hanger Management Associates, LLC*

On February 13, 2009, the Debtors filed with the Bankruptcy Court an application (Docket No. 460), seeking authority to retain W. Edward Clingman, Jr., as the Debtors' Chief Wind-Down Officer ("CWO") and Clingman & Hanger Management Associates, LLC ("C&H"), to provide personnel necessary to assist the CWO in managing the wind-down of the Debtors' businesses (together with the CWO, the "C&H Personnel"). On March 5, 2009, the Bankruptcy Court entered an order (Docket No. 500) granting the application.

(f) *Ordinary Course Professionals*

In addition, the Debtors, on October 27, 2008, filed with the Bankruptcy Court a motion (Docket No. 9) seeking authority to employ approximately five professionals utilized in the ordinary course to assist the Debtors in their day-to-day business operations. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 153) approving the motion. Since that time, the Debtors have filed supplemental notices regarding the retention of two additional professional firms in the ordinary course.

(g) *Storch Amini & Munves PC*

On June 30, 2009, the Debtors filed with the Bankruptcy Court an application (Docket No. 678), seeking authority to retain Storch Amini & Munves PC ("SAM") as special litigation counsel to investigate, pursue and prosecute certain preferential transfers, in accordance with sections 547 and 550 of the Bankruptcy Court. On August 12, 2009, the Bankruptcy Court entered an order (Docket No. 728) granting the application.

(h) *Interim Compensation Procedures*

On October 27, 2008, the Debtors filed a motion (Docket No. 8) to establish procedures whereby certain retained professionals performing services directly related to the Chapter 11 Cases may receive a percentage of fees billed and expenses incurred for services performed upon proper application to the Bankruptcy Court. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 154) establishing procedures for the interim compensation and reimbursement of professionals during the Chapter 11 Cases.

3. Appointment of a Creditors' Committee

Pursuant to section 1102(a)(1) of the Bankruptcy Code, on November 3, 2008, the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed the Creditors' Committee to represent the interest of the Debtors' unsecured creditors. The Creditors' Committee retained Otterbourg, Steindler, Houston & Rosen, P.C. and SilvermanAcampora LLP, as its legal advisors and Traxi LLC as its financial advisor. The Bankruptcy Court has authorized the retention of each of the Creditors' Committee's professionals. The current members of the Creditors' Committee are set forth below:

National Janitorial Solutions, Inc. 14000 Commerce Parkway, Suite C Mt. Laurel, New Jersey 08054 Phone: (856) 762-0510 ext. 111 Attn: James H.B. Hoff	**Rosenthal & Rosenthal** 1370 Broadway New York, New York 10018 Phone: (212) 356-1438 Attn: Allan Spielman	**United Food and Commercial Workers Union Local 880 Mercantile Employers Joint Pension Fund** 282 Euclid Avenue Cleveland, Ohio 44115 Attn: Robert W. Grauvogl
Kimco Realty Corp.	**American Greetings**	**Nej, Inc.**

3333 New Hyde Park Road
New Hyde Park, New York 11047
Phone: (516) 869-2586
Attn: Ray Edwards

One American Road
Cleveland, Ohio 44144
Phone: (216) 252-7300
Attn: Art Tuttle

170 Pinesbridge Road
Beacon Falls, Connecticut 06403
Phone: (203) 463-3301
Attn: Ed Mascolo

Graphic Communications Holdings, Inc.
16-B Journey
Aliso Viejo, California 92656-3317
Phone: (949) 215–9388
Attn: Gerald Nonaka

San Malone Enterprises, Inc.
19865 East Harrison Avenue
City of Industry, California 91789
Phone: (909) 594-1112
Attn: Lewis Jia

Federal Jeans, Inc.
1385 Broadway, 5th Floor
New York, New York 10018
Phone: (212) 302-5140
Attn: Eyal Ben-Yosef

Since its formation, the Creditors' Committee has played an active and important role in the Chapter 11 Cases. The Debtors have consulted with the Creditors' Committee on a regular basis concerning all aspects of the Chapter 11 Cases. The Debtors have kept the Creditors' Committee informed about their operations, the store closing process, and the success of the GOB Sales. Indeed, the Creditors' Committee has, together with the Debtors' management and advisors, participated actively in the Debtors' liquidation efforts. Additionally, the Debtors have met regularly with and have made documents available to the Creditors' Committee and its advisors on a myriad of occasions in connection with the development of the Debtors' strategy to sell their assets, the rejection of their leases, and the negotiation of the Plan.

4. Customary "First Day" Orders

(a) *Employment Obligations*

In an effort to retain valued employees and ensure that the Debtors continued to conduct GOB Sales at their stores with minimal disruption, on October 27, 2008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 10) for an order authorizing the Debtors to pay certain prepetition employee wage and benefits obligations. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 31) approving the motion. The approval and implementation of these wage and benefit programs were a critical first step to minimize the personal hardship that the Debtors' employees would have suffered if certain prepetition employee-related obligations were not paid, and to maintain the employee morale which was critical to the successful completion of the GOB Sales.

(b) *Cash Management*

The Debtors believed it would have been disruptive to their operations and the GOB Sales if they were forced to significantly modify their cash management system upon the commencement of the Chapter 11 Cases. Accordingly, on October 27, 2008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 11) seeking entry of an order authorizing the Debtors to maintain their cash management system. On October 27, 2008, the Bankruptcy Court entered an interim order (Docket No. 30) authorizing the Debtors to maintain their current cash management system on an interim basis. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 151) approving the motion on a final basis.

(c) *Customer Programs*

The Debtors believed that maintaining customer programs, such as those pertaining to gift cards and other store credits, return policies, and their warranty program, were necessary to preserve customer loyalty during the GOB Sales process. On October 27, 2008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 12) seeking entry of an order authorizing the Debtors to honor certain prepetition obligations related to the Debtors' customer programs. On October 27, 2008, the Bankruptcy Court entered an interim order (Docket No. 29) authorizing the Debtors to honor certain prepetition obligations on an interim basis. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 152) approving the motion on a final basis.

(d) *Utilities*

The Debtors believed that it was essential for them to maintain utility services in their stores, distribution centers, and the company headquarters during the GOB Sales. Therefore, on October 27, 3008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 13) for interim and final orders: (a) prohibiting utilities from altering or discontinuing services; (b) establishing procedures for establishing reserves for utility payments; (c) deeming utility companies to have adequate assurance of payment; and (d) establishing procedures for resolving requests for additional adequate assurance of payment. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 25) approving the motion on an interim basis. On November 19, 2008, the Bankruptcy Court entered an order (Docket No. 150) approving the motion on a final basis.

(e) *Insurance*

On October 27, 2008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 14) for an order authorizing the Debtors to pay any prepetition premiums, deductibles or fees related to insurance policies then in effect as were necessary to avoid cancellation, default, alteration, assignment, attachment, lapse or any form of impairment to the coverage, benefits or proceeds provided under such policies and to maintain the policies in current force and effect. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 27) approving the motion on a final basis.

(f) *Sales and Use Tax*

On October 27, 2008, the Debtors filed with the Bankruptcy Court a motion (Docket No. 15) seeking entry of an order authorizing the Debtors to pay all prepetition sales and use tax obligations to various state and local taxing authorities. On October 27, 2008, the Bankruptcy Court entered an order (Docket No. 31) granting the Debtors the authority to pay such prepetition taxes on a final basis.

5. <u>Obtaining Postpetition Financing</u>

On October 27, 2008, the Bankruptcy Court approved an interim order (Docket No. 36) authorizing the Debtors' interim use of postpetition financing and cash collateral (the "<u>Interim DIP Order</u>"). Pursuant to the Interim DIP Order, the Bankruptcy Court authorized the Debtors to borrow up to $40 million in postpetition loans pursuant to the DIP Credit Agreement and to use cash collateral (as defined in section 363(c)(2)(A) of the Bankruptcy Code) to permit the Debtors to continue to make ordinary course and other approved payments. Such relief was necessary for the Debtors to continue operating their businesses without disruption and to prevent interruption of the GOB Sales already in progress, which could have severely impeded the Debtors' ability to maximize returns for all creditors. Pursuant to the interim financing and cash collateral order, the DIP Lenders were granted first priority, valid, priming, perfected, and enforceable liens on substantially all of the Debtors' assets, and unavoidable liens and security interests in the cash collateral arising from the Debtors' use of such cash collateral.

On November 19, 2008, the Bankruptcy Court entered its Agreed Final Order Pursuant to 11 U.S.C. Sections 105, 361, 362, 363, 364 and 507 and Rules 2002, 4001, 9014, and 9019 of the Federal Rules of Bankruptcy Procedure (1) Authorizing Incurrence by the Debtors of Post-Petition Secured Indebtedness with Priority Over All Other Secured Indebtedness with Priority Over All Other Secured Indebtedness and with Administrative Super-Priority, (2) Granting Liens, (3) Authorizing Use of Cash Collateral by the Debtors Pursuant to 11 U.S.C. Section 363 and Providing for Adequate Protection, and (4) Modifying the Automatic Stay (Docket No. 147) (the "Final DIP Order"). Pursuant to the Final DIP Order, the Bankruptcy Court authorized the Debtors to obtain secured postpetition financing on a superpriority basis (the "DIP Facility") pursuant to the terms of the DIP Credit Agreement. The DIP Facility consisted of a senior revolving credit facility (the "Revolver") in a committed amount up to $40 million. Use of the Revolver was limited to (a) repayment of the funds outstanding under the Prepetition Credit Agreement and (b) general corporate purposes of the Debtors in accordance with an agreed budget, subject to permitted variances set forth in the DIP Credit Agreement. As of December 1, 2008, the Debtors had reduced the Revolver balance to zero and fully cash collateralized the Prepetition L/Cs.

The entry of the Final DIP Order and DIP Credit Agreement were without prejudice to the rights of the Creditors' Committee or any other party in interest with requisite standing (other than the Debtors) (a) to object to or challenge the findings in the Final DIP Order, including, but not limited to, those in relation to: (i) the validity, extent, perfection, or priority of the security interests and liens of the Prepetition Secured Lenders in and to the prepetition collateral, or (ii) the validity, allowability, priority, status or amount of the prepetition debt, or (b) to bring suit against the Prepetition Secured Lenders in connection with or related to the Prepetition Credit Agreement, or the actions or inactions of the Prepetition Secured Lenders arising out of or related to the Prepetition Credit Agreement. However, the Final DIP Order further provided that unless the Creditors' Committee or any other party in interest with the requisite standing commenced a contested matter or adversary proceeding raising such objection or challenge, against the Prepetition Secured Lenders, on or before March 3, 2009 (the "Challenge Period"), any and all such challenges and objections by any party would be forever waived and barred. No objections or actions were brought against the Prepetition Secured Lenders during the Challenge Period.

6. Termination of Prepetition Credit Agreement and DIP Facility and Entry into BofA Master Agreement

In May, 2009, the DIP Lenders indicated that they would not renew the Prepetition L/Cs upon their expiration. As a result, VCDS was forced to seek replacement letters of credit or bear the risk that the L/C Beneficiaries (as defined below) would draw on the Prepetition L/Cs prior to expiration as a preemptive measure. As a result, the Debtors negotiated and entered into the BofA Master Agreement. Pursuant to the BofA Master Agreement, BofA agreed to issue the Letters of Credit in face amounts equal to the remaining Prepetition L/Cs, and secured by a first priority, valid, perfected and enforceable lien on an account to be maintained at BofA and containing cash in an amount equal to BofA's aggregate commitment under the Letters of Credit plus certain additional amounts. On July 16, 2009, the Bankruptcy Court entered its Order (I) Terminating Debtors' Prepetition and Postpetition Secured Financing Facilities, Including (A) Terminating and Releasing Liens and Security Interests Granted in Connection Therewith, (B) Finding All Amounts Due in Connection with the Debtors' Prepetition and Postpetition Financing Facilities Have Been Paid in Full, and (C) Directing Lenders to Return Excess Funds to the Debtors; and (II) Authorizing Debtors to Enter into Credit Agreement with Bank of America, N.A., to Provide Substitute Letters of Credit Secured by Cash Collateral (Docket No. 708) (the "Termination Order"). Pursuant to the Termination Order, the Bankruptcy Court approved the termination of the Prepetition Credit Agreement and DIP Facility and all liens and security interests created thereunder, and authorized VCDS to cancel its outstanding Prepetition L/Cs, which secured VCDS's workers' compensation obligations to Travelers Indemnity Company ("Travelers") and the Ohio Bureau of Workers Compensation ("Ohio" and, together with Travelers, the "L/C Beneficiaries"). The Letters of Credit have an initial term of eighteen months, subject to automatic renewal every twelve months thereafter provided that VCDS deposits the projected amount of fees and expenses for the renewal term into the cash collateral account at least 135 days prior to expiration. The fees payable to BofA under the BofA Master Agreement are nearly 50% lower than the fees charged by NCB in connection with maintaining the Prepetition L/Cs. The Letters of Credit are fully cash collateralized. Shortly following the court's entry of the Termination Order, Ohio drew on the full amount of its Prepetition L/C. Accordingly, only two of the Prepetition L/Cs were ultimately replaced. As set forth in Section IV.A.7 below, VCDS intends to cancel the Letters of Credit pursuant to the Travelers Settlement (as defined below) and recover a portion of the cash collateral currently securing VCDS's obligations in connection with the Letters of Credit.

7. Reduction of Letters of Credit and Release of Cash Collateral

Prior to the VCDS Acquisition, RVI contracted with Travelers to administer certain workers' compensation and automobile liability claims incurred in the operation of retail chains by various RVI-owned entities, including certain of the Debtors and the operators of the Filene's Basement, Inc. and DSW Inc. retail chains (the "RVI Program"). The RVI Program effectively required Travelers to administer certain workers' compensation and automobile liability claims, which RVI would pay or reimburse to Travelers in exchange for fees and other payments. RVI's obligations to Travelers under the RVI Program were secured by letters of credit issued to Travelers by NCB, one of RVI's lenders.

In connection with the Sale, it appears that VC Acquisition and others may have attempted to separate VCDS's pre-VCDS Acquisition workers' compensation obligations from the broader RVI Program, and to rationalize the amount of the required collateral to VCDS's actual claims exposure, but that those attempts were unsuccessful. As a result, upon the closing of the VCDS Acquisition, VCDS became obligated for the entire $8,533,551 letter of credit (the "Pre-Sale L/C") previously issued in VCDS's name under the RVI Program. Because NCB, the issuer of the Pre-Sale L/C, was also a lender under the Prepetition Credit Facility, the required shift of collateral was accomplished by leaving the Pre-Sale L/C in place, and having VCDS assume the related reimbursement obligations to NCB under the Prepetition Credit Facility.

The Pre-Sale L/C secured VCDS's reimbursement obligations only in connection with its workers' compensation and automobile liability claims exposure for the period prior to the VCDS Acquisition. At the time of the VCDS Acquisition, VCDS also entered into an independent arrangement with Travelers with respect to certain workers' compensation and automobile liability obligations incurred following the date of the VCDS Acquisition (the "Post-Sale Program"). Those obligations were collateralized by a separate $1.1 million letter of credit (the "Post-Sale L/C"), issued to Travelers by NCB under the Prepetition Credit Facility. As additional security for VCDS's obligations under the Post-Sale Program, VCDS provided a $35,000 cash deposit to Travelers (the "Cash Deposit").

