

This Disclosure Statement has not yet been approved or conditionally approved

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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re:	: Chapter 11
	: :
MADISON MAIDENS, INC.,	: Case No. 16-13130 (SMB)
Debtor.	: :
	: ECF Case
	: :
	: :
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**DISCLOSURE STATEMENT FOR DEBTOR'S
AMENDED CHAPTER 11 PLAN OF REORGANIZATION**

Introduction

Madison Maidens, Inc. (the "Debtor"), proponent of the Chapter 11 Plan of Reorganization, dated February 10, 2017 (the "Plan") submit this Disclosure Statement (the "Disclosure Statement") pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code") with regard to the Plan pursuant to chapter 11 of the Bankruptcy Code. A copy of the Plan is annexed as Exhibit A. This Disclosure Statement has been conditionally approved by the United States Bankruptcy Court for the Southern District of New York for use in connection with the solicitation of acceptances of the Plan from holders of Claims against and Interests in the Debtor. Terms not defined herein have the meaning set forth in the Plan.

THE PURPOSE OF THIS DISCLOSURE STATEMENT IS TO PROVIDE CREDITORS WITH ADEQUATE INFORMATION ABOUT THE DEBTOR AND THE PLAN SO AS TO ENABLE CREDITORS TO MAKE AN INFORMED JUDGMENT IN EXERCISING THEIR RIGHT TO ACCEPT OR OBJECT TO THE PLAN. YOU SHOULD MAKE AN INDEPENDENT DETERMINATION AS TO WHETHER THE PLAN IS ACCEPTABLE TO YOU.

In the Debtor's opinion, the treatment of Claims and Interests under the Plan provides (a) the best and fastest way to get payments to creditors compared to what is likely to be achieved under other alternatives for the reorganization or liquidation of the Debtor and (b) the best return to shareholders. See Section VI below, entitled "ALTERNATIVES TO THE PLAN," for a complete discussion of the alternatives to the Plan.

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Accordingly, the Debtor believes that Confirmation of the Plan is in the best interests of creditors and interest holders and recommend that you vote to accept the Plan.

THIS DISCLOSURE STATEMENT IS DESIGNED TO SOLICIT YOUR APPROVAL OF THE ATTACHED PLAN AND CONTAINS INFORMATION RELEVANT TO YOUR DECISION. PLEASE READ THIS DISCLOSURE STATEMENT, THE PLAN AND THE OTHER MATERIALS COMPLETELY AND CAREFULLY. THE DEBTOR BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, OTHER APPENDICES ANNEXED HERETO AND OTHER DOCUMENTS REFERENCED AS FILED WITH THE COURT BEFORE OR CONCURRENTLY WITH THE FILING OF THIS DISCLOSURE STATEMENT. SUBSEQUENT TO THE DATE HEREOF, THERE CAN BE NO ASSURANCE THAT: (A) THE INFORMATION AND REPRESENTATIONS CONTAINED HEREIN WILL CONTINUE TO BE MATERIALLY ACCURATE; OR (B) THE DISCLOSURE STATEMENT CONTAINS ALL MATERIAL INFORMATION.

NO CLASSES ARE ENTITLED TO VOTE ON THE PLAN.

CONFIRMATION AND CONSUMMATION OF THE PLAN ARE SUBJECT TO CONDITIONS PRECEDENT THAT COULD LEAD TO DELAYS IN CONSUMMATION OF THE PLAN. THERE CAN BE NO ASSURANCE THAT EACH OF THESE CONDITIONS WILL BE SATISFIED OR WAIVED (AS PROVIDED IN THE PLAN) OR THAT THE PLAN WILL BE CONSUMMATED. EVEN AFTER THE EFFECTIVE DATE, SOME DISTRIBUTIONS UNDER THE PLAN MAY BE SUBJECT TO SUBSTANTIAL DELAYS FOR HOLDERS OF CLAIMS THAT ARE DISPUTED.

