UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
Charlotte Division

In re:	)	Chapter 11
	)	
PORTRAIT INNOVATIONS, INC., et al.	)	Case No. 17-31455
	)	
Debtors.[1]	)	(Jointly Administered)
	)	

DISCLOSURE STATEMENT FOR THE DEBTORS' AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION

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Dated: October 13, 2017

[1] The Debtors in these jointly administered cases are the following entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): Portrait Innovations, Inc. (9394) and Portrait Innovations Holding Company (5553). The Debtors address is 2016 Ayrsley Town Center Boulevard, Suite 200, Charlotte North Carolina 28273.

DISCLAIMER

This Disclosure Statement[2] contains summaries of certain provisions of the Plan and certain other documents and financial information. The information included in this Disclosure Statement is provided solely for the purpose of soliciting acceptances of the Plan and should not be relied upon for any purpose other than to determine whether and how to vote on the Plan. All holders of Claims entitled to vote are advised and encouraged to read this Disclosure Statement and the Plan in their entirety before voting. The Debtors believe that these summaries are fair and accurate. The summaries of the financial information and the documents that are attached to, or incorporated by reference in, the Disclosure Statement are qualified in their entirety by reference to such information and documents. In the event of any inconsistency or discrepancy between a description in the Disclosure Statement and the terms and provisions of the Plan or the other documents and financial information incorporated in the Disclosure Statement by reference, the Plan or the other documents and financial information, as the case may be, shall govern for all purposes.

Except as otherwise provided in the Plan or in accordance with applicable law, the Debtors are under no duty to update or supplement this Disclosure Statement. The Bankruptcy Court's approval of this Disclosure Statement shall not constitute or be construed as a guarantee of the accuracy or completeness of the information contained herein or an endorsement of the merits of the Plan by the Bankruptcy Court. The statements and financial information contained in this Disclosure Statement have been made as of the date of the Disclosure Statement unless otherwise specified. Holders of Claims reviewing the Disclosure Statement should not assume at the time of such review that there have been no changes in the facts set forth in the Disclosure Statement since the date of the Disclosure Statement. Each holder of a Claim entitled to vote on the Plan should carefully review the Plan and this Disclosure Statement in their entirety before casting a ballot. No holder of a Claim should rely on any information, representations, or inducements made to obtain an acceptance of the Plan that are other than as set forth, or are inconsistent with, the information contained in this Disclosure Statement, the documents attached to this Disclosure Statement, and the Plan. The Disclosure Statement does not constitute legal, business, financial, or tax advice. Any entities desiring any such advice should consult with their own advisors.

The issuance of the New Notes and New Shares under the Plan described in this Disclosure Statement will be exempt from the registration requirements of section 5 of the Securities Act pursuant section 1145 of the Bankruptcy Code. This Disclosure Statement has not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC") or any state securities regulator, nor has the SEC or any state securities regulator commented upon the accuracy or adequacy of the statements contained in this Disclosure Statement.

The financial information contained in or incorporated by reference into this Disclosure Statement has not been audited, except as specifically indicated otherwise. The financial projections attached hereto as Exhibit B, estimated projected recoveries discussed elsewhere in this Disclosure Statement, and Liquidation Analysis attached hereto as Exhibit C have been prepared by the Debtors' management in consultation with their advisors. The financial projections, estimates, and analyses, while presented with numerical specificity, necessarily were based on a variety of estimates and assumptions that are inherently uncertain and may be beyond the control of the Debtors' management. Important factors that may affect actual results and cause forecasts to not be achieved include, but are not limited to, risks and uncertainties relating to the Debtors' (including its ability to achieve strategic goals, objectives and targets over applicable periods), industry performance, the regulatory environment, general business and economic conditions and other factors. The Debtors caution that no representations can be made as to the accuracy of these projections, estimates, or analyses or to the ultimate performance of the Reorganized Debtor compared to the information contained in the forecasts or that the forecasted results will be achieved. Therefore, the financial projections, estimates, and Liquidation Analysis may not be relied upon as a guarantee or other assurance that the actual results will occur.

Regarding contested matters, adversary proceedings, and other pending, threatened, or potential litigations or other actions, this Disclosure Statement does not constitute, and may not be construed as, an admission of fact, liability, stipulation, or waiver by the Debtors or any other party, but rather as a statement made in the context of settlement negotiations in accordance with Rule 408 of the Federal Rules of Evidence. As such, this Disclosure Statement shall not be admissible in any non-bankruptcy proceeding involving the Debtors or any other party in interest, nor shall it be construed to be conclusive advice on the tax, securities, financial, or other effects of the Plan to holders of Claims

[2] Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the *Debtors' Joint Chapter 11 Plan of Reorganization* (the "Plan"), attached hereto as Exhibit A.

against, or Interests in, the Debtors or any other party in interest. Please see ARTICLE IX of this Disclosure Statement, entitled "Certain Factors to be Considered" for a discussion of certain risk factors that a creditor voting on the Plan should consider.

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INTRODUCTION

Portrait Innovations, Inc. and Portrait Innovations Holding Company (collectively, the "Debtors" or the "Company") are the largest operators of free standing retail professional portrait studios in the United States. The Debtors currently operate 119 studios in 31 states. The Debtors distinguish themselves from other national and regional professional portrait studio chains in several ways. First, the Company seeks out highly skilled, well-educated and friendly Studio Associates and provides thorough training on the latest professional portrait techniques and customer service. In addition, the Company employs proprietary software to enhance the customer portrait review and package selection process; state of the art photography equipment including cameras, lights and backgrounds; and in-studio dry printers that enable same-day delivery of portrait packages to the customer. The Company has also been successful in creating a vibrant social media presence and can provide customers with a universal solution for the creation and customization of both professional content and personal image content due to its physical studio locations combined with its online services.

Founded in 2000, the Debtors' business model focused on operations in upscale, mixed-use commercial (or "lifestyle") locations and their traditional retail park (or "power center") locations, however in late 2016 the Company began opening locations in Walmart Supercenters. This operating model was very successful through the end of the 2015 fiscal year. In the second half of the 2016 fiscal year, however, the Company began seeing a significant decline in visitors to their lifestyle and power center locations.

Faced with this decline in their traditional business model, in late 2016, the Debtors opened three pilot studio locations in Walmart Supercenters. The pilot program has been successful, and results from these locations have exceeded the Debtors' expectations. The Debtors believe that expansion of their Walmart Supercenter operating model provides a great opportunity for growth and would enable the Debtors to operate profitably in the long-term.

Unfortunately, performance at the Debtors' traditional locations continued to decline into 2017, and the Debtors began the process of exiting underperforming stores to improve cash flow. Negotiations with the Debtors' landlords continued in the ensuing months. By the early summer of 2017, it had become clear to the Debtors that they had insufficient capital to expand the Walmart business quickly enough to compensate for the seventy or more unprofitable or marginally profitable Portrait Innovations retail studios. Therefore, in early July 2017, the Debtors engaged Piper Jaffray & Co. ("Piper Jaffray") as investment bankers to seek new equity investors or capital for the Debtors. The Debtors believed, based on May 2017 operational results, they would have adequate cash flow to permit Piper Jaffray to go to the market seeking bids in late summer and pursue a transaction into late fall, around the time the profitable holiday season would start. Shortly after Piper's engagement, however, the Debtors saw a significant and unexpected further drop in revenue from June 2017 operational results. After re-evaluating their projections based on June and early July results, the Debtors determined that continued decline in revenue and profits meant that there would not be sufficient liquidity to allow Piper Jaffray to complete its transaction process, and made the decision to pursue a wholesale restructuring of the Debtors' operations and balance sheet.

Therefore, in mid-July 2017, the Debtors approached their prepetition secured lenders, CapitalSouth Partners SBIC Fund III, L.P., CapitalSouth Partners Fund II Limited Partnership and CapitalSouth Partners Florida Sidecar Fund II, L.P. (collectively, the "Noteholders"), to discuss options for the Debtors in light of their likely inability to continue operations long enough to complete the Piper Jaffray process or reach the profitable holiday season. The Noteholders expressed interest in providing debtor-in-possession financing for a bankruptcy proceeding for the Debtors, and also expressed interest in serving as the stalking horse bidder in a bankruptcy sale process.

After extensive negotiations with the Debtors, the Noteholders agreed to provide the needed financing in the amount of up to $5,000,000 and to serve as stalking horse bidder for the Debtors' planned sale process and purchase shares in the reorganized Company in exchange for (i) accepting new debt and equity in exchange for their outstanding prepetition claims, and (ii) committing to provide up to $5,000,000 in exit financing to, among other things, fund a distribution to unsecured creditors, pay necessary expenses of the Debtors' estates and provide the reorganized Company with working capital to continue operations and expand the Walmart opportunity.

The Debtors' agreement with the Noteholders is memorialized in a Restructuring Support Agreement, dated as of September 1, 2017 (the "Restructuring Support Agreement"), which includes a detailed term sheet for a plan of

reorganization (which served as the basis for the Plan attached hereto), as well as a term sheet for debtor-in-possession financing and bidding procedures for solicitation of higher and better offers for the Debtors' assets (and shares in the reorganized Company) through a court-supervised auction. The Restructuring Support Agreement allows the Debtors the time and financing needed to complete their marketing and sale process, while providing a "floor" for creditor recoveries and a viable path to reorganize in chapter 11 and continue as a going concern. The Debtors believe that the Plan in its current form maximizes the value of the Debtors' estates, and that the marketing and auction process embodied in the Restructuring Support Agreement and the bidding procedures ensures that any future bids for the Debtors' assets will only increase the realized value for the assets and improve creditor recoveries, and as such is in the best interests of all holders of Claims and Interests.

After extensive arm's-length negotiations between the Debtors, the Committee, and the Noteholders, an agreement was reached whereby, among other things, the milestones and case timelines were extended, the Debtors waived and released all Avoidance Actions, and the fund created under the Plan for distributions to unsecured creditors was substantially increased. The Committee supports the Plan, but it has reserved all rights to contest confirmation of the Plan solely on feasibility grounds.

By this Disclosure Statement and the accompanying materials, the Debtors are soliciting the votes of the holders of Noteholder Claims and General Unsecured Claims on the Plan in accordance with sections 1125 and 1126 of the Bankruptcy Code.

This Disclosure Statement provides information regarding the Plan, a copy of which is attached hereto as Exhibit A. The Debtors believe that the Plan is in the best interests of all holders of Claims and Interests. Accordingly, the Debtors urge all such holders entitled to vote on the Plan to vote to accept the Plan.

ARTICLE I
PLAN OVERVIEW

1.1 The Restructuring Transactions

(a) The Restructuring Support Agreement

1. The Restructuring Support Agreement binds the Debtors and the Noteholders to support the Restructuring Transaction, which consists of (A) the conveyance of all of the Debtors' Assets to the Reorganized Company on the Effective Date, (B) the sale of the New Shares in the Reorganized Company to (1) the Winning Bidder at the Auction or (2) if no potential buyers participate in the Auction, to the Noteholders in exchange for the Plan Consideration. The Restructuring Support Agreement attaches and incorporates the following documents, which are each the product of arm's length negotiations and set forth the substantive terms upon which the Restructuring Transaction shall proceed: (i) the General Term sheet for Post Petition Debtor-in-Possession Financing to the Debtors from the Noteholders, dated as of September 1, 2017 (the "DIP Term Sheet"), which sets forth the terms upon which the Noteholders (acting in their capacity as the DIP Lenders) shall provide the funding necessary for the Debtors to continue their operations and pay the costs and expenses of the Chapter 11 process; (ii) a term sheet for a chapter 11 plan of reorganization (the "Plan Term Sheet"), which sets forth the terms upon which the Noteholders will sponsor, support and vote in favor of a chapter 11 plan that auctions off the equity in the Reorganized Company; and (iii) proposed bidding procedures to govern the process of seeking the highest and best value for the Debtors' assets (the "Bidding Procedures").

2. As set forth in detail in the Restructuring Support Agreement, the Restructuring Transaction would be implemented through confirmation of the Plan. Specifically, on the Effective Date of the Plan, substantially all of Portrait Innovations Inc.'s assets would be transferred to the Reorganized Company, and the Winning Bidder at the Auction, or, if no Auction is held, the Noteholders, would acquire 100% of the equity of the Reorganized Company. Under the Bidding Procedures, the Debtors, with the assistance of their financial advisors, Piper Jaffray, will solicit higher and better bids for the equity of the Reorganized Company, and the Debtors will hold a court-supervised Auction for the equity of the Reorganized Company if the Debtors receive more than one Qualified Bid.

Below is a summary of the terms of the Support Agreement:[3]

SUMMARY OF SUPPORT AGREEMENT	
Agreements of the Noteholders	Upon the terms and subject to the conditions of the RSA and the Restructuring Term Sheet, the Noteholders agree that, for the duration of the Restructuring Support Period, each of the Noteholders shall: support, and take all reasonable actions necessary to facilitate the implementation or consummation of the Restructuring Transaction and the approval by the Bankruptcy Court of the Bidding Process Documents and the Plan Documents, including, without limitation, consummation and funding of the DIP Facility, it being understood that except for funding obligations under the DIP Facility, none of the Noteholders shall be required to incur any material costs, expenses or liabilities in connection therewith prior to the Effective Date of the Plan; (A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote or cause to be voted all of its Noteholder Claims against, and not consent to (unless also agreed to in writing by the Debtors), any Alternative Transaction; and (B) not take any other action, including but not limited to, initiating or joining in any legal proceedings or enforcing rights as a holder of Notes that is inconsistent with this Agreement or the Restructuring Term Sheet, or is reasonably likely to prevent, interfere with, delay or impede the implementation or consummation of the Restructuring Transaction (including, but not limited to, the Bankruptcy Court's approval of the DIP Motion, the RSA Assumption Motion, the Plan Documents, the Bidding Process Documents, the Disclosure Statement, the Solicitation and the confirmation of the Plan); provided, however, that nothing contained in the RSA shall limit the ability of the Noteholders to consult with the Debtors, to appear and be heard, or to file objections or other pleadings in the Chapter 11 Cases, so long as such consultation, appearance, objection, or pleading is not inconsistent with the Restructuring Transaction contemplated by this Agreement; (A) subject to the receipt by the Noteholders of a Disclosure Statement approved by the Bankruptcy Court, timely vote, or cause to be voted, all of its Noteholder Claims to accept the Plan, and (B) not change, withdraw or revoke such vote (or cause or direct such vote to be changed, withdrawn or revoked); provided, however, that such vote may, upon written notice to the Debtors and the other Noteholders, be revoked (and, upon such revocation, deemed void *ab initio*) by any of the Noteholders (so long as such Noteholder has not materially breached this Agreement) at any time following the expiration of the Restructuring Support Period; support the mutual release and exculpation provisions to be provided in the Plan, in accordance with the terms of the Restructuring Term Sheet; and not, from and after the date hereof until the Bankruptcy Court enters the

[3] This is a summary of the terms only. The reader is referred to the Restructuring Support Agreement for a complete recitation of its terms. Certain terms found in the Restructuring Support Agreement have been modified as provided for herein, in the Plan, the Final DIP Order, and the Bidding Procedures and such modified terms shall control. Capitalized terms used in the summary chart but not defined herein shall have the meanings ascribed to them in the Restructuring Support Agreement.

SUMMARY OF SUPPORT AGREEMENT	
	Bidding Procedures Order, solicit or encourage any person, entity or group with respect to any offer or proposal to purchase the Assets and restructure the Debtors pursuant to a plan of reorganization inconsistent with the Restructuring Term Sheet; provided that prior to the entry of the Bidding Procedures Order, the Noteholders may, subject to any confidentiality or non-disclosure agreement with one or more of the Debtors, respond to any unsolicited offer or proposal related to an Alternative Transaction.
Conditions to the Noteholders' Obligations	The obligations of each of the Noteholders are subject to the following conditions: the RSA shall have become effective in accordance with the provisions of Section 12 thereof; the Restructuring Term Sheet shall be acceptable in all respects to the Noteholders; and the RSA shall not have terminated in accordance with the terms of Section 5 thereof.
Agreements of the Debtors	Among other obligations set forth in the RSA, the Debtors agree to: (A) commence the Chapter 11 Cases in the Bankruptcy Court, (B) file the Plan, the Disclosure Statement, the DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion on the Petition Date with the Bankruptcy Court; (C) diligently seek and obtain Bankruptcy Court approval of the Plan, Disclosure Statement, DIP Motion, the RSA Assumption Motion, the Solicitation Procedures Motion, the Lease Rejection Motion, and the Bidding Procedures Motion by the deadlines set forth in the RSA, (D) support the Restructuring Transaction, and exercise best efforts, to take all actions (1) contemplated by the Restructuring Term Sheet, (2) that are necessary to facilitate, effectuate and promptly consummate the Restructuring Transaction, (3) that are necessary to prepare and complete, as soon as reasonably practicable after the date hereof, all Plan Documents, and (4) that are necessary to obtain the approval by the Bankruptcy Court of the Plan and the other Plan Documents; conduct the Marketing Process in a commercially reasonable manner, in accordance with and subject to the Bidding Procedures, and select the Winning Bid and the Backup Bid in consultation with the Noteholders. take commercially reasonably efforts to complete the preparation, as soon as reasonably practicable after executing the RSA, of all Bidding Process Documents; timely file a formal objection to any motion filed with the Bankruptcy Court or any other proceeding commenced by any party seeking (A) entry of an order (x) directing the appointment of an examiner or a trustee, (y) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code or (z) dismissing the Chapter 11 Cases; (B) the entry of an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization; (C) confirmation or approval of an Alternative

SUMMARY OF SUPPORT AGREEMENT	
	Transaction not approved by the Noteholder Agent in writing; or (D) other relief that would be inconsistent with the Plan, the Plan Documents, the DIP Documents, the Restructuring Term Sheet, and the RSA; initiate, commence or enter into any proceeding or proposed settlement (as the case may be) by the Debtors of any claim, litigation, dispute, controversy, cause of action, proceeding, appeal, determination, investigation, matter or otherwise that involves or will require the payment by the Debtors of any amount in excess of $100,000 in the aggregate or that are inconsistent with the Plan Documents; and exercise best efforts to obtain as promptly as practicable any and all governmental, regulatory, licensing or other approvals (including, without limitation, any necessary third-party consents) necessary to the implementation or consummation of the Restructuring Transaction or such third party consents reasonably requested by the Noteholder Agent. Among other negative covenants, the Debtors agree not to: (A) except as contemplated by the RSA and pursuant to the Bidding Procedures, directly or indirectly, through any Entity, seek, solicit, entertain, propose, support, assist, engage in negotiations in connection with, enter into any agreement or participate in the formulation of, any Alternative Transaction, other than the Restructuring Transaction; or (B) take any action that is materially inconsistent with the RSA or the Restructuring Term Sheet; (A) amend, supplement, withdraw, modify or waive any condition under, the Plan or any of the other Plan Documents, in whole or in part; (B) publicly announce or privately indicate any intention not to pursue the Restructuring Transaction; (C) amend, modify, supplement or waive any condition under the Bidding Procedures; (D) suspend or revoke the Marketing Process or the Restructuring Transaction; or (E) execute, file or agree to file any document (including any modifications or amendments thereof) that, in whole or in part, is not consistent in any respect with the RSA or the Restructuring Term Sheet or is not otherwise acceptable to the DIP Agent and the Noteholder Agent; except in connection with the Debtors' selection of the Winning Bidder and the Backup Bidder in accordance with the Bidding Procedures, to the extent the Debtors have any discretionary consent, waiver, amendment or approval right in any of the Plan Documents or in any other documents or agreements related to the Restructuring Transaction over the form and/or substance of any document, instrument, consent, approval, waiver, amendment, modification, supplement, opinion or agreement, or any action or other matter, exercise such consent or approval right without the prior written consent of the DIP Agent and the Noteholder Agent; and except for the assumption or rejection of Executory Contracts and Unexpired Leases in accordance with the Plan and the Lease Rejection Motion, seek to assume or reject, without the consent of the DIP Agent and the Noteholder Agent, any Executory Contracts or Unexpired Leases.
Noteholder	The Noteholders may terminate the RSA for the following reasons, among others set

SUMMARY OF SUPPORT AGREEMENT	
Termination Events	forth in the RSA: the Debtors or any other Party (other than the Noteholders) shall have breached any obligation contained in the RSA (other than the obligations expressly referenced in the Noteholder Termination Events contained in section 5(a)(ii) through (xviii) of the RSA) in any material respect and the Noteholder Agent shall have delivered written notice to the Debtors of any such breach and such breach remains uncured for the period of three (3) business days following such notice; the occurrence of a Material Adverse Effect, or the occurrence of any other event, change, effect, occurrence, development, circumstance or change of control, management or fact that could materially impair the ability of the Debtors to perform their obligations under the RSA, or has a material adverse effect on, or prevents or materially delays the consummation of, the Restructuring Transaction; the Bankruptcy Court enters an order denying confirmation of the Plan or grants relief that is inconsistent with the RSA, the Restructuring Term Sheet, the Bidding Process Documents, the Plan Documents, or the DIP Documents in any material respect; the Bankruptcy Court enters an order modifying or terminating the Debtors' exclusive right to file and/or solicit acceptances of a plan of reorganization; (A) the occurrence of an Event of Default under the DIP Facility, (B) modification of the DIP Budget in a manner not acceptable to the DIP Agent and the Noteholder Agent, or (C) the termination or modification of the Interim DIP Order or Final DIP Order in a manner that is not acceptable to the DIP Agent and the Noteholder Agent; the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; or (B) dismissing the Chapter 11 Cases; the failure to satisfy any of the conditions to effectiveness set forth in the Plan by the deadlines set forth therein, except as such conditions may be waived by the DIP Agent and the Noteholder Agent; the Debtors or any other Party (other than the Noteholders) fail to satisfy or comply with any of their obligations under Section 13 thereof; or the Debtors fail to satisfy or comply with any of the milestones reflected in the DIP Term Sheet and Restructuring Term Sheet, except as such milestones were subsequently modified, and such failure remains uncured at the time notice of termination is given by the Noteholder Agent in accordance with Section 22 thereof.
Debtors' Termination Events	The Debtors may terminate the RSA if: the breach of any of the representations, warranties or covenants of the

SUMMARY OF SUPPORT AGREEMENT	
	Noteholders set forth in the RSA that would reasonably be expected to have a material adverse impact on the consummation of the Restructuring Transaction and such breach remains uncured for a period of three (3) business days following such notice; except at the request of, or with the consent or acquiescence of the Debtors, the issuance by any required governmental, regulatory or licensing authority, or court of competent jurisdiction, of any ruling or order enjoining the consummation of a material component or portion of the Restructuring Transaction; except at the request of, or with the consent or acquiescence of the Debtors, the Bankruptcy Court enters an order (A) directing the appointment of an examiner or a trustee; (B) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code; or (C) dismissing the Chapter 11 Cases; except at the request of, or with the consent or acquiescence of the Debtors, the Chapter 11 Cases are involuntarily dismissed; or the DIP Facility shall not have been consummated, or initial advances contemplated by the DIP Term Sheet shall not have been made within seven (7) days after the entry of the Interim DIP Order, in each case, as a result of a material breach by the Noteholders under the DIP Facility.
Transaction Expenses	Whether or not the transactions contemplated by the RSA are consummated, the Debtors hereby agree to reimburse or pay in full in cash, as the case may be, the reasonable and documented Transaction Expenses, payable as follows: (i) all accrued and unpaid Transaction Expenses incurred up to (and including) the Petition Date, shall be paid on the Closing Date (as defined in the DIP Term Sheet) against receipt of reasonably detailed invoices of amounts accrued, (ii) all accrued and unpaid Transaction Expenses incurred on or after the Petition Date and up (and including) to the date of the entry by the Bankruptcy Court of the RSA Order shall be paid within two (2) business days of the date of the entry by the Bankruptcy Court of the RSA Order against receipt of reasonably detailed invoices of amounts accrued, (iii) all accrued and unpaid Transaction Expenses incurred after the date of the entry by the Bankruptcy Court of the RSA Order and up to (and including) the Effective Date of the Plan shall be paid on a regular and continuing basis promptly (but in any event within five (5) business days) against receipt of reasonably detailed invoices of amounts accrued, without any requirement for Bankruptcy Court review or further Bankruptcy Court order, and (iv) upon termination of this Agreement, all accrued and unpaid Transaction Expenses incurred up to (and including) the date of such termination shall be paid promptly (but in any event within five (5) business days), against receipt of reasonably detailed invoices of amounts accrued, without any requirement of Bankruptcy Court review or further Bankruptcy Court order; provided, however, that the payment of the Transaction Expenses shall be subject to the terms of the RSA Order.

(b) The Bidding Procedures.

To ensure that maximum value for the Debtors' business and the New Shares is achieved, the right purchase the New Shares will be "market-tested" through a competitive auction process approved by the Bankruptcy Court. The Debtors are seeking Court authorization to establish the Bidding Procedures to solicit competing offers. The Bidding Procedures are designed to ensure a Winning Bid that provides recoveries to holders of Claims and Interests in an amount not less than that represented by the Plan attached hereto. Among other things, the Bidding Procedures require that any Qualified Bid (i) provide cash in an amount not less than the amount sufficient to pay in full all priority and administrative claims, claims under the debtor-in-possession financing and the Noteholder Claims, (ii) include a significant cash deposit and (iii) not be subject to any further diligence or regulatory approval, such that the Effective Date can occur in a timely manner. In addition, each Qualified Bidder must agree to act as a Backup Bidder to the extent that their bid is determined to be second best at the Auction, which gives the Debtors and their constituents assurance that should the Winning Bid fail to close for any reason, the Debtors will still have a viable, valuable alternative to consummate a sale and emerge from chapter 11. Below is a summary of the terms of the Bidding Procedures:[4]

SUMMARY OF BIDDING PROCEDURES	
Participation Requirements	In order to participate in the Sale Process, the Auction, or otherwise be considered for any purpose hereunder, a person or entity interested in acquiring the New Shares (each, a "Potential Bidder") must first deliver an executed confidentiality agreement in form and substance reasonably satisfactory to the Debtors (the "Confidentiality Agreement") to the Debtors and their advisors, unless the Potential Bidder has previously executed a Confidentiality Agreement in connection with solicitation of bids prior to the Petition Date. Without limiting the foregoing sentence, the Confidentiality Agreement will provide that all non-public information about the Debtors received by a Potential Bidder, will be kept strictly confidential in accordance therewith and used only in connection with analyzing a Sale Transaction.
Due Diligence	Any Potential Bidder wishing to conduct due diligence concerning the Sale Transaction shall be granted (i) reasonable access to the Debtors' management during normal business hours and (ii) access to all relevant information regarding the business of the Debtors reasonably necessary to enable a Potential Bidder to evaluate the Sale Transaction. The Debtors shall make such document access available to Potential Bidders through the electronic dataroom as soon as reasonably practicable following execution of the Confidentiality Agreement. Potential Bidders interested in conducting due diligence should contact **Piper Jaffray & Co., Attn: Teri Stratton, Managing Director; 2321 Rosencrans Avenue, Suite 3200, El Segundo, CA 90245; phone: (310) 297-6030; e-mail Teri.L.Stratton@pjc.com.** Notwithstanding the foregoing, the Debtors are not required to provide confidential, business-sensitive or proprietary information to any person if the Debtors reasonably believe (in consultation with the Consultation Parties) that such disclosure would be detrimental to the interests of the Debtors' estates. All due diligence must be completed before the Bid Deadline (as defined below). No condition(s) allowing or regarding further due diligence will be accepted after the Bid Deadline. Potential Bidders are required to exercise their own discretion before relying on any information provided by the Debtors regarding the Sale

[4] This is a summary of the terms only. The reader is referred to the Bidding Procedures for a complete recitation of its terms. Capitalized terms used in the summary chart but not defined herein shall have the meanings ascribed to them in the Bidding Procedures.