As set forth in Section IV.A.6 above, in August, 2009, the Prepetition L/Cs, including the Pre-Sale L/C and Post-Sale L/C, were cancelled and replaced by the Letters of Credit. One of the Letters of Credit replaced the Pre-Sale L/C (such Letter of Credit, the "Replacement Pre-Sale L/C"), and another replaced the Post-Sale L/C (such Letter of Credit, the "Replacement Post-Sale L/C" and, together with the Replacement Pre-Sale L/C, the "Replacement L/Cs").

During the pendency of the Chapter 11 Cases, VCDS and its professionals repeatedly attempted to address with Travelers and RVI its belief that the amounts of the Pre-Sale L/C and the Post-Sale L/C (and, subsequently, the Replacement L/Cs) significantly exceeded a rational valuation of the potential loss exposure related to VCDS's relevant workers' compensation and automobile liability claims. Accordingly, VCDS requested a reduction in Travelers' collateral requirements relating to the Pre-Sale L/C and Post-Sale L/C (and, subsequently, the Replacement Pre-Sale L/C and Replacement Post-Sale L/C).

In connection with its negotiations with Travelers, VCDS retained Oliver Wyman Actuarial Consulting, Inc. ("Oliver Wyman"), an independent actuary, to conduct an analysis of VCDS's exposure under the RVI Program and the Post-Sale Program. Oliver Wyman issued two reports, based on claims information as of June 30, 2009 and August 31, 2009. In both reports, Oliver Wyman concluded that the amounts of the Replacement Pre-Sale L/C and Replacement Post-Sale L/C significantly exceeded the actuarial value of VCDS's obligations under the RVI Program and Post-Sale Program, respectively.

In December 2009, VCDS and Travelers reached a settlement (the "Travelers Settlement") whereby Travelers would: (a) draw $3,133,058 on the Replacement Pre-Sale L/C in full and final satisfaction of VCDS's obligations under the RVI Program, and (b) draw $834,426 on the Replacement Post-Sale L/C and apply the Cash Deposit in satisfaction of VCDS's obligations under the Post-Sale Program. Following such draws on the Replacement L/Cs by Travelers, Travelers would return the Replacement L/Cs to BofA with instructions to cancel the Replacement L/Cs.

On December 28, 2009, the Debtors filed a motion seeking Bankruptcy Court approval of the Travelers Settlement [Docket No. 959] (the "Travelers Settlement Motion"). On January 28, 2010, the Bankruptcy Court entered an order approving the Travelers Settlement and granting the Travelers Settlement Motion. [On February [__], 2010, Bank of America, the issuer of the Replacement L/Cs, returned VCDS's remaining cash collateral, in the approximate amount of $5.6 million. The Debtors intend to use such cash to fund their obligations under the Plan.]

8. Visa/Mastercard Settlement

In October 1996, certain retailers and retail trade associations (the "V/MC Plaintiffs") commenced a series of lawsuits against Visa U.S.A. Inc. ("Visa") and MasterCard International Incorporated ("MasterCard" and, together with Visa, the "Defendants"), which were consolidated (the "Consolidated Action") in December 1996 by the United States District Court for the Eastern District of New York (the "Eastern District"). The V/MC Plaintiffs alleged, among other things, that Visa and MasterCard, individually, and in conspiracy with each other and with their member banks, violated the federal antitrust laws by: (i) forcing merchants accepting payment via Visa and/or MasterCard-branded credit cards also to accept Visa and/or MasterCard-branded debit cards for payment; and (ii) attempting to monopolize a market for general purpose point of sale debit cards. V/MC Plaintiffs asserted that, as a result of the Defendants' actions, merchants were forced to pay excessive fees on Visa and MasterCard signature debit and credit transactions and online PIN debit transactions, to the detriment of merchants, consumers, and competition in general. In February 2000, the Eastern District granted class certification to approximately four million merchants who had accepted Visa and/or MasterCard- branded credit cards (the "V/MC Class Members").

On June 4, 2003, the V/MC Plaintiffs entered into separate agreements (the "V/MC Settlement Agreements") with Visa and MasterCard to resolve the Consolidated Action. The V/MC Settlement Agreements were approved by order of the Eastern District, which order became final and nonappealable on June 1, 2005. Pursuant to the V/MC Settlement Agreements, MasterCard and Visa were required to make a series of annual payments totaling $3,050,000,000 into a settlement fund account, the proceeds of which were distributed to V/MC Class Members by counsel to the V/MC Plaintiffs or the claims administrator retained by such counsel (the "V/MC Claims Administrator"). In summer 2009, the V/MC Plaintiffs entered into separate agreements with the Defendants which permitted Visa and MasterCard to prepay remaining amounts under the V/MC Settlement Agreements. The Eastern District approved such prepayment agreements in late summer/early autumn 2009.

RVI, the former parent of VCDS, is a Class Member. RVI filed claims in the Consolidated Action on behalf of VCDS and other retail chains operated by RVI. On October 8, 2009, RVI and VCDS sent a joint letter to the V/MC Claims Administrator informing the V/MC Claims Administrator that VCDS and its subsidiaries had been sold by RVI in connection with the VCDS Acquisition, and authorizing the V/MC Claims Administrator to segregate any distribution on account of RVI's claim allocable to VCDS for transmittal to VCDS.

On November 6, 2009, the Eastern District authorized distribution of the remaining settlement funds. On December 7, 2009, the Debtors received a distribution of $1,484,162.58

from the V/MC Claims Administrator, in partial satisfaction of the VCDS's remaining share of RVI's claim against the Defendants.

B. The Chain-Wide Liquidation Process

Prior to the commencement of the Chapter 11 Cases, the Debtors retained Tiger, a nationally recognized liquidator and financial consultant, to perform GOB Sales in a large percentage of their stores. Tiger was also retained prepetition to perform an assessment of the liquidation value of the Debtors' merchandise. Tiger provided the Debtors with a preliminary assessment of the relative value of the liquidation of the Debtors' inventory and the viability of their stores. Prior to the Petition Date, the Debtors consulted with and shared this analysis with the Prepetition Lenders and had frank discussions concerning the prospects for the Debtors' reorganization and the inevitability of closing many or all of their stores. Upon consultation with their Prepetition Lenders and in accordance with the terms of the Forbearance Agreement, the Debtors entered into agreements dated September 17, 2008 and October 1, 2008, with Tiger for the performance of GOB Sales in twenty-nine of the Debtors' then-open stores. GOB Sales commenced on or before September 18, 2008 (for 14 of the stores) and October 2, 2008 (for 15 of the stores).

Following the Prepetition Lenders' declaration of defaults under the Forbearance Agreement on October 13, 2008, the Debtors determined, in consultation with the Prepetition Lenders, to implement the following course of action through the bankruptcy process: (i) conduct GOB Sales in substantially all of the remaining stores to liquidate existing inventory in an effort to maximize value; (ii) assume and assign valuable leases pursuant to streamlined procedures; and (iii) reject those leases that were burdensome and not expected to produce concomitant benefit for the Debtors' Estates pursuant to streamlined procedures.

To this end, the Debtors sought and received a proposal from Tiger for the performance of GOB Sales at substantially all of the Debtors' remaining stores. The Debtors also contacted four additional nationally recognized liquidators, provided diligence information to those that signed confidentiality agreements, and solicited bids from these liquidators to determine whether any would provide better terms than those offered by Tiger. None of these alternative liquidators submitted a competitive proposal. Accordingly, the Debtors determined, in consultation with the Prepetition Lenders, to enter into and ultimately implement a further agreement with Tiger, dated October 16, 2008. On October 22, 2008, Tiger began to conduct GOB Sales in the Debtors' remaining stores.

1. <u>Retention of Tiger Capital Group, LLC</u>

As discussed above, prior to the commencement of these Chapter 11 Cases, the Debtors retained Tiger to perform GOB Sales in all of their remaining stores. On October 27, 2008, the Debtors filed a motion (Docket No. 17) seeking to assume their then-executory agreements with Tiger, dated September 17, 2008, October 1, 2008, and October 16, 2008 (as amended, the "Consulting Agreements"), and to continue the GOB Sales without interruption at the Debtors' stores covered under each of the Consulting Agreements.

Pursuant to the Consulting Agreements, Tiger agreed to perform essential services for the Debtors during the GOB Sale process, including but not limited to: (a) assembling an onsite store and corporate management team to create and implement the store closing program; (b) developing merchandising plans with specific attention to category discounting to maximize gross margin; (c) determining the need for and facilitating transfers of inventory between stores, if allowed by applicable law; (d) developing a GOB Sale expense budget to assist with the planning, monitoring, and execution of each GOB Sale; (e) preparing the stores for the GOB Sales, including creation and hanging of lettered, custom store signs; (f) submitting for the Debtors' approval all advertising; (g) reviewing with the Debtors any restrictions to the GOB Sale imposed by state and local laws and ordinances as well as landlord and vendor restrictions; (h) recommending as to the timing and filing of application for store closing licenses where necessary and appropriate; (i) consulting regarding security and related loss prevention procedures and services to protect the inventory, fixtures, and other valuables from theft and damage, and reviewing safety procedures regarding protection of customers and employees; (j) maintaining housekeeping standards, including safekeeping and oversight of physical plant, and cleanup of premises prior to store exit; and (k) ensuring continuity of human resources policies and procedures and providing recommendations regarding staffing levels. These services were critical to the Debtors' ability to successfully complete GOB Sales in their remaining stores.

The terms of the Consulting Agreements were advantageous to the Debtors, with Tiger's "base fee" capped at $22,500 per store, plus a "success fee" if Tiger exceeded certain "gross return calculations," capped at $25,000 per store. Further, payment of the "success fee" was precluded until the claims of the Prepetition Lenders under the Prepetition Credit Agreement were satisfied in full. In addition, the Consulting Agreements provided that Tiger could not exceed the expenses specified in the budget. This provision protected the Debtors' estates from the risk of having to absorb unexpected costs incurred in connection with the GOB Sales. Accordingly, the Consulting Agreements provided an incentive for Tiger to maximize the value of the assets and to realize value for the estates as efficiently as possible

On November 20, 2008, the Bankruptcy Court entered an order (Docket No. 158) authorizing the Debtors to assume their Consulting Agreements with Tiger. As of December 27, 2008, liquidation of all of the Debtors' stores had been completed.

2. The GOB Sales and the Wind-down of the Business

Since the Petition Date, the Debtors completed the GOB Sales and liquidated their inventory and other tangible assets in all sixty-six of their remaining stores. As a result of the implementation of the chain-wide GOB Sales, as of December 1, 2008, the Debtors had satisfied all outstanding obligations under the Prepetition Credit Agreement and the DIP Facility and had fully cash collateralized the Prepetition L/Cs. The Debtors are currently funding their limited operations through the use of proceeds from disposition of their assets.

As of October 15, 2008, the Debtors employed over 4,500 employees, over 4,000 of whom were hourly employees. As a result of the implementation of the discontinuation of new merchandise purchasing and implementation of the chain-wide GOB Sales, the Debtors have terminated all but a skeletal team necessary to assist their chief executive officer and C&H in administering the Debtors' estates and reconciling claims. In light of their workforce reduction, the Debtors ceased making payments and terminated their medical, dental and other healthcare benefit plans during January 2009. The Debtors provided notice to the affected employees of the termination of their benefits and their right to submit claims.

3. Procedures for the Rejection of <u>Unexpired Leases and Sale of De Minimis Assets</u>

On October 27, 2008, the Debtors requested that the Bankruptcy Court enter an order establishing procedures by which the Debtors could reject unexpired nonresidential real property leases (the "<u>Leases</u>") and executory contracts (the "<u>Contracts</u>"). As of the commencement of the Chapter 11 Cases, the Debtors had nearly 100 unexpired Leases and over one hundred executory Contracts. As noted above, the Debtors intended to maximize the value of their estates through GOB Sales for substantially all of the Debtors' assets and the sale and assignment of certain of their Leases and Contracts. However, to ensure that the estates' assets were maximized, the Debtors anticipated that they would seek to reject certain unfavorable Leases and Contracts which were not expected to be part of any sale and posed an administrative burden to the estates. Additionally, the Debtors requested that the Bankruptcy Court enter an order establishing procedures for the sale of the Debtors' de minimis assets.

On October 28, 2008, the Bankruptcy Court approved an order (Docket No. 35) establishing procedures for the rejection of unexpired Leases and Contracts. Further, on December 11, 2008, the Bankruptcy Court approved an order (Docket No. 258) establishing procedures for the sale of the Debtors' de minimis assets.

4. <u>Disposition of Leases and Sale of De Minimis Assets</u>

As discussed in more detail above, prior to initiating the initial GOB Sales and seeking chapter 11 protection, the Debtors made several attempts to reorganize the Company by reducing the business to a core group of stores. As part of their restructuring efforts, the Company, with the help of their real estate advisors, marketed all of their interests in their real property Leases. Through this process, the Company reduced the number of their stores by almost half and successfully assigned a large majority of those Leases to interested buyers such as Burlington. However, a number of the Company's stores closed prepetition and their Leases, though extensively marketed, did not receive any interest from potential buyers. Accordingly, upon the commencement of the Chapter 11 Cases, the Debtors rejected thirteen of those Leases, thus relieving themselves of costly postpetition obligations.

Following the commencement of the Chapter 11 Cases, the Debtors retained Hilco to assist with the evaluation of the Debtors' remaining Leases and to market and assist the Debtors with the sale of any Leases that could realize additional value for the Estates. In November, 2008 the Debtors had completed GOB Sales at substantially all of the Debtors' remaining stores. In connection with those store closings, the Debtors sought the advice of Hilco to determine whether there was any additional value that could be achieved for the estates through the assignment of those Leases. After several weeks of intense marketing efforts by Hilco, the Debtors, with the guidance of Hilco and upon consultation with the Creditors' Committee and the DIP Agent, determined in their business judgment that the costs to the Estates of maintaining rent and other administrative obligations associated with marketing the majority of the Leases for the closed stores, even for a short period of time, significantly outweighed any benefits that could be achieved through any postpetition marketing efforts. Accordingly, the Debtors rejected those Leases on November 13, 2008 and November 24, 2009.

However, the Debtors, in consultation with Hilco, determined that there might be opportunity for the Debtors to capture additional value from the sale of certain remaining Leases. Those Leases which Hilco concluded had a below market rent were not initially rejected. Instead, in an effort to achieve the highest and/or best offers for the sale of such Leases, by motion dated December 17, 2009 (Docket No. 281), the Debtors requested authority to establish bidding procedures and conduct an auction to sell the Debtors' interests in their remaining unexpired nonresidential real property Leases. The Debtors believed that the bidding procedures and cure procedures established in the motion presented the best opportunity for the Debtors to maximize value for their estates and their creditors. On December 23, 2008, the Bankruptcy Court entered an order (Docket No. 331) approving the bidding procedures for the sale of the leases to successful bidders. The Debtors received bids for and negotiated the assumption and assignment of two Leases. The offers were presented to and approved by the Bankruptcy Court on January 9, 2009 (Docket No. 371) and January 30, 2009 (Docket No. 436). The remainder of the unsold Leases were subsequently rejected by the Debtors.