If any class does not accept the Plan, the Debtor may request that the Bankruptcy Court confirm the Plan under Bankruptcy Code section 1129(b). Section 1129(b) permits confirmation of the Plan despite rejection by one or more classes if the Bankruptcy Court finds that it “does not discriminate unfairly” and is “fair and equitable” as to the class or classes that do not accept the Plan. For a more detailed description of the requirements for acceptance of the Plan and of the criteria for confirmation, see Section IV “REQUIREMENTS FOR CONFIRMATION OF PLAN.”

THIS DISCLOSURE STATEMENT HAS BEEN CONDITIONALLY APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION OF A KIND AND IN SUFFICIENT DETAIL TO ENABLE HOLDERS OF CLAIMS TO MAKE AN INFORMED JUDGMENT WITH RESPECT TO THE PLAN. THE COURT WILL MAKE THAT DETERMINATION AT THE CONFIRMATION HEARING. THE BANKRUPTCY COURT’S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A RECOMMENDATION OR DETERMINATION BY THE BANKRUPTCY COURT WITH RESPECT TO THE MERITS OF THE PLAN. NO PARTY IS AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS WITH RESPECT TO THE PLAN OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT. NO REPRESENTATIONS OR INFORMATION CONCERNING THE DEBTOR, ITS FUTURE

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BUSINESS OPERATIONS OR THE VALUE OF ITS PROPERTIES HAVE BEEN AUTHORIZED OTHER THAN AS SET FORTH HEREIN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE NONBANKRUPTCY LAWS. ENTITIES HOLDING OR TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING CLAIMS AGAINST, INTERESTS IN OR SECURITIES OF, THE DEBTOR SHOULD EVALUATE THIS DISCLOSURE STATEMENT ONLY IN LIGHT OF THE PURPOSE FOR WHICH IT WAS PREPARED. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR BY ANY STATE SECURITIES COMMISSION OR SIMILAR PUBLIC, GOVERNMENTAL OR REGULATORY AUTHORITY, AND NEITHER SUCH COMMISSION NOR ANY SUCH AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF AND NEITHER THE DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY DISTRIBUTION OF PROPERTY HEREUNDER PURSUANT TO THE PLAN WILL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN OR IN THE AFFAIRS OF THE DEBTOR SINCE THE DATE HEREOF.

EACH CREDITOR OF THE DEBTOR SHOULD CONSULT WITH ITS LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE SOLICITATION OF VOTES TO ACCEPT OR REJECT THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

I. INTRODUCTION AND SUMMARY

This Disclosure Statement is being furnished by the Debtor, pursuant to section 1125 of the Bankruptcy Code, in connection with the filing of the Plan (as it may be altered, amended, modified or supplemented as described herein). The following introduction and summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Disclosure Statement.

A. Summary of Treatment of General Unsecured Claims

Under the Plan each Holder of an Allowed General Unsecured Claim will receive a distribution of 100 cents on the dollar.

B. The Disclosure Statement

The Bankruptcy Court will review this Disclosure Statement to determine that it contains “adequate information” in accordance with section 1125 of the Bankruptcy Code. Pursuant to

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section 1125(a)(1) of the Bankruptcy Code, “adequate information” is defined as “information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor’s books and records, that would enable a hypothetical reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the Plan...” 11 U.S.C. § 1125(a)(1).

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for March 30, 2017, at 10:00 a.m. Eastern Daylight Time, before the Honorable Stuart Bernstein, United States Bankruptcy Judge for the Southern District of New York, One Bowling Green, New York, New York 10004-1408. The hearing may be adjourned from time to time without further notice other than by announcement in the Bankruptcy Court on the scheduled date of such hearing. Any objections to confirmation of the Plan must be in writing and must be filed with the Clerk of the Bankruptcy Court and served on the counsel listed below to ensure RECEIPT by them on or before March 23, 2017, at 4:00 p.m. Eastern Daylight Time. Counsel on whom objections must be served are:

Kleinberg, Kaplan, Wolff & Cohen, P.C.
551 Fifth Avenue
New York, NY 10176
Attn: Matthew J. Gold, Esq.

