IN THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF DELAWARE

In re: ARCTIC SENTINEL, INC. [f/k/a Fuhu, Inc.], *et al.*,[1] Debtors.	Chapter 11 Case No. 15-12465-CSS (Jointly Administered)

DISCLOSURE STATEMENT WITH RESPECT TO PLAN OF LIQUIDATION OF THE DEBTORS PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

Counsel for Debtors and Debtors in Possession:

PACHULSKI STANG ZIEHL & JONES LLP
Jeffrey N. Pomerantz (CA Bar No. 143717)
Ira Kharasch (CA Bar No. 109084)
Michael R. Seidl (DE Bar No. 3889)
Colin R. Robinson (DE Bar No. 5524)
919 North Market Street, 17th Floor
P.O. Box 8705
Wilmington, DE 19899-8705
T: 302-652-4100
F: 302-652-4400

BRYAN CAVE LLP
Robert J. Miller (AZ#013334) (*pro hac vice)*
Two N. Central Ave., Suite 2200
Phoenix, Arizona 85004
T: 602-364-7000
F: 602-364-7070

BRYAN CAVE LLP
Brian C. Walsh (MO#58091) (*pro hac vice*)
Laura Uberti Hughes (MO#60732)
(pro hac vice)
One Metropolitan Square
211 N. Broadway, Suite 3600
St. Louis, Missouri 63102
T: 314-259-2000
F: 314-259-2020

BRYAN CAVE LLP
Kerry A. Moynihan (SBN 250571)
(pro hac vice)
3161 Michelson Drive, Suite 1500
Irvine, California 92612
T: 949-223-7000
F: 949-223-7100

Dated: September 1, 2016

[1] The Debtors, together with the last four digits of each Debtor's tax identification number, are: Arctic Sentinel, Inc. [f/k/a Fuhu, Inc.] (7896); Arctic Sentinel Holdings, Inc. [f/k/a Fuhu Holdings, Inc.] (9761); Arctic Sentinel Direct, Inc. [f/k/a Fuhu Direct, Inc.] (2180); and Sentinel Arctic, Inc. [f/k/a Nabi, Inc.] (4119). The location of the Debtors' headquarters and service address is 1700 E. Walnut Ave., Suite 500, El Segundo, CA 90245.

I.

INTRODUCTION

The above-captioned debtors and debtor in possession (the "Debtors") have filed their proposed Plan of Liquidation of the Debtors Pursuant to Chapter 11 of the Bankruptcy Code, dated September 1, 2016 (the "Plan"), with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). A copy of the Plan is attached hereto as Exhibit A.[2] The Debtors hereby submit this Disclosure Statement with Respect to Plan of Liquidation of the Debtors Pursuant to Chapter 11 of the Bankruptcy Code, dated September 1, 2016 (the "Disclosure Statement"), pursuant to Section 1125 of the Bankruptcy Code in connection with the solicitation of acceptances or rejections of the Plan from certain Holders of Claims against the Debtors.

Following a hearing held on [October 6, 2016], the Disclosure Statement was approved by the Bankruptcy Court as containing "adequate information" in accordance with Section 1125 of the Bankruptcy Code. Pursuant to Section 1125(a)(1) of the Bankruptcy Code, "adequate information" is defined as "information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and the history of the debtor and the condition of the debtor's books and records, including a discussion of the potential material Federal tax consequences of the plan to the debtor, and a hypothetical investor typical of the holders of claims or interests in the case, that would enable such a hypothetical investor of the relevant class to make an informed judgment about the plan." NO STATEMENTS OR INFORMATION CONCERNING THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY HAVE BEEN AUTHORIZED, OTHER THAN THE STATEMENTS AND INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE INFORMATION ACCOMPANYING THIS DISCLOSURE STATEMENT. ALL OTHER STATEMENTS REGARDING THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY, WHETHER WRITTEN OR ORAL, ARE UNAUTHORIZED.

APPROVAL OF THE DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT INDICATE THAT THE BANKRUPTCY COURT RECOMMENDS EITHER ACCEPTANCE OR REJECTION OF THE PLAN, NOR DOES SUCH APPROVAL CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT OF THE FAIRNESS OR MERITS OF THE PLAN OR OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT.

THE DISCLOSURE STATEMENT CONTAINS IMPORTANT INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN. EACH HOLDER OF A CLAIM OR EQUITY INTEREST SHOULD READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY. AFTER CAREFULLY REVIEWING THESE DOCUMENTS, IF YOU ARE A CLAIM HOLDER ENTITLED TO VOTE, PLEASE INDICATE YOUR VOTE WITH RESPECT TO THE PLAN ON THE ENCLOSED BALLOT AND RETURN IT IN THE ENVELOPE PROVIDED.

[2] Capitalized terms used herein that are not otherwise defined herein shall have the meanings ascribed to them in the Plan.

THE PLAN HAS THE SUPPORT OF THE CREDITORS' COMMITTEE.

A. Disclosure Statement Enclosures

Accompanying this Disclosure Statement are copies of the following materials:

1. the Plan (Exhibit A to the Disclosure Statement);

2. a liquidation analysis (Exhibit B to the Disclosure Statement);

3. a Notice (a) fixing the time for filing of acceptances or rejections of the Plan and objections to Confirmation of the Plan and (b) scheduling a hearing on Confirmation of the Plan (the "Notice"); and

4. for creditors entitled to vote, a ballot for acceptance or rejection of the Plan (the "Ballot").

B. Only Impaired Classes Vote

Pursuant to the provisions of the Bankruptcy Code, only Classes of Claims and Equity Interests that are "impaired" under the Plan may vote to accept or reject the Plan. Generally, a claim or interest is impaired under a plan if the holder's legal, equitable, or contractual rights are changed under such plan. In addition, if the holders of claims or interests in an impaired class do not receive or retain any property under the plan on account of such claims or interests, such impaired class is deemed to have rejected the plan and shall not be afforded an opportunity to vote to accept or reject the plan.

Under the Plan, Claims and Equity Interests in Classes 2, 3, and 4 are impaired. Holders of Equity Interests in Class 4 will receive no distribution, and, accordingly, such Equity Interest holders are deemed to reject the Plan, and their votes are not being solicited. ACCORDINGLY, A BALLOT FOR ACCEPTANCE OR REJECTION OF THE PLAN IS BEING PROVIDED ONLY TO HOLDERS OF CLAIMS IN CLASS 2 AND CLASS 3.

C. Confirmation Hearing

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for _____ ____, 2016, at 10:00 a.m. (ET) in the Bankruptcy Court, located at 824 N. Market Street, 5th Floor, Courtroom 6, Wilmington, DE 19801 (the "Confirmation Hearing"). The Bankruptcy Court has directed that objections, if any, to Confirmation of the Plan be served and filed on or before _____ ____, 2016, at 4:00 p.m. (ET) in the manner described in the Notice. The date of the Confirmation Hearing may be adjourned from time to time without further notice except for an in-court announcement at the Confirmation Hearing.

D. Overview of the Plan

THE FOLLOWING IS A BRIEF SUMMARY OF THE TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN. CREDITORS AND OTHER PARTIES IN INTEREST ARE URGED TO REVIEW THE MORE DETAILED DESCRIPTION OF THE PLAN CONTAINED IN THIS DISCLOSURE STATEMENT AND THE PLAN ITSELF.

The Plan is a plan of liquidation, pursuant to which the net proceeds of the sale or other disposition of the Debtors' assets are being pooled and distributed, first to Holders of Allowed Secured Claims, if any, as their interests may appear, then to the Holders of Allowed Administrative and Priority Claims in accordance with the scheme of priorities set forth in the Bankruptcy Code, and thereafter to Holders of Allowed Unsecured Claims. Holders of Equity Interests are not receiving any distribution under the Plan.