SUMMARY OF BIDDING PROCEDURES	
	Transaction. Neither the Debtors nor their representatives or advisors are responsible for, and will bear no liability with respect to, any information obtained by Potential Bidders pursuant hereto.
Bid Deadline	Any Potential Bidder interested in the Sale Transaction must submit a Qualified Bid prior to 4:00 p.m. prevailing Eastern Time on **November 9, 2017**.
Qualified Bids	A Potential Bidder will be deemed to be a "Qualified Bidder" if the Debtors and their advisors (in consultation with the Consultation Parties) in their sole discretion, determine that such Potential Bidder submitted a Qualified Bid. For the avoidance of doubt, the Noteholder Agent on behalf of the Noteholders shall be automatically deemed a Qualified Bidder on account of the offer encompassed in the Existing Plan and be entitled to participate in the Auction. The Existing Plan shall be automatically deemed a Qualified Bid.
Qualified Bid Requirements; Deposit	A Bid will be considered a "Qualified Bid" only if (1) the Bid offers to purchase the New Shares and fund a plan of reorganization/liquidation upon the terms and conditions no less favorable to the Debtors' estates than the Existing Plan, as determined by the Debtors (in consultation with the Consultation Parties), and (2) fulfills each and every one of the following requirements prior to the Bid Deadline (capitalized terms used in this section are defined later in the Bidding Procedures): i. provides written evidence that enables the Debtors and their advisors to reasonably determine whether a Potential Bidder has the financial, operational, and other ability to close the Sale Transaction and provide adequate assurance of future performance under all contracts and leases to be assumed in connection therewith; ii. provides that the Bid shall remain irrevocable until the earlier of (x) the Effective Date of the Alternative Plan implementing the Winning Bid (as defined below) or (y) **January 31, 2018** (the "Bid Expiration Date"); provided, however, that if such bid is selected as the highest or otherwise best Qualified Bid or the Backup Bid (defined below), it shall remain irrevocable until the closing of the Sale to the Winning Bidder or the Backup Bidder, as the case may be; iii. states that the Bid is not subject to any further due diligence and that such Qualified Bidder has obtained all necessary financing and approvals, which financing and approvals are not subject to any conditions; iv. contains evidence of the source(s) of equity and/or debt financing for the Bid, including the parties to provide financing, their contact information, and a description of each sponsor and any additional party or parties funding the Alternative Plan and such party's financial position; v. provides written evidence that the Qualified Bidder has obtained authorization and approval from its board of directors (or comparable governing body) with

SUMMARY OF BIDDING PROCEDURES	
	respect to the submission of its Bid and the execution of the agreements associated therewith, or a representation that no such authorization or approval is required; vi. provides that the total cash consideration (whether through equity contributions or the incurrence of indebtedness) payable by the Qualified Bidder will not be less than the aggregate amount of the Professional Fee Reserve, Administrative Claims Reserve, all amounts outstanding under the DIP Facility, the GUC Fund and the Allowed Noteholder Claims (the "Minimum Qualified Bid Amount"); vii. provides that the entire purchase price will be paid in cash (whether through equity contributions, the incurrence of indebtedness or otherwise); viii. provides by wire transfer of immediately available funds, in the form of cash or a letter of credit, to an escrow agent designated by the Debtors before the Bid Deadline of an earnest money cash deposit of not less than ten percent (10%) of the purchase price payable under such competing Qualified Bid (the "Deposit"); ix. provides evidence reasonably satisfactory to the Debtors (in consultation with the Consultation Parties) that the Qualified Bidder is reasonably likely to obtain prompt regulatory approval, if any is required, to consummate the Sale Transaction; x. is submitted in the form of an Alternative Plan and RSA in a clean copy and marked to show the proposed changes to the Existing Plan and RSA in a redlined copy, in each case, that further: (1) identifies the Qualified Bidder and any members of its investor group, if applicable; (2) contains a detailed overview of the terms of the Qualified Bidder's sponsorship of the Alternative Plan; (3) contains a description of the financial assumptions and any other assumptions utilized in the Alternative Plan, including estimated transaction costs, and any major financial or operational assumption(s) upon which the Qualified Bidder may have based the Alternative Plan, including working capital, capital expenditure requirements, and impact of proposed structure; (4) is not subject to any conditions, representations, or terms that the Debtors, in consultation with the Consultation Parties, determine to be unacceptable; (5) describes with specificity the total consideration proposed to be

SUMMARY OF BIDDING PROCEDURES	
	paid for the New Shares; (6) is not conditioned upon the Bankruptcy Court's approval of any Bid protections, such as a break-up fee, termination fee, expense reimbursement, working fee or similar type of payment, including payment of fees based on substantial contribution to the Debtors' chapter 11 cases if the Potential Bidder is not the Winning Bidder; (7) does not contain any condition to closing of the Sale Transaction relating to the receipt of any third party approvals (excluding required Bankruptcy Court approval and any required governmental and/or regulatory approval or third party consents required under the Existing Plan); (8) identifies each and every executory contract and unexpired lease that the Qualified Bidder desires the Debtors to assume or reject under the Alternative Plan and provides evidence of such Qualified Bidder's ability to provide adequate assurance of future performance of such contracts or leases to be assumed (as required by section 365(b)(1)(C) of the Bankruptcy Code, the "Adequate Assurance Information")[5] along with the Bid; and (9) contains other information reasonably requested by the Debtors (in consultation with the Consultation Parties) and their advisors.
Auction	If one or more Qualified Bids (in addition to the Noteholder Bid) has been submitted for the New Shares in accordance with these Bidding Procedures, the Debtors will conduct an Auction on **November 16, 2017 at 10:00 a.m.** prevailing Eastern time, with respect to such Qualified Bids in order to determine (in consultation with the Consultation Parties) the Winning Bid and the Backup Bid (defined below) to submit for approval by the Bankruptcy Court at the Confirmation Hearing (as defined below). The Auction shall be organized and conducted by the Debtors at the offices of their counsel, Rayburn Cooper & Durham, P.A. or such other location as may be announced prior to the Auction to the Auction Participants (defined below). The Auction will be recorded by stenographic means by an authorized court reporter. i. The Auction shall be conducted by the Debtors in an "open cry" format and in accordance with such procedures and requirements as may be established at the discretion of the Debtors and their advisors (in consultation with the Consultation Parties) to result in the highest and best offer for the New Shares, which rules shall be announced prior to commencement of the Auction and may include the determination of the amount of time between Qualified Bids,

[5] Such Adequate Assurance Information shall include (i) the Qualified Bidder's most recent audited financial statements (or unaudited, if audited financials are not available); (ii) financial projections or financial pro-formas for the reorganized Debtors, for at least two years; and (iii) a cover letter describing (1) its experience operating retail stores; (2) the trade name and number of any such retail stores it operates; and (3) its intended use of the Debtors' leased locations from and after the closing of the Proposed Transaction.

SUMMARY OF BIDDING PROCEDURES	
	the conducting of multiple rounds of open bidding, and to declare that the Auction has ended when no further Bids are timely made or otherwise. ii. The first Qualified Bid at the Auction shall be deemed to have been made by the Initial Highest Bidder in the amount of the Initial Highest Bid. Thereafter, the Auction will continue in the manner determined by the Debtors above; provided, however, (i) additional Bids must be Qualified Bids (except that subsequent Qualified Bids made at the Auction, although received from a Qualified Bidder prior to the Bid Deadline, need not be received by the Bid Deadline); (ii) additional Qualified Bids must be made in higher increments of at least $250,000 (the "Minimum Bid Increment"); and (iii) except with respect to any Qualified Bid of the Noteholders, additional Qualified Bids must offer consideration in cash to be paid on or prior to the Effective Date of the Existing Plan or the Alternative Plan, as applicable. iii. The Debtors shall determine (in consultation with the Consultation Parties) and subject to final determination by the Bankruptcy Court, whether a Qualified Bid by a Qualified Bidder at the Auction meets the Minimum Bid Increment and matches or is higher and better than the prior Qualified Bid.
Credit Bidding	In connection with any Qualified Bid made by the Noteholders or Noteholder Agent at the Auction, the Noteholders shall be entitled to credit bid the entirety of the Noteholder Claims and all outstanding DIP Obligations.
Selection of Winning and Backup Bids	At the conclusion of the Auction, the Debtors shall (in consultation with the Consultation Parties): select the highest and best Qualified Bid for the New Shares (the "Winning Bid") and the next highest or otherwise best Qualified Bid (the "Backup Bid") and file a notice with the Bankruptcy Court announcing the Winning Bidder and the Backup Bidder and conduct a hearing for approval of same contemporaneously with the hearing on the Alternative Plan (the "Confirmation Hearing"), or at an intervening hearing scheduled by the Bankruptcy Court.

1.2 Liquidation Analysis

The Debtors believe that the Plan provides the same or a greater recovery for holders of Allowed Claims and Interests as would be achieved in a liquidation under chapter 7 of the Bankruptcy Code. This belief is based on a number of considerations, including: (a) the Debtors' going concern value would be lost and, as a result, the Debtors' assets would have a substantially reduced value in a chapter 7 liquidation; (b) the Administrative Expense Claims would significantly increase as a result of conversion to a chapter 7 case; and (c) the delays caused by a chapter 7 liquidation.

The Debtors, in consultation with their financial advisors, have prepared an unaudited liquidation analysis, attached hereto as Exhibit C, to assist holders of Claims in evaluating the Plan. The liquidation analysis compares the projected creditor recoveries that would result from the liquidation of the Debtors in a hypothetical case under chapter 7 of the Bankruptcy Code with the estimated distributions to holders of Allowed Claims and Interests under the Plan. The liquidation analysis is based on the value of the Debtors' assets and liabilities as of a certain date and incorporates various estimates and assumptions, including a hypothetical conversion to a chapter 7 liquidation as of a certain date. Further, the analysis is subject to potentially material changes, including with respect to economic and business

conditions and legal rulings. Therefore, the actual liquidation value of the Debtors could vary materially from the estimate provided in the liquidation analysis.

1.3 Market Valuation

Prior to the Petition Date, the Debtors engaged Piper Jaffray as investment bankers to seek new equity investors or capital for the Debtors. Piper Jaffray began the process of soliciting offers for the Debtors' businesses approximately six weeks before the Petition Date. As of the Petition Date, Piper Jaffray had contacted approximately forty potential investors or purchasers in response to expressions of interest in acquiring the New Shares of the Reorganized Company. After sending preliminary information to these interested parties, Piper Jaffray sent proposed non-disclosure agreements to approximately seventeen parties on the basis of continued interested. Prior to the Petition Date, Piper Jaffray had received twelve executed non-disclosure agreements. The Debtors propose to retain Piper Jaffray in these Chapter 11 Cases to continue in their role as investment banker. The Debtors believe the Noteholders' offer for the New Shares evidences a value of the Debtors' businesses as a going concern of not less than $15,000,000 plus amounts outstanding on the DIP Facility (up to $5 million). Piper Jaffray will seek to bring additional parties who submit Qualified Bids (as such term is defined in the Bidding Procedures Motion) that will result in offers higher and better than the Noteholders' offer for the New Shares, as set forth in the Plan.

1.4 Classified Claims and Interests

(a) Classified Claims and Interests Summary

The Plan constitutes a separate Plan with respect to each Debtor. Except for DIP Facility Claims, Administrative Expense Claims, Professional Claims, and Priority Tax Claims, all Claims and Interests are classified in the Classes set forth below in accordance with section 1122 of the Bankruptcy Code. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Interest qualifies within the description of such other Classes. A Claim or Interest is also classified in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim or Interest is an Allowed Claim or Interest in that Class and has not been paid, released, or otherwise satisfied prior to the Effective Date.

Below is a chart assigning each Class a number for the purpose of identifying each separate Class.

Class	Claim or Interest	Status	Voting Rights	Plan Recovery	Liquidation Recovery
1	Other Secured Claims	Unimpaired	Presumed to Accept	100%	100%
2	Other Priority Claims	Unimpaired	Presumed to Accept	100%	100%
3	Noteholder Claims	Impaired	Entitled to Vote	100%	14.7 - 21.3%
4	General Unsecured Claims	Impaired	Entitled to Vote	3 – 8%[6]	0%
5	Intercompany Claims	Impaired	Presumed to Reject	0%	0%
6	Holdings Equity Interests	Impaired	Presumed to	0%	0%

[6] The high end of the recovery range is based upon the Debtors' preliminary estimate of a $5.1 million pool of Class 4 Claims. The ultimate recovery to unsecured creditors is unclear due to uncertainty about what Claims will be filed and Allowed against the Debtors, as well as what unexpired leases and executory contracts the Winning Bidder will assume.

7	Subordinated Claims[7]	Impaired	Reject Presumed to Reject	0%	0%

(b) Treatment of Classes of Claims and Interests

Except to the extent that a holder of an Allowed Claim or Interest, as applicable, agrees to a less favorable treatment, such holder shall receive under the Plan the treatment described below in full and final satisfaction, settlement, release and discharge of and in exchange for such holder's Allowed Claim against or Interest in each Debtor, as applicable. Unless otherwise indicated, the holder of an Allowed Claim or Interest, as applicable, shall receive such treatment on the Effective Date, or as soon as practicable thereafter.

(1) **Class 1 — Other Secured Claims**

A. *Classification*: Class 1 consists of any Other Secured Claims against any Debtor.

B. *Treatment*: Each holder of an Allowed Other Secured Claim, to the extent such claim has not already been paid during the Chapter 11 Cases, shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Other Secured Claim (i) payment in full in cash of the due and unpaid portion of its Allowed Other Secured Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes Allowed or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), and the holder of such Allowed Other Secured Claim, (ii) a return of the holder's collateral securing the Allowed Other Secured Claim, (iii) such treatment required under section 1124(2) of the Bankruptcy Code for such Allowed Other Secured Claim to be rendered unimpaired or (iv) such other treatment as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), as applicable, and the holder of such Allowed Other Secured Claim. Any payments made by the Disbursing Agent on account of an Allowed Other Secured Claim shall be paid solely from the Administrative Claims Reserve.

C. *Voting*: Class 1 is Unimpaired. Holders of Allowed Other Secured Claims are conclusively presumed to have accepted the Plan under section 1126(f) of the Bankruptcy Code. Holders of Allowed Other Secured Claims are not entitled to vote to accept or reject the Plan.

(2) **Class 2 — Other Priority Claims**

A. *Classification*: Class 2 consists of any Other Priority Claims against any Debtor.

B. *Treatment*: Each holder of an Allowed Other Priority Claim, to the extent such claim has not already been paid during the Chapter 11 Cases, shall receive, as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), as applicable, in full satisfaction, settlement, discharge and release of, and in exchange for, such claim, payment in full in cash of the due and unpaid portion of its Allowed Other Priority Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes Allowed or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent

[7] The Debtors are unaware of the existence of any Subordinated Claims.

of the Noteholder Agent and Winning Bidder), as applicable, and the holder of such Allowed Other Priority Claim. Any payments made by the Disbursing Agent on account of Allowed Other Priority Claims shall be paid solely from the Administrative Claims Reserve.

C. *Voting*: Class 2 is Unimpaired. Holders of Allowed Other Priority Claims are conclusively presumed to have accepted the Plan under section 1126(f) of the Bankruptcy Code. Holders of Allowed Other Priority Claims are not entitled to vote to accept or reject the Plan.

(3) **Class 3 — Noteholder Claims**

A. *Classification*: Class 3 consists of any Noteholder Claims.

B. *Allowance*: On the Effective Date, Noteholder Claims shall be deemed Allowed Claims in the aggregate amount of $15,000,000.00 plus all accrued but unpaid interest, fees, costs, charges, or other amounts arising under the Notes, including post-petition interest, fees, costs, and charges, amounts to the extent allowable under section 506 of the Bankruptcy Code.

C. *Treatment*: With respect to such holder's Allowed Noteholder Claim, each holder of an Allowed Noteholder Claim shall receive, on the Effective Date, in full and final satisfaction of such Claim, (A) if the Noteholders are the Winning Bidder, its pro rata share of the New Notes and New Shares, or (B) if the Noteholders are not the Winning Bidder, payment in full in cash of such holders' Allowed Noteholder Claim.

D. *Voting*: Class 3 is Impaired. Holders of Allowed Noteholder Claims are entitled to vote to accept or reject the Plan.

(4) **Class 4 — General Unsecured Claims**

A. *Classification*: Class 4 consists of any General Unsecured Claims against any Debtor.

B. *Treatment*: Each holder of Allowed General Unsecured Claim shall receive, on the Effective Date (or as soon thereafter as reasonably practicable), in full satisfaction, settlement, discharge and release of, and in exchange for such Claim, such holder's *pro rata* share of the Cash available for distribution from the GUC Fund. GUC Fund will be an amount equal to $925,000 less the any amounts funded under the DIP Facility prior to the Effective Date in connection to Professional Fee Claims of Professionals employed by the Committee.

C. *Voting*: Class 4 is Impaired. Holders of Allowed General Unsecured Claims are entitled to vote to accept or reject the Plan.

(5) **Class 5 - Intercompany Claims**

A. *Classification*: Class 5 consists of any Intercompany Claims.

B. *Treatment*: Holders of Intercompany Claims shall not receive a Distribution on account of such Claim, and such Claims shall be extinguished on the Effective Date.

C. *Voting*: Class 5 is Impaired. Holders of Intercompany Claims are conclusively presumed to have rejected the Plan. Holders of Intercompany Claims are not entitled to vote to accept or reject the Plan.

(6) **Class 6 - Equity Interests**

A. *Classification*: Class 6 consists of any Equity Interests.

B. *Treatment*: Holders of Equity Interests shall not receive a Distribution on account of such Interest, and such Interests shall be extinguished on the Effective Date.

C. *Voting*: Class 6 is Impaired. Holders of Equity Interests are conclusively presumed to have rejected the Plan. Holders of Equity Interests are not entitled to vote to accept or reject the Plan.

(7) **Class 7 — Subordinated Claims**

A. *Classification*: Class 7 consists of any Subordinated Claims against any Debtor.

B. *Treatment*: Holders of Section Subordinated Claims shall not receive a Distribution on account of such Claims, and such Claims shall be extinguished on the Effective Date.

C. *Voting*: Class 7 is Impaired. Holders of Subordinated Claims are conclusively presumed to have rejected the Plan. Holders of Subordinated Claims are not entitled to vote to accept or reject the Plan.

ARTICLE II
VOTING PROCEDURES AND REQUIREMENTS

2.1 Classes Entitled to Vote on the Plan

Class 3 – Noteholder Claims and Class 4 – General Unsecured Claims are the only Classes entitled to vote to accept or reject the Plan.

2.2 Votes Required for Acceptance by a Class

Under the Bankruptcy Code, acceptance of a plan of reorganization by a Class of Claims or Interests is determined by calculating the amount and, if a Class of Claims, the number of Claims voting to accept, as a percentage of the Allowed Claims or Interests, as applicable, that have voted. Acceptance by a Class of Claims requires an affirmative vote of more than one-half in number of total Allowed Claims that have voted and an affirmative vote of at least two-thirds in dollar amount of the total Allowed Claims that have voted. Acceptance by a Class of Interests requires an affirmative vote of at least two-thirds in amount of the total Allowed Interests that have voted.

2.3 Certain Factors to be Considered Prior to Voting

There are a variety of factors that all holders of Claims entitled to vote on the Plan should consider prior to voting to accept or reject the Plan. These factors may impact recoveries under the Plan and include:

- while it is the Debtors goal to promote a robust Auction for the Reorganized Company, there can be no assurances that one or more Qualified Bids will be forthcoming or that an Auction will occur;

- unless otherwise specifically indicated, the financial information contained in the Disclosure Statement has not been audited and is based on an analysis of data available at the time of the preparation of the Plan and the Disclosure Statement;

- although the Debtors believe that the Plan complies with all applicable provisions of the Bankruptcy Code, the Debtors can neither assure such compliance nor that the Bankruptcy Court will confirm the Plan;

- the Debtors are requesting Confirmation without the acceptance of all Impaired Classes in accordance with section 1129(b) of the Bankruptcy Code; and

- any delays of either Confirmation or Consummation could result in, among other things, increased Administrative Claims and Professional Claims.

While these factors could affect distributions available to holders of Allowed Claims and Interests under the Plan, the occurrence or impact of such factors will not necessarily affect the validity of the vote of the Impaired Classes entitled to vote to accept or reject the Plan (the "Voting Class") or necessarily require a re-solicitation of the votes of holders of Claims and Interests in such Voting Class.

For a further discussion of risk factors, please refer to ARTICLE IX of this Disclosure Statement ("Certain Factors to be Considered").

2.4 Classes Not Entitled to Vote on the Plan

Under the Bankruptcy Code, holders of Claims and Interests are not entitled to vote if their contractual rights are Unimpaired by the Plan or if they will receive no property under the Plan. Accordingly, the following Classes are not entitled to vote to accept or reject the Plan:

Class	Claim or Interest	Status	Voting Rights
1	Other Secured Claims	Unimpaired	Presumed to Accept
2	Other Priority Claims	Unimpaired	Presumed to Accept
5	Intercompany Claims	Impaired	Presumed to Reject
6	Equity Interests	Impaired	Presumed to Reject
7	Subordinated Claims	Impaired	Presumed to Reject

2.5 Solicitation Procedures

(a) Claims and Solicitation Agent

The Debtors retained Rust Consulting/Omni Bankruptcy ("Rust/Omni") to act, among other things, as the Claims and Solicitation Agent in connection with the solicitation of votes to accept or reject the Plan.

(b) Claim Holder Solicitation Package

The following materials will constitute the solicitation package (the "Solicitation Package") distributed to holders of Claims entitled to vote to accept or reject the Plan:

- either (i) the Disclosure Statement Order (with the Solicitation Procedures, which shall be attached as Exhibit 1 thereto) and the approved form of the Disclosure Statement (together with the Plan) in either paper, USB flash drive, or CD-ROM format with an appropriate form of Ballot and/or Master Ballot and voting instructions with respect thereto, if applicable (with a pre-addressed, postage prepaid return envelope); or (ii) a notice of the holders' non-voting status;

- the Confirmation Hearing Notice; and

- such other materials as the Bankruptcy Court may direct.

(c) Distribution of the Solicitation Package and Plan Supplement

The Debtors, by way of the Claims and Solicitation Agent, intend to distribute the Solicitation Packages to holders of Claims on or before October 30, 2017, and set a voting deadline of **5:00 p.m. Eastern Time on November 30, 2017**, as such date may be extended (the "Voting Deadline").

The Solicitation Package may also be obtained from the Claims and Solicitation Agent by: (1) accessing its website at www.omnimgt.com/PortraitInnovations); (2) making a request in writing to Portrait Innovations, Inc., C/O Rust Omni, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367; or (3) calling the Claims and Solicitation Agent at (818) 906-8300. You may also obtain copies of any pleadings filed with the Bankruptcy Court and the Solicitation Package via PACER at https://ecf.ncwb.uscourts.gov.

No later than 7 days prior to the date first scheduled for the Confirmation Hearing or such later dated as may be approved by the Bankruptcy Court on notice to parties in interest, the Debtors intend to file the Plan Supplement, which will include, among other things, documents and forms of documents, agreements, schedules, and exhibits to the Plan. As the Plan Supplement is updated or otherwise modified, including following the completion of the Auction if the Winning Bidder is a party other than the Noteholders, such modified or updated documents will be made available on the Debtors' restructuring website. The Debtors will not serve copies of the Plan Supplement; however, parties may obtain a copy of the Plan Supplement from the Claims and Solicitation Agent by: (1) accessing its website at www.omnimgt.com/PortraitInnovations); or (2) in writing to Portrait Innovations, Inc., C/O Rust Omni, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.

2.6 Voting Procedures

October 25, 2017, the voting record date, will be the date for determining which holders of Claims are entitled to vote to accept or reject the Plan and receive the Solicitation Package in accordance with the solicitation procedures. Except as otherwise set forth herein, this voting record date and all of the Debtors' solicitation and voting procedures shall apply to all of the Debtors' Creditors and other parties in interest.

In order for the holder of a Claim in the Voting Class to have such holder's Ballot counted as a vote to accept or reject the Plan, such holder's Ballot must be properly executed, completed, and delivered by using the return envelope provided or by delivery by: (a) first class mail; (b) overnight courier; or (c) personal delivery, so that they are **actually received no later than the Voting Deadline** by the Claims and Solicitation Agent. Ballots returnable to the Claims and Solicitation Agent should be sent to: Portrait Innovations, Inc., C/O Rust Omni, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.

IF A BALLOT IS RECEIVED AFTER THE VOTING DEADLINE, IT WILL NOT BE COUNTED UNLESS THE DEBTORS DETERMINE OTHERWISE IN THEIR SOLE DISCRETION.

ANY BALLOT THAT IS PROPERLY EXECUTED BY THE HOLDER OF A CLAIM BUT THAT (I) DOES NOT CLEARLY INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN OR (II) INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN WILL NOT BE COUNTED FOR PURPOSES OF ACCEPTING OR REJECTING THE PLAN.

EACH HOLDER OF A CLAIM MUST VOTE ALL OF ITS CLAIMS EITHER TO ACCEPT OR REJECT THE PLAN AND MAY NOT SPLIT SUCH VOTES. BY SIGNING AND RETURNING A BALLOT, EACH HOLDER OF A CLAIM WILL CERTIFY TO THE BANKRUPTCY COURT AND THE DEBTORS THAT NO OTHER BALLOTS WITH RESPECT TO SUCH CLAIM HAVE BEEN CAST OR, IF ANY OTHER BALLOTS HAVE BEEN CAST WITH RESPECT TO SUCH CLASS OF CLAIMS, SUCH OTHER BALLOTS INDICATED THE SAME VOTE TO ACCEPT OR REJECT THE PLAN. IF A HOLDER CASTS MULTIPLE BALLOTS WITH RESPECT TO THE SAME CLASS OF CLAIMS AND THOSE BALLOTS ARE IN CONFLICT WITH EACH OTHER, SUCH BALLOTS WILL NOT BE COUNTED FOR PURPOSES OF ACCEPTING OR REJECTING THE PLAN.

IT IS IMPORTANT THAT THE HOLDER OF A CLAIM ENTITLED TO VOTE FOLLOW THE SPECIFIC INSTRUCTIONS PROVIDED ON OR ACCOMPANYING SUCH HOLDER'S BALLOT.

ARTICLE III
CONFIRMATION

Under section 1128(a) of the Bankruptcy Code, the Bankruptcy Court, after notice, may hold a hearing to confirm a plan of reorganization. The Confirmation Hearing, currently scheduled for **December 7, 2017, at 9:30 a.m. (prevailing Eastern Time)**, before the Honorable J. Craig Whitley, United States Bankruptcy Judge, **401 West Trade Street, Charlotte, North Carolina, Courtroom 1-4**, may be continued from time to time without further notice other than an adjournment announced in open court or a notice of adjournment filed with the Bankruptcy Court and served on those parties who have requested notice under Bankruptcy Rule 2002 and the Entities who have filed an objection to the Plan, if any, without further notice to parties in interest. The Bankruptcy Court, in its discretion and prior to the Confirmation Hearing, may put in place additional procedures governing the Confirmation Hearing. Subject to section 1127 of the Bankruptcy Code, and the Support Agreement, the Plan may be modified, if necessary, prior to, during, or as a result of the Confirmation Hearing, without further notice to parties in interest.

Additionally, section 1128(b) of the Bankruptcy Code provides that any party in interest may object to Confirmation. The Debtors, in the same motion requesting a date for the Confirmation Hearing, will request that the Bankruptcy Court set a date and time for parties in interest to file Plan objections. All objections to the Plan must be filed with the Bankruptcy Court and served on the Debtors and certain other parties in interest in accordance with the applicable order of the Bankruptcy Court so that they are received on or before the deadline to file such objections.

ARTICLE IV
FINANCIAL INFORMATION AND PROJECTIONS

The Bankruptcy Code permits a plan to be confirmed only if confirmation is not likely to be followed by liquidation or the need for further financial reorganization, except as contemplated by the Plan. For purposes of determining whether the Plan meets this requirement, the Debtors prepared financial projections for fiscal years 2017 and 2018. The projections assume that the Plan will be implemented in accordance with its stated terms.

The projections are based on forecasts of key economic variables and may be significantly impacted by, among other factors, changes in the competitive environment, regulatory changes and/or a variety of other factors, including those factors listed in this Disclosure Statement. Accordingly, the estimates and assumptions underlying the projections are inherently uncertain and are subject to significant business, economic, and competitive uncertainties. Therefore, such projections, estimates, and assumptions are not necessarily indicative of current values or future performance, which may be significantly less or more favorable than set forth herein.

THE PROJECTIONS, INCLUDING THE UNDERLYING ASSUMPTIONS, SHOULD BE CAREFULLY REVIEWED IN EVALUATING THE PLAN. WHILE MANAGEMENT BELIEVES THE ASSUMPTIONS UNDERLYING THE PROJECTIONS, WHEN CONSIDERED ON AN OVERALL BASIS, ARE REASONABLE IN LIGHT OF CURRENT CIRCUMSTANCES AND EXPECTATIONS, NO ASSURANCE CAN BE GIVEN THAT THE PROJECTIONS WILL BE REALIZED. THE DEBTORS MAKE NO REPRESENTATION OR WARRANTY AS TO THE ACCURACY OF THE PROJECTIONS.

The projections should be read in conjunction with the assumptions, qualifications, and explanations set forth in this Disclosure Statement.

The Debtors' financial projections for fiscal years 2017 and 2018 are attached hereto as Exhibit B.

ARTICLE V
BUSINESS DESCRIPTIONS

5.1 Corporate Background and Operations

(a) Overview and History

Founded in 2000 by former executives of Photo Corporation of America, Inc., and headquartered in Charlotte, North Carolina, Portrait Innovations, Inc. is the largest operator of free standing retail professional portrait studios in the United States. The Debtors currently operate 119 studios in 31 states. The Debtors distinguish themselves from other national and regional professional portrait studio chains in several ways. First, the Company seeks out highly skilled, well-educated and friendly Studio Associates, and provides thorough training on the latest professional portrait techniques and customer service. In addition, the Company employs proprietary software to enhance the customer portrait review and package selection process; state of the art photography equipment including cameras, lights and backgrounds; and in-studio dry printers that enable same-day delivery of portrait packages to the customer.

(b) Products and Services

The Debtors provide in-studio portrait photography sessions to consumers on both a walk-in and appointment basis. The Company offers a variety of portrait packages and other products such as canvases, mugs, calendars and holiday cards to its customers after the session's completion, as well as through its online portal, www.portraits.com. The Debtors offer, on a regular basis, promotions known as the Advertised Portrait Collection, or the "APC Program," which is, in essence, a coupon program, advertised online via the Debtors' website and through various other media sources. The APC Program currently includes a portrait package consisting of a 33 portrait assortment, a free canvas, plus a twenty percent (20%) discount on other products purchased in excess of the package, however the contents of the APC Program will vary based on market conditions. The APC Program is designed to enhance goodwill, attract new customers, and promote customer loyalty. A significant portion of the Debtors' customers, especially new customers, will redeem the coupons associated with the APC Program and purchase add-ons resulting in enhanced sales and goodwill. Essential to the Debtors' ability to sell products in their studios as well as through their online portal is the Debtors' website and in-store software program that enhances the customer's purchasing experience and makes it easier to see how specialty products described above would look with the results of their portrait session, generating additional sales per session. While the sale price of the advertised portrait collection is generally between $10 and $30, the sales total for customers has averaged approximately $150 during the year prior to the Petition Date. The specialty products the Debtors offer their customers include keepsake boxes, mugs, tumblers, mousepads, hard and soft-covered portrait books, calendars greeting cards and holiday ornaments. In addition, the Debtors offer each customer a personalized online portrait interface, from which customers can share portraits on social media platforms and order additional products, after they leave the studio. The Debtors offer a universal solution for the creation and customization of both professional content and personal image content due to its physical studio locations combined with its online services.

5.2 Organizational Structure

Portrait Innovations, Inc. is a Delaware corporation, and is a wholly owned subsidiary of Portrait Innovations Holdings Company ("Holding"), also a Delaware corporation. Holding, in turn, is owned by various investors in the following percentages: Southeastern Private Investment Fund IV, LLC (40.6%), Emergo Alpha Fund Limited (39.1%), John Grosso (including Garrett Alroy Grosso and Andrew Grosso) (10.7%), Johnny Grosso, III (3.5%), HENTOM, LLC (2.0%), Thomas Henson (0.1%), John Davis (3.6%) and all other shareholders (0.4%). Holding's sole business is ownership of the Portrait Innovations equity interests.

5.3 Management and Employees

Portrait Innovations' management team has a great depth of experience in the retail professional photography industry. John Grosso, President and Chief Executive Officer of the Debtors, served as President and Chief Executive Officer of Photo Corporation of America, Inc. from 1987 through 1998, and was a co-founder of Portrait Innovations when it began operations in 2001. Combined with John Davis and Johnny Grosso, Portrait Innovations' Chief

Technology Officer and Chief Operating Officer, respectively, the Debtors' management team has over 100 years of portrait studio experience.

The Debtors employ a total of approximately 590 people[8], including employees at its Charlotte, North Carolina corporate headquarters and at studios throughout the country. Employees include studio associates, store managers and regional studio managers, as well as corporate staff and management. Portrait Innovations employs approximately 570 hourly Employees and 18 salaried Employees. In the weeks prior to the Petition Date, the Debtors eliminated approximately 6 employee positions at their corporate offices, and approximately 240 additional hourly positions as a result of the pre-petition closure of 63 retail studios.

5.4 Reorganized Company's Directors, Officers and Management

Except as otherwise provided herein or in the Plan Supplement, the existing officers of the Debtors shall serve in their current capacities in the Reorganized Company. The Plan Supplement will also disclose the directors for the Reorganized Company, as selected by the Winning Bidder or, in the absence of an Auction, the Noteholders. From and after the Effective Date, each officer of Reorganized Company shall serve pursuant to the terms of their respective charters and bylaws or other constituent documents, and applicable state corporation law. Additionally, in accordance with section 1129(a)(5) of the Bankruptcy Code, the identities and affiliations of the members of the boards of directors of Reorganized Company and any Person proposed to serve as an officer of Reorganized Company shall be disclosed in the Plan Supplement.