Office of the United States Trustee
33 Whitehall Street, Suite 2100
New York, NY 10004
Attn: Susan Arbeit

C. Disclaimer

The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet given final approval of this Disclosure Statement nor has determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has conditionally approved this Disclosure Statement does not constitute a final approval of the Disclosure Statement nor an endorsement of the Plan by the Court, or a recommendation that it be accepted.

D. Recommendations

THE DEBTOR RECOMMENDS THAT EACH ENTITY ENTITLED TO VOTE ON THE PLAN VOTE TO ACCEPT THE PLAN. As set forth in detail below, the Debtor believes that:

- a vote for the Plan is the best means to provide the best possible result for the Holders of Claims;
- the distributions under the Plan are not less than the amounts that would be received if the Debtor was liquidated under chapter 7 of the Bankruptcy Code.

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- acceptance of the Plan is in the best interests of Holders of Claims.

E. Notice to Holders of Claims

Holders of Unsecured Claims should read this Disclosure Statement and the Plan in their entirety.

Pursuant to the provisions of the Bankruptcy Code, only Impaired Classes are entitled to vote to accept or reject the Plan. No Classes are impaired under the Plan. See Section III “SUMMARY OF THE PLAN” for a description of the Classes.

WHEN CONFIRMED BY THE BANKRUPTCY COURT, THE PLAN WILL BIND ALL HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTOR, WHETHER OR NOT THEY ARE ENTITLED TO VOTE OR DID VOTE ON THE PLAN AND WHETHER OR NOT THEY RECEIVE OR RETAIN ANY DISTRIBUTIONS OR PROPERTY UNDER THE PLAN. THUS, ALL HOLDERS OF IMPAIRED CLAIMS AGAINST OR INTERESTS IN THE DEBTOR ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS EXHIBITS CAREFULLY AND IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR TO REJECT THE PLAN. THIS DISCLOSURE STATEMENT CONTAINS IMPORTANT INFORMATION ABOUT THE PLAN, CONSIDERATIONS PERTINENT TO ACCEPTANCE OR REJECTION OF THE PLAN, AND DEVELOPMENTS CONCERNING THE CHAPTER 11 CASE.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS, AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL FUTURE RESULTS. Except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof. Such events may have a material impact on the information contained in this Disclosure Statement. Accordingly, the contents of this Disclosure Statement shall not under any circumstances imply that the information herein is correct or complete as of any time subsequent to the date hereof.

II. GENERAL AND HISTORICAL BACKGROUND

A. History of the Debtor

The Debtor is an intimate apparel wholesale company that sells its products under the Jones New York license to stores in the USA and Canada.

The Debtor was and is solely and wholly dependent on the Jones New York trademark license for its revenue. Jones New York, the owner of Jones New York trademark, decided to close its business and shutter all of its stores. In the immediate wake of the announcement by Jones New York, Macy’s discontinued purchases from the Debtor and cancelled all purchase orders. Macy’s was the Debtor’s single largest customer.

Subsequently Hudson Bay stores in Canada, the Debtor’s second largest customer, also advised the Debtor that the Jones New York brand would no longer be carried in its stores.

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With the cancellation of orders, the Debtor was required to sell its licensed goods at a substantial discount to off price retailers, thereby incurring sizable losses as well as, greatly reduced revenue.

The Debtor has had a dispute with Giant Channel, Inc. (“Giant Channel”), its largest creditor and supplier. Giant Channel has maintained that the Debtor owes Giant Channel many millions of dollars more than the Debtor believes is correct. The Debtor also has had disputes with several of its customers regarding payment of accounts receivable.

B. The Bankruptcy Filing

On November 10, 2017, the Debtor filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York.