Under the Plan, Administrative Claims and Priority Tax Claims are unclassified and are to be paid in full, or upon such other terms as the Debtors and the affected Claimants may agree. Class 1 Priority Claims are unimpaired and Holders of Allowed Priority Claims are to be paid in full or upon such other terms as the Debtors and the affected Holders may agree. Class 2 Secured Claims, if any, are impaired and at the option of the Debtors, Holders of Allowed Secured Claims will receive (i) the legal, equitable, and contractual rights to which such Claim entitles the Holder thereof shall be left unaltered, (ii) the Allowed Secured Claim shall be left unimpaired in the manner described in Section 1124(2) of the Bankruptcy Code, or (iii) the Holder of such Allowed Claim shall receive or retain the collateral securing such Claim. Class 3 Unsecured Claims are impaired and each Holder of an Allowed Class 3 Claim will receive its Pro Rata distribution of the Liquidating Trust Interests following the payment or reserve for Administrative Claims, Priority Tax Claims, Priority Claims, and Secured Claims. Class 4 Equity Interests are impaired and will not receive a distribution.

Set forth below is a table summarizing the classification and treatment of Claims and Equity Interests under the Plan and the estimated distributions to be received by the Holders of such Claims and Equity Interests thereunder. The actual distributions may differ from those set forth in the table depending on the amount of Claims ultimately allowed in each category or Class and the extent of Liquidating Trust Assets ultimately available for distribution.

DESCRIPTION/CLASS	ESTIMATED ALLOWED AMOUNT	ESTIMATED DISTRIBUTION (%)
Administrative Claims	$785,907 - $2,446,132	100%
Priority Tax Claims	$175,830 - $431,439	100%
Class 1	$321,998 - $443,904	100%
Class 2	Up to $9,813	100%
Class 3	$119,011,870 - $603,367,080	0.8 – 5.9%
Class 4	N/A	0%

II.

BACKGROUND; CHAPTER 11 CASES

A. General Background and History

Debtor Fuhu, Inc. was founded in 2008 by John Hui, Steve Hui, and Robb Fujioka. Prior to the Petition Date, the Debtors were the maker of children's Nabi tablets. Between 2010 and 2013, the Debtors' revenues grew to more than $195 million. The Debtors have sold more than four million tablets, with more than 1.5 million sold during the 2014 fiscal year. The Debtors' array of Nabi tablets were sold in more than 10,000 retail outlets, including Target, Best Buy, Costco Wholesale, Toys 'R Us, and Walmart stores.

Debtor Fuhu Holdings, Inc. was established in 2012 as a wholly-owned subsidiary of Fuhu, Inc., and the entities shared common management. Fuhu Holdings owned significant intellectual property assets of the Debtors, including trademarks and copyrights. Debtors Nabi, Inc. and Fuhu Direct, Inc. are also wholly-owned subsidiaries of Fuhu, Inc.; however, Nabi, Inc. and Fuhu Direct, Inc. did not hold significant assets.

The Debtors' headquarters and corporate offices were located in El Segundo, California. The Debtors also maintained a back-end software development office in San Jose, California. A non-debtor subsidiary of the Debtors conducted front-end software development in Taiwan with funds supplied by the Debtors. The Debtors employed approximately 115 people as of the Petition Date, and the non-debtor subsidiary in Taiwan employed approximately 110 people. The employees were not represented by a union or other labor organization.

B. The Debtors' Secured Credit Facilities

Prior to the Petition Date, Obsidian Agency Services, Inc., as Agent for Tennenbaum Special Situations Fund IX, LLC and Tennenbaum Special Situations IX-O, L.P. (collectively, "Tennenbaum"), held a first-priority security interest in substantially all of the assets of the Debtors other than accounts receivable, as well as a second-priority security interest in the Debtors' accounts receivable, under a Credit Agreement dated May 27, 2015 (as amended, the "TCP Credit Agreement") and a Guaranty and Collateral Agreement of the same date. As of November 25, 2015, Tennenbaum asserted that it was owed approximately $6.5 million by the Debtors, which included principal of approximately $5.4 million, accrued interest of approximately $65,000, a yield-enhancement fee of approximately $400,000, and an early-termination fee of $700,000.

Prior to the Petition Date, LSQ Funding Group, L.C. ("LSQ") factored certain of the Debtors' accounts receivable under a Factoring and Security Agreement dated April 21, 2015. Although LSQ factored only a limited subset of the receivables, LSQ held a first-priority security interest in all of the Debtors' receivables. As of the Petition Date, the amount owed to LSQ on account of factored receivables was approximately $1.3 million.

C. Events Leading to Bankruptcy and the Committee Investigation Regarding Same

In or about 2013, the Debtors agreed to move the engineering, development, and manufacturing of the tablets exclusively to Hon Hai Precision Industry Co., Ltd., ("Hon Hai") and Fusing International, Inc. ("Fusing", and together with Hon Hai, "Foxconn"). However, in late 2014, Foxconn failed to deliver tablets in time for the 2014 holiday sales season, resulting in significant losses of sales during the Debtors' most historically profitable season. This delayed delivery and missed holiday season resulted in significant oversupply of tablets during the first quarter of 2015. The Debtors then returned approximately $90 million of inventory to Foxconn, and agreed to purchase back the inventory as necessary to meet demand. Foxconn then ceased manufacturing tablets for the Debtors. As a result of these events, the Debtors had significant disputes with Foxconn.

In late September 2015, Foxconn began to aggressively pursue repayment of its outstanding accounts payable. Foxconn refused to supply any further products to the Debtors. Since Foxconn was the Debtors' sole supplier, this dispute caused the Debtors to fail to fulfill purchase orders from various retailers in advance of the 2015 holiday season. Negotiations between the Debtors and Foxconn ceased with Foxconn releasing only limited product. These actions significantly limited the Debtors' revenue during this period.

Upon learning of the Debtors' issues with Foxconn, Tennenbaum issued a Notice of Default and exercised its rights under a Deposit Account Control Agreement, sweeping more than $4.5 million from the Debtors' bank accounts and leaving the Debtors with insufficient funds to continue to operate the business. Consequently, the Debtors commenced the Chapter 11 Cases to avail themselves of the provisions of the Bankruptcy Code and preserve the status quo of their business through their cases while seeking to sell substantially all of their assets.

As part of the sale of substantially all of the Debtors' assets, discussed more fully below, claims and causes of action that the Debtors and the Committee held against Foxconn and certain of its affiliates (the "Foxconn Parties") were sold to Mattel, Inc. ("Mattel"), as described below. Mattel waived and released any claims against the Foxconn Parties, and the Foxconn Parties waived their claims against the Debtors and their Estates.

The Committee is conducting a forensic investigation regarding the Debtors' prepetition operations and activities, and the Committee has not yet reached any conclusions regarding the reasons behind the Debtors' financial difficulties leading up to the filing of the Chapter 11 Cases. It is possible that the Committee will determine that the Debtors' financial difficulties stemmed from actions or inactions of the Debtors' directors, the Debtors' officers or others involved with the Debtors prior to the Petition Date. Should the Committee, or any successor thereto, including the Liquidating Trustee, determine that there are claims or causes of action associated with the Debtors' prepetition activities, it will take action it deems appropriate, which may include the commencement of a lawsuit. However, the investigation is in the early stages and there can be no guarantee as to the outcome thereof or any lawsuit, if one is commenced. As noted above, certain claims and causes of action, including those against Foxconn, were released in connection with the sale of substantially all of the Debtors' assets. In connection with that sale, however, claims and causes of action against the Debtors' current and

former directors and current and former officers, including for breach of fiduciary duty, were preserved.