5.5 Prepetition Capital Structure

(a) Senior Secured Prepetition Credit Facility

The Debtors are party to that certain Note Purchase Agreement (the "NPA") dated as of February 26, 2015 by and between the Debtors, as issuers, and the Noteholders, as purchasers, and CapitalSouth Partners SBIC Fund III, L.P., as Collateral Agent (in such capacity, the "Noteholder Agent"), pursuant to which the Debtors issued certain 12.00% Senior Secured Subordinated Promissory Notes (the "Notes"), which are secured by first priority, perfected liens on substantially all of the Debtors' property. The Noteholders collectively hold 100% of the Notes. As of the Petition Date, the outstanding principal balance of the Notes was approximately $15,000,000. At the time of issuance, the Notes were subordinated to a senior secured credit facility provided by Fifth Third Bank, which was subsequently repaid and terminated. The Notes represent the Debtors' only secured credit facility outstanding as of the Petition Date.

(b) Unsecured Debt

As of the Petition Date, the Debtors estimate that their unsecured debt is approximately $2.2 million, consisting of accounts payable owed to vendors and amounts due to landlords for the Debtors' studios on account of August rent. The Debtors estimate that claimants may file another approximately $4.4 million in lease rejection damages claims arising from the 63 leases the Debtors have rejected in these Chapter 11 Cases. If the Debtors seek to reject additional unexpired leases and executory contracts, and the Bankruptcy Court approves such additional rejections, the amount of rejection damages claims could be higher. Further, unanticipated Claims may be filed prior to the General Bar Date and it is unknown whether such Claims will be Allowed.

(c) Equity

Portrait Innovations, Inc. is a wholly owned subsidiary of Portrait Innovations Holdings Company which is, in turn, owned by various investors in the following percentages: Southeastern Private Investment Fund IV, LLC (40.6%), Emergo Alpha Fund Limited (39.1%), John Grosso (including Garrett Alroy Grosso and Andrew Grosso) (10.7%), Johnny Grosso, III (3.5%), HENTOM, LLC (2.0%), Thomas Henson (0.1%), John Davis (3.6%) and all other shareholders (0.4%).

[8] With the upcoming holiday season, the Debtors anticipate that their workforce will grow to meet increased customer demand.

5.6 The Debtors' Assets

On September 15, 2017, the Debtors each filed their Schedules of Assets and Liabilities and Statement of Financial Affairs. Portrait Innovations Holding Company's sole asset is the equity interests in Portrait Innovations, Inc. Portrait Innovations, Inc.'s assets have a book value of approximately $11.6 million. However, as indicated by the Liquidation Analysis, the Debtors believe that the actual recovery to the Debtors' estates if these assets were sold in a liquidation scenario would be significantly less than the book value of the assets. Conversely, while the Debtors have not performed a valuation of their businesses as a going concern, the Debtors believe the value of their businesses as a going concern may exceed the book value of the Debtors assets, as reflected in the Noteholders' bid embodied in the Plan.

The Debtors and their advisors have also analyzed Causes of Action, including analyzing potential Avoidance Actions. The Debtors do not believe the Causes of Action have material, if any, value.

ARTICLE VI
EVENTS LEADING TO THE CHAPTER 11 CASES

The Company's operating model, focusing on retail locations in power centers and lifestyle centers as well as expanding its online offerings, was very successful through the end of the 2015 fiscal year. For example, the Company had income from operations and adjusted earnings before interest, depreciation and amortization of $8.5 and $19.0 million in fiscal year 2014, and $4.0 and $13.6 million in fiscal year 2015. In the second half of the 2016 fiscal year, Portrait Innovations began seeing a significant decline in visitors to their lifestyle and power center locations. The trend of declining retail customers is not unique to Portrait Innovations and has impacted brick and mortar retailers throughout the U.S. as evidenced by the numerous bankruptcy filings in the recent past. Facing this sharp decline in customer traffic, the Debtors determined to reduce costs, in particular the cost of rents, which make up a significant portion of the Debtors' operating expenses. In recent months, the Company has attempted negotiations with landlords, first directly, and since July 2017 with the help of Hilco Real Estate, LLC. The Company has had only limited success in renegotiating leases rates to a level that would allow these studios to operate profitably, and determined to shutter underperforming stores if sufficient rent reductions or other concessions from landlords could not be negotiated. Prior to the Petition Date, the Company determined that it is in the Company's best interest to close 63 additional underperforming studios (the "Closed Studios") in lifestyle and power retail centers across the United States. In the weeks preceding the Petition Date, the Company ceased operations in the Closed Studios, liquidated the equipment in those locations, and surrendered the premises to the applicable landlords.

In late 2016, the Company opened three pilot studios in Walmart Supercenters. Results from these locations have exceeded the Company's expectations. The Company and Walmart have agreed to build and open seven additional studios in Walmart Supercenters prior to the beginning of the holiday season, which is historically the most profitable time period for the Company's business. Each Walmart studio requires approximately $95,000 in capital investment. Liquidity constraints stemming from the inability to properly scale lease obligations to sales levels in non-Walmart stores have prevented the Company from pursuing an aggressive Walmart growth strategy, despite the fact that results indicate, and management believes, that extensive expansion of the Walmart business presents an excellent business opportunity for the Company.

By the early summer of 2017, it had become clear to the Debtors that they had insufficient capital to expand the Walmart business quickly enough to compensate for the seventy or more unprofitable or marginally profitable Portrait Innovations retail studios. Therefore, in early July 2017, the Debtors engaged Piper Jaffray as investment bankers to seek new equity investors or capital for the Debtors. The Debtors believed, based on May 2017 operational results, they would have adequate cash flow to permit Piper Jaffray to go to the market seeking bids in late summer and pursue a transaction into late fall, around the time the profitable holiday season would start. Shortly after Piper's engagement, however, the Debtors saw a significant and unexpected further drop in revenue from June 2017 operational results. After re-evaluating their projections based on June and early July results, the Debtors determined that continued decline in revenue and profits meant that there would not be sufficient liquidity to allow Piper Jaffray to complete its transaction process, and made the decision to pursue a wholesale restructuring of the Debtors' operations and balance sheet.

Therefore, in mid-July 2017, the Debtors approached the Noteholders, as their senior secured lender, to discuss

options for the Debtors in light of their likely inability to continue operations long enough to complete the Piper Jaffray process or reach the profitable holiday season. The Noteholders expressed interest in providing debtor-in-possession financing for a bankruptcy proceeding for the Debtors, and also expressed interest in serving as the stalking horse bidder in a bankruptcy sale process. The Debtors' board determined that, in light of the worse than expected financial results for June 2017, pursuing a pre-negotiated plan with the Noteholders that contemplated the sale or transfer of the Debtors' assets, subject to a competitive bidding process with the Noteholders serving as the stalking horse bidder, would be the best way to maximize value for all constituencies. In the absence of new financing, I believe the Debtors would have been forced to cease operations in the early fall of 2017 and liquidate their assets.

In late July 2017, the Debtors and the Noteholders began negotiating (i) the terms for a plan of reorganization, whereby the Debtors would eliminate underperforming stores, close locations, and reduce operating costs, (ii) debtor-in-possession financing to fund the administrative costs of these Chapter 11 Cases and the Debtors' ongoing operations, and (iii) bidding procedures and the marketing and auction process whereby the Debtors, with Piper Jaffray's assistance, would continue and complete their marketing process in an effort to realize the highest and best value for their assets. Those negotiations culminated in a Support Agreement, which the Debtors and Noteholders executed prior to filing these cases, and which incorporates the DIP Term Sheet, Restructuring Term Sheet and Bidding Procedures (all as defined in the Support Agreement).

ARTICLE VII
THE CHAPTER 11 CASES

7.1 Motion to Assume the Restructuring Support Agreement

On September 1, 2017, the Debtors filed a motion to assume the Restructuring Support Agreement [Docket No. 21] (the "Support Agreement Assumption Motion"). A hearing is currently scheduled on the Support Agreement Assumption Motion on October 12, 2017.

7.2 DIP Credit Facility

On September 1, 2017, the Debtors filed a motion to (a) authorize the Debtors to obtain postpetition financing and grant senior liens and superpriority claims, (b) authorize the use of cash collateral, (c) grant liens and provide superpriority claims, (d) grant adequate protection, (e) modify the automatic stay, (f) schedule a final hearing, and (g) grant related relief. As part of the overall Restructuring Transaction, the DIP Lenders agreed to provide postpetition financing in order to provide working capital for the Debtors' operations until the closing of the contemplated Restructuring Transaction and to provide for general corporate purposes. After the Debtors and DIP Lenders made certain modifications to the Interim DIP Order based on feedback from the Bankruptcy Court, the Bankruptcy Court entered the Interim DIP Order on September 7, 2017 [Docket No. 57]. A hearing on approval of the DIP Facility on a final basis is scheduled for October 12, 2017.

7.3 Summary of Other Significant Motions

The following summarizes other significant motions filed by the Debtors in the Chapter 11 Cases. You may obtain copies of these motions, in addition to other pleadings, via PACER at https://ecf.ncwb.uscourts.gov. Copies of these motions, in addition to other pleadings may also be obtained from the Claims and Solicitation Agent by (1) accessing its website at www.omnimgt.com/PortraitInnovations); or (2) in writing to Portrait Innovations, Inc., C/O Rust Omni, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.

(a) Applications for Retention of Debtors' Professionals

The Debtors filed applications for the retention of certain professionals to represent and assist the Debtors in connection with the Chapter 11 Cases, and the Bankruptcy Court has entered orders approving each. These professionals include, among others (the date of entry and docket number of the order approving each retention in parentheses):

- Rayburn Cooper & Durham, P.A., as general bankruptcy counsel to the Debtors (September 19, 2017, Docket No. 103);

- Piper Jaffray & Co., as investment banker to the Debtors (October 2, 2017, Docket No. 157);

- The Finley Group as financial advisor to the Debtors (October 2, 2017, Docket No. 156);
- Troutman Sanders as corporate and litigation counsel to the Debtors (October 2, 2017, Docket No. 158); and
- Hilco Real Estate, LLC, as leasing and real estate consultants to the Debtors (October 2, 2017, Docket No. 155).

(b) Motion for Joint Administration of Related Chapter 11 Cases

The Debtors filed a motion seeking to consolidate the Debtors' Chapter 11 Cases for joint administration and consolidation for procedural purposes only. The Debtors' Chapter 11 Cases are currently administered under a single case name and number: *In re Portrait Innovation, Inc.,* et al., Case No. 17-31455 (JCW), jointly administered. An order granting this motion was entered on the Court docket on September 6, 2017 [Docket No. 51].

(c) Motion to Pay Employee Wages and Associated Benefits

The Debtors believe that their employees are a valuable asset and that any delay in paying prepetition compensation or benefits to their employees could severely disrupt the Debtors' relationship with their employees and irreparably impair their employees' morale at the very time that their dedication, confidence, and cooperation are most critical. The Debtors filed a motion requesting that the Bankruptcy Court authorize the Debtors to (i) pay and/or perform, as applicable, prepetition obligations to employees, (ii) maintain and continue to honor their practices, programs, and policies for their employees that were in effect as of the Petition Date, (iii) reimburse employees for prepetition expenses incurred on behalf of the Debtors in the ordinary course of business, and (iv) pay all related prepetition withholdings and payroll-related taxes. An order granting this motion was entered on the Court docket on September 6, 2017 [Docket No. 49].

(d) Customer Programs Motion

The Debtors filed a motion requesting that the Bankruptcy Court authorize the Debtors to (i) maintain and administer their customer-related programs, including gift cards/certificates, promotional discount programs and refunds policies and (ii) make payments to customers or otherwise honor accrued prepetition obligations incurred by the Debtors under such customer programs. An order granting this motion was entered on the Court docket on September 11, 2017 [Docket No. 77].

(e) Motion to Authorize Debtors to Pay Prepetition Shipper, Warehousemen, and Common Carrier Obligations

The Debtors filed a motion requesting that the Bankruptcy Court authorize the Debtors to pay, in the exercise of their sole discretion, certain fees incurred for shipping and storing goods as necessary or appropriate to obtain the release of goods in the possession of such parties and to satisfy the liens, if any, regarding amounts owed to such parties. An order granting this motion was entered on the Court docket on September 11, 2017 [Docket No. 79].

(f) Utilities Procedures Motion

The Debtors believe that uninterrupted utility services are essential to ongoing operations. The Debtors filed a motion requesting entry of an order (i) determining that the Debtors' utility providers have been provided with adequate assurance of payment, (ii) approving the Debtors' proposed adequate assurance, (iii) prohibiting the Debtors' utility providers from altering, refusing, or discontinuing service on account of amounts outstanding or on account of any perceived inadequacy of the Debtors' proposed adequate assurance, and (iv) establishing a procedure to address utility providers' requests for additional adequate assurance. A final order granting this motion was entered on September 13, 2017 [Docket No. 86].

(g) Cash Management Motion

To avoid paying debts incurred postpetition and to ensure as smooth a transition into chapter 11 as possible, the Debtors filed a motion seeking authority to (i) continue using their existing cash management system, (ii) maintain their

bank accounts, (iii) continue using their existing business forms and checks, and (iv), pay pre-petition amounts owed to credit card processors. An order granting this motion was entered on the Court docket on September 7, 2017 [Docket 55].

(h) Motion to Authorize Debtors to Pay Certain Prepetition Taxes and Obligations

In the ordinary course of business, the Debtors incur various sales, use, income, trust fund, transfer, franchise, and personal property taxes, and other taxes and similar obligations (the "Taxes") to certain taxing authorities (the "Taxing Authorities"). The Debtors filed a motion seeking authority to pay any unpaid prepetition Taxes owed to the Taxing Authorities. An order granting this motion was entered on the Court docket on September 11, 2017 [Docket No. 76].

(i) Claims Bar Date Motion

In order to efficiently proceed towards confirmation of the Plan in a relatively short period of time, the Debtors believe it is essential to ascertain, as soon as possible, the full nature, extent, and scope of all Claims asserted against the Debtors and their respective estates. The Debtors filed a motion seeking entry of an order (i) establishing the General Bar Date (**October 25, 2017**, the date that is forty-two (42) days from the entry of an order approving the Claims Bar Date Motion) by which all creditors and certain interest holders must file proofs of claim in these chapter 11 cases; (ii) establishing the later of the General Bar Date and (b) thirty (30) days after entry of an order of this Court authorizing rejection of such executory contract or unexpired lease pursuant to a notice under procedures approved by this Court as the Rejection Bar Date by which a proof of claim relating to the Debtors' rejection of such contract or lease must be filed; (iii) establishing the Amended Schedule Bar Date by which creditors holding claims which have been amended by the Debtors in their Schedules as the later of the General Bar Date and twenty-four (24) days after the date that notice of the amendment is served on the affected claimant; (iv) approving the Bar Date Notice to be used to inform potential creditors of the Bar Dates; (v) approving mailing procedures with respect to notice of the Bar Dates; and (vi) providing certain supplemental relief. An order granting this motion was entered on the Court docket on September 13, 2017 [Docket No. 87].

7.4 Appointment of Committee and Selection of Professionals

On September 20, 2017, the Bankruptcy Court entered an order approving the recommendation of the Bankruptcy Administrator to appoint a six-member official committee of unsecured creditors (the "Committee"). On September 25, 2017, the Committee engaged Kelley Drye & Warren LLP as counsel. The Committee also engaged Emerald Capital Advisors as financial advisors and Hull & Chandler, P.A. as local counsel.

ARTICLE VIII
OTHER KEY ASPECTS OF THE PLAN

8.1 Offering and Issuance of Securities Pursuant to Section 1145

The offering, issuance, distribution, and exercise (as applicable) of the New Notes, pursuant to the Plan, shall be exempt from the registration requirements of section 5 of the Securities Act pursuant to section 1145 of the Bankruptcy Code. In addition, under section 1145 of the Bankruptcy Code, the New Notes will be freely transferable under the Securities Act by the recipients thereof, subject to: (1) the provisions of section 1145(b)(1) of the Bankruptcy Code relating to the definition of an underwriter in section 2(a)(11) of the Securities Act, and compliance with any applicable state or foreign securities laws, if any, and the rules and regulations of the United States Securities and Exchange Commission, if any, applicable at the time of any future transfer of New Notes; (2) the restrictions, if any, on the transferability of New Notes; and (3) any other applicable regulatory approval. All New Notes issued and distributed pursuant to the Plan shall be duly authorized, validly issued, fully paid and non-assessable.

On and after the Effective Date, subject to the terms of the New Governance Documents, the Reorganized Company will be a "private" company that is not required to register any Securities pursuant to the Securities Exchange Act of 1934.

8.2 Vesting of Assets in the Reorganized Company

Except as otherwise provided in the Plan or in any agreement, instrument or other document incorporated in the Plan, on the Effective Date, all property and assets (excluding the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund) of each Estate, including all Causes of Action, and any other assets or property acquired by any of the Debtors during the Chapter 11 Cases or under or in connection with the Plan shall vest in the Reorganized Company, free and clear of all Liens, Claims, charges, or other encumbrances. On and after the Effective Date, except as otherwise provided in the Plan, the Reorganized Company may operate its business and use, acquire, or dispose of property, and compromise or settle any Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

8.3 Preservation of Rights of Action

Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or by a Final Order, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Company shall retain and may enforce all rights to commence and pursue any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in the Plan Supplement, and the Reorganized Company's rights to commence, prosecute or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Reorganized Company will not pursue any and all available Causes of Action against them. The Debtors and the Reorganized Company expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan. Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, including Avoidance Actions, which shall be waived pursuant to section 9.2 of the Plan, the Reorganized Company expressly reserves all Causes of Action for later adjudication and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

Except as otherwise provided in this Plan, the Reorganized Company reserves and shall retain Causes of Action notwithstanding the rejection of any Executory Contract or Unexpired Lease during the Chapter 11 Cases or pursuant to the Plan. In accordance with sections 1123(b)(3) and 1141(b) of the Bankruptcy Code, any Causes of Action that a Debtor retains against any Entity shall vest in the Reorganized Company. The Reorganized Company shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of Action, or to decline to do any of the foregoing, without the consent or approval of any third party or any further notice to, or action, order or approval of, the Bankruptcy Court.

8.4 Treatment of Executory Contracts and Unexpired Leases

(a) Assumption of Executory Contracts and Unexpired Leases

The Debtors shall file and serve the Assumption Schedule on the non-Debtor counterparties to the Executory Contracts and Unexpired Leases in accordance with deadlines established in the Bidding Procedures Order. The Confirmation Order will constitute an order of the Bankruptcy Court approving the following as of the Effective Date pursuant to sections 365(a) and 1123 of the Bankruptcy Code: (i) the assumption and assignment to the Reorganized Company of the Executory Contracts and Unexpired Leases set forth in the Assumption Notice; and (ii) the rejection of any other Executory Contracts or Unexpired Leases not set forth in the Assumption Schedule.

Except as otherwise provided in the Plan or agreed to by the Debtors with the applicable counterparty, each assumed Executory Contract or Unexpired Lease shall include all modifications, amendments, supplements, restatements or other agreements related thereto, and all rights related thereto, if any, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal and any other interests, unless any of the foregoing agreements has been previously rejected or repudiated or is rejected or repudiated hereunder. Modifications, amendments, supplements and restatements to prepetition Executory Contracts and Unexpired Leases that have been

executed by the Debtors during the Chapter 11 Cases shall not be deemed to alter the prepetition nature of the Executory Contract or Unexpired Lease or the validity, priority, or amount of any Claims that may arise in connection therewith.

(b) Cure of Defaults and Objections to Assumption

Any objection to the assumption of an Executory Contract or Unexpired Lease pursuant to the Plan, including any proposed Cure Amount set forth on the Assumption Notice or the Adequate Assurance Information provided by the Winning Bidder must be filed with the Bankruptcy Court by November 30, 2017 at 5:00 p.m., or such other date as may be established by the Bankruptcy Court and noticed to counterparties. Any such objection, if not resolved, will be heard by the Bankruptcy Court at the Confirmation Hearing. Any counterparty to an Executory Contract or Unexpired Lease that fails to timely object to the proposed assumption of any Executory Contract or Unexpired Lease to the Winning Bidder will be deemed to have consented to such assumption and to the Cure Amount set forth on the Assumption Notice. The Debtors, with the consent of the Noteholder Agent and Winning Bidder, and the Reorganized Company, as applicable, may settle any such objections without any further notice to, or action, order or approval of, the Bankruptcy Court.

Payment of the Cure Amounts shall be made by the Disbursing Agent from the Administrative Claims Reserve. If there is an objection to a Cure Amount, then payment of the undisputed portion of the Cure Amount shall be paid on the Effective Date, and the disputed amounts shall be paid as soon as practicable after entry of a Final Order resolving such dispute or as may be agreed upon by the Debtors (with the consent of the Noteholder Agent and Winning Bidder) or the Reorganized Company, as applicable, and the counterparty to the Executory Contract or Unexpired Lease. To the extent that any objection to a Cure Amount is not resolved to the satisfaction of the Winning Bidder, the Winning Bidder shall have the right, prior to entry of the Confirmation Order or such later date as agreed between the Winning Bidder and the applicable counterparty, to direct the rejection of such Executory Contract or Unexpired Lease.

Assumption of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall result in the full and final release and satisfaction of any Cure Amounts, Claims or defaults, whether monetary or nonmonetary, including defaults of provisions restricting the change in control or ownership interest composition or other bankruptcy-related defaults, arising under any assumed Executory Contract or Unexpired Lease at any time prior to the Effective Date. Any and all Proofs of Claim based upon Executory Contracts or Unexpired Leases that have been assumed in the Chapter 11 Cases, including pursuant to the Confirmation Order, shall be deemed disallowed and expunged as of the Effective Date without the need for any objection thereto or any further notice to, or action, order or approval of, the Bankruptcy Court.

(c) Pre-existing Payment and Other Obligations

Rejection of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall not constitute a termination of pre-existing obligations owed to the Debtors or the Reorganized Company, as applicable, under such contract or lease. In particular, to the extent permissible under applicable nonbankruptcy law, the Reorganized Company expressly reserves and does not waive any right to receive, or any continuing obligation of a counterparty to provide (a) payment to the contracting Debtors or Reorganized Company, as applicable, of outstanding and future amounts owing thereto under or in connection with rejected Executory Contracts or Unexpired Leases or (b) maintenance of, or to repair or replace, goods previously purchased by the contracting Debtors or the Reorganized Company, as applicable.

(d) Rejection Damages Claims and Objections to Rejection

Pursuant to section 502(g) of the Bankruptcy Code, counterparties to Executory Contracts or Unexpired Leases that are rejected, if any, shall have the right to assert Claims, if any, on account of the rejection of such contracts and leases. Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of Executory Contracts and Unexpired Leases pursuant to the Plan must be filed with the Claims and Solicitation Agent no later than thirty (30) days after the later of (a) the Effective Date and (b) the date of entry of an order of the Bankruptcy Court authorizing rejection of such executory contract or unexpired lease. Any rejection damages Claim represented by an untimely Proof of Claim shall: (i) be disallowed without the need for any further notice to, or action, order, or approval of, the Bankruptcy Court; (ii) be forever barred, estopped, and enjoined from assertion; (iii) not be enforceable against the Debtors, the Reorganized Company or the Disbursing Agent; and (iv) be

deemed fully satisfied, released, and discharged notwithstanding anything in a Proof of Claim to the contrary. All Allowed Claims arising from the rejection of Executory Contracts and Unexpired Leases shall be classified as Class 4 - General Unsecured Claims against the applicable Debtor counterparty thereto.

(e) Contracts and Leases Entered into After the Petition Date

Contracts and leases entered into after the Petition Date by any Debtor and any Executory Contracts and Unexpired Leases assumed by any Debtor may be performed by the Reorganized Company in the ordinary course of business.

(f) Reservation of Rights

Neither the exclusion nor inclusion of any contract or lease in the Assumption Notice, nor anything contained in the Plan, shall constitute an admission by the Debtors that any such contract or lease is in fact an Executory Contract or Unexpired Lease or that the Reorganized Company has any liability thereunder.

8.5 Provisions Governing Distributions

(a) Claims Reserves

The Disbursing Agent shall establish and maintain the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund. After all Professional Fee Claims (other than Professional Fee Claims of the Committee's Professionals), Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Other Secured Claims, and Allowed Other Priority Claims are paid (or, in the case of Allowed Other Secured Claims, satisfied) by the Disbursing Agent, any remaining cash in the Professional Fee Reserve, the Administrative Claims Reserve or otherwise held by the Disbursing Agent for the benefit of any such Professionals, as the case may be, shall be returned to the Reorganized Company.

(b) Special Rules for Distributions to Holders of Disputed Claims

Notwithstanding any provision otherwise in the Plan and except as otherwise agreed by the relevant parties, (a) no partial payments and no partial Distributions shall be made with respect to a Disputed Claim until all such disputes in connection with such Disputed Claim have been resolved by settlement or Final Order, and (b) any Entity that holds both an Allowed Claim and a Disputed Claim shall not receive any Distribution on the Allowed Claim unless and until all objections to the Disputed Claim have been resolved by settlement or Final Order or the Claims have been Allowed or expunged. Any dividends or other distributions arising from property distributed to holders of Allowed Claims, as applicable, in a Class and paid to such holders under the Plan shall be paid also, in the applicable amounts, to any holder of a Disputed Claim, as applicable, in such Class that becomes an Allowed Claim after the date or dates that such dividends or other distributions were earlier paid to holders of Allowed Claims in such Class.

(c) Delivery of Distributions

(1) **Accrual of Dividends and Other Rights**

For purposes of determining the accrual of dividends or other rights after the Effective Date, the New Notes and New Shares issued under the Plan shall be deemed distributed as of the Effective Date regardless of the date on which they are actually issued, dated, authenticated or distributed.

(2) **Compliance Matters**

Any federal, state or local withholding taxes or other amounts required to be withheld under applicable law shall be deducted from Distributions hereunder. All entities holding Claims shall be required to provide any information necessary to effect the withholding of such taxes. In addition, all Distributions under the Plan shall be net of the actual and reasonable costs of making such Distributions.

(3) **Fractional, De Minimis, Undeliverable, and Unclaimed Distributions**

A. *No Fractional or De Minimis Distribution*. Notwithstanding anything contained herein to the contrary, payments of fractional dollars will not be made. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, the actual payment made will reflect a rounding down of such fractions. The Disbursing Agent shall not be required to make any payment of less than $20.00 on any Distribution.

B. *Undeliverable Distributions*. If any Distribution to a holder of an Allowed Claim is returned to a Disbursing Agent as undeliverable, no further Distributions shall be made to such holder unless and until such Disbursing Agent is notified in writing within ninety days (90) of the issuance of the Distribution of such holder's then-current address or other necessary information for delivery, at which time all currently due missed Distributions shall be made to such holder as soon as reasonably practicable. Undeliverable Distributions shall remain in the possession of the Disbursing Agent until such time as a Distribution becomes deliverable, if ever, and shall not be supplemented with any interest, dividends or other accruals of any kind.

C. *Tax Compliance*. The Disbursing Agent shall comply with all tax withholding and reporting requirements imposed on it by any Governmental Unit, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. The Disbursing Agent shall be authorized to take all actions necessary or appropriate to comply with such withholding and reporting requirements, including liquidating a portion of the distribution to be made under the Plan to generate sufficient funds to pay applicable withholding taxes, withholding distributions pending receipt of information necessary to facilitate such distributions, including, without limitation, requiring that the holder of an Allowed Claim complete the appropriate IRS Form W-8 or IRS Form W-9, as applicable to each holder or establishing any other mechanisms that the Disbursing Agent believes to be appropriate. The Disbursing Agent shall not be required to make distributions on any Allowed Claim if the holder thereof has not provided all documentation necessary to determine all tax withholding and reporting requirements for such Allowed Claim.

D. *Expungement of Claims and Reversion.* To the extent that (i) any Distribution under the Plan that is an Unclaimed Distribution for a period of ninety (90) days after Distribution or (ii) the holder of an Allowed Claim fails to provide documentation necessary to determine all tax withholding and reporting requirements for such Allowed Claim within thirty (30) days of a written request for such documentation, the Distribution shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code, the related Claim shall be expunged, and such Unclaimed Distribution and any future Distribution on account of such Claim shall vest in the GUC Fund.

(4) **Surrender of Cancelled Instruments or Securities**

On the Effective Date or as soon as practicable thereafter, each holder of a Certificate shall surrender such Certificate to the Disbursing Agent. Such Certificate shall be cancelled solely with respect to the Debtors, and such cancellation shall not alter the obligations or rights of any non-Debtor third parties *vis-a-vis* one another with respect to such Certificate. No Distribution of property pursuant to the Plan shall be made to or on behalf of any such holder unless and until such Certificate is received by the Disbursing Agent or the unavailability of such Certificate is reasonably established to the satisfaction of the Disbursing Agent pursuant to the provisions of Section 7.3(f) hereof. Any holder who fails to surrender or cause to be surrendered such Certificate or fails to execute and deliver an affidavit of loss and

indemnity acceptable to the Disbursing Agent prior to the first anniversary of the Effective Date shall have its Claim or Interest discharged with no further action, be forever barred from asserting any such Claim or Interest against the Debtors or Reorganized Company or its property, be deemed to have forfeited all rights, and Claims and Interests with respect to such Certificate, and not participate in any Distribution under the Plan; furthermore, all property with respect to such forfeited Distributions, including any dividends or interest attributable thereto, shall revert to the Reorganized Company notwithstanding any federal or state escheat, abandoned or unclaimed property law to the contrary.

Notwithstanding the foregoing, the obligations of the Noteholders under Section 7.3(e) of the Plan shall be deemed satisfied by the execution of a statement by the Noteholder Agent regarding the cancellation of the Notes pursuant to the Plan.

(5) **Lost, Stolen, Mutilated, or Destroyed Securities**

Any holder of Allowed Claims or Interests evidenced by a Certificate that has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such Certificate, deliver to the Disbursing Agent an affidavit of loss acceptable to the Disbursing Agent setting forth the unavailability of the Certificate and such additional indemnity as may be required reasonably by the Disbursing Agent to hold the Disbursing Agent harmless from any damages, liabilities or costs incurred in treating such holder as a holder of an Allowed Claim or Interest. Upon compliance with this procedure by a holder of an Allowed Claim or Interest evidenced by such a lost, stolen, mutilated or destroyed Certificate, such holder shall, for all purposes pursuant to the Plan, be deemed to have surrendered such Certificate.

(d) Claims Paid or Payable by Third Parties

A Claim shall be reduced in full and such Claim shall be disallowed without a Claims objection having to be filed and without any further notice to, or action, order or approval of, the Bankruptcy Court, to the extent that the holder of such Claim receives payment in full on account of such Claim from a party that is not a Debtor or the Reorganized Company. To the extent a holder of a Claim receives a Distribution on account of such Claim and receives payment from a party that is not a Debtor or the Reorganized Company on account of such Claim, such holder shall repay, return or deliver any Distribution held by or transferred to the holder to the Reorganized Company to the extent the holder's total recovery on account of such Claim from the third party and under the Plan exceeds the amount of such Claim as of the date of any such Distribution under the Plan.