C. Significant Events During the Chapter 11 Case

1. Initial Case Orders

Between November 16, 2016 and December 13, 2016 the Bankruptcy Court entered a series of orders that (i) authorized the Debtor to maintain certain of its existing bank accounts as debtor-in-possession; (ii) authorized the Debtor to pay certain prepetition claims of foreign customs agencies; (iii) authorized the Debtor to pay prepetition wages pursuant to sections 105(a) and 363(b) of the Bankruptcy Code; and (iv) authorized the Debtor to pay Christmas bonuses to certain non-management employees.

2. Debtor’s Professionals

On December 16, 2016, the Bankruptcy Court authorized the Debtor to retain Kleinberg, Kaplan, Wolff & Cohen, P.C. as its attorneys. On December 23, 2016, the Bankruptcy Court authorized the Debtor to retain EisnerAmper LLP as its accountants. By order dated January 13, 2017, the Bankruptcy Court authorized the Debtor to retain Grunfeld, Desiderio, Lebowitz, Silverman & Klestadt, LLP as special counsel.

3. Deadline for Filing Proofs of Claim or Interest

Pursuant to the “Order Establishing Deadline For Filing Proofs Of Claim And Approving The Form And Manner Of Notice Thereof” dated December 19, 2016, all creditors were required to file proofs of claim with the Bankruptcy Court by January 30, 2017 (the “Bar Date”). Creditors whose obligations are listed as undisputed, liquidated, non-contingent liabilities on the Debtor’s schedules of assets and liabilities were not required to file proofs of claim. Based on the proofs of claim filed before the Bar Date and the Debtor’s Schedules, the total amount of asserted General Unsecured Claims against the Debtor is approximately \$1.4 million.

4. Settlements with Giant Channel and Belk

Post-petition the Debtor reached an agreement with Giant Channel regarding the amount of the Giant Channel claim. The stipulation, which is subject to approval by the Bankruptcy

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Court, reduces the Giant Channel claim from \$11,510,606.92, the amount asserted by Giant Channel, to \$975,000. At about the same time, the Debtor reached a settlement with Belk, Inc., one of its customers, regarding offsets asserted by Belk against amounts owed the Debtor that tied up nearly \$100,000 payments to the Debtor.

5. Giant Channel Settlement

Giant Channel is the Debtor's largest creditor, and has been the principal manufacturer of goods sold by the Debtor. In recent years, even as Giant Channel continued to sell goods to the Debtor, there has been a dispute between the parties regarding appropriate deductions to be applied against invoiced amounts. In short, the Debtor has contended that the amounts invoiced by Giant Channel should be substantially reduced due to product quality issues – issues due to which the Debtor has been forced to grant substantial discounts to its own customers. In addition, the Debtor contends that it was entitled to markdowns (as is common in the industry) for products that sold poorly. These issues came to a head following the filing of the Debtor's bankruptcy petition.

The Debtor scheduled Giant Channel as holding a disputed claim of \$11,510,606.92. The Debtor's position was that the net Giant Channel claim should be zero, because the substantial payments already made by the Debtor to Giant Channel prepetition were sufficient compensation to Giant Channel.

The Debtor and Giant Channel reached a settlement pursuant to which the Giant Channel claim will be reduced and allowed in the amount of \$975,000. The Debtor views this settlement as extremely favorable to the estate, because it is far closer to best result that the Debtor could have achieved in litigation (complete disallowance of the Giant Channel claim) than it is to the worst result that could have occurred (allowance of a claim in excess of \$11 million).

While the Debtor believes that its arguments are meritorious, and that it would ultimately prevail in litigation, it recognizes that litigation of the dispute between the Debtor and Giant Channel would be lengthy and expensive, as the dispute covers thousands of shipments made over the span of many years.