D. Commencement of Chapter 11 Cases

On December 7, 2015 (the "Petition Date"), Debtors Fuhu, Inc. and Fuhu Holdings, Inc. each filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. On December 11, 2015, Debtors Fuhu Direct, Inc. and Nabi, Inc. also each filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The Debtors continued in the management and possession of their businesses and properties as debtors-in-possession, pursuant to Sections 1107 and 1108 of the Bankruptcy Code. No trustee or examiner was appointed.

E. Retention of Key Professionals/Appointment of Committee

a. Retention of Bankruptcy Counsel

By Order of the Bankruptcy Court, the Debtors retained Bryan Cave LLP and Pachulski Stang Ziehl & Jones LLP to serve as bankruptcy counsel in the Chapter 11 Cases.

b. Retention of Financial Advisors, Investment Banker, and Claims Agent

By various Orders of the Bankruptcy Court, (a) FTI Consulting, Inc. was retained by the Debtors as their financial advisor, (b) KRyS Global USA, LLC was retained by the Debtors as their financial advisor and investment banker, and (c) Kurtzman Carson Consultants LLC, was retained by the Debtors as their claims, noticing, and balloting agent.

c. Appointment of Official Committee of Unsecured Creditors and Retention of Advisors

On December 16, 2015, the Office of the United States Trustee appointed the Committee. The initial members of the Committee were Morgan Stanley Expansion Capital LP; D&H Distributing Company; Hon Hai[3]; Trend Power Limited; Scott Miller, for himself and in his capacity as proposed class representative, C.D. Cal. Case # 2:14-cv-06119-CAS-AS; 24-7 Intouch Inc.; and Wistron Corporation. Subsequently, Hon Hai and Trend Power Limited resigned from the Committee.

By Orders of the Bankruptcy Court, Cooley LLP and Ballard Spahr LLP were retained as bankruptcy counsel to the Committee, PricewaterhouseCoopers LLP was retained to provide financial advisory and certain data preservation services to the Committee, and Berkeley Research Group LLC was retained as forensic accountants to the Committee.

F. First-Day Motions and Related Relief

[3] As noted above, Hon Hai is an affiliate of Foxconn.

On the Petition Date, the Debtors filed certain motions seeking emergency relief to allow their efficient and effective continued operations in the Chapter 11 Cases. On December 9, 2015, the Bankruptcy Court, *inter alia*, entered orders (i) authorizing the joint administration of the Debtors' Chapter 11 Cases for procedural purposes only, (ii) permitting the Debtors to pay certain prepetition wages and benefits to their employees, (iii) permitting the Debtors' continued use of their existing cash-management system, (iv) permitting the Debtors to pay prepetition claims of certain critical vendors, (v) permitting the Debtors to continue to honor certain obligations to customers and to maintain customer programs, including with respect to discounts and returns, (vi) permitting the Debtors to perform obligations necessary to maintain insurance coverage, (vii) establishing procedures for providing adequate assurance of future performance to the Debtors' utility providers.

G. Use of Cash Collateral and DIP Financing

On December 9, 2015 and December 21, 2015, the Bankruptcy Court entered orders authorizing, on an interim basis, the Debtors' use of cash collateral. On January 7, 2016, the Bankruptcy Court entered the *Final Order Authorizing Use of Cash Collateral, Confirming Debtors' Ability to Sell Inventory, and Granting Adequate Protection to Pre-Petition Lenders* (the "Final Cash Collateral Order"). The Bankruptcy Court entered the Final Cash Collateral Order following multiple hearings, including evidentiary hearings, during which Tennenbaum and LSQ challenged the Debtors' ability to use cash collateral.

Faced with significant opposition to the use of cash collateral by Tennenbaum and LSQ, the Committee introduced GWS Fuhu, LLC ("GWS"), an affiliate of Great White Shark Enterprises, as an alternative bidder which also offered to provide financing as a bridge to an eventual sale.

By orders entered on January 7, 2016 and January 21, 2016, the Bankruptcy Court approved a debtor-in-possession financing agreement (the "DIP Financing") with GWS in the amount of $2,000,000, to provide liquidity to the Debtors on an exigent basis. Those funds were used, among other things, to pay LSQ in full.

In connection with the Final Cash Collateral Order, the Committee reserved its rights to object to and challenge the $400,000 "Yield Enhancement Fee" and the $700,000 "Applicable Early Termination Fee" (each as defined in Section 2.05 of the TCP Credit Agreement) and the professional fees, costs, charges and other reimbursable expenses claimed by Tennenbaum that had accrued after the Petition Date (together with all interest and any other charges accrued and accruing thereof, collectively, the "Specified TCP Fees"), to the extent not otherwise allowed in Section 14 of the Final Cash Collateral Order, which permitted the payment of $150,000 of professional fees incurred by Tennenbaum that accrued on and after January 1, 2016 through the consummation of the sale of substantially all of the Debtors' assets. In connection therewith, the Final Cash Collateral Order required the Debtors to segregate $2,200,000 as adequate protection of Tennenbaum's interest securing the Specified TCP Fees, after paying the allowed secured claims of LSQ and Tennenbaum in full in cash.

Following arms-length negotiations among the Debtors, the Committee and Tennenbaum, the Bankruptcy Court approved a stipulation providing for the release of certain cash collateral that was segregated under the Final Cash Collateral Order. Specifically, the Bankruptcy Court entered the *Second Agreed Order Amending Final Order Authorizing Use of Cash Collateral, Confirming Debtors' Ability to Sell Inventory, and Granting Adequate Protection to Pre-Petition Lenders* which provided, among other things, $1,630,190.95 of the amount segregated under the Final Cash Collateral Order would be transferred to Tennenbaum, with the balance remaining in the Debtors' estates.

H. Schedules of Assets and Liabilities and Statements of Financial Affairs

On January 9, 2016, the Debtors filed their Schedules of Assets and Liabilities and Statements of Financial Affairs with the Bankruptcy Court, which set forth, *inter alia*, scheduled prepetition claims against the Debtors based on their books and records.

I. Liquidation Process and Asset Sale

Both before and after the Petition Date, the Debtors engaged in an intensive effort to identify and attract entities interested in purchasing the Debtors' business or their assets. As of the Petition Date, the Debtors had entered into an agreement with Mattel for Mattel's purchase of substantially all of the Debtors' assets in exchange for $9.5 million, subject to certain adjustments for the assumption of liabilities. Mattel also made a loan in the amount of $300,000 to the Debtors on or about December 4, 2015, in order to allow the Debtors to complete their preparation for the commencement of the Chapter 11 Cases, including documentation of the proposed sale.

On December 7, 2015, the Debtors filed the *Motion of Debtors for Order (A) Approving Bidding Procedures for the Sale of Substantially All of the Debtors' Operating Assets, (B) Scheduling an Auction and Sale Hearing, (C) Approving Bid Protections, and (D) Approving Procedures for the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases* (the "Bidding Procedures Motion"). In the Bidding Procedures Motion, the Debtors sought authority to conduct one or more auctions (the "Auction") of the Debtors' business operations and related properties and assets, including the Debtors' intellectual property.

On January 7, 2016, the Bankruptcy Court entered the *Order (A) Approving Bidding Procedures for the Sale of Substantially All of the Debtors' Operating Assets, (B) Scheduling an Auction and Sale Hearing, and (C) Approving Procedures for the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases* (the "Bidding Procedures Order"). The Bidding Procedures Order fixed certain deadlines, including a bid deadline of January 15, 2016, at 4:00 p.m. (EST), an auction date of January 19, 2016, at 9:00 a.m. (EST), and a sale hearing date of January 20, 2016 at 11:00 a.m. (EST). Under the Bidding Procedures Order, GWS replaced Mattel as the stalking horse, with a proposed purchase price of $10 million, subject to certain adjustments.