8.6 Procedures for Resolving Disputed Claims

(a) Disputed Claims Process

Except as otherwise provided in the Plan, if a party files a Proof of Claim and the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, has not determined in its sole discretion, and without the need for notice to, or action, order or approval of, the Bankruptcy Court, that the Claim subject to such Proof of Claim is Allowed, such Claim shall be deemed Disputed unless and until Allowed, resolved by agreement of the parties, or disallowed by a Final Order.

Except as otherwise provided in the Plan, all Proofs of Claim filed after the Effective Date shall be disallowed and forever barred, estopped, and enjoined from assertion, and shall not be enforceable against the Debtors, the Reorganized Company or the Disbursing Agent, without the need for any objection by the Debtors, Reorganized Company, Disbursing Agent or the General Unsecured Claims Ombudsman, or any further notice to, or action, order or approval of, the Bankruptcy Court. For the avoidance of doubt, on and after the Effective Date, the Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, may negotiate and settle any Claims, including Claims for which a Proof of Claim has been filed, without further notice to or approval of the Bankruptcy Court or any other party.

(b) Prosecution of Objections to Claims

Any objections to Claims shall be served and filed on or before the 105th day after the Effective Date or by such later date as ordered by the Bankruptcy Court upon a motion made prior to the expiration of such period filed by

the General Unsecured Claims Ombudsman or the Reorganized Company, as applicable, requesting an extension of the claims objection deadline on proper notice to parties in interest; provided, that such deadline will be automatically extended through the date on which the Bankruptcy Court enters an order on such motion; provided, further, that the General Unsecured Claims Ombudsmen shall use its commercially reasonable efforts to file all such objections to Claims on or before the 90th day after the Effective Date. Notwithstanding anything to the contrary herein, and notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, except insofar as a Claim is Allowed under the Plan on and after the Effective Date, (i) the General Unsecured Claims Ombudsman shall have the authority, but not the obligation, to (1) file, withdraw or litigate to judgment objections to and requests for estimation of General Unsecured Claims, and (2) settle or compromise any General Unsecured Claim that is a Disputed Claim without further order of the Bankruptcy Court, and (ii) the Disbursing Agent shall have the authority, but not the obligation, to: (1) file, withdraw or litigate to judgment objections to and requests for estimation of Claims (other than General Unsecured Claims); (2) settle or compromise any Disputed Claim (other than General Unsecured Claims); and (3) administer and adjust the Claims register to reflect any such settlements or compromises without any further notice to or action, order or approval by the Bankruptcy Court. The Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, shall succeed to any pending objections to Claims filed by the Debtors prior to the Effective Date, and shall have and retain any and all rights and defenses such Debtor had immediately prior to the Effective Date with respect to any Disputed Claim, including the Causes of Action retained under the Plan (but only to the extent such Causes of Action constitute rights or defenses with respect to such Disputed Claim, and for no other purpose). The Reorganized Company shall provide commercially reasonably assistance and cooperation to the Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, in connection with the Disbursing Agent's and/or the General Unsecured Claim Ombudsman's, as applicable, prosecution of objections to Claims, including, without limitation, access to the Debtors' or the Reorganized Company's (as the case may be) books and records and other information reasonably requested by the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, to enable the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, to perform its obligations under the Plan.

(c) No Interest

Except as provided in Section 3.1(c) of the Plan or as otherwise specifically provided for in the Plan or by order of the Bankruptcy Court, post-petition interest shall not accrue or be paid on Claims, and no holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim or right.

8.7 Subordination

The allowance, classification, and treatment of all Claims and Interests under the Plan shall conform to and with the respective contractual, legal, and equitable subordination rights of such Claims and Interests, and the Plan shall recognize and implement any such rights. Pursuant to section 510 of the Bankruptcy Code, except where otherwise provided in the Plan, the Reorganized Debtors reserve the right, after notice and a hearing, to re-classify any Allowed Claim or Interest (other than an Allowed Noteholder Claim, which shall not be subject to re-classification in any event) in accordance with any contractual, legal or equitable subordination relating thereto.

8.8 Effect of Confirmation of the Plan

(a) Discharge of Claims

Except as otherwise provided for in the Plan and effective as of the Effective Date: (a) the rights afforded in the Plan and the treatment of all Claims and Interests shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtors or any of their assets, property or Estates; (b) the Plan shall bind all holders of Claims and Interests, notwithstanding whether any such holders failed to vote to accept or reject the Plan or voted to reject the Plan; (c) all Claims and Interests shall be satisfied, discharged, and released in full, and the Debtors' liability with respect thereto shall be extinguished completely, including any liability of the kind specified under section 502(g) of the Bankruptcy Code; and (d) all Entities shall be precluded from asserting against the Debtors, the Debtors' Estates, the Reorganized Company, their successors and assigns

and their assets and properties any other Claims or Interests based upon any documents, instruments, or any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date.

(b) Waiver and Release of Avoidance Actions

Notwithstanding anything contained herein to the contrary, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed. the Debtors, the Reorganized Company, the Estates and their respective successors and assigns shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived and discharged all Avoidance Actions.

(c) Consensual Third-Party Releases

As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, all Voting Creditors who vote to accept the Plan shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever, released and discharged the Released Parties from any and all Claims, Interests, obligations, rights, liabilities, actions, causes of action, choses in action, suits, debts, damages, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, remedies, rights of set-off, third-party claims, subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and crossclaims (including all claims and actions against any Entities under the Bankruptcy Code) whatsoever, whether for tort, contract, violations of federal or state securities laws, Avoidance Actions, including (solely to the extent permissible under applicable law) any derivative Claims asserted or that could be asserted on behalf of the Debtors, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity, or otherwise, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or in any way relating to, or in any manner arising from, in whole or in part, the Debtors, the Restructuring Transaction, or the Support Agreement; the formulation, preparation, solicitation, dissemination, negotiation, or filing of the Disclosure Statement or Plan or any contract, instrument, release, or other agreement or document created or entered into in connection with or pursuant to the Support Agreement, the Disclosure Statement, or the Plan; the filing and prosecution of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the purchase, sale, or rescission of the purchase or sale of any Security of the Debtors or the Reorganized Company, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, prepetition contracts and agreements with one or more Debtors, or any other act or omission, transaction, agreement, event, or other occurrence taking place before the Effective Date; provided, that to the extent that a Claim or Cause of Action is determined by a Final Order to have constituted actual fraud, gross negligence, or willful misconduct, such Claim or Cause of Action shall not be so released. Notwithstanding anything to the contrary in the foregoing, the release set forth above does not release any obligations arising on or after the Effective Date of any party under the Plan, or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan.

Notwithstanding the foregoing, nothing in Section 9.3 of the Plan shall operate to release the rights of the Noteholders and the DIP Lenders under the Support Agreement, DIP Documents, or the Plan.

(d) Approval of Compromise

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the release set forth in Sections 9.2 and 9.3, which includes by reference each of the related provisions and definitions contained herein, and further, shall constitute the Bankruptcy Court's finding that such release is: (a) in exchange for the good and valuable consideration; (b) a good faith settlement and compromise of the Claims released by Sections 9.2 and 9.3; (c) in the best interests of the Debtors and all holders of Claims and Interests; (d) fair, equitable, and reasonable; (e) given and made after due notice and opportunity for hearing; and (f) a bar to any Entity granting a release under Sections 9.2 and 9.3 from asserting any Claim or Cause of Action released by Sections 9.2 or 9.3.

(e) Exculpation

Effective as of the Effective Date, no Exculpated Party shall have or incur, and each Exculpated Party will be released and exculpated from, any Exculpated Claim or any obligation, Cause of Action, or liability for any Exculpated Claim, except for actual fraud, willful misconduct, or gross negligence, and in all respects, the Exculpated Parties shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. The Exculpated Parties have, and upon Confirmation shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code with regard to the solicitation of acceptances and rejections of the Plan and the making of Distributions pursuant to the Plan and, therefore, are not and shall not be liable at any time for the violation of any applicable, law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such Distributions made pursuant to the Plan.

(f) INJUNCTION

Except as otherwise provided in the Plan or in the Confirmation Order, from and after the Effective Date, all Entities are, to the fullest extent provided under section 524 and other applicable provisions of the Bankruptcy Code, permanently enjoined from taking any of the following actions against, as applicable, the Debtors, the Reorganized Company, the Released Parties, or the Exculpated Parties (collectively, the *"Section 9.5 Parties"):* (a) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any Claims or Interests; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests; (c) creating, perfecting, or enforcing any encumbrance of any kind against the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests; (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests unless such holder has filed a motion requesting the right to perform such setoff on or before the Confirmation Date; and (e) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests released, exculpated or settled pursuant to the Plan.

(g) Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release or other agreement or document created pursuant to the Plan, on the Effective Date, all mortgages, deeds of trust, Liens, pledges or other security interests against any property of the Estates shall be fully released and discharged, and all of the right, title and interest of any holder of such mortgages, deeds of trust, Liens, pledges or other security interests shall revert to the Reorganized Company or the Disbursing Agent, as applicable.

8.9 Conditions Precedent to the Effective Date

(a) Conditions Precedent to Confirmation

It shall be a condition to Confirmation that the Confirmation Order shall have been entered by the Bankruptcy Court in form and substance acceptable to the Debtors and the Noteholder Agent and Winning Bidder unless waived pursuant to Section 10.3 of the Plan.

(b) Conditions Precedent to the Effective Date

It shall be a condition to the Effective Date that the following conditions shall have been satisfied or waived pursuant to Section 10.3 of the Plan:

(1) the Plan, the Plan Supplement, and all other documents related to the Restructuring Transaction shall each be in form and substance consistent with the Restructuring Term Sheet and otherwise acceptable in all respects to the Debtors, the Noteholder Agent and Winning Bidder, and shall be in full force and effect;

(2) the Confirmation Order shall have been entered and such order shall be in form and substance consistent with the Restructuring Term Sheet and otherwise acceptable in all respects to the Debtors, the Noteholder Agent and Winning Bidder;

(3) the Confirmation Order shall have become a Final Order;

(4) the Support Agreement (unless terminated in accordance with the bidding procedures) shall be in full force and effect and shall not have been terminated, and all conditions precedent therein shall have been satisfied or waived in accordance with their respective terms;

(5) any unpaid Transaction Expenses shall have been paid in full in cash;

(6) all governmental approvals and consents that are legally required for the consummation of the Plan, as applicable, shall have been obtained, not subject to unfulfilled conditions, and be in full force and effect;

(7) the Assets shall have been transferred to and vested in the Reorganized Company free and clear of all claims and liens, except as specifically provided in the Plan;

(8) the Professional Fee Reserve, the Administrative Claims Reserve, and the GUC Fund shall have been funded in cash in full;

(9) if the Noteholder Agent is the Winning Bidder, the New Notes (including all documentation related thereto) shall be in form and substance satisfactory to the Noteholders and shall be executed and delivered to the Noteholders;

(10) the Noteholder Claims shall have been allowed in an amount not less than $15,000,000 plus all accrued pre or post-petition interest, fees or charges that may be allowable under section 506 of the Bankruptcy Code;

(11) the New Shares shall have been issued to the Winning Bidder;

(12) the Reorganized Company shall have entered into written employment agreements with certain of the Debtors' "key employees" identified by the Winning Bidder, including without limitation John Grosso, Johnny Grosso, and John Davis, upon terms and conditions acceptable to the Winning Bidder;

(13) the Administrative Claims Estimate shall not exceed $1,500,000;

(14) the Priority Tax Claims Estimate shall not exceed $50,000;

(15) the Professional Fee Claims Estimate shall not exceed $450,000;

(16) if the Winning Bidder is not the Noteholder Agent, Allowed Noteholder Claims shall be paid in full in cash on the Effective Date; and

(17) all amounts outstanding under the DIP Facility shall have been indefeasibly paid in full in cash.

(c) Waiver of Conditions Precedent

The Debtors may, with the written consent of the Noteholder Agent and Winning Bidder, waive any of the conditions set forth in Sections 10.1 and 10.2 of the Plan without any notice to any other parties in interest and without any further notice to, or action, order or approval of, the Bankruptcy Court, and without any formal action other than proceeding to confirm or consummate the Plan.

8.10 Effect of Non-Occurrence of Conditions to Consummation

If prior to Consummation, the Confirmation Order is vacated pursuant to a Final Order, then except as provided in any order of the Bankruptcy Court vacating the Confirmation Order, the Plan will be null and void in all respects, and nothing contained in the Plan or Disclosure Statement shall: (a) constitute a waiver or release of any Claims, Interests or Causes of Action; (b) prejudice in any manner the rights of any Debtor or any other Entity; or (c) constitute an admission, acknowledgment, offer or undertaking of any sort by any Debtor or any other Entity

8.11 Modification of Plan

Effective as of the date hereof, (a) the Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan before the entry of the Confirmation Order, subject to the limitations set forth herein and in the Restructuring Support Agreement, including, without limitation, to effectuate the terms of the Winning Bid at the Auction; and (b) after the entry of the Confirmation Order, the Debtors or the Reorganized Company, as applicable, may amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan, this clause (b) being subject in all cases to the limitations set forth herein and in the Restructuring Support Agreement

8.12 Revocation or Withdrawal of Plan

Except with the prior written consent of the Noteholder Agent (subject to and for so long as the Restructuring Support Agreement is in effect), the Debtors reserve the right to revoke or withdraw the Plan before the Confirmation Date and to file subsequent chapter 11 plans, including, without limitation, in connection with the consummation of an Alternative Bid provided by the Winning Bidder at the Auction. If the Debtors revoke or withdraw the Plan, or if Confirmation or the Effective Date does not occur, then (a) the Plan will be null and void in all respects; (b) any settlement or compromise embodied in the Plan, assumption or rejection of Executory Contracts or Unexpired Leases effected by the Plan, and any document or agreement executed pursuant hereto will be null and void in all respects; and (c) nothing contained in the Plan shall (1) constitute a waiver or release of any Claims, Interests or Causes of Action, (2) prejudice in any manner the rights of any Debtor or any other Entity, or (3) constitute an admission, acknowledgement, offer or undertaking of any sort by any Debtor or any other Entity

8.13 Confirmation of the Plan

The Debtors request Confirmation of the Plan under section 1129(b) of the Bankruptcy Code with respect to any Impaired Class that does not accept the Plan pursuant to section 1126 of the Bankruptcy Code. Subject to the terms of the Restructuring Support Agreement, the Debtors reserve the right to amend the Plan to the extent, if any, that Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification.

ARTICLE IX
CERTAIN FACTORS TO BE CONSIDERED

PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN, ALL HOLDERS OF CLAIMS THAT ARE IMPAIRED SHOULD READ AND CAREFULLY CONSIDER THE FACTORS SET FORTH HEREIN, AS WELL AS ALL OTHER INFORMATION SET FORTH OR OTHERWISE REFERENCED IN THIS DISCLOSURE STATEMENT.

ALTHOUGH THESE RISK FACTORS ARE MANY, THESE FACTORS SHOULD NOT BE REGARDED AS CONSTITUTING THE ONLY RISKS PRESENT IN CONNECTION WITH THE DEBTORS' BUSINESSES OR THE PLAN AND ITS IMPLEMENTATION.

9.1 General

The following provides a summary of various important considerations and risk factors associated with the Plan.

9.2 Risks Related to the Plan and Other Bankruptcy Law Considerations

(a) A Claim or Interest Holder May Object to, and the Bankruptcy Court May Disagree with, the Debtors' Classification of Claims and Interests.

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an equity interest in a particular class only if such claim or equity interest is substantially similar to the other claims or equity interests in 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 because the Debtors created 7 Classes of Claims and Interests, each encompassing Claims or Interests, as applicable, that are substantially similar to the other Claims and Interests in each such Class. However, a Claim or Interest holder could challenge the Debtors' classification. In such an event, the cost of the Chapter 11 Cases and the time needed to confirm the Plan may increase, and there can be no assurance that the Bankruptcy Court will agree with the Debtors' classification. If the Bankruptcy Court concludes that either or both of the classifications of Claims and Interests under the Plan do not comply with the requirements of the Bankruptcy Code, the Debtors may need to modify the Plan. Such modification could require re-solicitation of votes on the Plan. The Plan may not be confirmed if the Bankruptcy Court determines that the Debtors' classification of Claims and Interests is not appropriate.

(b) The Debtors May Not Be Able to Satisfy the Voting Requirements for Confirmation of the Plan.

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors may seek, as promptly as practicable thereafter, Confirmation. If the Plan is not accepted by at least one Class of Claims that is impaired under the Plan, the Debtors may elect to amend the Plan, seek to sell their assets pursuant to section 363 of the Bankruptcy Code, or proceed with liquidation.

(c) The Bankruptcy Court May Not Confirm the Plan.

The Debtors cannot assure you that the Plan will be confirmed by the Bankruptcy Court. Section 1129 of the Bankruptcy Code, which sets forth the requirements for confirmation of a plan of reorganization, requires, among other things, a finding by the Bankruptcy Court that the plan of reorganization is "feasible," that all claims and interests have been classified in compliance with the provisions of section 1122 of the Bankruptcy Code, and that, under the plan of reorganization, each holder of a claim or interest within each impaired class either accepts the plan of reorganization or receives or retains cash or property of a value, as of the date the plan of reorganization becomes effective, that is not less than the value such holder would receive or retain if the debtor were liquidated under chapter 7 of the Bankruptcy Code. There can be no assurance that the Bankruptcy Court will conclude that the feasibility test and other requirements of section 1129 of the Bankruptcy Code have been met with respect to the Plan.

If the Plan is not confirmed, the Chapter 11 Cases may be converted into cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate the Debtors' assets for

distribution in accordance with the priorities established by the Bankruptcy Code. A discussion of the effects that a chapter 7 liquidation would have on the recoveries of holders of claims and interests and the Debtors' liquidation analysis are set forth under the unaudited Liquidation Analysis, attached hereto as Exhibit C. As set forth in the Liquidation Analysis, the Debtors believe that liquidation under chapter 7 of the Bankruptcy Code would result in, among other things, smaller or no distributions being made to creditors than those provided for in the Plan.

(d) The Debtors May Object to the Amount or Classification of a Claim or Interest.

Except as otherwise provided in the Plan, the Debtors reserve the right to object to the amount or classification of any Claim or Interest under the Plan. The estimates set forth in this Disclosure Statement cannot be relied on by any holder of a Claim or Interest where such Claim or Interest is subject to an objection. Any holder of a Claim or Interest that is subject to an objection thus may not receive its expected share of the estimated distributions described in this Disclosure Statement.

(e) Even if the Debtors Receive All Necessary Acceptances for the Plan to Become Effective, the Debtors May Fail to Meet All Conditions Precedent to Effectiveness of the Plan.

Although the Debtors believe that the Effective Date would occur very shortly after the Confirmation Date, there can be no assurance as to such timing.

The Confirmation and effectiveness of the Plan are subject to certain conditions that may or may not be satisfied. The Debtors cannot assure you that all requirements for Confirmation and effectiveness required under the Plan will be satisfied.

(f) Contingencies May Affect Distributions to Holders of Allowed Claims and Interests.

The distributions available to holders of Allowed Claims and Interests under the Plan can be affected by a variety of contingencies, including, whether the Bankruptcy Court orders certain Allowed Claims to be subordinated to other Allowed Claims. The occurrence of any and all such contingencies could affect distributions under the Plan.

(g) The Debtors May Seek to Amend, Waive, Modify or Withdraw the Plan at Any Time Prior to Confirmation.

The Debtors reserve the right, prior to the Confirmation of the Plan or substantial Consummation thereof, subject to the provisions of section 1127 of the Bankruptcy Code, applicable law, and the Restructuring Support Agreement to amend the terms of the Plan or waive any conditions thereto if and to the extent such amendments or waivers are necessary or desirable to consummate the Plan. The potential impact of any such amendment or waiver on the holders of Claims and Interests cannot presently be foreseen but may include a change in the economic impact of the Plan on some or all of the proposed Classes or a change in the relative rights of such Classes. All holders of Claims and Interests will receive notice of such amendments or waivers to the extent required by applicable law or the Bankruptcy Court. If, after receiving sufficient acceptances, but prior to Confirmation of the Plan, the Debtors seek to modify the Plan, the previously solicited acceptances will be valid only if (1) such modification was solely to effectuate the terms of the Winning Bid at the Auction, (2) all classes of adversely affected creditors and interest holders accept the modification in writing, or (3) the Bankruptcy Court determines, after notice to designated parties, that such modification was *de minimis* or purely technical or otherwise did not adversely change the treatment of holders of accepting Claims and Interests or is otherwise permitted by the Bankruptcy Code.

(h) The Plan May Have a Material Adverse Effect on the Debtors' Operations.

The solicitation of acceptances of the Plan and commencement of the Chapter 11 Cases could adversely affect the relationships between the Debtors and their respective customers, employees, partners, and others. There is a risk, due to uncertainty about the Debtors' future, that, among other things:

- the Debtors' customers' and advertisers' confidence in the abilities of the Debtors to produce and deliver their products and services could erode, resulting in a significant decline in the Debtors' revenues, profitability, and cash flow;

- it may become more difficult to retain, attract, or replace key employees;

- employees could be distracted from performance of their duties or more easily attracted to other career opportunities; and

- the Debtors' suppliers, vendors, and service providers could terminate their relationships with the Debtors or require financial assurances or enhanced performance, subject to the Debtors' assertions in the Bankruptcy Court of certain protections under the Bankruptcy Code.

(i) The Debtors Cannot Predict the Amount of Time Spent in Bankruptcy for the Purpose of Implementing the Plan, and a Lengthy Bankruptcy Proceeding Could Disrupt the Debtors' Businesses, as well as Impair the Prospect for Reorganization on the Terms Contained in the Plan.

The Debtors estimate that the Effective Date of the Plan will occur within 100 days from the Petition Date, but the process of Confirmation could last considerably longer if, for example, Confirmation is contested or the conditions to Confirmation or Consummation are not satisfied or waived.

While the Debtors expect that the Chapter 11 Cases would be of short duration and would not be unduly disruptive to the Debtors' businesses, the Debtors cannot be certain that this necessarily would be the case. Although the Plan is designed to minimize the length of the bankruptcy proceedings, it is impossible to predict with certainty the amount of time that the Debtors may spend in bankruptcy, and the Debtors cannot be certain that the Plan would be confirmed. Even if confirmed on a timely basis, a bankruptcy proceeding to confirm the Plan could itself have an adverse effect on the Debtors' businesses. There is a risk, due to uncertainty about the Debtors' futures, that, among other things:

- customers could move to the Debtors' competitors;

- employees could be distracted from performance of their duties or more easily attracted to other career opportunities; and

- business partners could terminate their relationship with the Debtors or demand financial assurances or enhanced performance, any of which could impair the Debtors' prospects.

A lengthy bankruptcy proceeding also would involve additional expenses and divert the attention of management from the operation of the Debtors' businesses, as well as create concerns for employees, suppliers and customers.

The disruption that the bankruptcy process would have on the Debtors' businesses could increase with the length of time it takes to complete the Chapter 11 Cases. If the Debtors are unable to obtain Confirmation of the Plan on a timely basis, because of a challenge to the Plan or otherwise, the Debtors may be forced to operate in bankruptcy for an extended period of time while they try to develop a different reorganization plan that can be confirmed. A protracted bankruptcy case could increase both the probability and the magnitude of the adverse effects described above.

(j) Other Parties in Interest Might Be Permitted to Propose Alternative Plans of Reorganization that May Be Less Favorable to Certain of the Debtors' Constituencies than the Plan.

Other parties in interest could seek authority from the Bankruptcy Court to propose an alternative plan of reorganization to the Plan. Under the Bankruptcy Code, a debtor in possession initially has the exclusive right to propose and solicit acceptances of a chapter 11 plan for a period of 120 days from filing. However, such exclusivity period can be reduced or terminated upon order of the Bankruptcy Court. If such an order were to be entered, or if the

Bankruptcy Court were to terminate this exclusive period for cause, other parties in interest would then have the opportunity to propose alternative, competing, plans of reorganization.

If other parties in interest were to propose an alternative plan of reorganization following expiration or termination of the Debtors' exclusivity period, such a plan may be less favorable to existing holders of Claims and Interests and may seek to exclude these holders from receiving the distributions contemplated by the Plan. Alternative plans of reorganization also may treat less favorably the Claims of a number of other constituencies, including the Debtors' vendors or landlords. The Debtors consider maintaining relationships with their Creditors (as defined in section 101(10) of the Bankruptcy Code), employees, trading partners, and customers as critical to maintaining the value of the Reorganized Company following the Effective Date, and have sought to treat those constituencies accordingly. However, proponents of alternative plans of reorganization may not share the Debtors' assessments and may seek to impair the Claims of such constituencies to a greater degree. If there were competing plans of reorganization, the Chapter 11 Cases likely would become longer, more complicated, and much more expensive. If this were to occur, or if the Debtors' employees or other constituencies important to the Debtors' business reacted adversely to an alternative plan of reorganization, the adverse consequences discussed in the foregoing Section 9.2(i) of this Disclosure Statement also could occur.

(k) The Debtors' Business May Be Negatively Affected if the Debtors Are Unable to Assume Their Executory Contracts and/or Unexpired Leases.

An executory contract is a contract on which performance remains due to some extent by both parties to the contract. The Plan provides for the assumption of certain Executory Contracts and Unexpired Leases. The Debtors intend to preserve as much of the benefit of their existing contracts and leases as possible. However, with respect to some limited classes of Executory Contracts the Debtors may need to obtain the consent of the counterparty to maintain the benefit of the contract. There is no guarantee that such consent either would be forthcoming or that conditions would not be attached to any such consent that makes assuming the contracts unattractive. The Debtors then would be required to either forego the benefits offered by such contracts and leases or to find alternative arrangements to replace them.

(l) The Restructuring Support Agreements Could Terminate Prior to the Effective Date.

The Restructuring Support Agreement could terminate in accordance with its terms prior to the Effective Date, and the Debtors may be unable to reorganize in the absence of such agreement.

(m) The Debtors' Ability to Reorganize May Be Jeopardized Due to a Potential Liquidity Shortfall.

If the Restructuring Transaction contemplated by the Plan does not close by December 8, 2017, the latest date permitted under the terms of the Debtors' debtor-in-possession financing facility, the Debtors may lose access to financing and the Debtors' ability to reorganize may be jeopardized in light of a potential lack of liquidity.

9.3 Business-Specific Risk Factors

Risk Factors Relating to the Reorganized Company's Business

(a) The business of Reorganized Company will be dependent on the overall economic environment and consumer spending patterns.

The sales of the Reorganized Company will be primarily dependent upon discretionary consumer spending, which is affected by the overall economic environment, consumer confidence, and other factors that may be beyond the control of the Reorganized Company. In addition, the sales of the Reorganized Company will be dependent in part on the strength of new products which may be influenced by its vendors and other third parties. The decline in customer traffic at the Reorganized Company's lifestyle and power center studios may continue, or decline at a more rapid pace that the Debtors project, which may adversely affect the Reorganized Company. The Reorganized Company's ability to introduce innovative merchandise and updated products may impact its sales and profitability.

(b) The business of the Reorganized Company will be seasonal.

The business of the Reorganized Company, like that of many retailers, will be seasonal. A high percentage of its annual sales and substantially all of its annual income from operations will be attributable to the winter holiday season. In addition, sales in the second fiscal quarter of the Reorganized Company should be generally higher than sales during the first and third fiscal quarters as a result of sales in connection with the Easter holiday. The Reorganized Company expects that its annual results of operations will be dependent on its performance during these seasons.

(c) The Reorganized Company will face the risk of disruption of its vendor relationships and its supply chain.

The Reorganized Company will depend on a core group of significant vendors. Because the Reorganized Company will sell a range of unique merchandise, adequate substitutes for certain key products may not be widely available in the marketplace. There can be no assurance that vendor production or distribution problems will not have a material adverse effect on the performance of the Reorganized Company.

(d) The Reorganized Company will operate in an intensely competitive business environment.

The U.S. retail industry is highly competitive. The Reorganized Company will compete against large national portrait studios, national photo product distributors, including online vendors, as well as regional competitors. Competition may also intensify as its competitors enter into business combinations or other alliances or as established companies in other market segments expand into the segments in which the Reorganized Company will operate.

As a result of this competitive environment, the Reorganized Company may face pressure on the sales prices of its products from competitors. As a result of these pricing pressures, the Reorganized Company may in the future experience reductions in its profit margins, revenues, or sales. In addition, the Reorganized Company will need to invest in customer service and support, marketing, and its studio employees. The Reorganized Company cannot assure you as to the anticipated market share its products or its price and operating margins in the future.

(e) The business of the Reorganized Company will rely on certain key personnel.

The success of the business of the Reorganized Company will be materially dependent upon the skills, experience, and efforts of its executive officers and certain other members of its senior management. The loss of one or more members of these senior officers could have a material adverse effect on its business, operating results, or financial condition.

The business of the Reorganized Company also will depend on its ability to continue to recruit, train, and retain skilled employees, particularly highly-skilled and motivated, full-time and temporary associates with appropriate retail experience to work in management and in its studios. The loss of the services of its skilled employees, or its inability to hire new personnel with requisite skills, could impair the ability of the Reorganized Company to develop new products or enhance existing products, sell products to its customers, or manage its business effectively.

9.4 Disclosure Statement Disclaimer

(a) Information Contained Herein is for Soliciting Votes

The information contained in this Disclosure Statement is for the purpose of soliciting acceptances of the Plan and may not be relied upon for any other purpose.

(b) Disclosure Statement Was Not Approved by the SEC

This Disclosure Statement was not filed with the SEC. The SEC, like any party in interest, will be given an opportunity to object to the adequacy of this Disclosure Statement before the Bankruptcy Court approves it. Neither the SEC nor any state regulatory authority has passed upon the accuracy or adequacy of this Disclosure Statement, or the Exhibits or the statements contained herein, and any representation to the contrary is unlawful.

(c) Disclosure Statement May Contain Forward Looking Statements

This Disclosure Statement may contain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward looking terminology such as "may," "expect," "anticipate," "estimate," or "continue," the negative thereof, or other variations thereon or comparable terminology.

The Debtors consider all statements regarding anticipated or future matters, including the following, to be forward-looking statements:

- any future effects as a result of the filing or pendency of the Chapter 11 Cases;
- financing plans;
- competitive position;
- business strategy;
- budgets;
- projected cost reductions;
- projected and estimated liability costs, including tort, and environmental costs and costs of environmental remediation;
- growth opportunities for existing products and services;
- results of litigation;
- disruption of operations;
- contractual obligations;
- projected general market conditions;
- plans and objectives of management for future operations; and
- the Debtors' expected future financial costs position, liquidity, results of operations, profitability, and cash flows.

Statements concerning these and other matters are not guarantees of the Debtors' future performance. The reader is cautioned that all forward-looking statements are necessarily speculative. The valuation analysis, the liquidation analysis, the recovery projections and other information contained herein and attached hereto are estimates only, and the timing and amount of actual distributions to holders of Allowed Claims may be affected by many factors that cannot be predicted. Forward-looking statements represent the Debtors' estimates and assumptions only as of the date such statements were made. There are risks, uncertainties, and other important factors that could cause the Debtors' actual performance or achievements to be materially different from those they may project, and the Debtors undertake no obligation to update any such statement.