Further, the Debtors have marketed and sold the furniture, fixtures, and equipment located in the hanging apparel distribution center and their corporate headquarters to JG Resources LLC, realizing over $300,000 in value for the Debtors' estates.

5. Extensions of Time to Assume or Reject Leases of Nonresidential Real Property

As of the Petition Date, the Debtors were party to in excess of one hundred leases of nonresidential real property. Since the Petition Date, the Debtors focused their efforts and energies on, among other things, disposing of their real property interests.

Section 365(d)(4) of the Bankruptcy Code provides that any unexpired lease of nonresidential real property for which the debtor is a tenant will be deemed rejected on the date that is 120 days after the petition date, unless such deadline is extended for cause. On February 19, 2009, the Bankruptcy Court entered, an order (Docket No. 467) extending the Debtors' time to assume or reject all of their nonresidential real property leases by 90 days, through and including May 25, 2009. The Debtors have no remaining unexpired prepetition nonresidential real property leases. However, the Debtors are a party to one postpetition nonresidential real property lease, covering the Debtors' corporate headquarters. Such postpetition lease is not subject to the requirements of section 365(d)(4) of the Bankruptcy Code.

6. Lease-Related Settlements

During the Chapter 11 Cases, the Debtors have resolved various disputes relating to the Debtors' leases, including but not limited to outstanding issues related to the Burlington Transaction, which resulted in the recovery of over $1.9 million in value for the Debtors' Estates. Further, the Debtors took action against certain of the Debtors' subtenants and landlords to compel the turnover of unpaid rent and other property of the Estates.

(a) *Burlington Coat Factory/Store 425*

Among the various leases that were to be assigned to Burlington as part of the Burlington Transaction was the Debtors' interest in that certain real property lease for premises located at 8020 Olive Boulevard, University City, Missouri 63130 (as designated by the Debtors, "Store 425"), dated December 21, 1999, between 99VC University City, L.L.C. and VCDS (the "425 Lease"), to which Chung H. Park and Moon H. Park, as landlord (the "425 Landlord"), and VCDS, as tenant, were parties by assignment. The allocated purchase price to be paid by Burlington for Store 425 was $2 million, less applicable work credits, commissions, and other charges. Under the terms of the Burlington Lease Acquisition Agreement, the assignment of the 425 Lease to Burlington was to occur by March 15, 2008, unless such date was extended. Pursuant to the terms of the Burlington Lease Acquisition Agreement, the closing date by which certain leases were to be assigned or subleased to Burlington could be extended either (a) if Burlington and VCDS so agreed in writing prior to December 31, 2007, or (b) in the event that litigation arising out of the disputes with the landlords under the leases precluded closing by the applicable closing date.

In late 2007, VCDS sent the 425 Landlord a letter informing the 425 Landlord that VCDS had entered into the Burlington Transaction and that the assignment of the 425 Lease was anticipated to occur on or about February 15, 2008 (as such date was further extended). In response to this notification, the 425 Landlord alleged certain defaults under the 425 Lease, which allegations impaired the closing of the Burlington Transaction with respect to Store 425. VCDS denied that any defaults had occurred and/or sought to cure any alleged defaults.

In an effort to resolve the dispute between VCDS and the 425 Landlord and to consummate the Burlington Transaction with respect to Store 425, on August 7, 2008, VCDS filed a complaint (the "425 Complaint") against the 425 Landlord, seeking, among other things, a judgment that VCDS was not in default under the 425 Lease and damages resulting from the 425 Landlord's allegations of breach of the 425 Lease and refusal to execute the estoppel certificate. On October 6, 2008, the 425 Landlord filed an answer with respect to the 425 Complaint and asserted various conterclaims against VCDS (the "425 Counterclaim") including claims for reversion of sublease rent. On October 27, 2008, VCDS filed an answer to the 425 Counterclaim (the "425 Counterclaim Answer," and together with the 425 Complaint and 425 Counterclaim, the "425 Dispute"). Upon the commencement of the Chapter 11 Cases, all litigation regarding the 425 Dispute was stayed.

Shortly after the commencement of the Chapter 11 Cases, the 425 Landlord and the Debtors engaged in discussions regarding the 425 Dispute. After months of negotiations, the Debtors reached a settlement of the 425 Dispute which was conditioned on the consummation of the Burlington Transaction with respect to the lease for Store 425. On December 19, 2008, the Debtors filed a motion seeking entry of an order (a) approving a settlement between the Debtors and the 425 Landlord, and (b) authorizing the Debtors' assumption and assignment of their interest in the 425 Lease to Burlington (the "425 Motion"). Prior to the hearing on the 425 Motion, Burlington objected to the relief sought in the motion.

In an attempt to resolve Burlington's objection to the 425 Motion, the Debtors and Burlington entered into a stipulation (the "Burlington Stipulation"), whereby Burlington agreed to pay the Debtors $1,386,080.08 in exchange for the Debtors' withdrawal of the 425 Motion and the termination of the Lease Acquisition Agreement. Further, Burlington agreed to assign to the Debtors any and all rights, claims and/or interests for any amounts that may be or become due and owing to Burlington from the Debtors' former landlord at another location, Westview Associates, L.C. ("Westview"). The Burlington Stipulation was approved by the Bankruptcy Court on February 11, 2009.

Additionally, after the 425 Motion was withdrawn, the Debtors and the 425 Landlord entered into a stipulation and agreed order (the "425 Stipulation and Order") consensually resolving the 425 Landlord's postpetition claim for unpaid postpetition rent, real estate taxes, attorney's fees, common area maintenance, taxes, penalties, and other postpetition costs, expenses, and damages whether arising under the 425 Lease and/or in connection with the Burlington settlement (the "425 Postpetition Claim"). The 425 Stipulation and Order provided for, among other things, the Debtors' payment of $200,000 to the 425 Landlord in full satisfaction of the 425 Landlord's Postpetition Claim and the 425 Landlord's assignment to the Debtors' any and all of its rights, claims and/or interests for any amounts, including rent and other charges due and owing under the Store 425 subleases. Further, pursuant to the 425 Stipulation and Order, the 425 Lease was deemed rejected effective as of February 13, 2009.

(b) *Westview Center Associates L.C.*

Through the Burlington Stipulation, Burlington assigned the Debtors the right to assert certain claims against Westview. On April 15, 2009, VCDS filed a complaint on against Westview for turnover of a break-up fee and related damages in connection with the Lease Termination Agreement, dated July 14, 2008, between VCDS and Westview (the "Termination Agreement") regarding one of the Debtors' former store locations in Baltimore, Maryland. Westview was obligated by the Termination Agreement to reimburse VCDS $500,000 in connection with a break-up fee owed by VCDS to Burlington in the event that Westview did not enter into a direct lease with Burlington by December 31, 2008. After filing of the complaint, VCDS and Westview engaged in negotiations and resolved the matter consensually, with Westview agreeing to pay $500,000 to VCDS in exchange for a mutual release of claims between the parties. A settlement stipulation was entered by the Bankruptcy Court on May 28, 2009, and Westview paid $500,000 to VCDS on June 10, 2009.

(c) *Richard Bowe Corporation*

As a result of the 425 Dispute, Richard Bowe Corporation ("Richard Bowe"), a subtenant at Store 425, had withheld certain payments of rent and common area maintenance associated with the sublease, dated August 1, 2002, between VCDS and Richard Bowe (the "425(a)

Sublease”). Pursuant to the 425 Stipulation and Order, the 425 Landlord relinquished to the Debtors all rights to such payments. Negotiations between Richard Bowe and VCDS resulted in an agreement whereby Richard Bowe agreed to pay VCDS $59,000 in exchange for a mutual release of claims between the parties. On August 13, 2009, the parties entered into a letter agreement memorializing this settlement, and on August 20, 2009, Richard Bowe paid VCDS the settlement amount of $59,000.

(d) *NAS Markets, Inc.*

As a result of the 425 Dispute, NAS Markets, Inc. (“NAS”), a subtenant at Store 425, had withheld certain payments of rent and common area maintenance associated with the sublease, dated March 13, 2008, between VCDS and Shree Ganesh Shivshakti Krupa, LLC, as assigned to NAS Markets, Inc. (the “425(b) Sublease”). Pursuant to the 425 Stipulation and Order, the 425 Landlord relinquished to the Debtors all rights to such payments. NAS has not agreed to pay these amounts, and on June 18, 2009, VCDS commenced an adversary proceeding in the Bankruptcy Court for turnover of estate property and damages for default under the 425(b) Sublease. NAS failed to respond to VCDS’s adversary complaint, and VCDS is in the process of pursuing a default judgment against NAS.

(e) *Annapolis*

Prior to the Petition Date, VCDS assigned its interest as a tenant under a lease for its Annapolis, Maryland store (the “Annapolis Premises”) to JLP-Annapolis, MD LLC (“JLP-Annapolis”), an affiliate of SSC, in one of the transactions described in Article III above “Events Leading to the Chapter 11 Cases.” JLP-Annapolis paid $4,000,000 (the “Annapolis Assignment Fee”) to VCDS for the assignment, and VCDS licensed the Annapolis Premises back from JLP-Annapolis for a term of eleven (11) months, ending April 30, 2009. SSC, however, retained from the Annapolis Assignment Fee an occupancy credit of $500,000 (the “Annapolis Occupancy Credit”).

Pursuant to section 12 of the Annapolis license agreement (the “Go-Shop Provision”), VCDS had an exclusive right to obtain bona fide offers from third parties to convert the Annapolis License Agreement to a sub-sublease for the Annapolis Premises from JLP-Annapolis to the relevant third party, with VCDS being entitled to 100% of the net sale proceeds paid to JLP-Annapolis pursuant to the transaction (net of the Assignment Fee, and after various sales costs and expenses and other deductions, including tenant charges).

Pursuant to the Go-Shop Provision, and in accordance with a letter of intent executed in October 2008 (the “Kohl’s Agreement”) between VCDS and Kohl’s Department Stores, Inc. (“Kohl’s”), the parties entered into a sub-sublease for the Annapolis Premises (the “Kohl’s Sublease”) and Kohl’s paid $5,500,000 (the “Kohl’s Payment”) to JLP-Annapolis, as a lease acquisition fee. In disbursing the applicable net sale proceeds and occupancy credits to VCDS in connection with the closing of the Kohl’s Sublease, JLP-Annapolis deducted certain tenant charges and other VCDS obligations from the disbursement to VCDS.

The Debtors, however, disagreed with the amount of the tenant charges and Occupancy Fees (the “Annapolis Dispute”), and requested backup and supporting detail concerning such fees. JLP-Annapolis agreed to release the undisputed amount of net sale proceeds of approximately $660,000 to VCDS, and JLP-Annapolis and VCDS agreed to work in good faith to reconcile the remainder of any amounts payable by SSC to VCDS.

The Debtors and SSC engaged in discussions regarding the Annapolis Dispute and have agreed to a consensual resolution. Pursuant to the agreement, in full and final settlement of all issues related to the Annapolis Dispute, on July 9, 2009, SSC paid $444,600 to the Debtors immediately upon execution of the settlement documentation. Further, pursuant to the proposed settlement, the Debtors have forever waived and released any and all claims arising in connection with the Annapolis Disputes that have been asserted or may be asserted against JLP-Annapolis or its affiliates.

7. Disposition of Owned Real Property

VCDS owned a parcel (approximately 2.9 acres) of real property, as well as an approximately 10,139 square foot building erected thereon (the "Akron Property") located at 2700 S. Arlington Road, Akron Ohio. Following the completion of the GOB Sale at this location on October 26, 2008, the Debtors ceased operations at the Akron Property.

The Debtors, in consultation with Hilco, determined that selling the Akron Property through a formal auction process was the best way to maximize value and achieve certainty with respect to the sale of the Akron Property. Upon such decision, Hilco identified and marketed the Akron Property to all known potential purchasers and provided such potential purchasers with extensive due diligence materials regarding the Akron Property. Hilco's marketing efforts led to negotiation of the Purchase and Sale Agreement (the "Akron Purchase Agreement"), dated April 3, 2009, by and among VCDS and 2700 Arlington Rd. Investors, LLC (the "Akron Buyer").

On April 3, 2009, the Debtors filed a motion for orders establishing certain procedures regarding the auction and sale of the Akron Property and approving the sale itself. On April 23, 2009, the Bankruptcy Court entered an order approving the proposed sale and auction procedures (Docket No. 601). No qualified bids, other than that reflected in the Akron Purchase Agreement, were received by the bid deadline. On May 28, 2009, the Bankruptcy Court entered an order approving the sale of the Akron Property to the Akron Buyer pursuant to the Akron Purchase Agreement (Docket No. 645). The sale closed on June 9, 2009. The sale of the Akron Property resulted in approximately $350,000 in value for the Debtors' estates.

C. Pension Plans

Prior to the Petition Date, GB Retailers, Inc. ("GB Retailers") and Gramex Retail Stores, Inc. ("Gramex"), two of the Debtors, each sponsored and maintained a qualified non-contributory defined benefit retirement plan for the benefit of eligible participants, respectively, (a) the GB Stores 1982 Employees' Retirement Plan (the "GB Stores Plan") and (b) the Gramex Retail Stores, Inc. Retirement Income Plan (the "Gramex Stores Plan" and, together with the GB Stores Plan, the "Pension Plans"). As of January 31, 2008, there were a total of 324 participants in the GB Stores Plan, of which 77 were active employees, 217 were participants with deferred benefits (i.e., former employees who had not yet reached retirement age or otherwise become eligible to receive benefits), and 30 were retirees, participants receiving disability pensions or beneficiaries receiving survivor benefits (collectively, the "GB Participants"). Additionally, as of February 28, 2008, there were a total of 419 participants in the Gramex Stores Plan, of which 22 were active employees, 228 were participants with deferred benefits, and 57 were retirees (collectively, the "Gramex Participants" and, together with the GB Participants, the "Participants"). As of December 27, 2008, no Participant in either of the Pension Plans was an active employee of the Debtors.

All of the Operating Debtors were members of the Pension Plans' "controlled group" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA and the Internal Revenue Code of 1986, as amended (the "IRC"), mandate that almost every employer maintaining a qualified pension plan provide minimum funding contributions to such plan (each such payment, a "Minimum Funding Contribution"). Under ERISA section 302 and IRC section 412, a pension plan must be funded on an annual basis or the plan sponsor is subject to severe excise tax penalties under IRC section 4971, regardless of whether the plan sponsor has profits from operations. Pursuant to the minimum funding requirements of ERISA and the IRC, prior to the Petition Date, the applicable Debtors timely made any required Minimum Funding Contributions. The last Minimum Funding Contribution made was on October 9, 2007, in the amount of $100,000 for the GB Stores Plan and $400,000 for the Gramex Stores Plan for the 2005-2006 plan year. Since the filing of the Chapter 11 Cases, no Minimum Funding Contributions to the Pension Plans came due. However, without termination of the Pension Plans, the sponsoring Debtors' funding obligations would have continued to accrue, and given the current market conditions, asset values may have continued to erode, thus, further increasing the total underfunded amount. Therefore, the Debtors determined that termination of the Pension Plans was in the best interest of the Debtors, their estates and creditors.