The Debtors received a competing bid from Mattel and proceeded to conduct the Auction in several rounds of bidding from Mattel and GWS, lasting well over 12 hours. At the conclusion of the auction, the Debtors, in consultation with Tennenbaum and the Committee,

determined that Mattel had made the higher and/or otherwise better bid for the Debtors' assets in the amount of $21.5 million, subject to certain adjustments.

At the sale hearing on January 20, 2016, the Debtors sought approval of the sale of substantially all of their assets to Mattel (the "Sale"). The Bankruptcy Court approved the Sale and, on January 22, 2016, entered the *Order (A) Authorizing and Approving (1) the Sale of Substantially All of the Debtors' Assets Free and Clear of All Liens, Claims, Encumbrances and Other Interests and (2) the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases in Connection Therewith; and (B) Granting Related Relief* (the "Sale Order"). The Sale closed on January 29, 2016.

As a result of the Sale, the Debtors had available funds to pay off their prepetition secured lenders, as well as the DIP Financing.

J. Preservation of Certain Claims and Causes of Action

Under Sections 547, 548, and 550 of the Bankruptcy Code, a debtor may seek to avoid and recover certain pre-petition payments made by the debtor to or for the benefit of a creditor, in the ninety days prior to the petition date, in respect of an antecedent debt if such transfer was made when the debtor was insolvent; transfers made to a creditor that was an "insider" of the debtor are subject to these provisions if the payment was made within one year of the debtor's filing of a petition under Chapter 11 (collectively, the "Avoidance Actions").

Pursuant to the Sale Order, the Debtors' right to pursue certain Avoidance Actions was included in the Sale of substantially all of their assets to Mattel. The Avoidance Actions that were sold were (i) preference actions pursuant to Section 547 of the Bankruptcy Code against non-insider customers, suppliers, vendors, employees, and contract counterparties related to or involved with the operation of the Debtors' business, (ii) non-insider fraudulent conveyance actions pursuant to Section 548 of the Bankruptcy Code, the Uniform Fraudulent Conveyance Act, or similar laws, against customers, suppliers, vendors, employees, and contract counterparties related to or involved with the operation of the Debtors' business, for transfers in an amount of less than $500,000; and (iii) except for causes of action for breach of fiduciary duty to any Selling Entity, which are excluded assets pursuant to Section 2.2(m) of the Sale Agreement, causes of action and Avoidance Actions against (a) Jim Mitchell, (b) Robb Fujioka, (c) Doug Woo, (d) Ming Cheung, and (e) Lisa Lee. All other Avoidance Actions remain property of the Debtors and will be transferred to the Liquidating Trust under the Plan.

As noted above, as part of the Sale, certain claims and causes of action were preserved for the benefit of the Estates.

K. Claims Bar Date

On April 25, 2016, the Bankruptcy Court entered an order fixing (i) June 28, 2016, as the last day by which creditors were permitted to file proofs of claim with respect to claims against the Debtors arising prior to the Petition Date, including claims arising under section 503(b)(9) of the Bankruptcy Code, and (ii) June 28, 2016, as the last date by which

governmental units were permitted to file proofs of claim with respect to claims against the Debtors arising prior to the Petition Date.

III.

SUMMARY OF THE PLAN

A. General

The Plan is a plan of liquidation that contemplates the distribution of the remaining net proceeds realized from the earlier sale of the assets of the Debtors. As a result of the Debtors' asset disposition efforts, the Debtors presently have approximately $9,002,594 in cash and, after other collections and satisfaction of claims of higher priority, expect to have between $4,931,306 - $6,978,859 available for distribution to Class 3 Unsecured Claims under the Plan. Additional funds may become available if Causes of Action produce proceeds in excess of the fees of Professionals.

Under the Plan, available proceeds will be distributed first to satisfy the Allowed Administrative Claims, Priority Tax Claims, Class 1 Priority Claims, and Class 2 Secured Claims in accordance with the scheme of priorities under the Bankruptcy Code. After payment in full of such Claims, the net cash available shall be paid Pro Rata to satisfy the Class 3 Unsecured Claims. Class 4 Equity Interests shall receive no distribution under the Plan. For ease of reference, the Debtors have appended a liquidation analysis to this Disclosure Statement as Exhibit B which shows the amounts expected to be available for distribution as well as the amounts projected to be distributed to each class of Creditors under the Plan.

B. Classification and Treatment of Claims and Equity Interests

1. Unclassified Claims.

Certain types of Claims are not placed into voting Classes; instead they are unclassified. They are not considered Impaired and they do not vote on the Plan because they are automatically entitled to the specific treatment provided for them in the Bankruptcy Code. As such, the Debtors have not placed the following Claims in a Class:

Administrative Claims. Except to the extent that a Holder of an Allowed Administrative Claim agrees to a less favorable treatment, each Holder of an Allowed Administrative Claim, other than a Professional Fee Claim, shall receive, without interest, Cash equal to the Allowed amount of such Claim: (a) on or as soon as practicable after the later of (i) the Effective Date, or (ii) the date upon which the Bankruptcy Court enters a Final Order determining or approving such Claim; (b) in accordance with the terms and conditions of agreements between the Holder of such Claim and the Debtors or the Liquidating Trustee, as the case may be; (c) with respect to any Administrative Claims representing obligations incurred in the ordinary course of the Debtors' business, upon such regular and customary payment or performance terms as may exist in the ordinary course of the Debtors' business or as otherwise provided in the Plan; or (d) with

respect to statutory fees due pursuant to 28 U.S.C. § 1930(a)(6), such fees will be paid as and when due under applicable law.

Holders of Administrative Claims (including, without limitation, Professionals requesting compensation or reimbursement of such expenses pursuant to Sections 327, 328, 330, 331, 503(b), or 1103 of the Bankruptcy Code) that do not file such requests by the applicable deadline provided for herein may be subject to objection for untimeliness and may be prohibited by order of the Bankruptcy Court from asserting such claims against the Debtors, their Estates, the Liquidating Trust, or their successors or assigns, or their property. Any objection to Professional Fee Claims shall be filed on or before the objection deadline specified in the application for final compensation or order of the Bankruptcy Court.

Notwithstanding any provision in the Plan regarding payment of Administrative Claims to the contrary, and without waiver of any argument available that such Claim is already time-barred by prior orders of the Bankruptcy Court, all Administrative Claims that are required to be filed and not filed by the Administrative Claim Bar Date shall be deemed disallowed and discharged. The Administrative Claims Bar Date for all Administrative Claims (other than Professional Fee Claims) shall be sixty (60) days after the occurrence of the Effective Date. Without limiting the foregoing, all fees due and payable under 28 U.S.C. § 1930 that have not been paid shall be paid on or before the Effective Date.

Professional Fee Claims. Professionals requesting compensation or reimbursement of expenses pursuant to Sections 327, 328, 330, 331, 503(b), or 1103 of the Bankruptcy Code or required to file fee applications by order of the Bankruptcy Court for services rendered prior to the Effective Date must file and serve pursuant to the notice provisions of the Interim Fee Order, an application for final allowance of compensation and reimbursement of expenses no later than forty-five (45) days after the Effective Date. All such applications for final allowance of compensation and reimbursement of expenses will be subject to the authorization and approval of the Bankruptcy Court. For avoidance of doubt, the Liquidating Trustee is not authorized under the Plan to object to applications for final allowance of compensation and reimbursement of expenses.