(d) No Legal or Tax Advice Is Provided to You by This Disclosure Statement

THIS DISCLOSURE STATEMENT IS NOT LEGAL ADVICE TO YOU. The contents of this Disclosure Statement should not be construed as legal, business, or tax advice. Each holder of a Claim should consult his or her own legal counsel and accountant with regard to any legal, tax, and other matters concerning his or her Claim. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to Confirmation.

(e) No Admissions Made

The information and statements contained in this Disclosure Statement will neither (1) constitute an admission of any fact or liability by any entity (including the Debtors) nor (2) be deemed evidence of the tax or other legal effects of the Plan on the Debtors, holders of Allowed Claims or Interests, or any other parties-in-interest.

(f) Failure to Identify Litigation Claims or Projected Objections

No reliance should be placed on the fact that a particular litigation Claim or projected objection to a particular Claim or Interest is, or is not, identified in this Disclosure Statement. The Debtors reserve the right to continue to investigate Claims and Interests and file and prosecute objections to Claims and Interests.

(g) No Waiver of Right to Object or Right to Recover Transfers and Assets

The vote by a holder of an Allowed Claim or Interest for or against the Plan does not constitute a waiver or release of any Claims or rights of the Debtors to object to that holder's Allowed Claim or Interest, or to bring Causes of Action or recover any preferential, fraudulent, or other voidable transfer of assets, regardless of whether any Claims or Causes of Action of the Debtors or their respective Estates are specifically or generally identified herein.

(h) Information Was Provided by the Debtors and Was Relied Upon by the Debtors' Advisors

Counsel to and other advisors retained by the Debtors have relied upon information provided by the Debtors in connection with the preparation of this Disclosure Statement. Although counsel to and other advisors retained by the Debtors have performed certain limited due diligence in connection with the preparation of this Disclosure Statement, they have not independently verified the information contained herein.

(i) Potential Exists for Inaccuracies and the Debtors Have No Duty to Update

The Debtors make the statements contained in this Disclosure Statement as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has not been a change in the information set forth herein since such date. Although the Debtors have used their reasonable business judgment to ensure the accuracy of all of the information provided in this Disclosure Statement and in the Plan, the Debtors nonetheless cannot, and do not, confirm the current accuracy of all statements appearing in this Disclosure Statement. Further, although the Debtors may subsequently update the information in this Disclosure Statement, the Debtors have no affirmative duty to do so unless ordered by the Bankruptcy Court.

(j) No Representations Outside of the Disclosure Statement Are Authorized

No representations concerning or relating to the Debtors, the Chapter 11 Cases, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement and associated documents. In deciding whether to vote to accept or reject the Plan, you should not rely upon any representations or inducements made to secure your acceptance or rejection of the Plan that are other than as contained in, or included with, this Disclosure Statement, unless otherwise indicated herein. You should promptly report unauthorized representations or inducements to the counsel to the Debtors and the Bankruptcy Administrator.

ARTICLE X
IMPORTANT SECURITIES LAW DISCLOSURE

Under the Plan, the Reorganized Company will issue, upon the Effective Date, the New Notes and the New Shares, which will be duly authorized, validly issued, fully paid, and non-assessable.

The New Shares will be offered only to Qualified Bidders who must qualify as "accredited investors" as defined in Regulation D promulgated under the Securities Act. Section 4(2) of the Securities Act exempts from registration transactions by an issuer not involving a public offering. Shares issued pursuant to an exemption from registration pursuant to section 4(2) or Regulation D will be deemed "restricted securities" and may not be resold without registration under the Securities Act or pursuant to an exemption therefrom.

The offering, issuance, and distribution of the New Notes and the New Shares will be exempt from the registration requirements of section 5 of the Securities Act pursuant to section 1145 of the Bankruptcy Code. Accordingly, recipients will be able to resell New Notes and the New Shares without registration under the Securities Act or other federal securities laws, unless the recipient is an "underwriter" with respect to the New Notes and the New

Shares, within the meaning of section 1145(b)(1) of the Bankruptcy Code or similar federal, state, local, or foreign laws. In addition, under section 1145 of the Bankruptcy Code, the New Notes and the New Shares will be freely transferable under the Securities Act by the recipients thereof, subject to: (1) the provisions of section 1145(b)(1) of the Bankruptcy Code relating to the definition of an "underwriter" in section 2(a)(11) of the Securities Act, and in compliance with any applicable state or foreign securities laws, if any, and the rules and regulations of the SEC, if any, applicable at the time of any future transfer of the New Notes and the New Shares; (2) the restrictions, if any, on the transferability of the New Notes or the New Shares, as applicable; and (3) any other applicable regulatory approval.

Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as any person who: (1) purchases a claim against, an interest in, or a claim for an administrative expense in the case concerning, the debtor, if that purchase is with a view to distributing any Security received in exchange for such a claim or interest; (2) offers to sell Securities offered under a plan of reorganization for the holders of those Securities; (3) offers to buy those Securities from the holders of the Securities, if the offer to buy is (a) with a view to distributing those Securities and (b) under an agreement made in connection with the plan of reorganization, or with the offer or sale of Securities under the plan of reorganization; or (4) is an "issuer" with respect to the Securities, as the term "issuer" is defined in section 2(a)(11) of the Securities Act.

To the extent that Entities who receive New Notes and/or New Shares under the Plan are deemed to be "underwriters," resales by such Entities may not be exempted from registration under the Securities Act or other applicable law by section 1145 of the Bankruptcy Code. Those Entities may, however, be permitted to sell New Notes and/or New Shares without registration, subject to the provisions of Rule 144 under the Securities Act, which permit the public sale of securities received pursuant to a plan of reorganization by "underwriters," subject to the availability to the public of current information regarding the issuer, volume limitations and certain other conditions. Whether or not any Entity would be deemed to be an "underwriter" with respect to the New Notes or the New Shares would depend upon various facts and circumstances applicable to that Entity. Accordingly, the Debtors express no view as to whether any Entity would be an "underwriter" with respect to the New Notes or the New Shares. **YOU SHOULD CONFER WITH YOUR OWN LEGAL ADVISORS TO HELP DETERMINE WHETHER OR NOT YOU ARE AN "UNDERWRITER".**

ARTICLE XI
CONFIRMATION PROCEDURES

The following is a brief summary of the Confirmation process. Holders of Claims are encouraged to review the relevant provisions of the Bankruptcy Code and to consult with their own advisors.

11.1 The Confirmation Hearing

Section 1128(a) of the Bankruptcy Code provides that the Bankruptcy Court, after notice, may conduct the Confirmation Hearing to consider Confirmation. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to Confirmation.

11.2 Confirmation Standards

Among the requirements for the Confirmation are that the Plan is accepted by all Impaired Classes of Claims and Interests, or if rejected by an Impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class, is feasible, and is in the "best interests" of holders of Claims and Interests that are Impaired under the Plan. The following requirements must be satisfied pursuant to section 1129(a) of the Bankruptcy Code before the Bankruptcy Court may confirm a plan of reorganization. The Plan fully complies with the statutory requirements for Confirmation listed below.

- The proponents of the Plan have 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 to be made by the Debtors (or any other proponent of the Plan) or by a Person issuing Securities or acquiring property under the Plan, for services or for costs and expenses in or in

connection with the Chapter 11 Cases, in connection with the Plan and incident to the Chapter 11 Cases is subject to the approval of the Bankruptcy Court as reasonable.

- The Debtors (or any other proponent of the Plan) have disclosed the identity and affiliations of any individual proposed to serve, after Confirmation, as a director or officer of the Reorganized Company, any Affiliate of the Debtors reorganized under the Plan, or any successor to the Debtors under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests of Creditors and holders of Interests and with public policies.

- The proponent of the Plan has disclosed the identity of any Insider that will be employed or retained by the Reorganized Company and the nature of any compensation for such Insider.

- With respect to each holder within an Impaired Class of Claims or Interests, each such holder (a) has accepted the Plan or (b) will receive or retain under the Plan on account of such Claim or Interest property of a value, as of the Effective Date, that is not less than the amount that such holder would so receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on such date.

- With respect to each Class of Claims or Interests, such Class (a) has accepted the Plan or (b) is Unimpaired under the Plan (subject to the "cram-down" provisions discussed below).

- The Plan provides for treatment of Claims, as applicable, in accordance with the provisions of section 507(a) of the Bankruptcy Code.

- If a Class of Claims is Impaired under the Plan, at least one Class of Claims that is Impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any Insider.

- Confirmation is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Reorganized Debtors unless such liquidation or reorganization is proposed in the Plan.

- All fees payable under 28 U.S.C. § 1930 have been paid or the Plan provides for the payment of all such fees on the Effective Date.

11.3 Best Interests Test/Liquidation Analysis

As described above, section 1129(a)(7) of the Bankruptcy Code requires that each holder of an Impaired Claim or Interest either (a) accept the Plan or (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. Based on the Debtors' liquidation analysis, the Debtors believe that the value of any distributions if the Debtors' Chapter 11 Cases were converted to cases under chapter 7 of the Bankruptcy Code would be no greater than the value of distributions under the Plan. As a result, the Debtors believe holders of Claims and Interests in all Impaired Classes will recover at least as much as a result of Confirmation as they would recover through a hypothetical chapter 7 liquidation.

11.4 Feasibility

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan of reorganization is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. The Debtors believe that they will be able to make all payments required under the Plan. Further, if the Noteholders are the Winning Bidder under the Plan, the Exit Financing will provide the capital necessary to fund the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund. Therefore, Confirmation is not likely to be followed by liquidation or the need for further reorganization. Additionally, the Debtors have prepared projections, which, together with the assumptions on which they are based, are attached hereto as Exhibit B (the "Projections"). The Projections reflect the Debtors' management's proposed business plan post-confirmation and have been prepared under the assumption that the Noteholders are the Winning Bidder. If another bidder is the Winning Bidder, these Projections could change materially.

11.5 Confirmation Without Acceptance by All Impaired Classes

The Bankruptcy Court may confirm a plan of reorganization over the rejection or deemed rejection of the plan of reorganization by a class of claims or interests if the plan of reorganization "does not discriminate unfairly" and is "fair and equitable" with respect to such class.

(a) No Unfair Discrimination

This test applies to Classes of Claims or Interests that are of equal priority and are receiving different treatment under the Plan. The test does not require that the treatment be the same or equivalent, but that such treatment be "fair". The Debtors do not believe the Plan discriminates unfairly against any Impaired Class of Claims or Interests. The Debtors believe the Plan and the treatment of all Classes of Claims and Interests under the Plan satisfy the foregoing requirements for nonconsensual confirmation.

(b) Fair and Equitable Test

This test applies to Classes of different priority and status (e.g., secured versus unsecured) and includes the general requirement that no Class of Claims or Interests receive more than 100% of the amount of the allowed Claims or Interests in such Class. As to the dissenting Class, the test sets different standards depending on the type of Claims or Interests of the Debtor in such Class. In order to demonstrate that a plan is fair and equitable, the plan proponent must demonstrate:

- Secured Creditors: Each holder of a secured claim either (1) retains its liens on the property, to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date of the chapter 11 plan, of at least the allowed amount of such claim, (2) has the right to credit bid the amount of its claim if its property is sold and retains its liens on the proceeds of the sale (or if sold, on the proceeds thereof), or (3) receives the "indubitable equivalent" of its allowed secured claim.

- Unsecured Creditors: Either (1) each holder of an impaired unsecured claim receives or retains under the chapter 11 plan property of a value equal to the amount of its allowed claim or (2) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the chapter 11 plan.

- Equity Interests: Either (1) each holder of an interest will receive or retain under the chapter 11 plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled, or the value of the interest or (2) the holder of an interest that is junior to the non-accepting class will not receive or retain any property under the chapter 11 plan.

The Debtors believe the Plan satisfies the "fair and equitable" requirement notwithstanding that Classes 5 (Intercompany Claims), 6 (Equity Interests) and 7 (Section 510(b) Claims) are deemed to reject the Plan, because, as to such Classes, there is no Class of equal priority receiving more favorable treatment and no Class that is junior to such a dissenting Class will receive or retain any property on account of the Claims in such Class.

ARTICLE XII
ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan cannot be confirmed, the Debtors may seek to (1) prepare and present to the Bankruptcy Court an alternative chapter 11 plan for confirmation, (2) effect a merger or sale transaction, including, potentially, a sale of all or substantially all of the Debtors' assets pursuant to section 363 of the Bankruptcy Code, or (3) liquidate the Debtors under chapter 7 of the Bankruptcy Code. If the Debtors were to pursue a liquidation, the Chapter 11 Cases would be converted to cases under chapter 7 of the Bankruptcy Code and a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. A discussion of the effects that a chapter 7 liquidation would have on Creditors' recoveries and the Debtors is described in the unaudited liquidation analysis attached hereto as Exhibit C.

ARTICLE XIII
CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

13.1 Introduction

The following is a summary of certain U.S. federal income tax consequences of the Plan to the Debtors, the Reorganized Debtors, and to certain holders of Claims. This summary is based on the Internal Revenue Code of 1986, as amended (the "IRC"), the U.S. Treasury regulations promulgated thereunder, judicial decisions, published administrative interpretations of the U.S. Internal Revenue Service (the "IRS") and other applicable authorities, all as in effect on the date of this Disclosure Statement, and all of which are subject to change or differing interpretations, possibly with retroactive effect. Due to the lack of definitive judicial and administrative authority in a number of areas, substantial uncertainty may exist with respect to some of the tax consequences described below. In addition, the discussion does not describe any tax consequences arising out of the laws of any state or local or foreign jurisdiction and it does not address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010. No opinion of counsel has been obtained and the Debtors do not intend to seek a ruling from the IRS with respect to the statements made and the conclusions reached in this summary. The discussion below is not binding upon the IRS or the courts. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This summary does not apply to holders of Claims that are not "U.S. persons," except as described below. For purposes of this section under the heading "Certain U.S. Federal Income Tax Consequences", a "U.S. person" means a holder of Allowed Secured Debt Claims that is a citizen or resident of the United States, a corporation, or other entity or arrangement treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate that is subject to U.S. federal income tax on its income regardless of its source; or a trust, the substantial decisions of which are controlled by one or more U.S. persons (as defined in section 7701(a)(30) of the IRC) and which is subject to the primary supervision of a U.S. court, or a trust that was in existence on August 20, 1996 and has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

This discussion does not purport to address all aspects of U.S. federal income taxation that may be relevant to the Debtors or to certain holders of Claims in light of their individual circumstances. In particular, this discussion does not address all of the tax considerations that may be relevant to persons that are subject to special rules under U.S. federal income tax laws, such as, without limitation: persons that hold Claims in connection with a U.S. trade or business or a U.S. permanent establishment; banks, thrifts or other financial institutions; qualified insurance plans; insurance companies; mutual funds; qualified retirement plans and individual retirement accounts; dealers or traders in securities; regulated investment companies; real estate investment trusts; S corporations and shareholders thereof; entities taxed as partnerships and partners therein; trusts; persons subject to the alternative minimum tax; persons who hold Claims on behalf of another person as a nominee; former citizens or residents of the United States; persons who have a "functional currency" other than the U.S. dollar; tax-exempt entities; small business investment companies; persons who are related to the Debtors within the meaning of the IRC; holders of Claims who are themselves in bankruptcy; persons who received their Claims through the exercise of employee stock options or otherwise as compensation; and those holding Claims as part of a "hedge", "straddle", "conversion transaction", "synthetic security" or other integrated transaction. No aspect of state, local, estate, gift, non-U.S. taxation or the Medicare tax on net investment income is addressed. Furthermore, this summary assumes that a holder of a Claim holds only Claims in a single Class and holds a Claim as a capital asset within the meaning of section 1221 of the IRC (generally, property held for investment). Further, this discussion assumes that the transaction will be completed in accordance with the steps described in this document and in the Plan.

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. ALL HOLDERS OF CLAIMS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE PLAN.

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, ANY TAX ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING TAX RELATED PENALTIES UNDER THE IRC. TAX ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE PLAN OR MATTERS ADDRESSED BY THE DISCLOSURE STATEMENT. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

13.2 Certain U.S. Federal Income Tax Consequences of the Plan to the Debtors

(a) Cancellation of Debt and Reduction of Tax Attributes

In general, absent an exception, a debtor will realize and recognize cancellation of indebtedness income ("COD Income") for U.S. federal income tax purposes upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of COD Income is the excess of (a) the adjusted issue price of the indebtedness satisfied, over (b) the sum of (x) the amount of cash paid, (y) the issue price of any new indebtedness of the taxpayer issued and (z) the fair market value of any stock issued or other consideration paid in satisfaction of the outstanding indebtedness.

A debtor will not, however, be required to include any amount of COD Income in gross income if the debtor is under the jurisdiction of a court in a case under chapter 11 of the Bankruptcy Code and the discharge of debt occurs pursuant to that proceeding. Instead, as a consequence of such exclusion, a debtor must reduce its tax attributes by the amount of COD Income that it excluded from gross income pursuant to section 108 of the IRC. In general, tax attributes will be reduced in the following order: (a) net operating losses ("NOLs"); (b) most tax credits; (c) capital loss carryovers; (d) tax basis in assets (but not below the amount of liabilities to which the debtor remains subject); (e) passive activity loss and credit carryovers; and (f) foreign tax credits. A debtor with COD Income may elect first to reduce the basis of its depreciable assets pursuant to section 108(b)(5) of the IRC. A debtor is required to reduce its tax attributes at the end of the taxable year in which the event creating the COD Income has occurred. Accordingly, a debtor first computes its taxable income for the taxable year in which the event creating the COD Income has occurred, and then reduces its tax attributes in the order noted above. The reduction in the debtor's tax basis in its assets is applied to the assets that the debtor holds as of the first day of the taxable year following the taxable year in which the event creating the COD income has occurred. In the context of a consolidated group of corporations, the tax rules provide for a complex ordering mechanism for determining how the tax attributes of one member can be reduced by the COD Income of another member.

(b) Limitation of NOL Carryforwards and Other Tax Attributes

Under section 382 of the IRC, if a corporation undergoes an "ownership change," the amount of its NOLs, built-in losses and certain other attributes (collectively, "Pre-Change Losses") that may be utilized to offset future taxable income generally is subject to an annual limitation. The transactions pursuant to the Plan will result in an "ownership change" with respect to the Debtors for these purposes.

13.3 Certain U.S. Federal Income Tax Consequences of the Plan to Holders of Allowed Noteholder Claims and Allowed General Unsecured Claims

(a) Treatment of a Holder of an Allowed Noteholder Claim or Allowed General Unsecured Claim

A holder of an Allowed General Unsecured Creditor Claim should be treated as exchanging the obligation constituting the Allowed Unsecured Creditor Claim for cash in a fully taxable exchange. A holder who is subject to this treatment will recognize gain or loss equal to the difference between (i) the cash received that is not allocable to accrued but untaxed interest (see discussion below), and (ii) the holder's adjusted tax basis in the obligation constituting the surrendered allowed Claim. Whether the amount that is required to be recognized is treated as capital gain or loss or ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the obligation constituting the Allowed Unsecured Creditor Claim in such holder's hands, whether the obligation

constituting the surrendered Claim was purchased at a discount, whether any amount of the consideration is allocable to accrued interest and whether and to what extent the holder has previously claimed a bad debt deduction with respect to the obligation constituting the surrendered Claim. See the discussions of accrued interest and market discount below.

(b) Accrued Interest

To the extent that any amount received by a holder of a surrendered Allowed Other Secured Claim or Allowed Noteholder Claim is allocable to accrued but unpaid interest (as determined in the next paragraph), and such amount has not previously been included in the holder's gross income for U.S. federal income tax purposes, then such amount will be taxable to the holder as ordinary interest income. Conversely, a holder of a surrendered Allowed Other Secured Claim or Allowed Noteholder Claim may be able to recognize a deductible loss to the extent that any accrued interest on the debt instruments constituting such Claim was previously so included in the holder's gross income but was not paid in full by the Debtors.

In general, the extent to which the consideration received by a holder of a surrendered allowed Claim will be attributable to accrued interest on the debt underlying the surrendered allowed Claim is unclear. Certain legislative history indicates that an allocation of consideration as between principal and interest provided in a chapter 11 plan of reorganization is binding for U.S. federal income tax purposes, while certain Treasury Regulations treat payments as allocated first to any accrued but untaxed interest. The Plan provides, and Debtors intend to take the position that, consideration in respect of allowed Claims shall be allocated first to the principal amount of such Claims (as determined for U.S. federal income tax purposes) and then, to the extent the consideration exceeds the principal amount of the Claims, to accrued but unpaid interest. The IRS could, however, take a contrary position.

(c) Market Discount

Under the "market discount" provisions of sections 1276 through 1278 of the IRC, some or all of any gain realized, including in an exchange subject to section 351 but not including in a reorganization, by a holder exchanging the debt instruments constituting its allowed claim may be treated as ordinary income (instead of capital gain), to the extent of the amount of "market discount" on the debt constituting the surrendered allowed claim.

In general, a debt instrument is considered to have been acquired with "market discount" if it is acquired other than on original issue and if the amount for which the holder purchased the debt instrument is less than (i) the sum of all remaining payments to be made on the debt instrument, excluding "qualified stated interest" or, (ii) in the case of a debt instrument issued with "original issue discount," its adjusted issue price, by at least a de minimis amount (equal to 0.25% of the sum of all remaining payments to be made on the debt instrument, excluding qualified stated interest, multiplied by the number of remaining whole years to maturity).

Any gain realized (determined as described above) by a holder on the disposition of debts that it acquired with market discount would be treated as ordinary income to the extent of the market discount that accrued thereon while such debts were considered to be held by the holder (unless the holder elected to include market discount in income as it accrued).

(d) Information Reporting and Backup Withholding

The Debtors will withhold all amounts required by law to be withheld from payments of interest. The Debtors will comply with all applicable reporting requirements of the IRC. In general, information reporting requirements may apply to distributions or payments made to a holder of an allowed Claim. Additionally, backup withholding, at a rate of 28%, generally will apply to such payments if a holder fails to timely provide an accurate taxpayer identification number or otherwise fails to comply with the applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against such holder's U.S. federal income tax liability, provided that a holder timely furnishes the required information to the IRS.

In addition, from an information reporting perspective, U.S. Treasury Regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of

specified thresholds. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the holders' tax returns.

13.4 Certain U.S. Federal Income Tax Consequences of the Plan to Holders of Equity Interests

Pursuant to the Plan, all equity interests of the Debtors are being extinguished. A Holder of any equity interests of the Debtors extinguished under the Plan should generally be allowed a "worthless stock deduction" in an amount equal to the Holder's adjusted basis in such Equity Securities. A "worthless stock deduction" is a deduction allowed to a Holder of a corporation's stock for the taxable year in which such stock becomes worthless. If the holder held such Equity Securities as a capital asset, the loss will be treated as a loss from the sale or exchange of such capital asset. Capital gain or loss will be long-term if the Equity Securities were held by the holder for more than one year at the time of they are extinguished. The deductibility of capital losses is subject to limitations.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX. THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER IN LIGHT OF SUCH HOLDER'S CIRCUMSTANCES AND INCOME TAX SITUATION. ALL HOLDERS OF CLAIMS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR NON-U.S. TAX LAWS, AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

ARTICLE XIV
CONCLUSION AND RECOMMENDATION

The Debtors believe that confirmation and implementation of the Plan is preferable to any of the alternatives described herein because it will provide the greatest recovery to Holders of Claims. Other alternatives would involve significant delay, greater erosion of value, uncertainty and substantial administrative costs and are likely to reduce any return to any creditors who hold Impaired Claims. The Debtors urge the Holders of Class 3 and Class 4 Claims to vote to accept the Plan and to evidence such acceptance by casting their Ballots as set forth in the instructions enclosed with the Ballots so that they will be received not later than 5:00 p.m. Eastern Time, on November 30, 2017.

Dated: October 13, 2017

AS DEBTORS AND DEBTORS IN POSSESSION:

PORTRAIT INNOVATIONS, INC.
PORTRAIT INNOVATIONS HOLDING COMPANY

By: /s/ John Grosso
Name: John Grosso Authorized Officer of the Debtors

APPENDIX:
RULES OF INTERPRETATION, COMPUTATION OF TIME, GOVERNING LAW, AND OTHER REFERENCES

1. Rules of Interpretation

For purposes of the Disclosure Statement, the following rules of interpretation apply: (a) in the appropriate context, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and the neuter gender; (b) unless otherwise specified, any reference herein to a contract, lease, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) unless otherwise specified, any reference herein to an existing document, schedule, or exhibit, shall mean such document, schedule, or exhibit, as it may have been or may be amended, modified, or supplemented; (d) unless otherwise specified, all references herein to "Articles" are references to Articles hereof or hereto; (e) the words "herein," "hereof," and "hereto" refer to the Plan in its entirety rather than to any particular portion of the Plan; (f) captions and headings to Articles are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan; (g) unless otherwise specified herein, the rules of construction set forth in section 102 of the Bankruptcy Code shall apply; and (h) any term used in capitalized form herein that is not otherwise defined but that is used in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

2. Computation of Time

Bankruptcy Rule 9006(a) applies in computing any period of time prescribed or allowed herein. If the date on which a transaction may occur pursuant to the Plan shall occur on a day that is not a Business Day, then such transaction shall instead occur on the next succeeding Business Day.

3. Governing Law

Except to the extent the Bankruptcy Code or Bankruptcy Rules apply, and subject to the provisions of any contract, lease, instrument, release, indenture, or other agreement or document entered into expressly in connection herewith, the rights and obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without giving effect to conflict of laws principles.

4. Reference to Monetary Figures

All references in the Disclosure Statement to monetary figures refer to currency of the United States of America, unless otherwise expressly provided.

5. Reference to the Debtors or the Reorganized Company

Except as otherwise specifically provided in the Disclosure Statement to the contrary, references in the Disclosure Statement to the Debtors or to the Reorganized Company mean the Debtors and the Reorganized Company, as applicable, to the extent the context requires.

EXHIBIT A

Amended Joint Plan of Reorganization

UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF NORTH CAROLINA
Charlotte Division

In re:	Chapter 11
PORTRAIT INNOVATIONS, INC., et al.[1]	Case No. 17-31455 (JCW)
Debtors.	Jointly Administered

DEBTORS' AMENDED JOINT CHAPTER 11 PLAN OF REORGANIZATION

RAYBURN COOPER & DURHAM, P.A.

By: /s/ John R. Miller, Jr.
John R. Miller, Jr.
N.C. State Bar No. 28689
Paul R. Baynard
N.C. State Bar No. 15769
Benjamin E. Shook
N.C. State Bar No. 44793
Suite 1200, The Carillon
227 West Trade Street
Charlotte, NC 28202
(704) 334-0891

Counsel to the Debtors and Debtors in Possession

Dated: October 13, 2017

[1] The Debtors in these jointly administered cases are the following entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): Portrait Innovations, Inc. (9394) and Portrait Innovations Holding Company (5553). The Debtors address is 2016 Ayrsley Town Center Boulevard, Suite 200, Charlotte, North Carolina 28273.

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INTRODUCTION

Portrait Innovations, Inc. and Portrait Innovations Holdings Company, the Debtors and Debtors in possession in the above-captioned chapter 11 cases, propose this joint plan of reorganization (the *"Plan"*). The Plan provides for the reorganization and sale of the Debtors' assets pursuant to Bidding Procedures under which an Auction will be held for the Reorganized Company's equity. Each Debtor is a proponent of the Plan within the meaning of section 1129 of the Bankruptcy Code in its respective chapter 11 case. Reference is made to the Disclosure Statement for a discussion of the Debtors' history, business, properties and operations, projections, risk factors, a summary and analysis of this Plan, and certain related matters. There are other agreements, documents, and exhibits which will be filed with the Bankruptcy Court in the form of a Plan Supplement and which are referenced in the Plan or the Disclosure Statement. All such agreements, documents, exhibits are incorporated into and are a part of this Plan as if fully set forth herein.

ARTICLE I

DEFINED TERMS, RULES OF INTERPRETATION, COMPUTATION OF TIME, GOVERNING LAW, AND OTHER REFERENCES

1.1 Defined Terms

Unless the context requires otherwise, the following terms shall have the following meanings when used in capitalized form herein:

1. *"Administrative Claim"* means any claim against the Debtor or its bankruptcy estate for costs and expenses of administration pursuant to section 503(b), 507(a)(2), 507(b) or 1114(e)(2) of the Bankruptcy Code, including the actual and necessary costs and expenses incurred after the Petition Date and through the Effective Date of preserving the Estate, and all fees and charges assessed against the Estate pursuant to section 1930 of title 28 of the United States Code. For the avoidance of doubt the Transaction Expenses are an Administrative Claim.

2. "*Administrative Claims Reserve*" means the reserve of cash funded on the Effective Date into an account maintained by the Disbursing Agent for the benefit of holders of Allowed Administrative Claims (exclusive of holders of Professional Fee Claims, the reserve for which holders shall be the Professional Fee Reserve and the GUC Fund, as applicable), Allowed Other Priority Claims, Allowed Priority Tax Claims, and Allowed Other Secured Claims, in an amount equal to the Administrative and Priority Claims Estimate.

3. "*Administrative and Priority Claims Estimate*" means the Debtors' best estimate, as of the Effective Date, exclusive of Professional Fee Claims, of all unpaid claims that will be Allowed Administrative Claims, Allowed Other Secured Claims (if applicable), Allowed Priority Tax Claims, and Allowed Other Priority Claims, or such other amount agreed to by the Debtors, the Noteholder Agent, and the Winning Bidder.

4. *"Affiliate"* has the meaning set forth in section 101(2) of the Bankruptcy Code.

5. *"Allowed"* means, as to a Claim, proof of which was timely and properly filed or, if no proof of a Claim was filed, which has been or hereafter is listed by the applicable Debtor in its Schedules, as liquidated in amount and not disputed or contingent and, in each case, as to which: (i) no objection to allowance has been interposed within the applicable period fixed by this Plan, the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court, or (ii) an objection has been interposed and such Claim or Interest has been allowed, in whole or in part, by a Final Order and/or by the agreement of the holder of such Claim or Interest and the Debtors, the Reorganized Company, the Disbursing Agent, or the General Unsecured Claims Ombudsman, as applicable; provided, however, that any Claims allowed solely for the purpose of voting to accept or reject this Plan pursuant to an order of the Bankruptcy Court shall not be considered "Allowed" hereunder. Unless otherwise specified herein or by order of the Bankruptcy Court, "Allowed" shall not, for purposes of computation of distributions under this Plan, include interest, penalties or late charges on such Claim from and after the Petition Date, except as provided in section 506(b) of the Bankruptcy Code or as otherwise expressly set forth in this Plan.

6. "*Assets*" means substantially all of the Debtors' assets.

7. *"Assumption Notice"* means the *Notice of Possible Assumption of the Debtors' Executory Contracts and Unexpired Leases and Proposed Cure Amounts* approved by the Bidding Procedures Order, together with any amended notices. The Assumption Notice shall be in a form and substance acceptable to the Noteholder Agent.

8. *"Assumption Schedule"* means the list of executory contracts and unexpired leases to be assumed as of the Effective Date under Section 365 of the Bankruptcy Code, to be filed and served in accordance with the Bidding Procedures Order.