On or around April 1, 2009, the Debtors' Board of Directors resolved to terminate the Pension Plans, effective as of May 31, 2009, through a voluntary "distress" termination. As required by section 4041 of ERISA, the Debtors served Notices of Intent to Terminate the Pension Plans on all participants under the Pension Plans on April 1, 2009. The Pension Benefit Guaranty Corporation ("PBGC") subsequently approved the termination of the Debtors' Pension Plans. By virtue of the distress termination of the Pension Plans, the sponsoring Debtors are relieved from their obligations to fund the Pension Plans on behalf of the Participants. Participants, however, are entitled to receive the applicable benefit amounts guaranteed by the PBGC.

The PBGC has filed claims against the sponsoring Debtors' Estates for the unfunded portions of the Pension Plans. In January 2010, the Debtors and the PBGC reached a settlement in principle as to the amount and priority of the PBGC's claims. Such settlement is subject to the execution of definitive documentation and Bankruptcy Court approval.

D. Case Administration

1. Exclusivity

Under the Bankruptcy Code, the Debtors have the exclusive right to file and solicit acceptance of a plan or plans of reorganization for an initial period of 120 days from the date on which the debtor filed for voluntary relief. If the Debtors file a plan within this exclusive period, then the Debtors have the exclusive right for 180 days from the filing date to solicit acceptances to their plan. During these exclusive periods, no other party in interest may file a competing plan of reorganization; however, a court may extend these periods upon request of a party in interest and "for cause."

The Debtors' initial exclusive filing period would have expired on February 23, 2009, and the Debtors' initial exclusive solicitation period would have expired on April 24, 2009. On January 30, 2009, the Debtors filed a motion (Docket No. 441) seeking to extend their exclusivity periods for 120 days and, on February 19, 2009, the Bankruptcy Court entered an order (Docket No. 468) granting the Debtors an extension of their exclusive filing period through June 23, 2009 and their exclusive solicitation period through August 24, 2009. On June 2, 2009, the Debtors filed a motion (Docket No. 651) seeking to extend their exclusivity periods for another 120 days and, on June 17, 2009, the Bankruptcy Court entered an order (Docket No. 668) granting the Debtors an extension of the exclusive filing period through and including October 21, 2009 and their exclusive solicitation period through and including December 22, 2009. Further, on September 30, 2009, the Debtors filed a motion (Docket No. 754) seeking to extend their exclusive filing and solicitation periods for an additional 120 days, through February 18, 2010, and April 22, 2010, respectively.

2. Schedules and Establishment of Bar Date

By order of the Bankruptcy Court dated October 27, 2008 (Docket No. 32), the Debtors obtained extensions of the time to file their Schedules of Assets and Liabilities and Statements of Financial Affairs (collectively, the "Schedules"). On January 12, 2009, the Debtors filed their Schedules.

In accordance with Bankruptcy Rule 3003(c)(3), by order dated January 30, 2009 (Docket No. 439), the Bankruptcy Court established March 10, 2009 (the "Bar Date") as the final date for filing proofs of Claim against the Debtors, subject to certain exceptions. Pursuant to Bankruptcy Rule 3003(c)(2), any creditor whose applicable Claim was not scheduled, or was scheduled as disputed, contingent, or unliquidated, and who failed to file a proof of Claim on or before the Bar Date, will not be treated as a creditor with respect to the Plan or receiving a Distribution under the Plan. The Bar Date did not apply to Administrative Claims, except for 503(b)(9) Claims.

3. Claims

(a) *Information and Estimates*

As of January 18, 2010, approximately 3,100 Claims in excess of $361 million plus unliquidated amounts have been asserted against the Debtors, which is in addition to approximately 1,200 undisputed Scheduled Claims by the Debtors in the amount of approximately $175 million dollars. The Debtors dispute a vast majority of the dollar amount of the Claims asserted against them. The Debtors have estimated the approximate aggregate allowed amount of Claims and have set forth such estimates in the table set forth in Article I.D hereof. THESE ESTIMATES ARE PRELIMINARY AND TENTATIVE GIVEN THE

LIMITED REVIEW AND ANALYSIS UNDERTAKEN TO DATE. THESE AMOUNTS REPRESENT ESTIMATES BY THE DEBTORS BASED ON CURRENT INFORMATION ONLY. THE DEBTORS MAKE NO REPRESENTATION AS TO THE EXTENT THESE ESTIMATES ULTIMATELY PROVE ACCURATE IN LIGHT OF ACTUAL CLAIMS AND THE RESOLUTION OF CLAIMS DISPUTES. FOR INFORMATION REGARDING THE LIMITATIONS OF AND UNCERTAINTIES RELATING TO THESE ESTIMATES, SEE ARTICLE VIII BELOW ("CERTAIN RISK FACTORS TO BE CONSIDERED").

(b) *Settlement Procedures*

On May 14, 2009, the Bankruptcy Court entered its Order Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code and Bankruptcy Rule 9019(b) Authorizing the Establishment of Procedures to Settle Certain Prepetition and Postpetition Claims (Docket No. 623) (the "Settlement Procedures Order"). The Settlement Procedures Order authorizes the Debtors to compromise certain claims using expedited procedures, which vary based on the size of the claim being compromised or the extent to which the claim is in dispute.

(c) *Objections*

The Debtors have begun to review and analyze the nearly three thousand Claims filed in their cases. Currently, the Debtors are examining their overall exposure to various classes of Claims and analyzing potential bases for objecting to certain Claims. On June 4, 2009, the Debtors filed a motion seeking to reclassify certain claims allegedly arising under section 503(b)(9) of the Bankruptcy Code, which provides priority treatment for certain claims for goods delivered to debtors in the ordinary course of business within the first twenty days immediately following the Petition Date (Docket No. 652) (the "503(b)(9) Reclassification Motion"). On July 17, 2009, the Bankruptcy Court entered an order granting the 503(b)(9) Reclassification Motion, thereby reducing the Debtors' exposure to administrative expense claims by over $1 million.

On June 30, 2009, the Debtors filed a motion seeking an order denying demands for reclamation under section 546(c) of the Bankruptcy Code and reclassifying claims based on such demands as general unsecured claims (Docket No. 680) (the "Reclamation Objection"). On July 31, 2009, the Bankruptcy Court entered an order granting the Reclamation Objection, reducing the Debtors' exposure to reclamation demands and claims based on such demands by nearly $3.7 million, and, in doing so, also reduced the Debtors' exposure to administrative and priority claims by over $1 million.

The Debtors have worked diligently to reduce their exposure to secured, administrative expense, and other priority claims. On January 6, 2010, the Debtors filed an omnibus objection to the allowance of certain Claims that were: (a) amended or superseded by subsequently-filed Claims; (b) duplicative of other filed Claims; (c) improperly asserted against multiple Debtors; or (d) filed after the applicable Bar Date (Docket No. 962) (the "Second Claims Motion"). All of the Claims to which the Debtors objected in the Second Claims Motion were allegedly entitled secured, administrative expense or priority status. Also on January 6, 2010, the Debtors filed a motion seeking to reclassify certain Claims allegedly entitled to secured, administrative expense, or priority status as general unsecured Claims, based on the Debtors' books and records (Docket No. 963) (the "Third Claims Motion"). Additionally, on January 8, 2010, the Debtors filed an omnibus objection to the allowance of certain Claims allegedly entitled to secured, administrative expense, or priority status, and for which the Debtors' books and records reflected that the Debtors had no liability (Docket No. 964) (the "Fourth Claims Motion" and, together with the Second Claims Motion and Third Claims Motion, the "Claims Motions"). A hearing on the Claims Motions is scheduled for February 9, 2010. If the Claims Motions are granted in their entirety, the Debtors' exposure to secured, administrative, and priority Claims would be further reduced by approximately $25 million.

Further, the Debtors have worked to resolve some of their largest Administrative Expense Claims (including Claims for postpetition rent, 503(b)(9) Claims, and Claims relating to collective bargaining agreements and employee benefits) reaching agreements with various parties in that regard, including Elestan Realty Co., BLDG VC Olive Tree LLC and BLDG VC Saddleback LLC, Sevilla Partners, LLC, Fila U.S.A., Footwear Unlimited, Inc., HN International Group, Inc., Top Gun Footwear, LLC, A & H Sportswear Co., Inc., and Local 881 of the United Food and Commercial Workers Union.

4. Preferences and Fraudulent Conveyances

Pursuant to the Bankruptcy Code, a debtor may seek to recover, through adversary proceedings in the bankruptcy court, certain transfers of the debtor's property, including payments of cash, made while the debtor was insolvent during the ninety (90) days immediately prior to the commencement of the bankruptcy case (or, in the case of a transfer to or for the benefit of an "insider," one year prior to the commencement of the bankruptcy case) in respect of antecedent debts, to the extent the transferee received more than it would have received on account of such pre-existing debt had the debtor been liquidated under chapter 7 of the Bankruptcy Code. Such transfers include cash payments, pledges of security interests or other transfers of an interest in property. In order to be preferential, such payments must have been made while the debtor was insolvent; debtors are rebuttably presumed to have been insolvent during the 90-day preference period. The Bankruptcy Code's preference statute can be very broad in its application because it allows the debtor to recover transfers regardless of whether there was any impropriety in such transfers.

There are, however, certain defenses to such claims. For example, transfers made in the ordinary course of the debtor's and the transferee's business according to ordinary business terms are not recoverable. Furthermore, if the transferee extended credit contemporaneously with or subsequent to the transfer, and prior to the commencement of the bankruptcy case, for which the transferee was not repaid, such extension constitutes an offset against an otherwise recoverable transfer of property. If a transfer is recovered by a debtor, the transferee is granted a general unsecured claim against the debtor to the extent of the recovery.

Under the Bankruptcy Code and under various state laws, a debtor may also recover or set aside certain transfers of property (fraudulent transfers), including grants of security interests in property, made while the debtor was insolvent or which rendered the debtor insolvent or undercapitalized, if the debtor received less than reasonably equivalent value for such transfer. The Debtors, the Creditors' Committee, and most recently, Storch Amini have been conducting investigations to analyze all claims or Causes of Action against any persons or entities for preferences or fraudulent conveyances. The statute of limitations with respect to preference actions is scheduled to expire on October 26, 2010.

Prior to the retention of Storch Amini, the Creditors' Committee took primary responsibility for investigating possible claims against various parties with contractual and other relationships to the Debtors, including without limitation: RVI; Tiger;[5] SSC; Mesirow Financial Consulting, LLC; VCDS Acquisition Holdings, LLC; Crystal Value, LLC; Abacus Advisors LLC; Emerald Capital Management LLC; DSW Inc.; Filenes Basement; and Little Ferry Acquisition, LLC.

In connection with its investigation, the Creditors' Committee, through its conflicts counsel, SilvermanAcampora LLP, and its financial advisor Traxi LLC, reviewed the relevant loan documents and Uniform Commercial Code filings relating to the Debtors' borrowings from the Prepetition Lenders. This was done to determine the nature, extent and validity of the Prepetition Lenders' liens. The Creditors' Committee concluded that the Prepetition Lenders had validly perfected, first priority security interests in substantially all of the Debtors' assets, and did not challenge the liens or claims of the Prepetition Lenders during the Challenge Period.

The Creditors' Committee reviewed the relevant transaction documents relating to the Burlington Transaction to determine whether any claims exist on account of those transactions. Further, the Creditors' Committee has reviewed the relevant transaction documents related to the VCDS Acquisition, and is continuing to examine the propriety and financial impact of the VCDS Acquisition upon the Debtors' estates, including whether any fraudulent transfer, breach of fiduciary duty or other claims may exist in connection with the VCDS Acquisition. The Creditors' Committee also investigated the existence of potential claims arising out of the management of the Debtors' financial affairs during the approximately ten month period between the VCDS Acquisition and the Petition Date.

In connection with the Creditors' Committee's investigation, the Creditors' Committee requested and the Debtors provided the Creditors' Committee with informal discovery. In addition, the Creditors' Committee filed an application under Bankruptcy Rule 2004 to compel delivery of additional documents and other information from RVI. The Creditors' Committee also requested information under Rule 2004 from Mesirow Financial LLC, which provided management services to the Debtors following the VCDS Acquisition through the Petition Date. The Creditors' Committee also analyzed information provided by C&H, relating to potential "insider" preference claims, and information relating to intercompany transfers during the period prior to the VCDS Acquisition in connection with potential fraudulent transfer and other claims. Counsel to the Creditors' Committee has completed its investigation with respect to those individuals who served as directors or officers of the Debtors following the VCDS Acquisition,

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5 Alan Cohen, a director of each of the Debtors and a principal of Emerald Capital Management LLC, an equity holder of one of the Debtors, is also a principal of Tiger and/or certain of its affiliated entities.

and has recommended to the Creditors' Committee that it not pursue any claims against such individuals.[6]

As discussed in Section IV.A.2(g) hereof, in August 2009, the Debtors retained Storch Amini as special litigation counsel to investigate, pursue and prosecute certain preferential transfers, in accordance with sections 547 and 550 of the Bankruptcy Court.

On September 10, 2009, the Bankruptcy Court entered an Order Establishing Procedures Governing All Adversary Proceedings Brought Pursuant to 11 U.S.C. § 547 (Docket No. 746) (the "Preference Action Procedures Order"). The Preference Action Procedures Order establishes expedited procedures for the litigation and settlement of preference actions, and permits the Debtors to settle certain preference actions on limited notice to parties in interest. On November 23, 2009, the Debtors commenced approximately 150 adversary proceedings to recover preferential payments.

ARTICLE V.

SUMMARY OF THE PLAN

A. General

THE FOLLOWING IS A SUMMARY OF CERTAIN OF THE MATTERS CONTEMPLATED TO OCCUR EITHER PURSUANT TO OR IN CONNECTION WITH CONFIRMATION OF THE PLAN. THIS SUMMARY HIGHLIGHTS CERTAIN SUBSTANTIVE PROVISIONS OF THE PLAN, BUT IS NOT, NOR IS IT INTENDED TO BE, A COMPLETE DESCRIPTION OR A SUBSTITUTE FOR A FULL AND COMPLETE READING OF THE PLAN.

THE DISTRIBUTION PROVISIONS OF THE PLAN ARE DESCRIBED IN SECTION I.D., ABOVE.

B. Substantive Consolidation

The Plan provides for substantive consolidation of the Operating Debtors' Estates, but solely for purposes of voting, confirmation, and making distributions to the holders of Allowed Claims and Allowed Interests under the Plan. Notwithstanding anything in the Plan to the contrary, the Operating Debtors will not be merged or consolidated and will maintain their pre-Effective Date corporate structure. On the Effective Date: (i) all guarantees by any Operating Debtor of the payment, performance or collection by another Operating Debtor with respect to Claims against such second Operating Debtor, and all Claims based on such guarantees, will be deemed eliminated, cancelled, released and of no further force and effect; (ii) any obligation of any Operating Debtor and all guarantees by another Operating Debtor with respect to Claims of the first Operating Debtor will be treated as a single obligation; (iii) each Claim against any

[6] The Creditors' Committee reserves the right to further investigate any Claims the Operating Debtors may have against VCHI Acquisition with respect to transfers made by the Operating Debtors to VCHI Acquisition.