Priority Tax Claims. Except to the extent that a Holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, in exchange for full and final satisfaction, settlement, release and discharge of each Allowed Priority Tax Claim, the Liquidating Trust shall pay each holder of an Allowed Priority Tax Claim the full unpaid amount of such Allowed Priority Tax Claim under one of the following options (at the Liquidating Trust's sole and exclusive election): (i) payment on the Effective Date, (ii) payment on the date such Allowed Priority Tax Claim becomes an Allowed Claim, (iii) payment on the date such Allowed Priority Tax Claim is payable under applicable non-bankruptcy law, or (iv) payment within the time specified under Bankruptcy Code Section 1129(a)(9).

The Debtors estimate that the total amount of unpaid Allowed Administrative Claims as of the Effective Date will be approximately $785,907 - $2,446,132, excluding the fees and expenses of Professionals, which the Debtors estimate total approximately $5.5 million through Confirmation and which have been satisfied in part through interim fee applications.

Priority Tax Claims consist of any Claims for taxes, interest and penalties against the Debtors entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code. The Debtors estimate that the total amount of Allowed Priority Tax Claims will be approximately $175,830 - $431,439.

2. Classification and Treatment of Claims and Equity Interests.

The Plan classifies and treats other Claims and Equity Interests as follows:

Class 1 Claims - Priority Claims. Class 1 is not an Impaired Class and Holders of Priority Claims are not entitled to vote on the Plan. The Liquidating Trustee shall pay the Allowed amount of each Priority Claim to each Entity holding a Priority Claim as soon as practicable following the later of: (a) the Effective Date and (b) the date such Priority Claim becomes an Allowed Claim (or as otherwise permitted by law). The Liquidating Trustee shall pay each Entity holding a Priority Claim in Cash in full in respect of such Allowed Claim without interest from the Petition Date; *provided, however*, that such Entity may be treated on such less favorable terms as may be agreed to in writing by such Entity. The Debtors anticipate that only approximately $321,998 - $443,904 of Priority Claims will be Allowed Claims. The Holders of Claims in this Class are not entitled to vote on the Plan.

Class 2 Claims - Secured Claims. Class 2 is an Impaired Class and Holders of Secured Claims are entitled to vote on the Plan. Except to the extent previously paid in full, to the extent any Secured Claims exist, at the option of the Debtors or the Liquidating Trustee, as applicable, one of the following treatments shall be provided: (i) the Holder of such Claim shall retain its Lien on its collateral until such collateral is sold, and the proceeds of such sale, less costs and expenses of disposing of such collateral, shall be paid to such Holder in full satisfaction, release, and discharge of such Allowed Secured Claim; (ii) on or as soon as practicable after the later of (a) the Effective Date, or (b) the date upon which the Bankruptcy Court enters a Final Order determining or allowing such Claim, or as otherwise agreed between the Holder of such Claim and the Debtors or the Liquidating Trustee, as applicable, the Holder of such Secured Claim will receive a Cash payment equal to the amount of its Allowed Secured Claim in full satisfaction, release, and discharge of such Secured Claim; or (iii) the collateral securing the Creditor's Secured Claim shall be abandoned to such Creditor, in full satisfaction, release, and discharge of such Secured Claim.

Class 3 Claims - Unsecured Claims. Class 3 is an Impaired Class and Holders of Claims are entitled to vote to accept or reject the Plan. Each Holder of an Allowed Unsecured Claim in Class 3 shall receive a Pro Rata share of the Liquidating Trust Interests following the payment or reserve for Administrative Claims, Priority Tax Claims, Priority Claims, and Secured Claims. Unsecured Claims are subject to all statutory, equitable, and contractual subordination claims, rights, and grounds available to the Debtors, the Estates, and pursuant to this Plan, the Liquidating Trustee, which subordination claims, rights, and grounds are fully enforceable prior to, on, and after the Effective Date.

Approximately $2,013,572,980 of Unsecured Claims have been filed against the Debtors' estates, and the sum of approximately $171,196,829 was scheduled by the Debtors. The Debtors estimate that approximately $119,011,870 - $603,367,080 in unsecured claims will ultimately be Allowed Class 3 Claims. The Debtors anticipate that Allowed Class 3 Claims will receive a distribution of 0.8% - 5.9% on account of their Allowed Claims, based solely upon the amount of Cash available for payment to Holders of Unsecured Claims, and without accounting for any recovery from Causes of Action.

Class 4 – Equity Interests. Holders of Equity Interests will receive no distribution under the Plan and therefore are deemed to have rejected the Plan. Accordingly, Holders of Equity Interests are not entitled to vote. There shall be no Distribution on account of Class 4 Equity Interests. Upon the Effective Date, the Equity Interests will be deemed cancelled and will cease to exist.

C. Means for Implementation of the Plan; Distributions

Appointment of the Liquidating Trustee

The Committee will appoint the Liquidating Trustee prior to the filing of the Plan Supplement and the identity of the Liquidating Trustee will be disclosed in the Plan Supplement, as described in Article V of the Plan. The Liquidating Trustee shall serve at the direction of the Liquidating Trust Advisory Committee and in accordance with the Liquidating Trust Agreement and the Plan. The Liquidating Trust Advisory Committee may replace the Liquidating Trustee in accordance with the provisions of the Liquidating Trust Agreement.

The Liquidating Trust

The Liquidating Trust shall administer the Liquidating Trust Assets, prosecute and resolve all Disputed Claims, investigate and pursue Causes of Action, and make Distributions to the Beneficiaries of the Liquidating Trust. The Distributions will be made as provided in Article V of the Plan. The Liquidating Trustee shall have the powers and rights described in Article V of the Plan and the Liquidating Trust Agreement.

D. Unexpired Leases and Executory Contracts

Except as otherwise provided in the Plan, any and all pre-petition leases or executory contracts not previously rejected by the Debtors, unless specifically assumed pursuant to order(s) of the Bankruptcy Court prior to the Confirmation Date or the subject of a motion to assume or assume and assign pending on the Confirmation Date, shall be deemed rejected by the Debtors on the Confirmation Date.

Proofs of claim for rejection damages for any lease or executory contract rejected pursuant to the Plan shall, unless another order of the Bankruptcy Court provides for an earlier date, be filed with the Bankruptcy Court and served in accordance with procedures set forth in the Confirmation Order within thirty (30) days after the mailing of notice of the entry of the Confirmation Order.

E. Retention of Jurisdiction

Following the Confirmation Date and until such time as all payments and distributions required to be made and all other obligations required to be performed under the Plan have been made and performed by the Plan Administrator, the Bankruptcy Court shall retain jurisdiction as is legally permissible, including, without limitation, for the purposes described in Article IX of the Plan.

F. Conditions to Effectiveness

The conditions to the confirmation and effectiveness of the Plan are set forth in Article VII of the Plan. In the event that the conditions specified in Section VII.A of the Plan have not occurred or been waived, the Debtors may withdraw the Plan and the Plan will be of no force or effect.

G. Substantive Consolidation The Plan serves as a motion seeking entry of an order substantively consolidating the Chapter 11 Cases for distribution and voting purposes. Unless an objection to substantive consolidation is made in writing by any Creditor affected by the Plan on or before the Plan Objection Deadline, an order substantively consolidating these Chapter 11 Cases for distribution and voting purposes may be entered by the Bankruptcy Court, which order may be the Confirmation Order. In the event any such objections are timely filed, a hearing with respect thereto shall be scheduled by the Bankruptcy Court, which hearing may, but need not, coincide with the Confirmation Hearing. In effectuation of such substantive consolidation, on the Effective Date: (a) no Distributions will be made under the Plan on account of the Intercompany Claims, if any; (b) the guarantees of the Debtors will be deemed eliminated so that any Claim against the Debtors and any guarantee thereof executed by any Debtor and any joint and several liability of the Debtors with one another will be deemed to be one obligation of these Debtors; (c) each and every Claim against the Debtors will be deemed asserted as a single Claim against the Debtors as a whole, and will be treated in the same Class regardless of the Debtor; and (d) all distributions on account of Allowed Claims will be made from Arctic Sentinel, Inc. [f/k/a Fuhu, Inc.]. Additionally, notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every one of the Debtors under 28 U.S.C. § 1930(a)(6) until a particular case is closed, converted, or dismissed.