9. *"Auction"* means the auction to be conducted by the Debtors and their advisors pursuant to the Bidding Procedures.

10. *"Avoidance Actions"* means any and all Causes of Action that may be brought by or on behalf of the Debtors or their Estates or other authorized parties in interest under sections 502, 510, 542, 544, 545, and 547 through and including 553 of the Bankruptcy Code or similar avoidance or fraudulent transfer actions under applicable non-bankruptcy law, including but not limited to Avoidance Actions arising out of or related to the payment of dividends or other equity distributions by the Debtors.

11. *"Ballot"* means each of the ballots distributed to each holder of an Impaired Claim that is entitled to vote to accept or reject the Plan and on which such holder is to indicate, among other things, acceptance or rejection of the Plan.

12. *"Bankruptcy Administrator"* means the Bankruptcy Administrator for the Western District of North Carolina.

13. *"Bankruptcy Code"* means Title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as in effect on the Petition Date, together with all amendments and modifications thereto that are subsequently made applicable to the Chapter 11 Cases.

14. *"Bankruptcy Court"* means the United States Bankruptcy Court for the Western District of North Carolina or such other court having jurisdiction over the Chapter 11 Cases.

15. *"Bankruptcy Rules"* means: (i) the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended and promulgated under section 2075 of title 28 of the United States Code; (ii) the applicable Local Rules of Bankruptcy Practice and Procedure for the Bankruptcy Court; and (iii) any general or chamber rules, or standing orders governing practice and procedure issued by the Bankruptcy Court, each as in effect on the Petition Date, and each of the foregoing together with all amendments and modifications thereto that are subsequently made and as applicable to the Chapter 11 Cases or proceedings therein, as the case may be.

16. *"Bidding Procedures"* means the bidding procedures approved by the Bidding Procedures Order.

17. *"Bidding Procedures Motion"* means the motion (together with all exhibits thereto), filed by the Debtors with the Bankruptcy Court on the Petition Date [Docket No. 20], seeking entry of an order: (i) approving the Bidding Procedures in connection with the Auction; and (ii) authorizing and scheduling a date and time for an Auction pursuant to such procedures.

18. *"Bidding Procedures Order"* means the order of the Bankruptcy Court approving the Bidding Procedures Motion.

19. *"Business Day"* means any day, other than a Saturday, Sunday, or a legal holiday, as defined in Bankruptcy Rule 9006(a).

20. *"Cash"* means the legal tender of the United States of America or the equivalent thereof, including bank deposits and checks.

21. *"Causes of Action"* means any and all claims, actions, causes of action, choses in action, suits, debts, damages, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, judgments, remedies, rights of set-off, third-party claims, subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and crossclaims of any of the Debtors and/or the Estates, whether known or unknown, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, that are or may be pending on the Effective Date or commenced by the Reorganized Company after the Effective Date against any Entity, based in law or equity, including under the Bankruptcy Code, whether direct, indirect, derivative, or otherwise and whether asserted or unasserted as of the date of entry of the Confirmation Order.

22. *"Certificate"* means any instrument evidencing a Claim or an Interest.

23. *"Chapter 11 Cases"* means the administratively consolidated chapter 11 cases pending for the Debtors in the Bankruptcy Court.

24. *"Claim"* has the meaning set forth in section 101(5) of the Bankruptcy Code.

25. *"Claims and Solicitation Agent"* means Rust Consulting/Omni Bankruptcy, or such other the claims and solicitation agent the Debtors may retain in the Chapter 11 Cases pursuant to an order of the Bankruptcy Court.

26. *"Claims Register"* means the official register of Claims against or Interests in the Debtors maintained by the Claims and Solicitation Agent.

27. *"Class"* means a category of holders of Claims or Interests under section 1122(a) of the Bankruptcy Code.

28. *"Committee"* means the Official Committee of Unsecured Creditors appointed in these Chapter 11 Cases.

29. *"Confirmation"* means the entry of the Confirmation Order on the docket of the Chapter 11 Cases.

30. *"Confirmation Date"* means the date on which the Bankruptcy Court enters the Confirmation Order on the docket of the Chapter 11 Cases within the meaning of Bankruptcy Rules 5003 and 9021.

31. *"Confirmation Hearing"* means the hearing(s) before the Bankruptcy Court under section 1128 of the Bankruptcy Code at which the Debtors seek entry of the Confirmation Order.

32. *"Confirmation Order"* means the order of the Bankruptcy Court approving the Plan and the transactions set forth therein including, without limitation, on a final basis and confirming the Plan pursuant to section 1129 of Bankruptcy Code, which order (and any exhibits, appendices and related documents) shall be in form and substance reasonably acceptable to the Debtors, the Committee, the Noteholder Agent and the Winning Bidder.

33. *"Consummation"* means the occurrence of the Effective Date.

34. *"Creditor"* has the meaning set forth in section 101(10) of the Bankruptcy Code.

35. *"Cure Amounts"* shall mean all pre- and postpetition amounts necessary to be paid pursuant to section 365(b)(1)(A) or (B) of the Bankruptcy Code in order to effectuate the assumption of Executory Contracts and Unexpired Leases pursuant to the Confirmation Order.

36. *"Debtors"* means, collectively, each of the following: Portrait Innovations, Inc. and Portrait Innovations Holdings Company.

37. *"DIP Agent"* means CapitalSouth Partners SBIC Fund III, L.P.

38. *"DIP Budget"* means the budget, in form and substance satisfactory to the DIP Agent approved by the Interim DIP Order or the Final DIP Order, as the case may be.

39. *"DIP Term Sheet"* means the *General Term Sheet for Post Petition Debtor-in-Possession Financing* relating to the DIP Facility, attached to the Interim DIP Order.

40. *"DIP Facility"* means that superpriority secured post-petition credit facility as described in the DIP Term Sheet and approved by the Interim DIP Order and Final DIP Order, respectively.

41. *"DIP Facility Claims"* means any and all of the Claims, held by the DIP Agent and the DIP Lenders, against the Debtors arising under or in connection with the DIP Facility.

42. *"DIP Lenders"* means CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership, CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership, and CapitalSouth Partners Florida Sidecar Fund II, L.P., a Delaware limited partnership, each in their capacities as such.

43. *"Disbursing Agent"* means The Finley Group or such other party selected by the Debtors and the Noteholder Agent and set forth in the Plan Supplement.

44. *"Disclosure Statement"* means the disclosure statement for the Plan, as may be amended, supplemented or modified from time to time with the consent of the Noteholder Agent and Winning Bidder, including all exhibits and schedules thereto as approved by the Bankruptcy Court pursuant to section 1125 of the Bankruptcy Code.

45. *"Disclosure Statement Order"* means the order of the Bankruptcy Court approving the Disclosure Statement and the Solicitation in form and substance acceptable to the Noteholder Agent and Winning Bidder.

46. *"Disputed"* means as to a Claim or Interest, a Claim or Interest, or any portion thereof, that (a) is not Allowed; (b) is not yet allowed or disallowed under the Plan, the Bankruptcy Code, or a Final Order; (c) is the subject of an objection or request for estimation filed in the Bankruptcy Court and which objection or request for estimation has not been withdrawn or overruled by a Final Order of the Bankruptcy Court; or (d) is otherwise disputed by the Debtors (with the consent of the Noteholder Agent and Winning Bidder or the Committee, as applicable), or by the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, after the Effective Date, in accordance with applicable law, including by the listing of such Claim or Interest on the Schedules as unliquidated, disputed, or contingent, which dispute has not been withdrawn, resolved or overruled by Final Order.

47. *"Distribution"* means the distributions made in accordance with this Plan.

48. *"Effective Date"* means the date that is one (1) Business Day after which all conditions precedent to the occurrence of the Effective Date set forth in Section 10.2 herein have been satisfied or waived in accordance with Section 10.3 herein.

49. *"Entity"* means a natural person, corporation, limited liability company, association, partnership (whether general or limited), joint venture, proprietorship, estate, trust, Governmental Authority or any other individual or entity, whether acting in an individual, fiduciary, representative or other capacity, including the Bankruptcy Administrator, within the meaning of section 101(15) of the Bankruptcy Code.

50. *"Equity Security"* has the meaning set forth in section 101(16) of the Bankruptcy Code.

51. *"Estate"* means the bankruptcy estate of any Debtor created under sections 301 and 541 of the Bankruptcy Code upon the commencement of the Chapter 11 Cases.

52. *"Exculpated Claim"* means a Claim arising out of or related to any act or omission in connection with or relating to (a) the in-court or out-of-court efforts to implement the Restructuring Transaction or the Support Agreement; (b) the formulation, preparation, solicitation, dissemination, negotiation, or filing of the Disclosure Statement or Plan or any contract, instrument, release, or other agreement or document created or entered into in connection therewith including, but not limited to, the Support Agreement, the Disclosure Statement, or the Plan; (c) the filing and prosecution of the Chapter 11 Cases; (d) the pursuit of Confirmation; (e) the pursuit of Consummation; (f) the administration and implementation of the Plan; and/or (g) the distribution of property under the Plan.

53. *"Exculpated Party"* means, collectively: (a) the Debtors; (b) the Noteholder Agent; (c) the Noteholders; (d) the DIP Agent; (e) the DIP Lenders; (f) the Disbursing Agent; (g) the Committee; (h) the Winning Bidder; and (i) each of their respective affiliates, subsidiaries and shareholders, and each of their respective current and former members, managers, professionals, attorneys and financial advisors, agents, directors and officers, and other persons and entities.

54. *"Executory Contract"* means a contract to which one or more of the Debtors are party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.

55. *"Existing Governance Documents"* means the corporate governance documents related to each of the Debtors, including, but not limited to, charters, bylaws, operating agreements, or other organizational documents.

56. *"Exit Financing"* means financing, to be provided by the Winning Bidder, in an aggregate principal amount of $5,000,000, the proceeds of which shall be used to (1) repay all amounts outstanding under the DIP Facility, (2) fund the Administrative Claims Reserve and the Professional Fee Reserve; (3) fund the GUC Fund; and (4) fund working capital needs for the Reorganized Debtor.

57. *"Final Decree"* means the decree issued pursuant to Bankruptcy Rule 3022, closing the Chapter 11 Cases.

58. *"Final DIP Order"* means the order of the Bankruptcy Court approving the DIP Facility on a final basis.

59. *"Final Order"* means an order or judgment of the Bankruptcy Court (or any other court of competent jurisdiction) entered by the Clerk of the Bankruptcy Court (or such other court) on the docket in the Chapter 11 Cases (or the docket of such other court), which has not been modified, amended, reversed, vacated or stayed and as to which: (a) the time to appeal, petition for *certiorari,* or move for a new trial, stay, reargument, or rehearing has expired and as to which no appeal, petition for *certiorari,* or motion for new trial, stay, reargument, or rehearing

shall then be pending; or (b) if an appeal, writ of *certiorari,* new trial, stay, reargument, or rehearing thereof has been sought, such order or judgment of the Bankruptcy Court (or other court of competent jurisdiction) shall have been affirmed by the highest court to which such order was appealed, or *certiorari* shall have been denied, or a new trial, stay, reargument, or rehearing shall have been denied or resulted in no modification of such order, and the time to take any further appeal, petition for *certiorari,* or move for a new trial, stay, reargument, or rehearing shall have expired, as a result of which such order shall have become final in accordance with Rule 8002 of the Bankruptcy Rules; provided, that the possibility that a motion under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order, shall not cause an order not to be a Final Order.

60. *"General Unsecured Claim"* means a Claim that (i) is neither Secured nor entitled to priority under the Bankruptcy Code or a Final Order and (ii) is not a DIP Facility Claim, an Administrative Claim, a Priority Tax Claim, an Other Secured Claim, an Other Priority Claim, a Subordinated Claim, or a Noteholder Claim.

61. *"General Unsecured Claim Ombudsman"* means a person appointed by the members of the Committee to oversee the resolution of General Unsecured Claims after the Effective Date as set forth herein.

62. *"GUC Fund"* means that reserve of Cash in the amount of $925,000 less any amounts funded under the DIP Facility prior to the Effective Date in connection with Allowed Professional Fee Claims of Professionals engaged by the Committee, to be funded on the Effective Date into an account maintained by the Disbursing Agent.

63. *"Governmental Bar Date"* means the date established pursuant to Bankruptcy Rule 3002(c)(1).

64. *"Governmental Unit"* has the meaning set forth in section 101(27) of the Bankruptcy Code.

65. *"Holdings Interests"* means an Interest in Portrait Innovations Holding Company in existence prior to the Effective Date. For purposes of clarity, the term Holdings Interests does not include New Common Stock.

66. *"Impaired"* means, with respect to any Class of Claims or Interests, a Claim or an Interest that is impaired within the meaning of section 1124 of the Bankruptcy Code.

67. *"Insider"* has the meaning set forth in section 101(31) of the Bankruptcy Code.

68. *"Intercompany Claim"* means a Claim by a Debtor against another Debtor that is reflected in the Debtors' books and records.

69. *"Intercompany Interest"* means an Interest held by a Debtor.

70. *"Interest"* means any Equity Security in a Debtor, including all issued, unissued, authorized, or outstanding shares of stock and other ownership interests in any Debtor, together

with any warrants, options, or contract rights to purchase or acquire such Equity Securities, and all rights arising with respect thereto.

71. *"Interim DIP Order"* means the order of the Bankruptcy Court approving the DIP Facility on an interim basis.

72. *"Lien"* has the meaning set forth in section 101(37) of the Bankruptcy Code.

73. *"New Governance Documents"* means the corporate governance documents related to the Reorganized Company, including, but not limited to, charters, bylaws, operating agreements, or other organizational documents, which shall be included with the Plan Supplement and shall be in form and substance acceptable to the Noteholder Agent and Winning Bidder.

74. *"New Notes"* means secured promissory notes to be issued by the Reorganized Company in the original principal amount of $12,000,000 and containing the following terms (i) a five-year term and (ii) monthly cash interest payable at a per annum rate of twelve percent (12%). Forms of and documentation for the New Notes shall be included in the Plan Supplement and shall be in form and substance acceptable to the Noteholder Agent and Winning Bidder.

75. *"New Shares"* means the Equity Securities in the Reorganized Company, which shall consist of (a) preferred equity interests in the Reorganized Company with a notional amount of $2,750,000 and an annual cash dividend of six percent (6%) and (b) 100% of the common equity interests of the Reorganized Company. Forms of and the documentation for the New Shares shall be included in the Plan Supplement and shall be in form and substance acceptable to the Noteholder Agent and Winning Bidder.

76. *"Notes"* means those certain Secured Subordinated Promissory Notes issued by the Debtors in an aggregate principal amount of $15,000,000, pursuant the Note Purchase Agreement.

77. "*Note Purchase Agreement*" means the certain Note Purchase Agreement by and among the Debtors and the Noteholders, dated as of February 26, 2015, as amended, modified, or otherwise supplemental from time to time.

78. "*Noteholder Agent*" means CapitalSouth Partners SBIC Fund III, L.P.

79. *"Noteholder Claims"* means all claims for unpaid principal, interest, fees, costs and any other amounts arising under or in connections with the Note Purchase Agreement.

80. *"Noteholders"* means CapitalSouth Partners Fund II Limited Partnership, a North Carolina limited partnership, CapitalSouth Partners SBIC Fund III, L.P., a Delaware limited partnership, and CapitalSouth Partners Florida Sidecar Fund II, L.P., a Delaware limited partnership.

81. *"Other Priority Claim"* means a Claim other than an Administrative Claim or a Priority Tax Claim entitled to priority in right of payment under section 507(a) of the Bankruptcy Code.

82. *"Other Secured Claim"* means a Secured Claim other than the DIP Facility Claims or Noteholder Claims.

83. *"Person"* has the meaning set forth in section 101(41) of the Bankruptcy Code.

84. *"Petition Date"* means September 1, 2017.

85. *"Plan"* means this plan of reorganization together with the Plan Supplement, (as the same may be altered, amended, modified or supplemented from time to time with the consent of the Noteholder Agent and Winning Bidder), which Plan may be modified to reflect the terms and conditions of the Winning Bid, and which shall be satisfactory to the Debtors, the Committee, the Noteholder Agent, and the Winning Bidder.

86. *"Plan Supplement"* means that compilation of documents and forms of documents, agreements, schedules, and exhibits to the Plan to be filed no later than November 20, 2017.

87. *"Priority Tax Claim"* means any Claim of a Governmental Unit of the kind specified in section 507(a)(8) of the Bankruptcy Code.

88. *"Priority Tax Claim Estimate"* means the Debtors' best estimate, as of the Effective Date, of all unpaid claims that will be Allowed Priority Tax Claims.

89. *"Pro Rata"* means the proportion that an Allowed Claim in a particular Class bears to the aggregate amount of all Allowed Claims in that Class.

90. *"Professional"* means a Person or Entity employed by the Debtors or the Committee in the Chapter 11 Cases pursuant to sections 327, 328, 363, or 1103 of the Bankruptcy Code and whose compensation for servicers rendered before or on the Effective Date shall be determined pursuant to sections 327, 328, 330, 331, or 503(b) of the Bankruptcy Code.

91. *"Professional Fee Claim"* means a Claim by a Professional seeking an award by the Bankruptcy Court of compensation and reimbursement of expenses incurred through and including the Effective Date under sections 327, 328, 330, 331, or 503(b) of the Bankruptcy Code.

92. *"Professional Fee Estimate"* means the estimated aggregate amount of all reasonable fees and expenses due to Professional Fee Claims through the Effective Date, which have not been paid or otherwise funded (including with funds deposited in escrow for payment of Professional Fee Claims).

93. *"Professional Fee Reserve"* means the reserve of cash funded on the Effective Date (as agreed to by the Noteholder Agent and Winning Bidder) to an account maintained by the Disbursing Agent in an amount sufficient to fund all Professional Fee Claims of Professionals (other than Professional Fee Claims of the Professionals employed by the Committee, which shall be paid out of the GUC Fund to the extent not previously funded out of the DIP Facility prior to the Effective Date), including but not limited to an amount sufficient to pay (i) all unpaid holdback amounts and other expenses billed by such Professionals prior to the

Effective Date; and (ii) all outstanding fee applications of such Professionals not ruled upon by the Bankruptcy Court as of the Effective Date.

94. *"Proof of Claim"* means a written proof of Claim filed against any of the Debtors in the Chapter 11 Cases.

95. *"Released Parties"* means, collectively, each of the following in its/their capacity as such: (a) each of the Debtors' current and former officers and directors; (b) the DIP Agent; (c) the DIP Lenders; (d) the Noteholders; (e) the Noteholder Agent; (f) the Winning Bidder; and (g) the Committee; and in each case, the term "Released Parties" shall include the respective Related Persons of each of the foregoing Entities and the Debtors.

96. *"Related Persons"* means, with respect to any Person, such Person's predecessors, successors, assigns and present and former Affiliates (whether by operation of law or otherwise) and subsidiaries, and each of the respective current and former officers, directors, principals, employees, shareholders, members, managers, management companies, advisory board members, partners, limited partners, general partners, agents, financial advisors, attorneys, accountants, investment bankers, consultants, representatives, and other professionals and any Person claiming by or through any of them, including heirs, executors, estates, servants, and nominees.

97. *"Reorganized Company"* means the newly-formed Entity which shall directly or indirectly own the Assets on the Effective Date, as determined by the Debtors and the Winning Bidder.

98. *"Restructuring Term Sheet"* means that certain Restructuring Term Sheet attached as Exhibit A to the Support Agreement, as may be amended, supplemented or modified from time to time in accordance with the terms thereof.

99. *"Restructuring Transaction"* shall have the meaning set forth in the recitals to the Support Agreement.

100. *"Schedules"* means the schedules of assets and liabilities, the list of holders of Interests and the statements of financial affairs and such other documents filed by each of the Debtors under section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, and all amendments pursuant to Bankruptcy Rule 1009 and modifications thereto through the Confirmation Date.

101. *"Secured"* means a Claim (a) secured by a Lien on property in which an Estate has an interest, which Lien is valid, perfected, and enforceable pursuant to applicable law or by reason of a Final Order, or that is subject to setoff pursuant to section 553 of the Bankruptcy Code, to the extent of the value of the creditor's interest in the Estate's interest in such property or to the extent of the amount subject to setoff, as applicable, as determined pursuant to section 506(a) of the Bankruptcy Code; or (b) Allowed as such pursuant to the Plan.

102. *"Securities Act"* means, as may be amended from time to time, the Securities Act of 1933, 15 U.S.C. §§ 77a-77aa, and any similar federal, state, or local law. References herein to

specific provisions of the Securities Act include any similar provisions of federal, state, or local law.

103. *"Security"* has the meaning set forth in section 2(a)(1) of the Securities Act.

104. *"Solicitation"* means the solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.

105. *"Subordinated Claims"* means (i) any non-compensatory penalty Claim, (ii) any Claim that is subordinated to General Unsecured Claims pursuant to section 510 of the Bankruptcy Code by a Final Order of the Bankruptcy Court or pursuant to any other applicable law, and (iii) any Claim against the Debtors arising from the rescission of a purchase or sale of a security of the Debtors, for damages arising from the purchase or sale of such security, or for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such Claim.

106. *"Support Agreement"* means that certain Restructuring Support Agreement, dated as of September 1, 2017 by and among the Debtors and the Noteholders, as may be amended, supplemented or modified from time to time in accordance with the terms thereof.

107. *"Transaction Expenses"* shall have the meaning set forth in the Support Agreement.

108. *"Unclaimed Distribution"* means any distribution under the Plan on account of an Allowed Claim to a holder that has not: (a) accepted a particular Distribution or, in the case of Distributions made by check, negotiated such check; (b) given notice to the Disbursing Agent of an intent to accept a particular Distribution; (c) responded to the Disbursing Agent's requests for information necessary to facilitate a particular Distribution; or (d) taken any other action necessary to facilitate such Distribution.

109. *"Unexpired Lease"* means a lease of nonresidential real property to which one or more of the Debtors is a party that is subject to assumption or rejection under section 365 of the Bankruptcy Code.

110. *"Unimpaired"* means a Class of Claims or Interests that is not impaired within the meaning of section 1124 of the Bankruptcy Code.

111. *"Voting Creditors"* shall have the meaning provided in Section 4.5 herein.

112. *"Winning Bid"* shall have the meaning provided in the Bidding Procedures.

113. *"Winning Bidder"* shall have the meaning provided in the Bidding Procedures or, if no Auction is held pursuant to the Bidding Procedures, the Winning Bidder shall refer to the Noteholder Agent.

For purposes of the Plan, the following rules of interpretation apply: (a) in the appropriate context, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the

masculine, feminine and the neuter gender; (b) unless otherwise specified, any reference herein to a contract, lease, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) unless otherwise specified, any reference herein to an existing document, schedule, or exhibit, shall mean such document, schedule, or exhibit, as it may have been or may be amended, modified, or supplemented; (d) unless otherwise specified, all references herein to "Articles" are references to Articles hereof or hereto; (e) the words "herein," "hereof," and "hereto" refer to the Plan in its entirety rather than to any particular portion of the Plan; (f) captions and headings to Articles are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan; (g) unless otherwise specified herein, the rules of construction set forth in section 102 of the Bankruptcy Code shall apply; and (h) any term used in capitalized form herein that is not otherwise defined but that is used in the Bankruptcy Code or the Bankruptcy Rules shall have the meaning assigned to such term in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

1.2 Computation of Time

Bankruptcy Rule 9006(a) applies in computing any period of time prescribed or allowed herein. If the date on which a transaction may occur pursuant to this Plan shall occur on a day that is not a Business Day, then such transaction shall instead occur on the next succeeding Business Day.

1.3 Governing Law

Except to the extent the Bankruptcy Code or Bankruptcy Rules apply, and subject to the provisions of any contract, lease, instrument, release, indenture, or other agreement or document entered into expressly in connection herewith, the rights and obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of North Carolina, without giving effect to conflict-of-laws principles.

1.4 Reference to Monetary Figures

All references in the Plan to monetary figures refer to currency of the United States of America, unless otherwise expressly provided.

1.5 Reference to the Debtors or Reorganized Company

Except as otherwise specifically provided in the Plan to the contrary, references in the Plan to the Debtors or to the Reorganized Company mean the Debtors and the Reorganized Company, as applicable, to the extent the context requires.

ARTICLE II

DIP FACILITY, ADMINISTRATIVE EXPENSE, AND PRIORITY CLAIMS

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

2.1 **DIP Facility Claims**

On the Effective Date, each holder of an allowed claim arising under the DIP Facility shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for such claim, payment in cash in full from proceeds of the Exit Financing.

2.2 **Administrative Claims**

Each holder of an Allowed Administrative Claim, including, without limitation, a claim of the type described in section 503(b)(9) of the Bankruptcy Code, to the extent such claim has not already been paid during the Chapter 11 Case, shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Administrative Claim, payment in full in cash of the due and unpaid portion of its Allowed Administrative Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date (i) such claim becomes Allowed, or (ii) the amount of the Claim is otherwise agreed to by the Debtors (with the consent of the Noteholder Agent and Winning Bidder) or the Disbursing Agent in accordance with the terms of the Plan, as applicable, and the holder of such Allowed Administrative Claim. Payments made by the Disbursing Agent on account of an Allowed Administrative Claim shall be paid solely from the Administrative Claims Reserve.

Any request for allowance and payment of Administrative Claims (other than Professional Claims and Claims for fees and expenses pursuant to 28 U.S.C. § 1930) arising or accruing on or after September 1, 2017 through the Effective Date, must be filed pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order (as applicable) no later than (30) days after the Effective Date or otherwise be forever barred, estopped, and enjoined from asserting such Administrative Claim against the Debtors and Reorganized Company and their respective Estates and property, the Winning Bidder, the Disbursing Agent, or otherwise, and such Administrative Expense Claim shall be deemed discharged as of the Effective Date.

2.3 **Professional Claims**

To the extent not previously paid during the Chapter 11 Cases, all requests for payment of Professional Fee Claims must be filed no later than forty-five (45) days after the Effective Date. The Bankruptcy Court shall determine the Allowed amounts of such Professional Fee Claims after notice and a hearing in accordance with the procedures established by the Bankruptcy Code, the Bankruptcy Rules, or order of the Bankruptcy Court. The Disbursing Agent shall pay Professional Fee Claims in Cash in the amount allowed by the Court within three (3) days of allowance. From and after the Effective Date, any requirement that Professionals comply with sections 327 through 331 and 1103 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date shall terminate, and the Reorganized Company, Debtors, and the Disbursing Agent may employ and pay any Professional in the ordinary course of business without any further notice to, or action, order, or approval of, the

Bankruptcy Court. To the extent not previously funded under the DIP Facility, any Professional Fee Claim shall be paid (i) for Professionals employed by the Committee, from the GUC Fund, and (ii) for all other Professionals, from the Professional Fee Reserve.

2.4 Priority Tax Claims

Each holder of an Allowed Priority Tax Claim, to the extent such claim has not already been paid during the Chapter 11 Cases, shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Priority Tax Claim payment in full in cash of the due and unpaid portion of its Allowed Priority Tax Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes Allowed or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (in either case, with the consent of the Noteholder Agent and Winning Bidder), as applicable, and the holder of such Allowed Priority Tax Claim. Any payments made by the Disbursing Agent on account of an Allowed Priority Tax Claim shall be paid solely from the Administrative Claims Reserve.

ARTICLE III

CLASSIFICATION, TREATMENT, AND VOTING OF CLAIMS AND INTERESTS

3.1 Classification of Claims and Interests

The Plan constitutes a separate Plan with respect to each Debtor. Except for the Claims addressed in Article II, all Claims and Interests are classified in the Classes set forth below in accordance with section 1122 of the Bankruptcy Code. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and is classified in other Classes to the extent that any portion of the Claim or Interest qualifies within the description of such other Classes. A Claim or Interest is also classified in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim or Interest is an Allowed Claim or Interest in that Class and has not been paid, released, or otherwise satisfied prior to the Effective Date.

Below is a chart assigning each Class a number for purposes of identifying each separate Class:

Class	Claim or Interest	Status	Voting Rights
1	Other Secured Claims	Unimpaired	Presumed to Accept
2	Other Priority Claims	Unimpaired	Presumed to Accept
3	Noteholder Claims	Impaired	Entitled to Vote
4	General Unsecured Claims	Impaired	Entitled to Vote
5	Intercompany Claims	Impaired	Presumed to Reject
6	Equity Interests	Impaired	Presumed to Reject
7	Subordinated Claims	Impaired	Presumed to Reject

Except to the extent that a holder of an Allowed Claim or Interest, as applicable, agrees to a less favorable treatment, such holder shall receive under the Plan the treatment described below in full and final satisfaction, settlement, release and discharge of and in exchange for such holder's Allowed Claim against or Interest in each Debtor, as applicable. Unless otherwise indicated, the holder of an Allowed Claim or Interest, as applicable, shall receive such treatment on the Effective Date, or as soon as practicable thereafter.

(a) Class 1-Other Secured Claims

(1) *Classification:* Class 1 consists of any Other Secured Claims against any Debtor.

(2) *Treatment:* Each holder of an Allowed Other Secured Claim, to the extent such claim has not already been paid during the Chapter 11 Cases, shall receive, in full satisfaction, settlement, discharge and release of, and in exchange for, such Allowed Other Secured Claim (i) payment in full in cash of the due and unpaid portion of its Allowed Other Secured Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes Allowed or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder, as applicable, and the holder of such Allowed Other Secured Claim, (ii) a return of the holder's collateral securing the Allowed Other Secured Claim, (iii) such treatment required under section 1124(2) of the Bankruptcy Code for such Allowed Other Secured Claim to be rendered unimpaired or (iv) such other treatment as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), as applicable, and the holder of such Allowed Other Secured Claim. Any payments made by the Disbursing Agent on account of an Allowed Other Secured Claim shall be paid solely from the Administrative Claims Reserve.

(3) *Voting:* Class 1 is Unimpaired. Holders of Allowed Other Secured Claims are conclusively presumed to have accepted the Plan under section 1126(f) of the Bankruptcy Code. Holders of Allowed Other Secured Claims are not entitled to vote to accept or reject the Plan.

(b) Class 2-Other Priority Claims

(1) *Classification:* Class 2 consists of any Other Priority Claims against any Debtor.

(2) *Treatment:* Each holder of an Allowed Other Priority Claim, to the extent such claim has not already been paid during the Chapter 11 Cases, shall receive, as agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), as applicable, in full satisfaction, settlement, discharge

and release of, and in exchange for, such claim, payment in full in cash of the due and unpaid portion of its Allowed Other Priority Claim on the later of (x) the Effective Date (or as soon thereafter as reasonably practicable) or (y) the date such claim becomes Allowed or agreed to by the Debtors or the Disbursing Agent in accordance with the terms of the Plan (with the consent of the Noteholder Agent and Winning Bidder), as applicable, and the holder of such Allowed Other Priority Claim. Any payments made by the Disbursing Agent on account of Allowed Other Priority Claims shall be paid solely from the Administrative Claims Reserve.