Operating Debtor will be deemed to be against the consolidated Operating Debtors and will be deemed a single Claim against, and a single obligation of, the consolidated Operating Debtors; and (iv) all Operating Debtor InterCompany Claims will be deemed eliminated as a result of the substantive consolidation of the Operating Debtors, and therefore holders thereof will not be entitled to vote on the Plan, or receive any Distributions or other allocations of value under the Plan. Except as set forth in Section 2.1 of the Plan, such substantive consolidation will not (other than for purposes related to the Plan) (y) affect the legal and corporate structure of the Liquidating Companies or (z) affect any obligations under any leases or contracts assumed in the Plan or otherwise after the Petition Date.

Unless substantive consolidation has been approved by a prior order of the Bankruptcy Court, the Plan will serve as a motion seeking entry of an order substantively consolidating the Operating Debtors' Chapter 11 Cases. UNLESS AN OBJECTION TO SUBSTANTIVE CONSOLIDATION IS MADE IN WRITING BY ANY CREDITOR AFFECTED BY THE PLAN, AS PROVIDED IN THE PLAN, ON OR BEFORE SEVEN (7) DAYS PRIOR TO THE CONFIRMATION HEARING, OR SUCH OTHER DATE AS MAY BE FIXED BY THE BANKRUPTCY COURT, THE SUBSTANTIVE CONSOLIDATION ORDER (WHICH MAY BE THE CONFIRMATION ORDER) MAY BE ENTERED BY THE BANKRUPTCY COURT. In the event any such objections are timely filed, a hearing with respect thereto will be scheduled by the Bankruptcy Court, which hearing may, but need not, coincide with the Confirmation Hearing.

Substantive consolidation is an equitable remedy which a bankruptcy court may be asked to apply in cases involving affiliated debtors. As contrasted with procedural consolidation,[7] substantive consolidation may affect the substantive rights and obligations of creditors and debtors. Substantive consolidation involves the pooling and merging of the assets and liabilities of the affected debtors; all of the debtors in the substantively consolidated group are treated as if they were a single corporate/economic entity. The consolidated assets create a single fund from which all claims against the consolidated debtors are to be satisfied. Consequently, a creditor of one of the substantively consolidated debtors is treated as a creditor of the substantively consolidated group of debtors and issues of individual corporate ownership of property and individual corporate liability on obligations are ignored. However, substantive consolidation does not affect the debtors' separate corporate existence or independent ownership of property for any purposes other than for making distributions of property under a plan of reorganization or otherwise as necessary to implement such plan.

As discussed above, substantive consolidation generally has the effect of, among other things, eliminating (i) cross-corporate guaranties by one debtor of the obligation of another debtor in the substantively consolidated group, (ii) duplicative claims against more than one

[7] Procedural consolidation is the administrative process (contemplated by Bankruptcy Rule 1015(b)) whereby the proceedings of two or more affiliated debtors are conducted as part of a single proceeding for the convenience of the bankruptcy court and parties in interest. Procedural consolidation does not affect the substantive rights of the debtors or their respective creditors and interest holders. The Chapter 11 Cases were procedurally consolidated by order of the Bankruptcy Court dated October 27, 2008.

debtor in the substantively consolidated group and (iii) intercompany claims between the substantively consolidated debtors.

The power to substantively consolidate interrelated chapter 11 cases lies in a bankruptcy court's general equitable powers, which are set forth in section 105 of the Bankruptcy Code. Within this framework, the factors to which bankruptcy courts have looked to determine the appropriateness of substantive consolidation include: (a) whether the affairs of the debtors are so entangled that the consolidation will benefit all creditors of the debtors; (b) the balance of the benefits and harms to creditors and other parties in interest; and (c) the impact of the substantive consolidation on the bankruptcy estates.

Regarding the first of these factors, bankruptcy courts analyzing the interrelationships between entities for purposes of evaluating the appropriateness of substantive consolidation generally consider whether the entities were operated as a single enterprise. Relevant factors include: (i) whether a parent debtor owns all or a majority of the capital stock of the relevant subsidiaries; (ii) whether the parent and subsidiary debtors have common directors or officers; (iii) whether a parent debtor finances its subsidiaries or guarantees loans made to its subsidiaries; (iv) whether a parent debtor subscribes to all the capital stock of a subsidiary or otherwise causes its incorporation; (v) whether the subsidiary has grossly inadequate capital; (vi) whether the subsidiary has no employees; (vii) whether the parent debtor pays the salaries, expenses or losses of the subsidiary; (viii) whether the subsidiary has substantially no business except with the parent or no assets except those conveyed to it by the parent; (ix) whether in the papers of the parent debtor, and in the statements of its officers, the subsidiary is referred to as such or as a department or division; (x) whether the directors or executives of the subsidiary do not act independently, but take direction from the parent; (xi) whether the formal legal requirements of the subsidiary as a separate and independent entity are not observed; (xii) whether consolidation would provide economic benefit; (xiii) whether assets and business functions of the parent and subsidiary are commingled; (xiv) whether segregating and ascertaining individual assets and liabilities of the parent and subsidiary would be difficult; and (xv) whether assets were transferred between the entities without observance of corporate or other legal formalities.

In considering the second of these factors (the impact of substantive consolidation on creditors), bankruptcy courts generally look to the extent that creditors have relied on the separate credit of each entity.

Regarding the third factor, bankruptcy courts will consider whether substantive consolidation will enhance and facilitate the debtors' rehabilitation or aid an orderly liquidation. Although there is no established standard for applying this consideration, bankruptcy courts will focus on several factors, including: (i) the potential savings in costs and time associated with disentangling the records and accounts of the debtors; (ii) the elimination of duplicate claims against several debtors and the need to adjudicate which debtor is liable; and (iii) the financial benefit, if any, from consolidating the operations of the debtors.

Because they generally have operated and been accounted for as a single integrated economic entity, the Debtors believe that the factors set forth above have been satisfied sufficiently to warrant an order of substantive consolidation of the Operating Debtors' Estates. The Operating Debtors traditionally have had combined business functions and consolidated financial statements. For example, the Debtors file consolidated tax returns, have commingled assets, share a single corporate headquarters and have identical boards of directors. The Operating Debtors have not generally held themselves out to creditors as separate legal entities, and believe that creditors have not relied on corporate distinctions or the creditworthiness of any particular Operating Debtor entity (as opposed to the Debtors generally) in determining whether to provide goods and services and/or extend credit to any Operating Debtor.

Further, any benefit to creditors of keeping the Operating Debtor entities separate would be vastly outweighed by the enormous cost and burden of attempting to track and disentangle all inter-company transactions for entities which, for all practical purposes, have been operated and accounted for on a consolidated basis.

The Debtors believe that substantive consolidation of the Operating Debtors' Estates will facilitate implementation of the Plan and foster similarity and fairness of treatment of holders of Claims. In addition, no prejudice is likely to result from the substantive consolidation of the Chapter 11 Cases. Hence, the Debtors believe that substantive consolidation is not only justified pursuant to applicable law, but is also in the best interests of their creditors and estates.

C. Liquidation of the Debtors

The Debtors will continue to exist (notwithstanding the substantive consolidation set forth in Section 2.1 of the Plan) as the Liquidating Companies on and after the Effective Date, with all of the powers of corporations under applicable law. The certificates of incorporation and by-laws of the Liquidating Companies will, inter alia, prohibit the issuance of nonvoting stock to the extent required by section 1123(a)(6) of the Bankruptcy Code. On the Effective Date, Value City will issue ten shares of new common stock to the Plan Administrator in exchange for payment of one dollar ($1). On the Effective Date, all property of the Debtors will vest in the Liquidating Companies, free and clear of all Claims, Interests, liens, charges or other encumbrances.

On the Effective Date, the Plan Administrator will be appointed pursuant to the terms of the Plan Administrator Agreement and will succeed to such powers as would have been applicable to the Liquidating Companies' officers, directors and shareholders, including the power to pursue Causes of Action and Avoidance Actions, and the Liquidating Companies will be authorized to be (and, upon the conclusion of the Wind-down of their affairs, will be) dissolved by the Plan Administrator. On the Effective Date, the Plan Administrator will establish and fund the Wind-down Reserve, the Holdback Amount Reserve, the Disputed Claims Reserves, and the Claims Distribution Fund in accordance with the terms of the Plan. All other property of the Estates, including the Causes of Action, not distributed to the holders of Claims on the Effective Date will be managed by the Plan Administrator and will be held in the name of the Debtors or the Liquidating Companies free and clear of all Claims against the Debtors and Interests, except for the rights to such Distribution afforded to the holders of Allowed Claims and Interests under the Plan. The Plan Administrator will make the remaining Distributions required under the Plan in accordance with the Plan's terms. After the Effective Date, the Debtors will have no liability to holders of Claims or Interests other than as provided for in the Plan. The Plan will be administered and actions will be taken in the name of the Debtors or Liquidating Companies through the Plan Administrator irrespective of whether any of the Debtors or the

Liquidating Companies have been dissolved. The Plan Administrator will comply with all applicable provisions of the Plan.

The activities and operations of the Liquidating Companies and the Plan Administrator (other than Distributions from the Claims Distribution Fund) will be funded through a fund to be established on the Effective Date, in accordance with the terms of the Wind-down Budget, to fund the winding-down of the affairs of the Debtors and the Liquidating Companies and the other items reflected in the Wind-down Budget (the "**Wind-down Reserve**"). After the Effective Date, the Wind-down Reserve will be supplemented with 100% of the Debtors' Cash and the net proceeds from the collection, sale, liquidation or other disposition of any non-Cash property, including the Causes of Action Recoveries, of the Debtors or the Liquidating Companies existing on or created after the Effective Date, to the extent such property has not otherwise been allocated pursuant to the terms of the Plan. Upon the closing of the Chapter 11 Cases and the dissolution of the Liquidating Companies, or such earlier time as it appears, in the reasonable view of the Plan Administrator, that the Wind-down Reserve is overfunded, all amounts remaining (or constituting excess funds) in the Wind-down Reserve, and otherwise in the Estates (other than in the Claims Distribution Fund), will be transferred to the Claims Distribution Fund; provided, that if the amount to be transferred to the Claims Distribution Fund pursuant to Section 7.5 of the Plan is less $25,000, the Plan Administrator may, at the conclusion of the Chapter 11 Cases, donate such amounts to a charity or charities designated by the Plan Administrator. In no event will the Debtors' Cash and the net proceeds from the collection, sale, liquidation or other disposition of any non-Cash property, including the Causes of Action Recoveries, of the Debtors or the Liquidating Companies existing on or created after the Effective Date, be transferred to the Claims Distribution Fund if, notwithstanding the Wind-down Budget, insufficient assets remain in the Wind-down Reserve to fund the winding-down of the affairs of the Debtors and the Liquidating Companies and the other items reflected in the Wind-down Budget.

D. Conditions to Confirmation and Consummation of the Plan

Pursuant to Section 11.1 of the Plan, the Plan may not be confirmed unless: (i) the Disclosure Statement Order, in the form and substance reasonably satisfactory to the Debtors and the Creditors' Committee, has been entered by the Bankruptcy Court; and (ii) the Wind-down Budget is completed.

Pursuant to Section 11.2 of the Plan, the Plan may not be consummated unless: (i) the Confirmation Order, in form and substance reasonably acceptable to the Debtors and the Creditors' Committee, has been entered by the Bankruptcy Court and is a Final Order; (ii) the Certificates of Incorporation and By-Laws of the Liquidating Companies have been amended or created as provided in the Plan; and (iii) the Debtors have sufficient Cash on hand to pay or fund, in full, all Allowed Administrative Expense Claims, Allowed Fee Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed Other Secured Claims, and Allowed VCHI Acquisition General Unsecured Claims and fund the Wind-down Reserve, the Holdback Amount Reserve and the Disputed Priority Claims Reserve.

Pursuant to Section 11.3 of the Plan, the Debtors, with the reasonable consent of the Creditors' Committee, will have the right to waive one or more of the conditions precedent set forth in Section 11.1 of the Plan at any time without leave of or notice to the Bankruptcy Court and without formal action other than proceeding with confirmation of the Plan. Further, the Debtors, with the reasonable consent of the Creditors' Committee, will have the right to waive one or more of the conditions precedent set forth in Section 11.2 of the Plan at any time without leave of or notice to the Bankruptcy Court and without formal action other than proceeding with consummation of the Plan. If any condition precedent to the Effective Date is waived pursuant to Section 11.3(b) of the Plan and the Effective Date occurs, the waiver of such condition will benefit from the "mootness doctrine," and the act of consummation of the Plan will foreclose any ability to challenge the Plan in any court. Unless otherwise provided in the Plan, any actions required to be taken on the Effective Date will take place and will be deemed to have occurred simultaneously, and no such action will be deemed to have occurred prior to the taking of any other such action.

If each of the conditions to consummation and the occurrence of the Effective Date has not been satisfied or duly waived on or before the date that is 180 days after the Confirmation Date, or by such later date as determined by the Debtors, with the reasonable consent of the Creditors' Committee, the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is vacated, the Plan will be null and void in all respects, and nothing contained in the Plan will: (a) constitute a waiver or release of any Claims against or Interests in the Debtors; or (b) prejudice in any manner the rights of the Debtors.

E. Releases and Injunctions

THE FOLLOWING IS QUALIFIED IN ITS ENTIRETY BY THE RELEVANT TERMS OF THE PLAN. PARTIES ARE REFERRED TO SUCH PROVISIONS FOR THE SPECIFIC TERMS OF THE PLAN RELATING TO RELEASES AND INJUNCTIONS. IF ANY INCONSISTENCY ARISES BETWEEN THE TERMS OF THE PLAN AND THE PROVISIONS OF THIS SECTION (AS WITH ALL SECTIONS HEREOF RELATED TO THE PLAN), THE TERMS OF THE PLAN WILL GOVERN.

1. Debtors' Releases

PURSUANT TO SECTION 12.7(a) OF THE PLAN, AS OF THE EFFECTIVE DATE, EACH DEBTOR AND DEBTOR IN POSSESSION, AND ANY PERSON SEEKING TO EXERCISE THE RIGHTS OF THE DEBTORS' ESTATES, INCLUDING WITHOUT LIMITATION, ANY SUCCESSOR TO THE DEBTORS, INCLUDING THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR, OR ANY REPRESENTATIVE OF THE DEBTORS' ESTATES APPOINTED OR SELECTED PURSUANT TO SECTIONS 1103, 1104, OR 1123(b)(3) OF THE BANKRUPTCY CODE OR UNDER CHAPTER 7 OF THE BANKRUPTCY CODE, WILL BE DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS (AS SUCH TERM "CLAIM" IS DEFINED IN SECTION 101(5) OF THE BANKRUPTCY CODE), OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION (INCLUDING, BUT NOT LIMITED TO, THE CAUSES OF ACTION) AND LIABILITIES (OTHER THAN THE RIGHTS OF THE DEBTORS TO ENFORCE THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES AND OTHER AGREEMENTS OR DOCUMENTS DELIVERED THEREUNDER) WHETHER LIQUIDATED OR UNLIQUIDATED, FIXED OR

CONTINGENT, MATURED OR UNMATURED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, EXISTING OR HEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE FROM THE PETITION DATE THROUGH AND INCLUDING THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE PARTIES RELEASED PURSUANT TO SECTION 12.7(a) OF THE PLAN, THE CHAPTER 11 CASES, THE PLAN OR THE DISCLOSURE STATEMENT, AND THAT COULD HAVE BEEN ASSERTED BY OR ON BEHALF OF THE DEBTORS OR THEIR ESTATES, WHETHER DIRECTLY, INDIRECTLY, DERIVATIVELY OR IN ANY REPRESENTATIVE OR ANY OTHER CAPACITY, AGAINST ANY RELEASED PARTY; PROVIDED, HOWEVER, THAT IN NO EVENT WILL ANYTHING IN SECTION 12.7(a) OF THE PLAN BE CONSTRUED AS A RELEASE OF ANY PERSON'S FRAUD OR WILLFUL MISCONDUCT, AS DETERMINED BY A FINAL ORDER, FOR MATTERS WITH RESPECT TO THE DEBTORS AND/OR THEIR AFFILIATES.