H. Modification or Revocation of the Plan

The Debtors reserve the right, in accordance with the Bankruptcy Code, to amend or modify the Plan at or any time prior to the Confirmation Date, as provided in Section 1127 of the Bankruptcy Code or as provided in Bankruptcy Rule 3019. If the Plan, as altered, amended or modified, is not consummated on or before the Effective Date or such other date as the Bankruptcy Court fixes, all holders of Claims and Equity Interests shall be returned to the status quo ante, as if the Plan had not been filed, and the Confirmation Order shall be deemed vacated ab initio.

The Liquidating Trustee and the Debtors may, with the approval of the Bankruptcy Court and without notice to all holders of Claims and Equity Interests, insofar as it does not materially and adversely affect the interest of holders of Claims, correct any defect, omission or inconsistency in the Plan in such manner and to such extent as may be necessary to expedite consummation of the Plan.

I. Miscellaneous

Committee. On the Effective Date, the Committee will dissolve, and the members of the Committee and the Committee's Professionals will cease to have any role arising from or relating to the Chapter 11 Cases, except in connection with final fee applications of Professionals for services rendered prior to the Effective Date (including the right to object thereto). The Professionals retained by the Committee and the members thereof will not be entitled to assert any fee claims for any services rendered to the Committee or expenses incurred in the service of the Committee after the Effective Date, except for reasonable fees for services rendered, and actual and necessary costs incurred, in connection with any applications for allowance of Professional Fees pending on the Effective Date or filed and served after the Effective Date pursuant to Section II(C) of the Plan. Nothing herein shall prohibit or limit the ability of Committee Professionals (or Debtors' Professionals) to represent the Liquidating Trustee or to be compensated or reimbursed per the Plan and the Liquidating Trust Agreement in connection with such representation.

Limitation of Liability. **The Debtors, the Committee and each of their respective officers, directors, shareholders, members, managers, employees, agents, advisors, accountants, attorneys, and representatives and their respective property (collectively, the "Exculpated Parties"), will neither have nor incur any liability to any entity for any action in good faith taken or omitted to be taken after the Petition Date in connection with or related to the Chapter 11 Cases or the formulation, preparation, dissemination, implementation, Confirmation, or Consummation of the Plan, the Disclosure Statement, or any agreement created or entered into in connection with the Plan; *provided, however,* that this limitation will not affect or modify the obligations created under this Plan, or the rights of any Holder of an Allowed Claim to enforce its rights under the Plan, and shall not release any action (or inaction) constituting willful misconduct, fraud, or gross negligence (in each case subject to determination of such by final order of a court of competent jurisdiction); *provided* that any Exculpated Party shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities (if any) under this Plan, and such reasonable reliance shall form an absolute defense to any such claim, cause of action, or liability. Without limiting the generality of the foregoing, each Exculpated Party shall be entitled to and granted the protections of Section 1125(e) of the Bankruptcy Code. Except as specifically set forth in Section 8(E)(1)(a) below, no provision of this Plan or the Disclosure Statement shall be deemed to act to or release any claims, Causes of Action, Litigation claims or rights, or liabilities that the Liquidating Trust or the Estates may have against any Entity or person for any act, omission, or failure to act that occurred prior to the Petition Date, nor shall any provision of this Plan be deemed to act to release any Causes of Action, Litigation, or Litigation claims.**

Releases. **Each Person or Entity participating in Distributions under the Plan or pursuant to the Plan, for itself and its respective successors, assigns, transferees, current and former officers, directors, agents, financial advisors, attorneys, employees, partners, affiliates, and representatives, in each case in their capacity as such, who affirmatively votes to accept the Plan and who does not elect to "opt-out" by marking the appropriate box on their respective ballot, shall, by virtue of Sections 1126(c) and 1141(a) of the Bankruptcy Code, be deemed to have released any and all Claims and Causes of Action against the Released Parties and their respective property; provided, however, that for the avoidance of doubt, any Claims or Causes of Action against the officers and directors of the Debtors related to the period prior to the Petition Date shall not be released and are fully preserved, unless otherwise released as part of the Sale Agreement.**

Injunction. **In implementation of the Plan, except as otherwise expressly provided in the Confirmation Order or the Plan, and except in connection with the enforcement of the terms of the Plan or any documents provided for or contemplated in the Plan, all entities who have held, hold or may hold Claims against or Equity Interests in the Debtors, the Liquidating Trust, or the Estates that arose prior to the Effective Date are permanently enjoined from: (a) commencing or continuing in any manner, directly or indirectly, any action or other proceeding of any kind against the Debtors, the Estates, the Liquidating Trust, or any property of the Liquidating Trust, the Debtors, or the Estates with respect to any such Claim or Equity Interest; (b) the enforcement, attachment, collection, or recovery by any manner or means, directly or indirectly, of any judgment, award, decree, or order against the Debtors, the Estates, the Liquidating Trust, or any property of the Liquidating Trust, the Debtors, or the Estate with respect to any such Claim or Equity Interest; (c) creating, perfecting, or enforcing, directly or indirectly, any Lien or encumbrance of any kind against the Debtors, the Estates, or the Liquidating Trust, or any property of the Liquidating Trust, the Debtors, or the Estates with respect to any such Claim or Equity Interest; and (d) any act, in any manner, in any place whatsoever, that does not conform to or comply with the provisions of the Plan with respect to such Claim or Equity Interest. Nothing contained in this Section shall prohibit the Holder of a timely-filed Proof of Claim from litigating its right to seek to have such Claim declared an Allowed Claim and paid in accordance with the distribution provisions of the Plan, or enjoin or prohibit the interpretation or enforcement by the Claimant of any of the obligations of the Debtors or the Liquidating Trust under the Plan.**

IV.

VOTING REQUIREMENTS; ACCEPTANCE AND CONFIRMATION OF THE PLAN

The Bankruptcy Code requires that, in order to confirm the Plan, the Bankruptcy Court must make a series of findings concerning the Plan and the Debtors, including that (i) the Plan has classified Claims and Equity Interests in a permissible manner, (ii) the Plan complies with applicable provisions of the Bankruptcy Code, (iii) the Debtors have complied with applicable provisions of the Bankruptcy Code, (iv) the Debtors have proposed the Plan in good faith and not by any means forbidden by law, (v) the disclosure required by Section 1125 of the

Bankruptcy Code has been made, (vi) the Plan has been accepted by the requisite votes of creditors (except to the extent that cramdown is available under Section 1129(b) of the Bankruptcy Code), (vii) the Plan is feasible and confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors, (viii) the Plan is in the "best interests" of all holders of Claims or Equity Interests in an impaired Class by providing to such holders on account of their Claims or Equity Interests property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain in a chapter 7 liquidation, unless the Holder has accepted the Plan, and (ix) all fees and expenses payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on Confirmation, have been paid or the Plan provides for the payment of such fees on the Effective Date.

A. Parties in Interest Entitled to Vote

Pursuant to the Bankruptcy Code, only classes of claims and interests that are "impaired" (as defined in Section 1124 of the Bankruptcy Code) under the plan are entitled to vote to accept or reject the Plan. A class is impaired if the legal, equitable, or contractual rights to which the claims or equity interests of that class entitled the holders of such claims or equity interests are modified, other than by curing defaults and reinstating the debt. Classes of claims and interests that are not impaired are not entitled to vote on the plan and are conclusively presumed to have accepted the plan. In addition, classes of claims and interests that receive no distributions under the plan are not entitled to vote on the plan and are deemed to have rejected the plan.