(3) *Voting:* Class 2 is Unimpaired. Holders of Allowed Other Priority Claims are conclusively presumed to have accepted the Plan under section 1126(f) of the Bankruptcy Code. Holders of Allowed Other Priority Claims are not entitled to vote to accept or reject the Plan.

(c) Class 3-Noteholder Claims

(1) *Classification:* Class 3 consists of any Noteholder Claims.

(2) *Allowance:* On the Effective Date, Noteholder Claims shall be deemed Allowed Claims in the aggregate amount of $15,000,000.00 plus all accrued but unpaid interest, fees, costs, charges, or other amounts arising under the Notes, including post-petition interest, fees, costs, and charges, amounts to the extent allowable under section 506 of the Bankruptcy Code.

(3) *Treatment:* With respect to such holder's Allowed Noteholder Claim, each holder of an Allowed Noteholder Claim shall receive, on the Effective Date, in full and final satisfaction of such Claim, (A) if the Noteholders are the Winning Bidder, its pro rata share of the New Notes and New Shares, or (B) if the Noteholders are not the Winning Bidder, payment in cash in full of such holders' Allowed Noteholders Claim.

(4) *Voting:* Class 3 is Impaired. Holders of Allowed Noteholder Claims are entitled to vote to accept or reject the Plan.

(d) Class 4-General Unsecured Claims

(1) *Classification:* Class 4 consists of any General Unsecured Claims against any Debtor.

(2) *Treatment:* Each holder of an Allowed General Unsecured Claim shall receive, on the Effective Date (or as soon thereafter as reasonably practicable), in full satisfaction, settlement, discharge and release of, and in exchange for such Claim, such holder's *pro rata* share of the Cash available for distribution from the GUC Fund.

(3) *Voting:* Class 4 is Impaired. Holders of Allowed General Unsecured Claims are entitled to vote to accept or reject the Plan.

(e) Class 5- Intercompany Claims

(1) *Classification:* Class 5 consists of any Intercompany Claims.

(2) *Treatment:* Holders of Intercompany Claims shall not receive a Distribution on account of such Claim, and such Claims shall be extinguished on the Effective Date.

(3) *Voting:* Class 5 is Impaired. Holders of Intercompany Claims are conclusively presumed to have rejected the Plan. Holders of Intercompany Claims are not entitled to vote to accept or reject the Plan.

(f) Class 6-Equity Interests

(1) *Classification:* Class 6 consists of any Equity Interests.

(2) *Treatment:* Holders of Equity Interests shall not receive a Distribution on account of such Interest, and such Interests shall be extinguished on the Effective Date.

(3) *Voting:* Class 6 is Impaired. Holders of Equity Interests are conclusively presumed to have rejected the Plan. Holders of Equity Interests are not entitled to vote to accept or reject the Plan.

(g) **Class 7-Subordinated Claims**

(1) *Classification:* Class 7 consists of any Subordinated Claims.

(2) *Treatment:* Holders of Subordinated Claims shall not receive a Distribution on account of such Claims, and such Claims shall be extinguished on the Effective Date.

(3) *Voting:* Class 7 is Impaired. Holders of Subordinated Claims are conclusively presumed to have rejected the Plan. Holders of Subordinated Claims are not entitled to vote to accept or reject the Plan.

3.2 **Special Provision Governing Unimpaired Claims**

Except as otherwise provided in the Plan, nothing under the Plan shall affect the Debtors' or the Reorganized Company's rights regarding any Unimpaired Claim, including all rights regarding legal and equitable defenses to or setoffs or recoupments against any such Unimpaired Claim.

ARTICLE IV

ACCEPTANCE OR REJECTION OF PLAN

4.1 **Impaired Classes of Claims and Interests Entitled to Vote**

Subject to Section 4.3 and 4.4 of the Plan, Claim and Interest holders in each Impaired Class of Claims or Interests are entitled to vote as a class to accept or reject the Plan.

4.2 **Acceptance by an Impaired Class**

In accordance with section 1126(c) of the Bankruptcy Code and except as provided in section 1126(e) of the Bankruptcy Code, an Impaired Class of Claims shall have accepted the Plan if the Plan is accepted by the holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims of such Class that have timely and properly voted to accept or reject the Plan.

4.3 **Presumed Acceptances by Unimpaired Classes**

Classes 1 and 2 are Unimpaired by the Plan. Under section 1126(f) of the Bankruptcy Code, such Claim holders are conclusively presumed to accept the Plan, and the votes of such Claim holders will not be solicited.

4.4 **Classes Presumed to Reject Plan**

Holders of Claims and Interests in Classes 5, 6 and 7 are not entitled to receive or retain any property under the Plan. Under section 1126(g) of the Bankruptcy Code, Classes 5, 6 and 7 are presumed to reject the Plan, and Classes 5, 6 and 7 will not be solicited.

4.5 **Summary of Classes Voting on the Plan**

As a result of the provisions of Sections 4.3 and 4.4 of this Plan, the votes of holders of Claims in Classes 3 and 4 are entitled to vote on the Plan (collectively the "*Voting Creditors*") and will be solicited with respect to this Plan.

4.6 **Confirmation Pursuant to Section 1129(b) of the Bankruptcy Code**

To the extent that any Impaired Class rejects the Plan or is presumed to have rejected the Plan, the Debtors will request confirmation of the Plan under section 1129(b) of the Bankruptcy Code.

ARTICLE V

PROVISIONS FOR IMPLEMENTATION OF THE PLAN

5.1 **Consummation of Transactions**

On or prior to the Effective Date, the Debtors or the Reorganized Company, as the case may be, the Noteholder Agent, the Winning Bidder, and any other party to the Restructuring Transaction shall take all actions that are necessary or appropriate to effectuate the Restructuring Transaction, including, but not limited to:

(a) the Debtors shall transfer the Assets to the Reorganized Company;

(b) the Reorganized Company shall issue the New Shares to the Winning Bidder;

(c) all New Governance Documents shall be executed;

(d) the Reorganized Company shall issue the New Notes to the Winning Bidder and all documentation in connection with the New Notes shall be executed and delivered;

(e) the Reorganized Company shall execute all necessary documentation in connection with the Exit Financing;

(f) the Disbursing Agent shall have received Cash sufficient to fund the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund;

(g) Allowed DIP Facility Claims shall be paid in full in cash on the Effective Date;

(h) If the Winning Bidder is not the Noteholder Agent, Allowed Noteholder Claims shall be paid in full in cash on the Effective Date; and

(i) If the Winning Bidder is not the Noteholder Agent, the Winning Bidder shall have paid or otherwise provided for sufficient funding to implement the Plan, including sufficient funds to fund the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund, pay the DIP Facility Claims in full, and pay the Allowed Noteholder Claims in full.

5.2 **Offering and Issuance of Securities Pursuant to Section 1145**

The offering, issuance, distribution, and exercise (as applicable) of the New Notes, pursuant to the Plan, shall be exempt from the registration requirements of section 5 of the Securities Act pursuant to section 1145 of the Bankruptcy Code. In addition, under section 1145 of the Bankruptcy Code, the New Notes will be freely transferable under the Securities Act by the recipients thereof, subject to: (1) the provisions of section 1145(b)(1) of the Bankruptcy Code relating to the definition of an underwriter in section 2(a)(11) of the Securities Act, and compliance with any applicable state or foreign securities laws, if any, and the rules and regulations of the United States Securities and Exchange Commission, if any, applicable at the time of any future transfer of New Notes; (2) the restrictions, if any, on the transferability of New Notes; and (3) any other applicable regulatory approval. All New Notes issued and distributed pursuant to the Plan shall be duly authorized, validly issued, fully paid and non-assessable.

On and after the Effective Date, subject to the terms of the New Governance Documents, the Reorganized Company will be a "private" company that is not required to register any Securities pursuant to the Securities Exchange Act of 1934.

5.3 **Subordination**

The allowance, classification, and treatment of all Claims and Interests under the Plan shall conform to and with the respective contractual, legal, and equitable subordination rights of such Claims and Interests, and the Plan shall recognize and implement any such rights. Pursuant to section 510 of the Bankruptcy Code, except where otherwise provided herein, the Reorganized Company or the General Unsecured Claims Ombudsman, as applicable, reserve the right, after notice and a hearing, to reclassify any Allowed Claim or Interest (other than an Allowed Noteholder Claim, which shall not be subject to reclassification in any event) in accordance with any contractual, legal or equitable subordination relating thereto.

5.4 **Vesting of Assets in the Reorganized Company**

Except as otherwise provided herein or in any agreement, instrument or other document incorporated in the Plan, on the Effective Date, all property and assets (excluding the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund) of each Estate, including all Causes of Action, and any other assets or property acquired by any of the Debtors during the Chapter 11 Cases or under or in connection with the Plan shall vest in the Reorganized Company, free and clear of all Liens, Claims, charges, or other encumbrances. On and after the Effective Date, except as otherwise provided in the Plan, the Reorganized Company may operate its business and use, acquire, or dispose of property, and compromise or settle any Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

5.5 **Disbursing Agent; Responsibilities; Compensation**

On the Effective Date, the Winning Bidder shall transfer to the Disbursing Agent cash sufficient to fund the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund. The Disbursing Agent shall be responsible for (i) receiving the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund; (ii) establishing separate bank accounts for the maintenance of the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund; (iii) reviewing, resolving, compromising, and objecting to Claims (other than General Unsecured Claims) to the extent that the Disbursing Agent deems necessary (in its sole and absolute discretion); (iv) calculating and effectuating all distributions to be made under this Plan from the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund (at the direction of the General Unsecured Claims Ombudsman); (v) paying any fees pursuant to 28 U.S.C. § 1930 incurred after the Effective Date until the closing of the Chapter 11 Cases; (vi) completing and filing any post-confirmation reports; and (vii) such other responsibilities as may be vested in the Disbursing Agent under this Plan, the Confirmation Order, other Final Orders, or as otherwise may be necessary and proper to carry out the provisions of this Plan.

5.6 **General Unsecured Claims Ombudsman**

From and after the Effective Date, the General Unsecured Claims Ombudsman shall have the authority, but not the obligation, to (1) file, withdraw or litigate to judgment objections to and requests for estimation of General Unsecured Claims, and (2) settle or compromise any General Unsecured Claim that is a Disputed Claim. The General Unsecured Claims Ombudsman shall be entitled to retain professional advisors to assist it in the performance of its duties under the Plan. Any costs and expenses of the General Unsecured Claims Ombudsman and its professionals shall be paid from the GUC Fund.

5.7 **Cancellation of Notes, Instruments, Certificates, and Other Documents**

On the Effective Date, except to the extent otherwise provided herein (including as otherwise provided with respect to any contracts evidencing the Restructuring Transaction, including the transactions described in Section 5.1 herein), all notes, instruments, Certificates and other documents evidencing Claims or Interests shall be cancelled and the obligations of the Debtors or Reorganized Company thereunder or in any way related thereto shall be discharged regardless of whether the holder surrenders such note, instrument, Certificates or other document; provided, however, that notwithstanding Confirmation or the occurrence of the Effective Date, any agreement that governs the rights of the holder of a Claim or Interest shall continue in effect solely for purposes of (a) allowing holders of Claims or Interests to receive Distributions under the Plan and (b) allowing and preserving the rights of the Disbursing Agent to make Distributions on account of Claims and Interests.

5.8 **Corporate Action; New Governance Documents; New Board**

Each of the matters provided for by the Plan involving the consummation of the Restructuring Transaction, and establishment of the capital and corporate structure, amending or modifying the Existing Governance Documents of any of the Debtors, or other corporate or related actions to be taken by or required of the Debtors or the Reorganized Company, whether taken prior to or as of the Effective Date, shall be authorized without the need for any further corporate action or without any further action by or approval of any shareholders, directors or managers of the Debtors.

The New Governance Documents shall be consistent with the provisions of the Plan and the Bankruptcy Code, shall include, among other things (and only to the extent required by section 1123(a)(6) of the Bankruptcy Code), provisions prohibiting the issuance of non-voting Equity Securities. After the Effective Date, each Reorganized Company may amend and restate its certificate of incorporation and other constituent documents as permitted by the laws of its respective jurisdiction of formation and its respective charter and bylaws. The Plan Supplement will disclose the Reorganized Company's new board of directors, as selected by the Winning Bidder.

On and after the Effective Date, the Reorganized Company and the officers and members of the board of directors thereof are authorized to and may issue, execute, deliver, file, or record such contracts, Securities, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement, and further evidence

the terms and conditions of the Plan and the Securities issued pursuant to the Plan, without the need for any approvals, authorizations, or consents except for those expressly required under the Plan.

5.9 **Section 1146(a) Exemption**

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property under the Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment. Upon entry of the Confirmation Order, the appropriate state or local governmental officials or agents shall forgo the collection of any such tax, fee, or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax, recordation fee, or governmental assessment.

5.10 **[Reserved]**

5.11 **Preservation of Rights of Action**

Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or by a Final Order, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Company shall retain and may enforce all rights to commence and pursue any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in the Plan Supplement, and the Reorganized Company's rights to commence, prosecute or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Reorganized Company will not pursue any and all available Causes of Action against them. The Debtors and the Reorganized Company expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan. Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, including Avoidance Actions, which shall be waived pursuant to section 9.2 of the Plan, the Reorganized Company expressly reserves all Causes of Action for later adjudication and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

Except as otherwise provided in this Plan, the Reorganized Company reserves and shall retain Causes of Action notwithstanding the rejection of any Executory Contract or Unexpired Lease during the Chapter 11 Cases or pursuant to the Plan. In accordance with sections 1123(b)(3) and 1141(b) of the Bankruptcy Code, any Causes of Action that a Debtor retains against any Entity shall vest in the Reorganized Company. The Reorganized Company shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of

Action, or to decline to do any of the foregoing, without the consent or approval of any third party or any further notice to, or action, order or approval of, the Bankruptcy Court.

5.12 **Dissolution of Committees**

Upon the Effective Date, the Committee shall be dissolved; provided, however, that the Committee shall be deemed to continue in existence subsequent to the Effective Date solely for the limited purpose of undertaking all actions it deems reasonably necessary in connection with the prosecution of the final fee applications of Professionals retained by the Committee.

ARTICLE VI

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1 **Assumption of Executory Contracts and Unexpired Leases**

The Debtors shall file and serve the Assumption Schedule on the non-Debtor counterparties to the Executory Contracts and Unexpired Leases in accordance with deadlines established in the Bidding Procedures Order. The Confirmation Order will constitute an order of the Bankruptcy Court approving the following as of the Effective Date pursuant to sections 365(a) and 1123 of the Bankruptcy Code: (i) the assumption and assignment to the Reorganized Company of the Executory Contracts and Unexpired Leases set forth in the Assumption Notice; and (ii) the rejection of any other Executory Contracts or Unexpired Leases not set forth in the Assumption Schedule.

Except as otherwise provided herein or agreed to by the Debtors with the applicable counterparty, each assumed Executory Contract or Unexpired Lease shall include all modifications, amendments, supplements, restatements or other agreements related thereto, and all rights related thereto, if any, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal and any other interests, unless any of the foregoing agreements has been previously rejected or repudiated or is rejected or repudiated hereunder. Modifications, amendments, supplements and restatements to prepetition Executory Contracts and Unexpired Leases that have been executed by the Debtors during the Chapter 11 Cases shall not be deemed to alter the prepetition nature of the Executory Contract or Unexpired Lease or the validity, priority, or amount of any Claims that may arise in connection therewith.

6.2 **Cure of Defaults and Objections to Assumption**

Any objection to the assumption of an Executory Contract or Unexpired Lease pursuant to the Plan, including any proposed Cure Amount set forth on the Assumption Notice or the adequate assurance information provided by the Winning Bidder must be filed with the Bankruptcy Court by **November 30, 2017 at 5:00 p.m.**, or such other date as may be established by the Bankruptcy Court and noticed to counterparties. Any such objection, if not resolved, will be heard by the Bankruptcy Court at the Confirmation Hearing. Any counterparty to an Executory Contract or Unexpired Lease that fails to timely object to the proposed assumption of any Executory Contract or Unexpired Lease to the Winning Bidder will be deemed to have consented to such assumption and to the Cure Amount set forth on the Assumption Notice. The Debtors, with the consent of the Noteholder Agent and Winning Bidder, and the Reorganized

Company, as applicable, may settle any such objections without any further notice to, or action, order or approval of, the Bankruptcy Court.

Payment of the Cure Amounts shall be made by the Disbursing Agent from the Administrative Claims Reserve. If there is an objection to a Cure Amount, then payment of the undisputed portion of the Cure Amount shall be paid on the Effective Date, and the disputed amounts shall be paid as soon as practicable after entry of a Final Order resolving such dispute or as may be agreed upon by the Debtors (with the consent of the Noteholder Agent and Winning Bidder) or the Reorganized Company, as applicable, and the counterparty to the Executory Contract or Unexpired Lease. To the extent that any objection to a Cure Amount is not resolved to the satisfaction of the Winning Bidder, the Winning Bidder shall have the right, prior to entry of the Confirmation Order or such later date as agreed between the Winning Bidder and the applicable counterparty, to direct the rejection of such Executory Contract or Unexpired Lease.

Assumption of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall result in the full and final release and satisfaction of any Cure Amounts, Claims or defaults, whether monetary or nonmonetary, including defaults of provisions restricting the change in control or ownership interest composition or other bankruptcy-related defaults, arising under any assumed Executory Contract or Unexpired Lease at any time prior to the Effective Date. Any and all Proofs of Claim based upon Executory Contracts or Unexpired Leases that have been assumed in the Chapter 11 Cases, including pursuant to the Confirmation Order, shall be deemed disallowed and expunged as of the Effective Date without the need for any objection thereto or any further notice to, or action, order or approval of, the Bankruptcy Court.

6.3 Pre-existing Payment and Other Obligations

Rejection of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall not constitute a termination of pre-existing obligations owed to the Debtors or the Reorganized Company, as applicable, under such contract or lease. In particular, to the extent permissible under applicable nonbankruptcy law, the Reorganized Company expressly reserves and does not waive any right to receive, or any continuing obligation of a counterparty to provide (a) payment to the contracting Debtors or Reorganized Company, as applicable, of outstanding and future amounts owing thereto under or in connection with rejected Executory Contracts or Unexpired Leases or (b) maintenance of, or to repair or replace, goods previously purchased by the contracting Debtors or the Reorganized Company, as applicable.

6.4 Rejection Damages Claims and Objections to Rejection

Pursuant to section 502(g) of the Bankruptcy Code, counterparties to Executory Contracts or Unexpired Leases that are rejected, if any, shall have the right to assert Claims, if any, on account of the rejection of such contracts and leases. Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of Executory Contracts and Unexpired Leases pursuant to the Plan must be filed with the Claims and Solicitation Agent no later than thirty (30) days after the later of (a) the Effective Date and (b) the date of entry of an order of the Bankruptcy Court authorizing rejection of such executory contract or unexpired lease. Any rejection damages Claim represented by an untimely Proof of Claim shall: (i) be disallowed without the need for any further notice to, or action, order, or

approval of, the Bankruptcy Court; (ii) be forever barred, estopped, and enjoined from assertion; (iii) not be enforceable against the Debtors, the Reorganized Company, the Disbursing Agent or the General Unsecured Claims Ombudsman; and (iv) be deemed fully satisfied, released, and discharged notwithstanding anything in a Proof of Claim to the contrary. All Allowed Claims arising from the rejection of Executory Contracts and Unexpired Leases shall be classified as Class 4 - General Unsecured Claims against the applicable Debtor counterparty thereto.

6.5 Contracts and Leases Entered Into After the Petition Date

Contracts and leases entered into after the Petition Date by any Debtor and any Executory Contracts and Unexpired Leases assumed by any Debtor may be performed by the Reorganized Company in the ordinary course of business.

6.6 Reservation of Rights

Neither the exclusion nor inclusion of any contract or lease in the Assumption Notice, nor anything contained in the Plan, shall constitute an admission by the Debtors that any such contract or lease is in fact an Executory Contract or Unexpired Lease or that the Reorganized Company has any liability thereunder.

ARTICLE VII

PROVISIONS GOVERNING DISTRIBUTIONS

7.1 Claims Reserves

The Disbursing Agent shall establish and maintain the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund. After all Professional Fee Claims (other than Professional Fee Claims of the Committee's Professionals), Allowed Administrative Claims, Allowed Priority Tax Claims, Allowed Other Secured Claims, and Allowed Other Priority Claims are paid (or, in the case of Allowed Other Secured Claims, satisfied) by the Disbursing Agent, any remaining cash in the Professional Fee Reserve, the Administrative Claims Reserve or otherwise held by the Disbursing Agent for the benefit of any such Professionals, as the case may be, shall be returned to the Reorganized Company.

7.2 Special Rules for Distributions to Holders of Disputed Claims

Notwithstanding any provision otherwise in the Plan and except as otherwise agreed by the relevant parties, (a) no partial payments and no partial Distributions shall be made with respect to a Disputed Claim until all such disputes in connection with such Disputed Claim have been resolved by settlement or Final Order, and (b) any Entity that holds both an Allowed Claim and a Disputed Claim shall not receive any Distribution on the Allowed Claim unless and until all objections to the Disputed Claim have been resolved by settlement or Final Order or the Claims have been Allowed or expunged. Any dividends or other distributions arising from property distributed to holders of Allowed Claims, as applicable, in a Class and paid to such holders under the Plan shall be paid also, in the applicable amounts, to any holder of a Disputed Claim, as applicable, in such Class that becomes an Allowed Claim after the date or dates that

such dividends or other distributions were earlier paid to holders of Allowed Claims in such Class.

7.3 **Delivery of Distributions**

(a) Accrual of Dividends and Other Rights

For purposes of determining the accrual of dividends or other rights after the Effective Date, the New Notes and New Shares issued under the Plan shall be deemed distributed as of the Effective Date regardless of the date on which they are actually issued, dated, authenticated or distributed.

(b) Compliance Matters

Any federal, state or local withholding taxes or other amounts required to be withheld under applicable law shall be deducted from Distributions hereunder. All entities holding Claims shall be required to provide any information necessary to effect the withholding of such taxes. In addition, all Distributions under the Plan shall be net of the actual and reasonable costs of making such Distributions.

(c) [Reserved]

(d) Fractional, De Minimis, Undeliverable, and Unclaimed Distributions

(1) *No Fractional or De Minimis Distribution.* Notwithstanding anything contained herein to the contrary, payments of fractional dollars will not be made. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, the actual payment made will reflect a rounding down of such fractions. The Disbursing Agent shall not be required to make any payment of less than $20.00 on any Distribution.

(2) *Undeliverable Distributions.* If any Distribution to a holder of an Allowed Claim is returned to a Disbursing Agent as undeliverable, no further Distributions shall be made to such holder unless and until such Disbursing Agent is notified in writing within ninety days (90) of the issuance of the Distribution of such holder's then-current address or other necessary information for delivery, at which time all currently due missed Distributions shall be made to such holder as soon as reasonably practicable. Undeliverable Distributions shall remain in the possession of the Disbursing Agent until such time as a Distribution becomes deliverable, if ever, and shall not be supplemented with any interest, dividends or other accruals of any kind.

(3) *Tax Compliance.* The Disbursing Agent shall comply with all tax withholding and reporting requirements imposed on it by any Governmental Unit, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. The Disbursing Agent shall be authorized to take all actions necessary or appropriate to

comply with such withholding and reporting requirements, including liquidating a portion of the distribution to be made under the Plan to generate sufficient funds to pay applicable withholding taxes, withholding distributions pending receipt of information necessary to facilitate such distributions, including, without limitation, requiring that the holder of an Allowed Claim complete the appropriate IRS Form W-8 or IRS Form W-9, as applicable to each holder or establishing any other mechanisms that the Disbursing Agent believes to be appropriate. The Disbursing Agent shall not be required to make distributions on any Allowed Claim if the holder thereof has not provided all documentation necessary to determine all tax withholding and reporting requirements for such Allowed Claim.

(4) *Expungement of Claims and Reversion.* To the extent that (i) any Distribution under the Plan that is an Unclaimed Distribution for a period of ninety (90) days after Distribution or (ii) the holder of an Allowed Claim fails to provide documentation necessary to determine all tax withholding and reporting requirements for such Allowed Claim within thirty (30) days of a written request for such documentation, the Distribution shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code, the related Claim shall be expunged, and such Unclaimed Distribution and any future Distribution on account of such Claim shall vest in the GUC Fund.

(e) Surrender of Cancelled Instruments or Securities

On the Effective Date or as soon as practicable thereafter, each holder of a Certificate shall surrender such Certificate to the Disbursing Agent. Such Certificate shall be cancelled solely with respect to the Debtors, and such cancellation shall not alter the obligations or rights of any non-Debtor third parties *vis-a-vis* one another with respect to such Certificate. No Distribution of property pursuant to the Plan shall be made to or on behalf of any such holder unless and until such Certificate is received by the Disbursing Agent or the unavailability of such Certificate is reasonably established to the satisfaction of the Disbursing Agent pursuant to the provisions of Section 7.3(f) hereof. Any holder who fails to surrender or cause to be surrendered such Certificate or fails to execute and deliver an affidavit of loss and indemnity acceptable to the Disbursing Agent prior to the first anniversary of the Effective Date shall have its Claim or Interest discharged with no further action, be forever barred from asserting any such Claim or Interest against the Debtors or Reorganized Company or its property, be deemed to have forfeited all rights, and Claims and Interests with respect to such Certificate, and not participate in any Distribution under the Plan; furthermore, all property with respect to such forfeited Distributions, including any dividends or interest attributable thereto, shall revert to the Reorganized Company notwithstanding any federal or state escheat, abandoned or unclaimed property law to the contrary.

Notwithstanding the foregoing, the obligations of the Noteholders under this Section 7.3(e) shall be deemed satisfied by the execution of a statement by the Noteholder Agent regarding the cancellation of the Notes pursuant to the Plan.

(f) Lost, Stolen, Mutilated, or Destroyed Securities

Any holder of Allowed Claims or Interests evidenced by a Certificate that has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such Certificate, deliver to the Disbursing Agent an affidavit of loss acceptable to the Disbursing Agent setting forth the unavailability of the Certificate and such additional indemnity as may be required reasonably by the Disbursing Agent to hold the Disbursing Agent harmless from any damages, liabilities or costs incurred in treating such holder as a holder of an Allowed Claim or Interest. Upon compliance with this procedure by a holder of an Allowed Claim or Interest evidenced by such a lost, stolen, mutilated or destroyed Certificate, such holder shall, for all purposes pursuant to the Plan, be deemed to have surrendered such Certificate.

7.4 **Claims Paid or Payable by Third Parties**

A Claim shall be reduced in full and such Claim shall be disallowed without a Claims objection having to be filed and without any further notice to, or action, order or approval of, the Bankruptcy Court, to the extent that the holder of such Claim receives payment in full on account of such Claim from a party that is not a Debtor or the Reorganized Company. To the extent a holder of a Claim receives a Distribution on account of such Claim and receives payment from a party that is not a Debtor or the Reorganized Company on account of such Claim, such holder shall repay, return or deliver any Distribution held by or transferred to the holder to the Reorganized Company to the extent the holder's total recovery on account of such Claim from the third party and under the Plan exceeds the amount of such Claim as of the date of any such Distribution under the Plan.

ARTICLE VIII

PROCEDURES FOR RESOLVING DISPUTED CLAIMS

8.1 **Disputed Claims Process**

Except as otherwise provided herein, if a party files a Proof of Claim and the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, has not determined in its sole discretion, and without the need for notice to, or action, order or approval of, the Bankruptcy Court, that the Claim subject to such Proof of Claim is Allowed, such Claim shall be deemed Disputed unless and until Allowed, resolved by agreement of the parties, or disallowed by a Final Order.

Except as otherwise provided herein, all Proofs of Claim filed after the Effective Date shall be disallowed and forever barred, estopped, and enjoined from assertion, and shall not be enforceable against the Debtors, the Reorganized Company or the Disbursing Agent, without the need for any objection by the Debtors, Reorganized Company, Disbursing Agent or the General Unsecured Claims Ombudsman, or any further notice to, or action, order or approval of, the Bankruptcy Court. For the avoidance of doubt, on and after the Effective Date, the Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, may negotiate and settle any Claims, including Claims for which a Proof of Claim has been filed, without further notice to or approval of the Bankruptcy Court or any other party.

8.2 **Prosecution of Objections to Claims**

Any objections to Claims shall be served and filed on or before the 105th day after the Effective Date or by such later date as ordered by the Bankruptcy Court upon a motion made prior to the expiration of such period filed by the General Unsecured Claims Ombudsman or the Reorganized Company, as applicable, requesting an extension of the claims objection deadline on proper notice to parties in interest; provided, that such deadline will be automatically extended through the date on which the Bankruptcy Court enters an order on such motion; provided, further, that the General Unsecured Claims Ombudsmen shall use its commercially reasonable efforts to file all such objections to Claims on or before the 90th day after the Effective Date. Notwithstanding anything to the contrary herein, and notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, except insofar as a Claim is Allowed under the Plan on and after the Effective Date, (i) the General Unsecured Claims Ombudsman shall have the authority, but not the obligation, to (1) file, withdraw or litigate to judgment objections to and requests for estimation of General Unsecured Claims, and (2) settle or compromise any General Unsecured Claim that is a Disputed Claim without further order of the Bankruptcy Court, and (ii) the Disbursing Agent shall have the authority, but not the obligation, to: (1) file, withdraw or litigate to judgment objections to and requests for estimation of Claims (other than General Unsecured Claims); (2) settle or compromise any Disputed Claim (other than General Unsecured Claims); and (3) administer and adjust the Claims register to reflect any such settlements or compromises without any further notice to or action, order or approval by the Bankruptcy Court. The Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, shall succeed to any pending objections to Claims filed by the Debtors prior to the Effective Date, and shall have and retain any and all rights and defenses such Debtor had immediately prior to the Effective Date with respect to any Disputed Claim, including the Causes of Action retained under the Plan (but only to the extent such Causes of Action constitute rights or defenses with respect to such Disputed Claim, and for no other purpose). The Reorganized Company shall provide commercially reasonably assistance and cooperation to the Disbursing Agent and the General Unsecured Claims Ombudsman, as applicable, in connection with the Disbursing Agent's and/or the General Unsecured Claim Ombudsman's, as applicable, prosecution of objections to Claims, including, without limitation, access to the Debtors' or the Reorganized Company's (as the case may be) books and records and other information reasonably requested by the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, to enable the Disbursing Agent or the General Unsecured Claims Ombudsman, as applicable, to perform its obligations under the Plan.

8.3 **No Interest**

Except as provided in Section 3.1(c) or as otherwise specifically provided for in the Plan or by order of the Bankruptcy Court, post-petition interest shall not accrue or be paid on Claims, and no holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim or right.