6. Belk Settlement

Belk is one of the Debtor's customers. A dispute arose between Belk and the Debtor concerning the amount of allowances due Belk from the Debtor, which Belk sought to set off against amounts due and payable to the Debtor. The Debtor's position was that Belk was not entitled to new allowances going forward, and scheduled Belk as holding a disputed claim of \$82,000. Belk asserted a claim for allowances of \$182,299.44, and held back the payment of \$182,294.44 in receivables due the Debtor, based on its argument that historical allowances that the Debtor had given to Belk created a future right to additional allowances for Belk. The Debtor and Belk have reached a settlement pursuant to which the Belk claim will be fixed in the amount of \$85,790, which allows approximately \$97,000 to be paid to the Debtor.

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While the Debtor believes that its arguments are meritorious, and that it would ultimately prevail in litigation, it recognizes that litigation of the dispute between the Debtor and Belk would be lengthy. Litigation of the dispute between the Debtor and Belk would also be expensive, especially in context of the size of the dispute. Indeed, when the costs of litigation are factored in the net gain to the estate from the settlement is superior to the best result that could have been obtained through litigation. The settlement amount is approximately \$4,000 more than the Debtor's position in litigation, and litigation would have cost far more than \$4,000.

7. *Effect of Settlements*

As stated above, the Debtor believes that each of the settlements is fully justified on its own. Furthermore, these settlements permit the Debtor to propose and implement this Plan, which provides for the prompt payment in full of creditor claims, while litigation could substantially delay the date on which a plan could be proposed and confirmed. Accordingly, the Debtor takes the position that approval of the settlements is in the best interests of creditors.

As a result of these settlements, and the Debtor's ongoing sell-off of its inventory and collection of accounts receivable, the Debtor expects to be able to pay all Allowed General Unsecured Claims 100 cents on the dollar.

8. *Plan of Reorganization*

On or about February 10 2017, the Debtor filed a Chapter 11 Plan of Reorganization. On or about February 24, 2017, the Debtor filed its Amended Chapter 11 Plan of Reorganization.

III. SUMMARY OF THE PLAN¹

You should read the Disclosure Statement and the Plan in their entirety before voting on the Plan. Any representations or inducements made to secure your acceptance other than those contained in this Disclosure Statement should not be relied upon by you in arriving at your decision to accept or reject the Plan, nor should you rely upon any statements or information concerning the Debtor or any of the assets used to fund the Plan or otherwise other than as set forth in this Disclosure Statement. The descriptions of the Plan in this Disclosure Statement are summaries only and are qualified in their entirety by reference to the Plan's terms and conditions.

A. Brief Explanation of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself and its creditors and stockholders. In addition to permitting rehabilitation of the debtor, another goal of chapter 11 is to promote equality of treatment of creditors and equity

¹ The "Summary of the Plan" as set forth herein is provided for descriptive purposes only. To the extent the Plan is inconsistent with this description, the terms and conditions of the Plan governs.

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security holders, respectively, who hold substantially similar claims or interests with respect to the distribution of the value of a debtor's assets. In furtherance of these two goals, upon the filing of a petition for relief under chapter 11, section 362 of the Bankruptcy Code generally provides for an automatic stay of substantially all acts and proceedings against a debtor and its property, including all attempts to collect claims or enforce liens that arose prior to the commencement of the debtor's chapter 11 case.

The consummation of a plan of reorganization is the principal objective of a chapter 11 case. A plan of reorganization sets forth the treatment of claims against and interests in a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan and any creditor of or equity security holder in the debtor, whether or not such creditor or equity security holder (i) is impaired under or has accepted the plan or (ii) receives or retains any property under the plan. Subject to certain limited exceptions, and except as provided in the Plan itself or the confirmation order, confirmation discharges the debtor from any debt that arose prior to the date of confirmation of the Plan and substitutes therefor the obligations specified under the confirmed plan.

The Debtor currently intends to seek to consummate the Plan and to cause the Effective Date to occur as soon as practicable. There can be no assurance, however, as to when the Effective Date will actually occur. Procedures for the distribution of cash, pursuant to the Plan, including matters that are expected to affect the timing of the receipt of distributions by Holders of Claims and Interests in certain Classes and that could affect the amount of distributions ultimately received by such Holders, are described in Section III F, "Provisions Covering Distributions".