2. Releases by Holders of Claims and Interests

PURSUANT TO SECTION 12.7(b) OF THE PLAN, ON THE EFFECTIVE DATE, TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, AS SUCH LAW MAY BE EXTENDED OR INTERPRETED SUBSEQUENT TO THE EFFECTIVE DATE, EACH ENTITY (OTHER THAN A DEBTOR) THAT HAS HELD, HOLDS OR MAY HOLD A CLAIM OR INTEREST, AS APPLICABLE, IN CONSIDERATION FOR THE OBLIGATIONS OF THE DEBTORS UNDER THE PLAN, THE PLAN DISTRIBUTIONS AND OTHER CONTRACTS, INSTRUMENTS, RELEASES, AGREEMENTS OR DOCUMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THE PLAN, WILL BE DEEMED TO HAVE CONSENTED TO THE PLAN AND THE RESTRUCTURING EMBODIED HEREIN FOR ALL PURPOSES AND DEEMED TO FOREVER RELEASE, WAIVE AND DISCHARGE ALL CLAIMS (AS SUCH TERM IS DEFINED IN SECTION 101(5) OF THE BANKRUPTCY CODE), INCLUDING BUT NOT LIMITED TO ANY CLAIM SOUNDING IN LAW OR EQUITY OR ASSERTING A TORT, BREACH OF ANY DUTY OR CONTRACT, VIOLATIONS OF THE COMMON LAW, ANY FEDERAL OR STATE STATUTE, ANY FEDERAL OR STATE SECURITIES LAWS OR OTHERWISE, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION (INCLUDING WITHOUT LIMITATION, THE CAUSES OF ACTION) OR LIABILITIES (OTHER THAN THE RIGHT TO ENFORCE THE OBLIGATIONS OF ANY PARTY UNDER THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, AGREEMENTS AND DOCUMENTS DELIVERED UNDER OR IN CONNECTION WITH THE PLAN), INCLUDING, WITHOUT LIMITATION, ANY CLAIMS FOR ANY SUCH LOSS SUCH HOLDER MAY SUFFER, HAVE SUFFERED OR BE ALLEGED TO SUFFER AS A RESULT OF THE DEBTORS COMMENCING THE CHAPTER 11 CASES OR AS A RESULT OF THE PLAN BEING CONSUMMATED, WHETHER LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, EXISTING OR HEREAFTER ARISING, IN LAW, EQUITY OR OTHERWISE THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT OR OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE FROM THE PETITION DATE THROUGH AND INCLUDING THE EFFECTIVE DATE IN ANY WAY RELATING TO THE DEBTORS, THE CHAPTER 11 CASES, THE PLAN OR THE DISCLOSURE

STATEMENT AGAINST ANY DEBTOR, LIQUIDATING COMPANY, RELEASED PARTY OR THE PLAN ADMINISTRATOR; PROVIDED, HOWEVER, THAT IN NO EVENT WILL ANYTHING IN SECTION 12.7(b) OF THE PLAN BE CONSTRUED AS A RELEASE OF ANY PERSON'S FRAUD OR WILLFUL MISCONDUCT, AS DETERMINED BY A FINAL ORDER, FOR MATTERS WITH RESPECT TO THE DEBTORS AND/OR THEIR AFFILIATES.

3. Release and Waiver of Claims

PURSUANT TO SECTION 12.3 OF THE PLAN, UPON THE EFFECTIVE DATE AND IN CONSIDERATION OF THE DISTRIBUTIONS TO BE MADE UNDER THE PLAN, EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR IN THE CONFIRMATION ORDER, EACH HOLDER (AS WELL AS ANY TRUSTEES AND AGENTS ON BEHALF OF EACH HOLDER) OF A CLAIM OR INTEREST AND ANY AFFILIATE OF SUCH HOLDER WILL BE DEEMED TO HAVE FOREVER WAIVED, RELEASED, AND DISCHARGED THE DEBTORS OF AND FROM ANY AND ALL CLAIMS, INTERESTS, RIGHTS, AND LIABILITIES THAT AROSE PRIOR TO THE EFFECTIVE DATE. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN, UPON THE EFFECTIVE DATE, ALL SUCH HOLDERS OF CLAIMS AND INTERESTS AND THEIR AFFILIATES WILL BE FOREVER PRECLUDED AND ENJOINED FROM PROSECUTING OR ASSERTING ANY SUCH WAIVED, RELEASED, AND DISCHARGED CLAIM AGAINST OR TERMINATED INTEREST IN THE DEBTORS. NOTHING IN SECTION 12.3 OF THE PLAN WILL PRECLUDE ANY HOLDER OF AN ALLOWED CLAIM OR INTEREST FROM RECEIVING THE APPLICABLE DISTRIBUTION PROVIDED FOR UNDER THE PLAN.

4. Injunction

UPON ENTRY OF THE CONFIRMATION ORDER, EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, AS OF THE CONFIRMATION DATE, BUT SUBJECT TO THE OCCURRENCE OF THE EFFECTIVE DATE, ALL PERSONS WHO HAVE HELD, HOLD OR MAY HOLD CLAIMS AGAINST OR INTERESTS IN THE DEBTORS OR THE ESTATES ARE, WITH RESPECT TO ANY SUCH CLAIMS OR INTERESTS, PERMANENTLY ENJOINED FROM: (I) COMMENCING, CONDUCTING OR CONTINUING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY SUIT, ACTION OR OTHER PROCEEDING OF ANY KIND (INCLUDING, WITHOUT LIMITATION, ANY PROCEEDING IN A JUDICIAL, ARBITRAL, ADMINISTRATIVE OR OTHER FORUM) AGAINST OR AFFECTING THE DEBTORS, THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR, THE RELEASED PARTIES, THE ESTATES OR ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR; (II) ENFORCING, LEVYING, ATTACHING (INCLUDING, WITHOUT LIMITATION, ANY PRE-JUDGMENT ATTACHMENT), COLLECTING OR OTHERWISE RECOVERING BY ANY MANNER OR MEANS, WHETHER DIRECTLY OR INDIRECTLY, ANY JUDGMENT, AWARD, DECREE OR ORDER AGAINST THE DEBTORS, THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR, THE RELEASED PARTIES OR THE ESTATES OR ANY OF THEIR

PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR DIRECT OR INDIRECT SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS, OR ANY PROPERTY OF ANY SUCH TRANSFEREE OR SUCCESSOR; (III) CREATING, PERFECTING OR OTHERWISE ENFORCING IN ANY MANNER, DIRECTLY OR INDIRECTLY, ANY ENCUMBRANCE OF ANY KIND AGAINST THE DEBTORS, THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR, THE RELEASED PARTIES OR THE ESTATES OR ANY OF THEIR PROPERTY, OR ANY DIRECT OR INDIRECT TRANSFEREE OF ANY PROPERTY OF, OR SUCCESSOR IN INTEREST TO, ANY OF THE FOREGOING PERSONS; (IV) ACTING OR PROCEEDING IN ANY MANNER, IN ANY PLACE WHATSOEVER, THAT DOES NOT CONFORM TO OR COMPLY WITH THE PROVISIONS OF THE PLAN TO THE FULL EXTENT PERMITTED BY APPLICABLE LAW; AND (V) COMMENCING OR CONTINUING, IN ANY MANNER OR IN ANY PLACE, ANY ACTION THAT DOES NOT COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN; PROVIDED, HOWEVER, THAT NOTHING CONTAINED IN THE PLAN WILL PRECLUDE SUCH PERSONS FROM EXERCISING THEIR RIGHTS PURSUANT TO AND CONSISTENT WITH THE TERMS OF THE PLAN.

5. Exculpation and Limitation of Liability

UPON ENTRY OF THE CONFIRMATION ORDER, NONE OF THE DEBTORS, THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR OR THE RELEASED PARTIES WILL HAVE OR INCUR ANY LIABILITY TO ANY HOLDER OF ANY CLAIM OR INTEREST FOR ANY ACT OR OMISSION IN CONNECTION WITH, OR ARISING OUT OF THE DEBTORS' RESTRUCTURING, INCLUDING WITHOUT LIMITATION THE NEGOTIATION AND EXECUTION OF THE PLAN, THE CHAPTER 11 CASES, THE DISCLOSURE STATEMENT, THE SOLICITATION OF VOTES FOR AND THE PURSUIT OF THE PLAN (INCLUDING THAT SOLICITATION OF ACCEPTANCES OF THE PLAN WAS NOT CONDUCTED IN GOOD FAITH NOR IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE), THE CONSUMMATION OF THE PLAN, OR THE ADMINISTRATION OF THE PLAN OR THE PROPERTY TO BE DISTRIBUTED UNDER THE PLAN, INCLUDING, WITHOUT LIMITATION, ALL DOCUMENTS ANCILLARY THERETO, ALL DECISIONS, ACTIONS, INACTIONS AND ALLEGED NEGLIGENCE OR MISCONDUCT RELATING THERETO AND ALL PREPETITION ACTIVITIES LEADING TO THE PROMULGATION AND CONFIRMATION OF THE PLAN EXCEPT FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT AS DETERMINED BY A FINAL ORDER OF THE BANKRUPTCY COURT. THE DEBTORS, THE LIQUIDATING COMPANIES, THE PLAN ADMINISTRATOR AND THE RELEASED PARTIES WILL BE ENTITLED TO RELY UPON THE ADVICE OF COUNSEL WITH RESPECT TO THEIR DUTIES AND RESPONSIBILITIES WITH RESPECT TO THE CHAPTER 11 CASES AND THE PLAN.

6. Retention of Causes of Action

Except with respect to the Released Parties or any other beneficiary of the releases, injunctions, and exculpations contained in Article XII of the Plan, nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or the relinquishment of any rights, claims or causes of action (including without limitation, the Causes of Action) that the Debtors, the Liquidating Companies, or the Plan Administrator may have or may choose to assert on behalf of the Estates or themselves in accordance with any provision of the Bankruptcy Code or any applicable non-bankruptcy law, including, without limitation: (i) any and all claims against any Person, to the extent such Person asserts a crossclaim, counterclaim, and/or Claim for setoff which seeks affirmative relief against a Debtor or any of its officers, directors, or representatives; (ii) the turnover of any property of the Estates; and/or (iii) claims against other third parties.

Except with respect to the Released Parties or any other beneficiary of the releases, injunctions, and exculpations contained in Article XII of the Plan, nothing contained in the Plan or the Confirmation Order will be deemed to be a waiver or relinquishment of any claim, Cause of Action, right of setoff, or other legal or equitable defense that the Debtors had immediately prior to the Petition Date, against the holder of, or with respect to, any Claim. The Debtors and the Liquidating Companies will have, retain, reserve, and be entitled to assert all such claims, Causes of Action, rights of setoff, or other legal or equitable defenses which the Debtors had immediately prior to the Petition Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Debtors' legal and/or equitable rights respecting any Claim may be asserted after the Confirmation Date to the same extent as if the Chapter 11 Cases had not been commenced.

7. Leases and Executory Contracts

On the Effective Date, all executory contracts and unexpired leases of the Debtors and/or the Estates, will be rejected by the Debtors pursuant to sections 365 and 1123 of the Bankruptcy Code, except: (i) those executory contracts or unexpired leases set forth on Schedule 10.1 to the Plan; (ii) any executory contracts and unexpired leases that are or were the subject of separate motions to assume or reject filed pursuant to section 365 of the Bankruptcy Code by the Debtors before the entry of the Confirmation Order; (iii) all executory contracts or unexpired leases assumed under the Plan or by order of the Bankruptcy Court entered before the Confirmation Date and not subsequently rejected pursuant to an order of the Bankruptcy Court; and (iv) any agreement, obligation, security interest, transaction or similar undertaking that the Debtors believe is not executory or a lease that is later determined by the Bankruptcy Court to be an executory contract or unexpired lease that is subject to assumption or rejection under section 365 of the Bankruptcy Code, which agreements will be subject to assumption or rejection within thirty (30) days of any such determination; provided, that, any executory contract or unexpired lease listed on Schedule 10.1 to the Plan or otherwise to be assumed pursuant to the Plan that is the subject of a Cure Dispute pursuant to Section 10.4 of the Plan may be rejected upon a motion, made by the Debtors or the Liquidating Companies, as the case may be, to reject such contract or lease based upon the existence of such dispute filed at any time. Any order entered after the Confirmation Date by the Bankruptcy Court, after notice and a hearing, authorizing the rejection of an executory contract or unexpired lease will cause such rejection to be a prepetition breach under sections 365(g) and 502(g) of the Bankruptcy Code, as if such relief was granted and such order was entered prior to the Confirmation Date.

ARTICLE VI.

CONFIRMATION

A. Introduction

The Bankruptcy Code requires the bankruptcy court to determine whether a plan of reorganization complies with the technical requirements of chapter 11 of the Bankruptcy Code. It requires further that a debtor's disclosures concerning such plan have been adequate and have included information concerning all payments made or promised by the debtor in connection with the plan.

To confirm the Plan, the Bankruptcy Court must find that all of these and other requirements have been met. Thus, even if the requisite vote is achieved for the Voting Class, the Bankruptcy Court must make independent findings respecting the Plan's conformity with the requirements of the Bankruptcy Code before it may confirm the Plan. Some of these statutory requirements are discussed below.

B. Voting Procedures and Standards

On ____________, 2010, the Bankruptcy Court approved this Disclosure Statement as containing information of a kind and in sufficient detail adequate to enable the holders of Claims against the Debtors to make an informed judgment with respect to acceptance or rejection of the Plan. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.

WHEN AND IF CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTORS, WHETHER OR NOT THEY ARE ENTITLED TO VOTE OR DID VOTE ON THE PLAN AND WHETHER OR NOT THEY RECEIVE OR RETAIN ANY DISTRIBUTIONS OR PROPERTY UNDER THE PLAN. THUS, ALL HOLDERS OF CLAIMS AGAINST THE DEBTORS ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE PLAN. This Disclosure Statement contains important information about the Plan and considerations pertinent to acceptance or rejection of the Plan, and developments concerning the Chapter 11 Cases.

THIS DISCLOSURE STATEMENT AND THE RELATED DOCUMENTS APPROVED BY THE BANKRUPTCY COURT ARE THE ONLY DOCUMENTS AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitation of votes may be made except after distribution of this Disclosure Statement, and no person has been authorized to distribute any information concerning the Debtors other than the information contained herein.