ARTICLE IX

EFFECT OF CONFIRMATION OF THE PLAN

9.1 Discharge of Claims

Except as otherwise provided for herein and effective as of the Effective Date: (a) the rights afforded in the Plan and the treatment of all Claims and Interests shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtors or any of their assets, property or Estates; (b) the Plan shall bind all holders of Claims and Interests, notwithstanding whether any such holders failed to vote to accept or reject the Plan or voted to reject the Plan; (c) all Claims and Interests shall be satisfied, discharged, and released in full, and the Debtors' liability with respect thereto shall be extinguished completely, including any liability of the kind specified under section 502(g) of the Bankruptcy Code; and (d) all Entities shall be precluded from asserting against the Debtors, the Debtors' Estates, the Committee, the Reorganized Company, their successors and assigns and their assets and properties any other Claims or Interests based upon any documents, instruments, or any act or omission, transaction or other activity of any kind or nature that occurred prior to the Effective Date.

9.2 Waiver and Release of Avoidance Actions

Notwithstanding anything contained herein to the contrary, as of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed. the Debtors, the Reorganized Company, the Estates and their respective successors and assigns shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever released, waived and discharged all Avoidance Actions.

9.3 Consensual Third-Party Releases

As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, all Voting Creditors who vote to accept the Plan shall be deemed to have conclusively, absolutely, unconditionally, irrevocably, and forever, released and discharged the Released Parties from any and all Claims, Interests, obligations, rights, liabilities, actions, causes of action, choses in action, suits, debts, damages, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, damages, judgments, remedies, rights of set-off, third-party claims, subrogation claims, contribution claims, reimbursement claims, indemnity claims, counterclaims, and crossclaims (including all claims and actions against any Entities under the Bankruptcy Code) whatsoever, whether for tort, contract, violations of federal or state securities laws, Avoidance Actions, including (solely to the extent permissible under applicable law) any derivative Claims asserted or that could be asserted on behalf of the Debtors, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity, or otherwise, that such Entity would have been legally entitled to assert (whether individually or collectively), based on or in any way

relating to, or in any manner arising from, in whole or in part, the Debtors, the Restructuring Transaction, or the Support Agreement; the formulation, preparation, solicitation, dissemination, negotiation, or filing of the Disclosure Statement or Plan or any contract, instrument, release, or other agreement or document created or entered into in connection with or pursuant to the Support Agreement, the Disclosure Statement, or the Plan; the filing and prosecution of the Chapter 11 Cases, the pursuit of Confirmation, the pursuit of Consummation, the purchase, sale, or rescission of the purchase or sale of any Security of the Debtors or the Reorganized Company, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, prepetition contracts and agreements with one or more Debtors, or any other act or omission, transaction, agreement, event, or other occurrence taking place before the Effective Date; provided, that to the extent that a Claim or Cause of Action is determined by a Final Order to have constituted actual fraud, gross negligence, or willful misconduct, such Claim or Cause of Action shall not be so released. Notwithstanding anything to the contrary in the foregoing, the release set forth above does not release any obligations arising on or after the Effective Date of any party under the Plan, or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed to implement the Plan.

Notwithstanding the foregoing, nothing in this Section 9.3 shall operate to release the rights of the Noteholders and the DIP Lenders under the Support Agreement, DIP Documents, or the Plan.

9.4 **Approval of Compromise**

Entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, pursuant to Bankruptcy Rule 9019, of the release set forth in Sections 9.2 and 9.3, which includes by reference each of the related provisions and definitions contained herein, and further, shall constitute the Bankruptcy Court's finding that such release is: (a) in exchange for the good and valuable consideration; (b) a good faith settlement and compromise of the Claims released by Sections 9.2 and 9.3; (c) in the best interests of the Debtors and all holders of Claims and Interests; (d) fair, equitable, and reasonable; (e) given and made after due notice and opportunity for hearing; and (f) a bar to any Entity granting a release under Sections 9.2 and 9.3 from asserting any Claim or Cause of Action released by Sections 9.2 or 9.3.

9.5 **Exculpation**

Effective as of the Effective Date, no Exculpated Party shall have or incur, and each Exculpated Party is hereby released and exculpated from, any Exculpated Claim or any obligation, Cause of Action, or liability for any Exculpated Claim, except for actual fraud, willful misconduct, or gross negligence, and in all respects, the Exculpated Parties shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. The Exculpated Parties have, and upon Confirmation shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code with regard to the solicitation of acceptances and rejections of the Plan and the making of Distributions pursuant to the Plan and, therefore, are not and shall not be liable at any time for the violation of any applicable, law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such Distributions made pursuant to the Plan.

9.6 **Injunction**

Except as otherwise provided herein or in the Confirmation Order, from and after the Effective Date, all Entities are, to the fullest extent provided under section 524 and other applicable provisions of the Bankruptcy Code, permanently enjoined from taking any of the following actions against, as applicable, the Debtors, the Reorganized Company, the Released Parties, or the Exculpated Parties (collectively, the *"Section 9.5 Parties"):* (a) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any Claims or Interests; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests; (c) creating, perfecting, or enforcing any encumbrance of any kind against the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests; (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from the Section 9.5 Parties or their respective property and assets on account of or in connection with or with respect to any such Claims or Interests unless such holder has filed a motion requesting the right to perform such setoff on or before the Confirmation Date; and (e) commencing or continuing in any manner any action or other proceeding of any kind on account of or in connection with or with respect to any such Claims or Interests released, exculpated or settled pursuant to the Plan.

9.7 **Release of Liens**

Except as otherwise provided herein or in any contract, instrument, release or other agreement or document created pursuant to the Plan, on the Effective Date, all mortgages, deeds of trust, Liens, pledges or other security interests against any property of the Estates shall be fully released and discharged, and all of the right, title and interest of any holder of such mortgages, deeds of trust, Liens, pledges or other security interests shall revert to the Reorganized Company or the Disbursing Agent, as applicable.

ARTICLE X

CONDITIONS PRECEDENT TO THE EFFECTIVE DATE

10.1 **Conditions Precedent to Confirmation**

It shall be a condition to Confirmation that the Confirmation Order shall have been entered by the Bankruptcy Court in form and substance acceptable to the Debtors and the Noteholder Agent and Winning Bidder unless waived pursuant to Section 10.3 hereof:

10.2 **Conditions Precedent to the Effective Date**

It shall be a condition to the Effective Date that the following conditions shall have been satisfied or waived pursuant to Section 10.3 hereof:

(a) the Plan, the Plan Supplement, and all other documents related to the Restructuring Transaction shall each be in form and substance consistent with the Restructuring

Term Sheet and otherwise acceptable in all respects to the Debtors, the Noteholder Agent and Winning Bidder, and shall be in full force and effect;

(b) the Confirmation Order shall have been entered and such order shall be in form and substance consistent with the Restructuring Term Sheet and otherwise acceptable in all respects to the Debtors, the Noteholder Agent and Winning Bidder;

(c) the Confirmation Order shall have become a Final Order;

(d) the Support Agreement (unless terminated in accordance with the bidding procedures) shall be in full force and effect and shall not have been terminated, and all conditions precedent therein shall have been satisfied or waived in accordance with their respective terms;

(e) any unpaid Transaction Expenses shall have been paid in full in cash;

(f) all governmental approvals and consents that are legally required for the consummation of the Plan, as applicable, shall have been obtained, not subject to unfulfilled conditions, and be in full force and effect;

(g) the Assets shall have been transferred to and vested in the Reorganized Company free and clear of all claims and liens, except as specifically provided in the Plan;

(h) the Professional Fee Reserve, the Administrative Claims Reserve, and the GUC Fund shall have been funded in cash in full;

(i) [Reserved];

(j) if the Noteholder Agent is the Winning Bidder, the New Notes (including all documentation related thereto) shall be in form and substance satisfactory to the Noteholders and shall be executed and delivered to the Noteholders;

(k) the Noteholder Claims shall have been allowed in an amount not less than $15,000,000 plus all accrued pre or post-petition interest, fees or charges that may be allowable under section 506 of the Bankruptcy Code;

(l) the New Shares shall have been issued to the Winning Bidder;

(m) the Reorganized Company shall have entered into written employment agreements with certain of the Debtors' "key employees" identified by the Winning Bidder, including without limitation John Grosso, Johnny Grosso, and John Davis, upon terms and conditions acceptable to the Winning Bidder;

(n) the Administrative Claims Estimate shall not exceed $1,500,000;

(o) the Priority Tax Claims Estimate shall not exceed $50,000;

(p) the Professional Fee Claims Estimate shall not exceed $450,000;

(q) if the Winning Bidder is not the Noteholder Agent, Allowed Noteholder Claims shall be paid in full in cash on the Effective Date; and

(r) all amounts outstanding under the DIP Facility shall have been indefeasibly paid in full in cash;

10.3 **Waiver of Conditions Precedent**

The Debtors may, with the written consent of the Noteholder Agent and Winning Bidder, waive any of the conditions set forth in Sections 10.1 and 10.2 herein without any notice to any other parties in interest and without any further notice to, or action, order or approval of, the Bankruptcy Court, and without any formal action other than proceeding to confirm or consummate the Plan.

10.4 **Effect of Non-Occurrence of Conditions to Consummation**

If prior to Consummation, the Confirmation Order is vacated pursuant to a Final Order, then except as provided in any order of the Bankruptcy Court vacating the Confirmation Order, the Plan will be null and void in all respects, and nothing contained in the Plan or Disclosure Statement shall: (a) constitute a waiver or release of any Claims, Interests or Causes of Action; (b) prejudice in any manner the rights of any Debtor or any other Entity; or (c) constitute an admission, acknowledgment, offer or undertaking of any sort by any Debtor or any other Entity.

ARTICLE XI

MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

11.1 **Modification of Plan**

Effective as of the date hereof, (a) the Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan before the entry of the Confirmation Order, subject to the limitations set forth herein and in the Support Agreement; and (b) after the entry of the Confirmation Order, the Debtors or the Reorganized Company, as applicable, may amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan, this clause (b) being subject in all cases to the limitations set forth herein and in the Support Agreement.

11.2 **Revocation or Withdrawal of Plan**

Except with the prior written consent of the Noteholder Agent (subject to and for so long as the Support Agreement is in effect), the Debtors reserve the right to revoke or withdraw the Plan before the Confirmation Date and to file subsequent chapter 11 plans. If the Debtors revoke or withdraw the Plan, or if Confirmation or the Effective Date does not occur, then (a) the Plan will be null and void in all respects; (b) any settlement or compromise embodied in the Plan, assumption or rejection of Executory Contracts or Unexpired Leases effected by the Plan, and any document or agreement executed pursuant hereto will be null and void in all respects; and (c) nothing contained in the Plan shall (1) constitute a waiver or release of any Claims, Interests

or Causes of Action, (2) prejudice in any manner the rights of any Debtor or any other Entity, or (3) constitute an admission, acknowledgement, offer or undertaking of any sort by any Debtor or any other Entity.

11.3 **Confirmation of the Plan**

The Debtors request Confirmation of the Plan under section 1129(b) of the Bankruptcy Code with respect to any Impaired Class that does not accept the Plan pursuant to section 1126 of the Bankruptcy Code. Subject to the terms of the Support Agreement, the Debtors reserve the right to amend the Plan to the extent, if any, that Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification.

ARTICLE XII

RETENTION OF JURISDICTION

Pursuant to sections 105(c) and 1142 of the Bankruptcy Code and notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising under the Bankruptcy Code or arising in, or related to, the Chapter 11 Cases, to the fullest extent permitted by law, including, among other things, exclusive jurisdiction to:

1. allow, disallow, determine, liquidate, classify, estimate, or establish the priority, secured or unsecured status, or amount of any Claim, including the resolution of any request for payment of any Claim and the resolution of any and all objections to the secured or unsecured status, priority, amount, or allowance of Claims;

2. decide and resolve all matters related to the granting and denying, in whole or in part, any applications for allowance of compensation or reimbursement of expenses to Professionals authorized pursuant to the Bankruptcy Code or the Plan;

3. resolve any matters related to Executory Contracts or Unexpired Leases, including: (a) the assumption or rejection of any Executory Contract or Unexpired Lease to which a Debtor is party or with respect to which a Debtor may be liable and to hear, determine and, if necessary, liquidate, any Cure Amount or Claims arising therefrom, including pursuant to section 365 of the Bankruptcy Code; (b) any potential contractual obligation under any Executory Contract or Unexpired Lease that is assumed; (c) the Reorganized Company's amendment, modification, or supplement, after the Effective Date, pursuant to ARTICLE VI, of the list of Executory Contracts and Unexpired Leases to be rejected or otherwise; and (d) any dispute regarding whether a contract or lease is or was executory or expired;

4. ensure Distributions to holders of Allowed Claims are accomplished pursuant to the provisions of the Plan and adjudicate any and all disputes arising from or relating to Distributions under the Plan;

5. adjudicate, decide or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters, and grant or deny any applications involving a Debtor that may be pending on the Effective Date;

6. enter and implement such orders as may be necessary or appropriate to execute, implement, enforce or consummate the terms, provisions and/or conditions of (a) contracts, instruments, releases, indentures, and other agreements or documents approved by Final Order in the Chapter 11 Cases and (b) the Plan or the Confirmation Order, including contracts, instruments, releases, indentures, and other agreements or documents created in connection with the Plan;

7. resolve any disputes as to the administration of the Administrative Claims Reserve, the Professional Fee Reserve, and the GUC Fund;

8. enforce any order for the sale of property pursuant to sections 363, 1123 or 1146(a) of the Bankruptcy Code;

9. grant any consensual request to extend the deadline for assuming or rejecting Unexpired Leases pursuant to section 365(d)(4) of the Bankruptcy Code;

10. issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with Consummation or enforcement of the Plan;

11. hear, determine, and resolve any cases, matters, controversies, suits, disputes or Causes of Action in connection with or in any way related to the Chapter 11 Cases, including: (a) with respect to the repayment or return of Distributions and the recovery of additional amounts owed by the holder of a Claim for amounts not timely repaid pursuant to Section 7.4 hereof; (b) with respect to the releases, injunctions, and other provisions contained in ARTICLE IX, including entry of such orders as may be necessary or appropriate to implement such releases, injunctions, and other provisions; (c) that may arise in connection with the Consummation, interpretation, implementation, or enforcement of the Plan or the Confirmation Order, or any Entity's obligations incurred in connection with the Plan or the Confirmation Order, including those arising under agreements, documents, or instruments executed in connection with the Plan; or (d) related to section 1141 of the Bankruptcy Code;

12. enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;

13. consider any modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any Bankruptcy Court order, including the Confirmation Order;

14. hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

15. enter an order or Final Decree concluding or closing the Chapter 11 Cases;

16. enforce all orders previously entered by the Bankruptcy Court; and

17. hear any other matter not inconsistent with the Bankruptcy Code.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 General Settlement of Claims

Unless otherwise set forth in the Plan, pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the classification, Distributions, releases, and other benefits provided under the Plan, on the Effective Date, the provisions of the Plan constitute a good-faith compromise and settlement of all Claims and Interests.

13.2 Additional Documents

On or before the Effective Date, subject to the terms of the Support Agreement, the Debtors may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. The Debtors or the Reorganized Company, as applicable, and all holders of Claims and Interests receiving Distributions pursuant to the Plan and all other parties in interest shall, from time to time, prepare, execute, and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

13.3 Payment of Statutory Fees

All fees payable pursuant to 28 U.S.C. § 1930(a) shall be paid by the Disbursing Agent from the Administrative Claims Reserve for each quarter (including any fraction thereof) until the Chapter 11 Cases are converted, dismissed, or a Final Decree is issued, whichever occurs first.

13.4 Substantial Consummation

"Substantial Consummation" of the Plan, as defined in section 1101(2) of the Bankruptcy Code, shall be deemed to occur on the Effective Date.

13.5 Reservation of Rights

The Plan shall have no force or effect unless the Bankruptcy Court enters the Confirmation Order. None of the filing of the Plan, any statement or provision contained in the Plan, or the taking of any action by any Debtor with respect to the Plan, the Disclosure Statement or the Plan Supplement shall be or shall be deemed to be an admission or waiver of any rights of any Debtor with respect to the holders of Claims or Interests prior to the Effective Date.

13.6 Elimination of Vacant Classes

Any Class of Claims that does not have a holder of an Allowed Claim or a Claim temporarily Allowed by the Bankruptcy Court as of the date of the Confirmation Hearing shall be deemed eliminated from the Plan for purposes of determining acceptance or rejection of the Plan by such Class pursuant to section 1129(a)(8) of the Bankruptcy Code.

13.7 **Successors and Assigns**

The rights, benefits and obligations of any Entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of any heir, executor, administrator, successor or assign, affiliate, officer, director, agent, representative, attorney, beneficiaries, or guardian, if any, of each Entity.

13.8 **Service of Documents**

After the Effective Date, any pleading, notice, or other document required by the Plan to be served on or delivered to the Reorganized Company shall be served on:

Debtors and Reorganized Company:	**Portrait Innovations, Inc.** **2016 Ayrsley Town Blvd., Suite 200** **Charlotte, North Carolina 28273** **Attn: John Grosso**
with a copy to:	Rayburn Cooper & Durham, P.A. 227 W. Trade St., Suite 1200 Attn: Jack Miller

13.9 **Term of Injunctions or Stays**

Unless otherwise provided in the Plan or in the Confirmation Order, all injunctions or stays in effect in the Chapter 11 Cases (pursuant to sections 105 or 362 of the Bankruptcy Code or any order of the Bankruptcy Court) and existing on the Confirmation Date (excluding any injunctions or stays contained in the Plan or the Confirmation Order) shall remain in full force and effect until the Effective Date. All injunctions or stays contained in the Plan or the Confirmation Order shall remain in full force and effect in accordance with their terms.

13.10 **Entire Agreement**

Except as otherwise indicated, the Plan supersedes all previous and contemporaneous negotiations, promises, covenants, agreements, understandings, and representations on such subjects, all of which have become merged and integrated into the Plan.

13.11 **Plan Supplement Exhibits**

All exhibits and documents included in the Plan Supplement are incorporated into and are a part of the Plan as if set forth in full in the Plan. After the exhibits and documents are filed, copies of such exhibits and documents shall be made available upon written request to the Debtors' counsel at the address above or by downloading such exhibits and documents from the Claims and Solicitation Agent's website at www.omnimgt.com/PortraitInnovations or the Bankruptcy Court's website at www.ncwd.uscourts.gov. Unless otherwise ordered by the Bankruptcy Court, to the extent any exhibit or document in the Plan Supplement is inconsistent with the terms of any part of the Plan that does not constitute the Plan Supplement, such part of the Plan that does not constitute the Plan Supplement shall control.

13.12 **Non-Severability**

If, prior to Confirmation, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is (a) valid and enforceable pursuant to its terms; (b) integral to the Plan and may not be deleted or modified without the Debtors' consent; and (c) nonseverable and mutually dependent.

Dated: October 13, 2017

AS DEBTORS AND DEBTORS IN POSSESSION:

PORTRAIT INNOVATIONS, INC.
PORTRAIT INNOVATIONS HOLDING COMPANY

By: /s/John Grosso
John Grosso, President and Chief Executive Officer

EXHIBIT B

Financial Projections

(To be provided)

EXHIBIT C

Unaudited Liquidation Analysis of the Debtors

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Portrait Innovations, Inc.
Hypothetical Liquidation Analysis

Balances are per unaudited financial information per the Company's September 1, 2017 accounting records.

Assets Available for Liquidation

		Book Value	Low Estimated Recovery Value	Low Estimated Recovery Rate	High Estimated Recovery Value	High Estimated Recovery
(a)	Cash	$ 753,397	$ 753,397	100%	$ 753,397	100%
(b)	Accounts Receivable	511,819	217,542	43%	255,125	50%
(c)	Other Receivables	4,923	-	0%	-	0%
(d)	Notes Receivable	185,627	-	0%	13,922	8%
(e)	Income Tax Receivable	290,318	89,658	31%	89,658	31%
(f)	Inventory	497,370	97,719	20%	195,439	39%
(g)	Prepaids	1,437,246	462,558	32%	743,074	52%
(h)	Property Plant & Equipment (net book value, net of liquidator fees and expenses)	8,428,565	554,770	7%	1,165,859	14%
	Total Estimated Asset Recovery	$ 12,109,265	$ 2,175,644	18%	$ 3,216,473	27%
	Estimated Proceeds Available for Distribution		$ 2,175,644		$ 3,216,473	

Wind-Down and Liquidation Expenses

		Low	High
(i)	Corporate Office Wind-Down	$ 153,489	$ 45,822
(j)	Studio Wind-Down	1,581,308	803,154
(k)	Other Liquidating Expenses	63,000	35,500
	Total Wind-Down Expenses	$ 1,797,797	$ 884,476
	Estimated Net Proceeds Available for Distribution After Wind-Down and Liquidation Expenses	$ 377,847	$ 2,331,996
(l)	Trustee Fees	18,892	116,960
	Estimated Net Proceeds Available for Distribution After Trustee Fees	$ 358,954	$ 2,215,037

Portrait Innovations, Inc.
Hypothetical Liquidation Analysis

Pre-Petition Secured Claims

			Low		High	
		Estimated Allowed Claim	Estimated Amount Paid	Estimated Recovery Rate	Estimated Amount Paid	Estimated Recovery Rate
(m)	Secured Debt	$ 15,000,000	$ 358,954	2%	$ 2,215,037	15%
(m)	Capital Leases	53,000	-	0%	-	0%
	Total Pre-Petition Secured Claims	$ 15,053,000	$ 358,954	2%	$ 2,215,037	15%
	Total Estimated Remaining Proceeds After Secured Debt Paid		$ -		$ -	

Pre-Petition Unsecured Claims

			Low		High	
		Estimated Allowed Claim	Estimated Amount Paid	Estimated Recovery Rate	Estimated Amount Paid	Estimated Recovery Rate
(n)	Priority Claims	$ 505,000	$ -	0%	$ -	0%
(n)	Unsecured Claims	2,220,513	-	0%	-	0%
	Total Unsecured Claims	$ 2,220,513	$ -	0%	$ -	0%
	Total Estimated Return to Unsecured Creditors		$ -		$ -	

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Portrait Innovations, Inc.
Assumptions and Notes to Liquidation Analysis

		Notes		%	Low	%	High
(a)	**Cash**						
	Book Balance 9/1/2017	1.	753,397	100%	753,397	100%	753,397
			$ 753,397	100%	$ 753,397	100%	$ 753,397

1. Cash Balance per Company's 9/3/2017 Book Balance includes all credit card receipts in transit.

				%	Low	%	High	
(b)	**Accounts Receivable**							
	Proceeds from 3D Printer Eqpt Sale (Colorcentric)	1.	114,583	0%	-	0%	-	
	Proceeds from Mitabook Eqpt Sale (Colorcentric)	1	66,000	0%	-	57%	37,583	*
	PTS - Frontier Printers Sale	2.	217,542	100%	217,542	100%	217,542	
	Granite (Access Point Termination Fees)	3.	113,694	0%	-	0%		
	Total Accounts Receivable		$ 511,819	43%	$ 217,542	117%	$ 255,125	

1. Proceeds from the 3D printer and the Mitabook were purchased by Color Centric from the company and are included in the net pre-petition payable to them. Assumes to be offset by payable to Colorcentric - * $143,000 owed by Portrait to Colorcentric would leave $37,583 collectible. Colorcentric's financial condition Colorcentric is dependent upon revenue from Portrait. It is assumed that Colorcentric's financial condition would make it difficult to collect balance if Portrait liquidated.
2 Receivable from sale of printers at closed studios.
3. Granite agreed to pay the early termination costs associated with the amount owed to a previous utility company.
It is assumed that Granite would offset the receivable with amounts owed as of the petition date ($50k plus their own assertion of early termination costs).

				%	Low	%	High
(c)	**Other Receivable**						
	Customer Receivables - In Collections	1.	$ 37,769		$ -		$ -
	Allowance for Bad Debt	2.	(32,846)		-		-
	Other Receivable (net)		$ 4,923	0%	$ -	0%	$ -

1. This amount represents bad/nsf checks received from customers. Assumes no recovery.
2. This represents the reserve that has been booked against the receivable.

			%	Low	%	High
(d)	**Notes Receivable**					
	Note receivable from restitution case involving former IT employee.	$ 185,627	0%	$ -	7.50%	$ 13,922

1. Assume near term collections will be negligible (Dept. of Treasury garnishes wages for defendant, however receipts are sporadic and very small). Assume the obligation could be sold to a third party for between 5%-10% say 7.5% for high range, negligible collection for low range.

				%	Low	%	High
(e)	**Income Tax Receivables**						
	State	1.	$ 89,658	100%	$ 89,658	100%	$ 89,658
	Federal	2.	200,660	0%	-	0%	-
	Total Income Tax Receivables		$ 290,318		$ 89,658		$ 89,658

1. Income Tax Receivable (refunds) would be collected upon the filing of the tax returns in November.
2. Assume no projected NOL carryback refund as previously estimated as very likely this won't occur.

				%	Low	%	High
(f)	**Inventory**						
	Raw Materials	1.	$ 488,597	20%	$ 97,719	40%	$ 195,439
	Supplies - Other Inventory	2.	202,300	10%	20,230	20%	40,460
	Inventory - Frames	3.	8,774	0%	-	-	-
			$ 497,370		$ 97,719		$ 195,439

1. Inventory consists primarily of paper and chemicals which may be sold to other users like Costco who use the same printers. The assumption is they may pay 50% of cost with some shipping cost associated depending on proximity of studios to either a centralized Costco or if PI were able to send locally.
2. Ordinary supplies - very little resale value.
3. Inventory-Frames were a promotional item (cardboard) assume no recovery.

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Portrait Innovations, Inc.
Assumptions and Notes to Liquidation Analysis

Notes

(g) Prepaids

			%	Low	%	High
Prepaid Insurance+B19	1.	$ 323,200	30%	$ 96,960	80%	$ 258,560
Other Prepaid Expenses	2.	97,867	0%	$ -	80%	$ 78,293
Prepaid Licenses & Maint Agmts	3.	170,131	0%	-		-
Utility Deposits	4.	18,854	0%	-		-
Lease Security Deposits	5.	91,064	0%	-		-
Other Deposits	6.	4,760	0%	-		-
Retainers	7.	406,220	90%	365,598	100%	406,220
Deferred Financing Cost	8.	325,151	0%	-		-
		$ 1,437,246		$ 462,558		$ 743,074

1. Prepaid insurance is assumed to have some collectability via return of unearned premiums. Depending on limits within policies and requirements to continue coverage for some period of time.
2. Other Prepaid Expenses consist of various pre-payments to UPS, American Express etc. Most are assumed too be used to pay transactions that were incurred but not billed as of Sept 1.
3. Prepaid Licenses & Maint. Agreements are assumed to have no value post Sept 1.
4. Utility Deposits offset against unpaid utility payments owed.
5. Lease Security Deposits would be offset by Landlords against unpaid rent.
6. Other Deposits would be offset by the holders of the deposits.
7. Retainers would offset any incremental professional fees that may have occurred, with the balance of the retainers being returned.
8. Deferred Financing Cost were incurred as part of the Secured Lender and Bank loans. They are assumed to have no recovery value.

(h) Fixed Assets - Property Plant & Equipment

(book cost)			%	Low	%	High
Recoveries net of Liquidation Expenses						
Software Development Costs	1.	$ 16,970,956	0%	$ -	0%	$ -
Office and Studio Furniture	2.	3,571,279	0%	-	2%	56,319
Cameras	2.	1,146,561	8%	88,500	15%	177,000
Fuji Printers	2.	10,927,654	2%	253,000	5%	506,000
Office and Studio Equipment	2.	13,046,898	1%	158,824	2%	317,649
Office and Studio Computers	2.	3,079,887	2%	54,445	4%	108,891
Capital Lease Assets	3.	53,000	0%	-	0%	-
Leasehold Improvements	4.	31,259,827	0%	-	0%	-
		$ 80,056,062	1%	$ 554,770	1%	$ 1,165,859
Accumulated Depreciation		(71,627,497)				
Estimated Net Asset Recovery		$ 8,428,565	7%	$ 554,770	14%	$ 1,165,859

1. Software is proprietary and has no value other than for the existing Company.
2. Furniture and Equipment is assumed to be liquidated through a third-party professional liquidator.
   Recovery percentages were established after discussions with professional liquidator
   The liquidator's fees and expenses were established after discussions with professional liquidator and the Company's recent experience.
3. Capital Lease Assets, Sharp copiers will be returned to Sharp upon conversion and will provide no recovery value. The lease agreement indicates a requirement to purchase the copiers at FMV at the end of the lease.
4. Leasehold Improvements have no recovery value upon conversion.

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Portrait Innovations, Inc.
Assumptions and Notes to Liquidation Analysis

Notes

(i) Wind-Down Cost and Expenses

		Low	%	High
Corporate Office Wind-Down				
Rent	1.	$ 43,845		$ 43,845
Labor	2.	91,644		45,822
Utilities	3.	18,000		9,000
		$ 153,489		$ 98,667

1. Rent is calculated as the rent paid for both the Corporate Office and Warehouse for one month.
2. Labor is calculated as the total gross payroll for the staff located at the Corporate Office for approximately one to two weeks.
3. Utilities are calculated as the utility average cost for the Corporate Office and Warehouse

(j) Wind-Down Cost and Expenses

		Low	%	High
Studio Wind-Down				
Rent (assume one month worst case two weeks best case)	1.	$ 832,347		$ 416,174
Labor (assume two weeks worst case one week best case)	2.	673,961		336,980
Utilities	3.	75,000		50,000
		$ 1,581,308		$ 803,154

1. Rent is assumed to be for studios for worst case one month and for 2 weeks for best case.
2. Labor is calculated as total payroll for the studios for one week in the best case and two weeks in the worst case. Assumes district managers will continue to be available to assist liquidators and are included in Corporate Labor above.
3. Utilities are calculated as historical rates. Assume full month in worst case and roughly two weeks in best case.

(k) Other Liquidating Expenses

	Low	High
Professional Fees	$ 50,000	$ 25,000
Court Fees	$ 13,000	$ 10,500
	$ 63,000	$ 35,500

1. Estimated Legal and Professional Fees for Trustee
2. Court Fees Based on Disbursements per schedule

(l) Trustee Fees and Expenses

			%	Low	%	High
Based on Net Recovery						
$0 - $1 Million	1.	$ 1,000,000	5%	18,892	5%	50,000
Over $1 Million			3%		3%	66,960
				$ 18,892		$ 116,960

1. Fee structure per the Bankruptcy code.

(m) Pre-Petition Secured Claims

		Low	High
Secured Lender	1.	$ 15,000,000	$ 15,000,000
Capital Leases	2.	7,857	7,857
		$ 15,007,857	$ 15,007,857

1. Capitala is the secured lender. The outstanding principal balance is $15mm.
2. US Bank is the capital lease holder for two Sharp copiers. The copiers would be returned.

(n) Pre-Petition Unsecured Claims

Priority Claims

		Low	High
Payroll	1.	$ 240,000	$ 240,000
Sales and Other Taxes	2.	265,000	265,000
		$ 505,000	$ 505,000

1. Payroll is accrued for hourly employees through Sept 1.
2. Sales tax is assumed to be for sales prior collected prior to Sept 1.

(n) Unsecured Claims

		Low	High
	3.	$ 2,220,513	$ 2,220,513

3. Unsecured claims are based on the Debtor's schedules of assets and liabilities and does not include any anticipated rejection damage claims arising from rejected unexpired real property leases.

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