B. Classes Impaired Under the Plan

The following Classes of Claims and Equity Interests are impaired under the Plan:

Class 2: Secured Claims
Class 3: Unsecured Claims
Class 4: Equity Interests

Acceptances of the Plan are being solicited only from those Holders of Claims in Impaired Classes that will or may receive a distribution under the Plan. Accordingly, the Debtors are soliciting acceptances from members of Class 2 and Class 3. Class 4 (Equity Interests) is receiving no distribution under the Plan and are therefore deemed to reject the Plan.

C. Voting Procedures and Requirements

In voting for or against the Plan, please use only the Ballot or Ballots sent to you with this Disclosure Statement. In addition, you may vote to opt out of the releases provided under the Plan to the Released Parties.

If you are a member of Class 2 or Class 3 and did not receive a Ballot, if your Ballot is damaged or lost, or if you have any questions concerning voting procedures, please call Debtor's voting agent, Kurtzman Carson Consultants, LLC, at (888) 733-1431. PLEASE FOLLOW THE DIRECTIONS CONTAINED ON THE ENCLOSED BALLOT CAREFULLY.

YOU SHOULD COMPLETE AND SIGN YOUR BALLOT AND RETURN IT IN THE ENCLOSED ENVELOPE TO:

Fuhu, Inc. Processing Center
c/o KCC
2335 Alaska Avenue
El Segundo, CA 90245

VOTES CANNOT BE TRANSMITTED ORALLY. FACSIMILE BALLOTS WILL NOT BE ACCEPTED. TO BE COUNTED, ORIGINAL SIGNED BALLOTS MUST BE RECEIVED ON OR BEFORE _____, 2016, AT 4:00 P.M., PREVAILING PACIFIC TIME. IT IS OF THE UTMOST IMPORTANCE TO THE DEBTORS AND THE COMMITTEE THAT YOU VOTE PROMPTLY TO ACCEPT THE PLAN.

D. Confirmation Without Acceptance of All Impaired Classes

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 it. These so-called "cramdown" provisions are set forth in Section 1129(b) of the Bankruptcy Code.

A plan may be confirmed under the cramdown provisions if, in addition to satisfying all other requirements of Section 1129(a) of the Bankruptcy Code, it (a) "does not discriminate unfairly" and (b) is "fair and equitable," with respect to each class of claims or interests that is impaired under, and has not accepted, the plan. As used by the Bankruptcy Code, the phrases "discriminate unfairly" and "fair and equitable" have specific meanings unique to bankruptcy law.

AS CLASS 4 EQUITY INTERESTS ARE DEEMED TO REJECT THE PLAN, THE DEBTORS INTEND TO SEEK CONFIRMATION OF THE PLAN UNDER THE CRAMDOWN PROVISIONS OF SECTION 1129(b) OF THE BANKRUPTCY CODE WITH RESPECT TO SUCH CLASS.

E. Best Interests Test

In order to confirm the Plan, the Bankruptcy Court must independently determine that the Plan is in the best interests of each Holder of a Claim or Equity Interest in any such impaired Class who has not voted to accept the Plan. Accordingly, if an Impaired Class does not unanimously accept the Plan, the best interests test requires the Bankruptcy Court to find that the Plan provides to each member of such impaired Class a recovery on account of the Class member's Claim or Interest that has a value, as of the Effective Date, at least equal to the value of the distribution that each such member would receive if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code on such date.

F. Liquidation Analysis

In this case, the Debtors have sold substantially all of their assets, resulting in approximately $9,002,594 in net liquidation proceeds presently available for distribution to creditors holding Allowed Administrative, Priority, Secured, and Unsecured Claims against the Debtors' Estates. Based upon the Debtors' current projections, Holders of Allowed Administrative, Priority and Secured Claims will be paid in full under the Plan, while Holders of Allowed Unsecured Claims will receive a projected distribution of 0.8% - 5.9%.

If the Chapter 11 Cases were converted to Chapter 7 cases, the Debtors' estates would incur the costs of payment of a statutorily allowed commission to the Chapter 7 trustee, as well as the costs of counsel and other professionals retained by the trustee. The Debtors believe that such amounts would exceed the amount of expenses that will be incurred in implementing the Plan and winding up the affairs of the Debtors. Additionally, the Debtors' estates would suffer substantial additional delays, as a Chapter 7 trustee and his/her counsel took time to develop a necessary learning curve in order to complete the administration of the estates. The Debtors' estates would also be obligated to pay all unpaid expenses incurred by the Debtors during the Chapter 11 Cases (such as compensation for professionals) which will constitute Allowed Claims in any Chapter 7 cases.

Based upon these reasons, the Debtors believe that creditors will receive at least as much under the Plan and likely more, than they would receive if the Chapter 11 Cases were converted to Chapter 7 cases.

G. Feasibility

Under Section 1129(a)(11) of the Bankruptcy Code, the Debtors must show that confirmation of the Plan is not 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). The Plan clearly complies with this requirement because all of the Debtors' remaining assets will be distributed to creditors pursuant to the terms of the. Furthermore, feasibility under Section 1129(a)(11) is supported by the liquidation analysis attached as Exhibit B and by the analysis in Article IV, Section F, of this Disclosure Statement, above.

H. Compliance with the Applicable Provisions of the Bankruptcy Code

Section 1129(a)(1) of the Bankruptcy Code requires that the Plan comply with the applicable provisions of the Bankruptcy Code. The Debtors have considered each of these issues in the development of the Plan and believes that the Plan complies with all applicable provisions of the Bankruptcy Code.

V.

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtors believe the Plan affords Holders of Claims the potential for the maximum distribution on account of their claims and, therefore, is in the best interests of such Holders. If the Plan is not confirmed, the only viable alternatives are dismissal of the Chapter 11 Cases or conversion to Chapter 7 of the Bankruptcy Code. For the reasons described herein, neither of these alternatives is preferable to confirmation and consummation of the Plan.

If the Chapter 11 Cases were dismissed, creditors would revert to a "race to the courthouse," the result being that creditors would not receive a fair and equitable distribution of the Debtors' remaining assets. As set forth above, the Debtors believe the Plan provides a greater recovery to creditors than would be achieved in Chapter 7 cases. Therefore, a Chapter 7 case is not an attractive or superior alternative to the Plan. Thus, the Plan represents the best available alternative for maximizing returns to creditors.

VI.

RISK FACTORS

A. Allowed Claims May Exceed Estimates

The projected distributions set forth in this Disclosure Statement are based upon the Debtors' good-faith estimate of the amount of expenses that will be incurred and total amount of Claims in each Class that will ultimately be Allowed. The actual amount of such expenses could be greater than expected for a variety of reasons, including greater than anticipated administrative and litigation costs associated with resolving Disputed Claims. Additionally, the actual amount of Allowed Claims in any class could be greater than anticipated, which would impact the distributions to be made to Holders of Claims.

B. Plan May Not Be Accepted or Confirmed

While the Debtors believe the Plan is confirmable under the standards set forth in Section 1129 of the Bankruptcy Code, there can be no guarantee that the Bankruptcy Court will agree.