C. Solicitation Package

Accompanying this Disclosure Statement are copies of (i) the Plan, (ii) notice of, among other things, the time for submitting Ballots to accept or reject the Plan, the date, time and place of the hearing to consider the confirmation of the Plan and related matters, and the time for filing objections to confirmation of the Plan (the "Confirmation Hearing Notice"), (iii) the order of the Bankruptcy Court, dated ______________, 2010 (the "Disclosure Statement Order"), which, among other things, approves this Disclosure Statement, (iv) the _____________, 2009 order of the Bankruptcy Court establishing certain procedures with respect to the solicitation and tabulation of votes to accept or to reject the Plan, and (v) if applicable, one or more Ballots (and return envelopes) that you may use in voting to accept or to reject the Plan (the "Solicitation Package"). If you did not receive a Ballot in your package and believe that you should have, please contact the appropriate Voting Agent at the address or telephone number set forth below.

D. Holders of Claims Entitled to Vote

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and that are in a class that will receive a distribution under the plan are entitled to vote to accept or reject a proposed chapter 11 plan. Classes of claims or equity interests in which the holders of claims or equity interests are unimpaired under a chapter 11 plan are conclusively presumed to have accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or interests which receive no distribution on account of their claims or interests are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan.

The Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. Acceptance of a plan by a class of interests requires acceptance by at least two-thirds of the number of shares in such class that cast ballots for acceptance or rejection of the plan.

Section 1129(b) of the Bankruptcy Code permits the confirmation of a plan notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or interests. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class. The Debtors intend to seek confirmation pursuant to section 1129(b) of the Bankruptcy Code with respect to Classes 6 and 8, which Classes are deemed to reject the Plan by virtue of receiving no distribution thereunder, and any other Class that rejects the Plan. A final determination as to whether to seek confirmation of the Plan under such circumstances will be announced before or at the Confirmation Hearing.

E. Voting Procedures, Ballots, and Voting Deadline

After carefully reviewing the Plan, this Disclosure Statement, and the detailed instructions on the enclosed Ballot, please indicate your acceptance or rejection of the Plan by checking the appropriate box on the Ballot. Complete and sign your Ballot and return it in the envelope provided so that it is RECEIVED by the Voting Deadline.

Each Ballot has been designated for a specific Class of Claims. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement. If you believe you received the wrong Ballot, please contact the Voting Agent at the address or telephone number set forth below.

FOR YOUR VOTE TO BE COUNTED, YOU MUST PROPERLY COMPLETE AND MAIL YOUR BALLOT SO THAT YOUR VOTE IS *RECEIVED* BY THE VOTING AGENT NO LATER THAN **__________**, 2010, AT 4:00 P.M. NEW YORK TIME.

If you have any questions about the voting procedures or the Solicitation Package, please contact the Voting Agent at the following addresses and phone number:

Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor
New York, NY 10017
Tel. (646) 282-2500
Attn: Angharad Bowdler

You may obtain additional copies of the Plan, this Disclosure Statement or other material in the Solicitation Package from the Voting Agent.

F. Confirmation Hearing and Deadline for Objections to Confirmation

Pursuant to section 1128 of the Bankruptcy Code and Bankruptcy Rule 3017(c), the Bankruptcy Court has scheduled a hearing on confirmation of the Plan (the "Confirmation Hearing") commencing at __:__ _.m. (prevailing Eastern Time), on __________, 2010, at the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York 10004, before Honorable James M. Peck The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice other than by announcement in the Bankruptcy Court on the scheduled date of such hearing or by notice of agenda sent to parties entitled to receipt thereof. At the Confirmation Hearing, the Bankruptcy Court will (i) determine whether the requisite vote has been obtained for the Voting Class, (ii) hear and determine objections, if any, to the Plan and to confirmation of the Plan that have not been previously disposed of, (iii) determine whether the Plan meets the confirmation requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

Any objection to confirmation of the Plan must be in writing and filed and served as required by the Bankruptcy Court pursuant to the order approving the Disclosure Statement, a copy of which accompanies this Disclosure Statement. Specifically, all objections to the confirmation of the Plan must be served in a manner so as to be RECEIVED on or before __________, 2010 at 4:00 p.m. (prevailing Eastern time) by: (1) the Office of the U.S. Trustee for the Southern District of New York, 33 Whitehall Street, 21st Floor, New York, NY 10004, Attn: Gregory Zipes, Esq., (2) counsel for the Debtors, Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019, Attn.: John Longmire, Esq. and Lauren C. Cohen, Esq.; and (3) counsel to the Creditors' Committee, Otterbourg Steindler Houston & Rosen P.C., 230 Park Avenue, New York, NY 10169, Attn: David M. Posner, Esq.

G. Acceptance

The Bankruptcy Code defines acceptance of a plan by an impaired class of claims as acceptance by holders of at least two-thirds in dollar amount, and more than one-half in number, of claims of that class that actually vote. Acceptance of the Plan need only be solicited from holders of Claims whose Claims are "impaired" and who are not deemed to have rejected the Plan. See Section VI.D ("Holders of Claims Entitled to Vote") above. Except in the context of a "cramdown," as a condition to confirmation of the Plan, the Bankruptcy Code requires that, with certain exceptions, each Class of impaired Claims accepts the Plan. The Debtors intend to seek acceptances of the Plan from holders of Claims in the Voting Class, and to "cramdown" the Plan on holders of certain impaired Interests who are deemed to reject the Plan by virtue of receiving no Distributions thereunder.

In the event the requisite vote is not obtained, the Debtors have the right, assuming that at least one Class of impaired Claims has accepted the Plan, to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. Section 1129(b) of the Bankruptcy Code permits confirmation of a plan notwithstanding rejection by one or more classes of impaired claims or impaired interests if the bankruptcy court finds that the plan does not discriminate unfairly and is "fair and equitable" with respect to the rejecting class or classes. This procedure is commonly referred to in bankruptcy parlance as a "cramdown." For a more detailed description of the requirements for acceptance of the Plan and of the criteria for confirmation of the Plan notwithstanding rejection by certain impaired Classes, see Section VI.H.4 ("Cramdown"), below. The Plan is predicated on the Voting Class voting to accept the Plan. The Debtors will seek a cramdown of the Plan on Classes deemed to reject the Plan by virtue of receiving no Distributions thereunder.

H. Confirmation and Consummation

At the Confirmation Hearing, the Bankruptcy Court will determine whether the requirements of section 1129(a) of the Bankruptcy Code have been satisfied with respect to the Plan. Section 1129(a) of the Bankruptcy Code requires that, among other things, for a plan to be confirmed:

- The plan satisfies the applicable provisions of the Bankruptcy Code.
- The proponent of the plan has complied with the applicable provisions of the Bankruptcy Code.
- The plan has been proposed in good faith and not by any means forbidden by law.

- Any payment made or promised by the proponent under the plan for services or for costs and expenses in, or in connection with, the chapter 11 case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable.

- The proponent has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in the plan with the debtor, or a successor to the debtor under the plan. The appointment to, or continuance in, such office of such individual must be consistent with the interests of creditors and equity security holders and with public policy and the proponent must have disclosed the identity of any insider that the reorganized debtor will employ or retain, and the nature of any compensation for such insider.

- With respect to each class of impaired claims or interests, each holder of a claim or interest of such class either has accepted the plan, or will receive or retain under the plan, on account of such claim or interest, property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor were liquidated on such date under chapter 7 of the Bankruptcy Code.

- Each class of claims or interests has either accepted the plan or is not impaired under the plan.

- Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that allowed administrative expenses and priority claims will be paid in full on the effective date (except that if a class of certain types of priority claims has voted to accept the plan, holders of such claims may receive deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amounts of such claims and that holders of priority tax claims may receive on account of such claims, regular installment payments in cash (i) of a total value, as of the effective date, equal to the allowed amount of such claim, (ii) over a period not exceeding five (5) years after the petition date, or (iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122 of the Bankruptcy Code).

- If a class of claims is impaired, at least one (1) impaired class of claims has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim in such class.

- Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

- All fees payable to the applicable United States Trustee's office, pursuant to section 1930 of title 28, have been paid or the plan provides for payment of such fees on the effective date of the plan.

Subject to receiving the requisite votes in accordance with section 1129(a)(8) of the Bankruptcy Code and the "cramdown" of Classes not receiving any Distributions under the Plan, the Debtors believe that (i) the Plan satisfies all of the statutory requirements of chapter 11 of the Bankruptcy Code, (ii) the Debtors have complied or will have complied with all of the requirements of chapter 11 of the Bankruptcy Code, and (iii) the Plan has been proposed in good faith.

Set forth below is a more detailed summary of the relevant statutory confirmation requirements.

1. Best Interests of Holders of Claims and Equity Interests

The "best interests" test requires that the bankruptcy court find either that all members of each impaired class have accepted the plan or that each holder of an allowed claim or interest of each impaired class of claims or interests will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would receive or retain if the debtor were liquidated under chapter 7 of the Bankruptcy Code on such date. See the Liquidation Analysis annexed as Exhibit B hereto, which demonstrates that the Plan satisfies the "best interests" test.

To calculate what holders of Claims would receive if the Debtors were hypothetically liquidated under chapter 7 of the Bankruptcy Code, the Bankruptcy Court must first determine the dollar amount that would be realized from the liquidation (the "Liquidation Fund") of the Debtors. The Liquidation Fund would consist of the net proceeds from the disposition of the Debtors' assets (after satisfaction of all valid liens) augmented by the Cash held by the Debtors and recoveries on actions against third parties, if any. The Liquidation Fund would then be reduced by the costs of the liquidation. The costs of liquidation under chapter 7 would include the fees and expenses of a trustee, as well as those of counsel and other professionals that might be retained by the trustee, selling expenses, any unpaid expenses incurred by the Debtors during their cases (such as fees for attorneys, financial advisors and accountants) which would be allowed in the chapter 7 proceeding, interest and fees on secured debt and claims incurred by the Debtors during the pendency of the cases. These claims would be paid in full out of the Liquidation Fund before the balance of the Liquidation Fund, if any, would be made available to holders of unsecured Claims. The present value of the distributions out of the Liquidation Fund (after deducting the amounts described above) is then compared with the present value of the property offered to each of the Classes of Claims and holders of Equity Interests under the Plan to determine if the Plan is in the best interests of each holder of a Claim or Equity Interest.

The Debtors believe that a chapter 7 liquidation of the Debtors' remaining assets would result in diminution in the value to be realized under the Plan by holders of Claims. That belief is based upon, among other factors: (a) the additional administrative expenses involved in the appointment of a trustee, attorneys, accountants, and other chapter 7 professionals; (b) the substantial time which would elapse before creditors would receive any distribution in respect of their Claims due to a trustee's need to become familiar with the Chapter 11 Cases and the Debtors' books and records, and his duty to conduct his own investigations; (c) the substantial cost and delay which can be avoided by a largely consensual plan; and (d) the disruption related to a change in management and other personnel.

2. **Financial Feasibility**

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation should not be likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors unless such liquidation or reorganization is proposed in the Plan. Indeed, section 1123(b)(4) of the Bankruptcy Court permits liquidation plans that "provide for the sale of all or substantially all or the property of the estate, and the distribution of the proceeds of such sale among holders of claims or interests" in chapter 11 proceedings and, thus, such a plan does not violate the requirements of section 1129(a) of the Bankruptcy Code. Moreover, when a liquidating plan is tested against section 1129(a)(11) of the Bankruptcy Code, the feasibility standard is greatly simplified. In the context of a liquidating plan, feasibility is established by demonstrating the debtor's ability to make the payments anticipated by the plan and specifying the timing of the debtor's liquidation. Notably, there is no requirements that such payments will be guaranteed.

Under the terms of the Plan, the Allowed Claims potentially being paid in Cash are the Allowed Administrative Expense Claims, Allowed Fee Claims, Allowed U.S. Trustee Fees, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed Other Secured Claims, Allowed Insurance Claims, Allowed General Unsecured Claims, and Allowed VCHI Acquisition General Unsecured Claims. The Debtors have estimated the total amount of such payments and expect more than sufficient liquidity from cash on hand and future liquidation of the Debtors' remaining assets to fund these payments.

3. **Acceptance by Impaired Classes**

A class is "impaired" under a plan unless, with respect to each claim or interest of such class, the plan (i) leaves unaltered the legal, equitable and contractual rights to which the claim or interest entitles the holder of such claim or interest; or (ii) notwithstanding any contractual provision or applicable law which entitles the holder of such claim or interest to demand or receive accelerated payment on account of a default, cures any default, reinstates the original maturity of the obligation, compensates the holder for any damages incurred as a result of reasonable reliance on such provision or law and does not otherwise alter the legal, equitable or contractual rights of such holder based upon such claim or interest. A class that is not impaired under a plan of reorganization is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such class is not required.

4. **Cramdown**

THE DEBTORS RESERVE THE RIGHT TO CRAMDOWN THE PLAN ON HOLDERS OF IMPAIRED CLAIMS OR INTERESTS.

The Bankruptcy Code contains provisions for confirmation of a plan even if the plan is not accepted by all impaired classes, as long as at least one impaired class of claims has accepted the Plan. The “cramdown” provisions of the Bankruptcy Code are set forth in section 1129(b) of the Bankruptcy Code. Under the “cramdown” provisions, upon the request of a plan proponent, the bankruptcy court will confirm a plan despite the lack of acceptance by all impaired classes if the bankruptcy court finds that (i) the plan does not discriminate unfairly with respect to each non-accepting impaired class, (ii) the plan is fair and equitable with respect to each non-accepting impaired class, and (iii) at least one impaired class has accepted the plan. These standards ensure that holders of junior interests cannot retain any interest in the debtor under a plan of reorganization that has been rejected by a senior class of impaired claims or interests unless such impaired claims or interests are paid in full.

As used by the Bankruptcy Code, the phrases “discriminate unfairly” and “fair and equitable” have narrow and specific meanings unique to bankruptcy law. A plan does not discriminate unfairly if claims or interests in different classes but with similar priorities and characteristics receive or retain property of similar value under a plan. By establishing separate Classes for the holders of each type of Claim and by treating each holder of a Claim in each Class identically, the Plan has been structured so as to satisfy the “no unfair discrimination” test of section 1129(b) of the Bankruptcy Code.

The Bankruptcy Code sets forth different standards for establishing that a plan is “fair and equitable” with respect to a dissenting class, depending on whether the class is comprised of secured or unsecured claims or interests. In general, section 1129(b) of the Bankruptcy Code permits confirmation, notwithstanding non-acceptance by an impaired class, if that class and all junior classes are treated in accordance with the “absolute priority” rule, which requires that the dissenting class be paid in full before a junior class may receive anything under the plan. Case law surrounding section 1129(b) of the Bankruptcy Code requires that no class senior to a non-accepting impaired class receives more than payment in full on its claims. This will not occur here.

The Debtors intend to seek “cramdown” of the Plan on Classes deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code by virtue of receiving no Distributions thereunder. However, there can be no assurance that the Bankruptcy Court will determine that the Plan meets the requirements of section 1129(b) of the Bankruptcy Code.

5. Classification of Claims and Interests

The Debtors believe that the Plan meets the classification requirements of the Bankruptcy Code, which require that a plan of reorganization place each claim or interest into a class with other claims or interests which are “substantially similar.”

ARTICLE VII.

THE CONTINUED EXISTENCE OF THE DEBTORS

A. Designations and Powers of the Plan Administrator

The Debtors will designate the Plan Administrator, whose appointment will be subject to the consent of the Creditors’ Committee (which consent will not be unreasonably withheld) and the approval of the Bankruptcy Court pursuant to the Confirmation Order. The Plan

Administrator Agreement, which will set forth the terms pursuant to which the Plan Administrator will be appointed, terminated, and will administer the Debtors' Estates in accordance with the provisions of the Plan, will be filed as an exhibit to the Plan on or before five (5) business days prior to the Confirmation Hearing. In general, the Plan Administrator will act for the Liquidating Companies in a fiduciary capacity as applicable to a board of directors, subject to the provisions of the Plan. The duties and powers of the Plan Administrator will, in all cases, be consistent with the terms of the Plan.

B. The Role of the Creditors' Committee

As of the Effective Date, the Creditors' Committee will dissolve, and its members will be released and discharged from all further authority, duties, responsibilities and obligations relating to and arising from the Chapter 11 Cases, except with respect to (a) applications filed pursuant to sections 330 and 331 of the Bankruptcy Code, including responding to any objections to such applications, whether formal or informal, and attendance at any hearing with respect to the consideration of the applications; and (b) motions seeking the enforcement of the provisions of the Plan or the Confirmation Order. After the Effective Date, Professionals retained by the Creditors' Committee and the Debtors may be employed by the Plan Administrator.

C. Post-Confirmation Jurisdiction of the Bankruptcy Court

Notwithstanding confirmation of the Plan or occurrence of the Effective Date, the Bankruptcy Court will retain such jurisdiction as is legally permissible, including, without limitation, for the following purposes:

(i) To hear and determine applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom;

(ii) To determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date;

(iii) To ensure that distributions to holders of Allowed Claims or Allowed Interests are accomplished as provided herein;

(iv) To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim, or Interest;

(v) To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(vi) To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

(vii) To hear and determine any application to modify the Plan in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(viii) To hear and determine all Fee Claims;

(ix) Resolve disputes concerning any reserves with respect to Disputed Claims, Cure Disputes, or the administration thereof;

(x) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated hereby, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(xi) To take any action and issue such orders, including any such action or orders as may be necessary after occurrence of the Effective Date and/or consummation of the Plan, as may be necessary to construe, enforce, implement, execute, and consummate the Plan, to construe, enforce, implement, or execute any release or injunction set forth pursuant to the Plan, in any action or proceeding, whether in connection with any Debtor, Liquidating Company, Released Party, the Plan Administrator, or any holder of a Claim or Interest, or to maintain the integrity of the Plan following consummation;

(xii) To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

(xiii) To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(xiv) To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code;

(xv) Resolve any disputes concerning whether a Person or entity had sufficient notice of the Chapter 11 Cases, the Disclosure Statement Hearing, the Confirmation Hearing, any applicable Bar Date, or the deadline for responding or objecting to a Cure Amount, for the purpose of determining whether a Claim or Interest is discharged hereunder, or for any other purpose;

(xvi) To recover all assets of the Debtors and property of the Estates, wherever located; and

(xvii) To enter a final decree closing the Chapter 11 Cases.

ARTICLE VIII.

CERTAIN RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED HEREIN BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

Except with respect to conditions to confirmation and consummation of the Plan, and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. Further, the Debtors do not anticipate that any amendments or supplements to this Disclosure Statement will be distributed to reflect such occurrences. The delivery of this Disclosure Statement will not under any circumstances imply that the information herein is correct or complete as of any time subsequent to the date hereof.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT.

A. Risk that Distributions will be Less Than Estimated by Debtors

A substantial amount of time may elapse between the Effective Date and the receipt of a final Distribution under the Plan for certain holders of Claims. In particular, holders of General Unsecured Claims may receive Distributions only in quarterly installments, on a pro rata basis, as assets are liquidated and disputed claims are resolved.

The projected distributions and recoveries set forth in this Disclosure Statement and the Debtors' Liquidation Analysis are based on the Debtors' estimates of Allowed Claims. The Debtors project that the Claims asserted against them will be resolved in and reduced to an amount that approximates their estimates. However, there can be no assurance that the Debtors' estimates will prove accurate. Distributions to certain creditors may be affected by the amount of Cash the Debtors are able to realize from the sale or other liquidation of their remaining assets, as well as the costs of continuing to administer the Chapter 11 Cases and wind down the Debtors' businesses.

The Debtors reserve the right to object to the amount or classification of any Claim. Thus, the estimates set forth in this Disclosure Statement cannot be relied upon by any creditor whose Claim is subject to a successful objection. Any such creditor may not receive the estimated Distributions set forth herein.

In addition, because the Plan provides for fixed Distribution amounts to holders of Claims in various Classes, such Distributions are subject to the risk that, as a result of lower than projected results from the liquidation of the Debtors' remaining assets prior to the Effective Date, the Estates may not possess sufficient assets to make the required Distributions. Under such a scenario, the Plan might not be deemed to satisfy the "feasibility" requirements of the Bankruptcy Code.

B. Litigation Risks

To the extent that Distributions to certain Classes may be derived, in whole or in part, based upon recoveries from Causes of Action asserted by the Plan Administrator, there can be no assurance that any such Causes of Action will produce recoveries that will enhance the Distributions to be made to holders of Claims under the Plan.

C. Bankruptcy Risks

1. Objection to Classifications

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class. The Debtors believe that the classification of Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

2. Risk of Nonconfirmation of the Plan

Even if all Classes entitled to vote accept the Plan, the Plan might not be confirmed by the Bankruptcy Court. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, that the confirmation of a plan of reorganization is not likely to be followed by the liquidation or the need for further financial reorganization unless, as here, such liquidation or reorganization is proposed in the plan, and that the value of distributions to dissenting creditors and equity security holders not be less than the value of distributions such creditors and equity security holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan satisfies all of the requirements for confirmation of a plan of reorganization under the Bankruptcy Code. There can be no assurance, however, that the Bankruptcy Court will also conclude that the requirements for confirmation of the Plan have been satisfied. See Article VI above ("Confirmation").

3. Objection to Substantive Consolidation

If the Bankruptcy Court were to fail to permit substantive consolidation, the administration of the Plan, if still possible, could be substantially more burdensome, time-consuming and costly to the Debtors' Estates. As stated above, the Debtors believe that substantive consolidation of the Debtors' Estates will facilitate implementation of the Plan and foster similarity and fairness of treatment of holders of Claims. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

ARTICLE IX.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

The following discussion summarizes some of the more significant United States federal income tax consequences of the Plan to certain holders of General Unsecured Claims. The analysis contained herein is based upon the IRC, the Treasury Regulations promulgated and proposed thereunder (the "Regulations"), judicial decisions and published administrative rulings and pronouncements of the Internal Revenue Service (the "IRS") as in effect on the date hereof. Legislative, judicial or administrative changes or interpretations hereafter enacted or promulgated could alter or modify the analysis and conclusions set forth below. Any such changes or interpretations may be retroactive and could affect significantly the federal income tax consequences discussed below. This summary does not address foreign, state or local income tax, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign companies, nonresident alien individuals, S corporations, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, broker-dealers and tax-exempt organizations). Accordingly, it should not be relied upon for purposes of determining the specific tax consequences of the Plan with respect to a particular holder of a Claim.

THE TAX CONSEQUENCES TO HOLDERS OF GENERAL UNSECURED CLAIMS MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER. MOREOVER, THE TAX CONSEQUENCES OF CERTAIN ASPECTS OF THE PLAN ARE UNCERTAIN DUE TO THE LACK OF APPLICABLE LEGAL PRECEDENT AND THE POSSIBILITY OF CHANGES IN THE LAW. NO RULING HAS BEEN APPLIED FOR OR OBTAINED FROM THE INTERNAL REVENUE SERVICE WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN REQUESTED OR OBTAINED BY THE DEBTORS WITH RESPECT THERETO. THIS DISCUSSION DOES NOT CONSTITUTE TAX ADVICE OR A TAX OPINION CONCERNING THE MATTERS DESCRIBED. THERE CAN BE NO ASSURANCE THAT THE INTERNAL REVENUE SERVICE WILL NOT CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES DESCRIBED HEREIN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN OR OTHER TAX CONSEQUENCES OF THE PLAN.

A. Federal Income Tax Consequences to the Debtors

During the Chapter 11 Cases, the Debtors have sold substantially all of their business assets for cash. The Debtors will distribute the majority of that cash to holders of Claims.

The sales of the Debtors' assets in the Chapter 11 Cases were taxable transactions. Thus, the Debtors must recognize any gain or loss realized on each such sale. To determine the amount of gain or loss realized on any sale, the total consideration received in such sale must be allocated among the assets sold in accordance with their relative fair market values. The gain or loss realized with respect to each asset is then determined separately by subtracting the selling Debtor's tax basis in such asset from the amount of consideration received for such asset. To the extent that the Debtors recognize a net gain in any taxable year from the asset sales, such gain may be offset either by operating losses that accrue during the tax year of the sale or by the Debtors' net operating loss and/or capital loss carryforwards. The Debtors may, however, recognize some alternative minimum tax as a result of asset sales if the gain from the sale is offset by net operation losses and/or capital loss carryforwards, and not by operating losses from the same tax year as the year of the sale. Any resulting tax will be paid by the Debtors.

As a result of the consummation of the Plan, certain indebtedness of the Debtors will be discharged. Generally, the Debtors must include in gross income the amount of any such cancellation of indebtedness ("COD") income. The amount of COD income that the Debtors will recognize as a result of the Plan is the difference between the amount of their indebtedness that is canceled and the amount or value of the consideration exchanged therefor. Because the Debtors are in a chapter 11 bankruptcy proceeding, however, the Debtors will not be required to recognize COD income, but must instead reduce certain tax attributes ("Tax Attributes") by the amount of unrecognized COD income on the first day of the following tax year in the manner prescribed by IRC section 108(b). Tax Attributes include net operating losses ("NOLs"), capital losses and loss carryovers, certain tax credits and, subject to certain limitations, the tax basis of property.

B. Alternative Minimum Tax

The IRC provides that, for any taxable year, a corporation's federal income tax liability equals the greater of (i) the regular tax computed at the regular 35% corporate tax rate on taxable income and (ii) the alternative minimum tax ("AMT") computed at a lower tax rate (20%) but on a broader income base (alternative minimum taxable income ("AMTI")). For purposes of computing a corporation's regular federal income tax liability, all of the income recognized in a taxable year may be offset by available NOLs and other tax carryovers (to the extent permitted under, inter alia, sections 382 and 383 of the IRC). In contrast, for purposes of computing AMTI, NOLs (as determined for AMT purposes) and other tax carryovers generally are taken into account, but may not offset more than 90% of the pre-NOL AMTI. Thus, a corporation that is currently profitable for AMT purposes generally will be required to pay federal income tax at an effective rate of at least 2% of its pre-NOL AMTI (10% of the 20% AMT tax rate), regardless of the amount of its NOLs. As a result, even if the Debtors are otherwise able to fully shelter their income with NOLs, they will be subject to current taxation in any year in which it has positive they have pre-NOL AMTI (including as a result of gain and income recognized in connection with the sale of substantially all of the Debtors' assets through the Chapter 11 Cases). To the extent that a corporation's AMT liability for any taxable year exceeds its regular federal income tax liability, the excess may be carried forward as a credit against regular tax liability in subsequent years.

C. Federal Income Tax Consequences to Holders of General Unsecured Claims

The federal income tax consequences of the Plan to a holder of a General Unsecured Claim will depend upon several factors, including but not limited to: (i) whether the holder's Claim (or a portion thereof) constitutes a Claim for principal or interest; (ii) the origin of the holder's Claim; (iii) the type of consideration received by the holder in exchange for the Claim; (iv) whether the holder is a resident of the United States for tax purposes (or falls into any of the special classes of taxpayers excluded from this discussion as noted above); (v) whether the holder reports income on the accrual or cash basis method; (vi) whether the holder has taken a bad debt deduction or worthless security deduction with respect to this Claim; and (vii) whether the holder receives distributions under the Plan in more than one taxable year. HOLDERS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT UNDER THE PLAN OF THEIR PARTICULAR GENERAL UNSECURED CLAIMS.

Generally, a holder of a General Unsecured Claim will recognize gain or loss equal to the difference between the "amount realized" by such holder and such holder's adjusted tax basis in the Claim. The "amount realized" is equal to the sum of the cash and the fair market value of any other consideration received under the Plan in respect of a holder's Claim (to the extent that such Cash or other property is not allocable to any portion of the Claim representing accrued but unpaid interest (see discussion below)).

The character of any recognized gain or loss (e.g., ordinary income, or short-term or long-term capital gain or loss) will depend upon the status of the holder, the nature of the General Unsecured Claim in its hands, the purpose and circumstances of its acquisition, the holder's holding period of the General Unsecured Claim, and the extent to which the holder previously claimed a deduction for the worthlessness of all or a portion of the General Unsecured Claim. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR FEDERAL INCOME TAX PURPOSES, ON DISTRIBUTIONS AFFECTING THEIR CLAIMS.

D. Allocation of Consideration to Interest

A portion of the consideration received by a holder in satisfaction of a General Unsecured Claim pursuant to the Plan may be allocated to the portion of such General Unsecured Claim (if any) that represents accrued but unpaid interest. The Plan does not provide an allocation of the consideration to be received by the holders of Claims. Accordingly, the manner in which such allocation must be made for federal income tax purposes is not clear. If any portion of the distribution were required to be allocated to accrued interest, such portion would be taxable to the holder as interest income, except to the extent the holder has previously reported such interest as income.

In the event that a portion of the consideration received by a holder of a General Unsecured Claim represents accrued but unpaid interest, only the balance of the distribution would be considered received by the holder in respect of the principal amount of the Claim. Such an allocation would reduce the amount of the gain, or increase the amount of loss, realized by the holder with respect to the Claim. If any such loss were a capital loss, it would not offset any amount of the distribution that was treated as ordinary interest income (except, in the case of individuals, to the limited extent that capital losses may be deducted against ordinary income).

To the extent that any portion of the distribution is treated as interest, holders may be required to provide certain tax information in order to avoid the withholding of taxes. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL INCOME TAX TREATMENT OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR GENERAL UNSECURED CLAIMS.

E. Backup Withholding and Information Reporting

Payors of interest, dividends, and certain other reportable payments are generally required to withhold a portion of such payments if the payee fails to furnish such payee's correct taxpayer identification number (social security number or employer identification number) to the payor. The Debtors, the Liquidating Companies and/or the Plan Administrator may be required to withhold a portion of any payments made to a holder of a Claim who does not provide its taxpayer identification number.

THE FOREGOING IS INTENDED TO BE ONLY A SUMMARY OF CERTAIN OF THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES UNDER THE PLAN.

ARTICLE X.

CONCLUSION

For the reasons set forth above, the Debtors and the Creditors' Committee support the Plan and urge holders of impaired Claims in the Voting Class to vote to accept the Plan and to evidence such acceptance by returning their Ballots so they will be received by the Voting Deadline.

Dated: March __, 2010
New York, New York

Respectfully submitted,

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