VII.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion addresses certain United States federal income tax consequences of the consummation of the Plan. This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Tax Code"), existing and proposed regulations thereunder, current administrative rulings, and judicial decisions as in effect on the date hereof, all of which are subject to change, possibly retroactively. No rulings or determinations by the Internal Revenue Service have been obtained or sought by the Debtors with respect to the Plan. An opinion of counsel has not been obtained with respect to the tax aspects of the Plan. This discussion does not purport to address the federal income tax consequences of the Plan to particular classes of taxpayers (such as foreign persons, S corporations, mutual funds, small business investment companies, regulated investment companies, broker-dealers, insurance companies, tax-exempt organizations and financial institutions) or the state, local, or foreign income and other tax consequences of the Plan. NO REPRESENTATIONS ARE MADE REGARDING THE PARTICULAR TAX CONSEQUENCES OF THE PLAN TO ANY HOLDER OF A CLAIM OR EQUITY INTEREST. EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS STRONGLY URGED TO CONSULT A TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

A. Federal Income Tax Consequences to Holders of Claims and Equity Interests

A Holder of an Allowed Claim or Equity Interest will generally recognize ordinary income to the extent that the amount of Cash or property received (or to be received) under the Plan is attributable to interest that accrued on a Claim but was not previously paid by the Debtors or included in income by the Holder of the Allowed Claim or Equity Interest. A Holder of an Allowed Claim or Equity Interest will generally recognize gain or loss equal to the difference between the Holder's adjusted basis in its Claim and the amount realized by the Holder upon consummation of the Plan that is not attributable to accrued but unpaid interest. The amount realized will equal the sum of Cash and the fair market value of other consideration received (or to be received).

The character of any gain or loss that is recognized will depend upon a number of factors, including the status of the Creditor, the nature of the Claim or Equity Interest in its hands, whether the Claim was purchased at a discount, whether and to what extent the Creditor has previously claimed a bad debt deduction with respect to the Claim, and the Creditor's holding period of the Claim or Equity Interest. If the Claim or Interest in the Creditor's hands is a capital asset, the gain or loss realized will generally be characterized as a capital gain or loss. Such gain or loss will constitute long-term capital gain or loss if the Creditor is a non-corporate taxpayer and held such Claim or Equity Interest for longer than one year or short-term capital gain or loss if the Creditor held such Claim or Interest for less than one year.

A holder of an Allowed Claim or Equity Interest who receives, in respect of its Claim, an amount that is less than its tax basis in such Claim or Equity Interest may be entitled to a bad debt deduction if either: (i) the holder is a corporation; or (ii) the Claim or Equity Interest constituted (a) a debt created or acquired (as the case may be) in connection with a trade or business of the holder or (b) a debt the loss from the worthlessness of which is incurred in the holder's trade or business. A holder that has previously recognized a loss or deduction in respect of its Claim or Equity Interest may be required to include in its gross income (as ordinary income) any amounts received under the Plan to the extent such amounts exceed the holder's adjusted basis in such Claim or Equity Interest.

Holders of Claims or Interests who were not previously required to include any accrued but unpaid interest with respect to in their gross income on a Claim or Equity Interest may be treated as receiving taxable interest income to the extent any consideration they receive under the Plan is allocable to such interest. Holders previously required to include in their gross income any accrued but unpaid interest on a Claim may be entitled to recognize a deductible loss to the extent such interest is not satisfied under the Plan.

Holders of a Claim constituting any installment obligation for tax purposes may be required to currently recognize any gain remaining with respect to such obligation if, pursuant to the Plan, the obligation is considered to be satisfied at other than its face value, distributed, transmitted, sold or otherwise disposed of within the meaning of section 453B of the Tax Code.

The Holders of Class 3 Unsecured Claims are expected to receive only a partial distribution of their Allowed Claims and Class 4 Equity Interests will not receive any distributions under the Plan on account of their Equity Interests. Whether the Holder of such Claims or Equity Interests will recognize a loss, a deduction for worthless securities or any other tax treatment will depend upon facts and circumstances that are specific to the nature of the holder and its Claims or Equity Interests. Accordingly, the holders of Class 3 Claims and Class 4 Equity Interests should consult their own tax advisors.

B. Federal Income Tax Consequences to the Debtors

Under the Tax Code, a taxpayer generally must include in gross income the amount of any cancellation of indebtedness income ("COD income") realized during the taxable year. Section 108 of the Tax Code provides an exception to this general rule, however, if the cancellation occurs in a case under the Bankruptcy Code but only if the taxpayer is under the jurisdiction of the bankruptcy court and the cancellation is granted by the court or is pursuant to a plan approved by the court.

Section 108 of the Tax Code requires the amount of COD income so excluded from gross income to be applied to reduce certain tax attributes of the taxpayer. The tax attributes that may be subject to reduction include the taxpayer's net operating losses and net operating loss carryovers (collectively, "NOLs"), certain tax credits and most tax credit carryovers, capital losses and capital loss carryovers, tax bases in assets, and foreign tax credit carryovers. Attribute reduction is calculated only after the tax for the year of the discharge has been

determined. Section 108 of the Tax Code further provides that a taxpayer does not realize COD income from cancellation of indebtedness to the extent that payment of such indebtedness would have given rise to a deduction.

Under the Plan, Holders of certain Claims are expected to receive less than full payment on their Claims. The Debtors' liability to the Holders of Claims in excess of the amount satisfied by distributions under the Plan will be canceled and therefore, will result in COD income to the Debtors. The Debtors should not realize any COD income, however, to the extent that payment of such Claims would have given rise to a deduction to the Debtors had such amounts been paid. In addition, any COD income that the Debtors realize should be excluded from the Debtors' gross income pursuant to the bankruptcy exception to Section 108 of the Tax Code described in the immediately preceding paragraph.

The exclusion of COD income, however, will result in a reduction of certain tax attributes of the Debtors. Because attribute reduction is calculated only after the tax for the year of discharge has been determined, the COD income realized by the Debtors under the Plan should not diminish the NOLs and other tax attributes that may be available to offset any income and gains recognized by the Debtors in the taxable year that includes the Effective Date.

C. Importance of Obtaining Professional Tax Assistance

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. Holders of Claims or Equity Interests are strongly urged to consult with their own tax advisors regarding the federal, state, local and foreign income and other tax consequences of the Plan, including, in addition to the issues discussed above, whether a bad debt deduction may be available with respect to their Claims and if so, when such deduction or loss would be available.

THE FOREGOING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, HOLDERS OF CLAIMS OR EQUITY INTERESTS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES OF THE PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

VIII.

RECOMMENDATION

The Debtors strongly recommend that all creditors receiving a Ballot vote in favor of the Plan. The Debtors believe that the Plan is in the best interests of creditors. In addition, the Committee supports the Plan and encourages all creditors to vote for the Plan. The Plan as structured, among other things, allows creditors with Allowed Claims to participate in distributions believed to be in excess of those that would otherwise be available were the Chapter 11 Cases dismissed or converted under Chapter 7 of the Bankruptcy Code and minimizes delays in recoveries to creditors.

FOR ALL THE REASONS SET FORTH IN THIS DISCLOSURE STATEMENT, THE DEBTORS BELIEVE THAT THE CONFIRMATION AND CONSUMMATION OF THE PLAN IS PREFERABLE TO ALL OTHER ALTERNATIVES. THE DEBTORS AND THE COMMITTEE URGE ALL CREDITORS ENTITLED TO VOTE TO ACCEPT THE PLAN AND TO EVIDENCE SUCH ACCEPTANCE BY RETURNING THEIR BALLOTS SO THAT THEY WILL BE RECEIVED BY 4:00 P.M. PACIFIC STANDARD TIME ON _____, 2016.

Dated: September 1, 2016

Respectfully submitted,

ARCTIC SENTINEL, INC.
By: Ming Cheung, its President

ARCTIC SENTINEL HOLDINGS, INC.
By: Ming Cheung, its President

ARCTIC SENTINEL DIRECT, INC.
By: Ming Cheung, its President

SENTINEL ARCTIC, INC.
By: Ming Cheung, its President