The Debtor believes that the Plan provides treatment for all Classes of Claims and Interests reflecting an appropriate resolution of their Claims and Interests, taking into account the differing nature of such Claims and Interests. The Bankruptcy Court must find, however, that a number of statutory tests are met before it may confirm the Plan. Many of these tests are designed to protect the interests of Holders of Claims or Interests who do not vote to accept the Plan, but who will be bound by the provisions of the Plan if it is confirmed by the Bankruptcy Court. The "cramdown" provisions of section 1129(b) of the Bankruptcy Code, for example, permit confirmation of a Chapter 11 plan of reorganization in certain circumstances even if the Plan is not accepted by all impaired classes of claims and interests. See Section V "NONCONSENSUAL CONFIRMATION."

The Debtor may request that the Bankruptcy Court confirm the Plan under Bankruptcy Code section 1129(b). Section 1129(b) permits confirmation of the Plan despite rejection by one or more impaired classes if the Bankruptcy Court finds that the Plan "does not discriminate unfairly" and is "fair and equitable" as to the rejecting class or classes. *For a more detailed description of the requirements for acceptance of the Plan and of the criteria for confirmation notwithstanding rejection by certain classes, see Section IV "REQUIREMENTS FOR CONFIRMATION OF PLAN."*

The following is an overview of certain material provisions of the Plan. The following summaries of the material provisions of the Plan do not purport to be complete and are qualified

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in their entirety by reference to all the provisions of the Plan, including all exhibits thereto, all documents described therein and the definitions therein of certain terms used below. THIS DISCLOSURE STATEMENT, INCLUDING THE PLAN (ATTACHED AS AN EXHIBIT), SHOULD BE READ IN ITS ENTIRETY. THE DESCRIPTIONS OF THE PLAN IN THIS DISCLOSURE STATEMENT ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE TERMS AND CONDITIONS OF THE PLAN ITSELF.

The Plan provides (i) that each Holder of an Allowed Administrative Expense, Allowed Priority Claim, or Allowed Priority Tax Claim will receive payment in full or other treatment as agreed upon by such Holder and the Debtor, and (ii) all allowed unsecured claims against the Debtor will be paid 100 cents on the dollar. The Debtor intends that Post-Filing Date, pre-Effective Date Claims of vendors, if any, will be paid in full in Cash no later than on the date after the Effective Date that such payment is due in the ordinary course of business, consistent with past practice.

B. Classification and Treatment of Claims and Interests

Section 1123 of the Bankruptcy Code requires that, for purposes of treatment and voting, a chapter 11 plan divide the different claims against, and equity interests in, the debtor into separate classes based upon their legal nature. In accordance with section 1123 of the Bankruptcy Code, claims of a substantially similar legal nature are usually classified together, as are equity interests which give rise to the same legal rights; the “claims” and “equity interests” themselves, rather than their holders, are classified.

Under a chapter 11 plan, the separate classes of claims and equity interests must be designated either as “impaired” or “unimpaired” by the plan. If a class of claims is “impaired,” the Bankruptcy Code affords certain rights to the holders of such claims, such as the right to vote on the plan (unless the plan provides for no distribution to the holders, in which case, the holder is deemed to reject the plan), and the right to receive under the chapter 11 plan property of a value that is not less than the value the holder would receive if the debtor were liquidated under chapter 7. Under section 1124 of the Bankruptcy Code, a class of claims is “impaired” unless the plan (i) does not alter the legal, equitable, and contractual rights of the holders or (ii) irrespective of the holders’ acceleration rights, cures all defaults (other than those arising from the debtor’s insolvency, the commencement of the case, or nonperformance of certain nonmonetary obligations), reinstates the maturity of the claims or interests in the class, compensates the holders for actual damages incurred as a result of their reasonable reliance upon any acceleration rights, and does not otherwise alter their legal, equitable, and contractual rights. Typically, this means the holder of an unimpaired claim will receive on the later of the effective date or the date on which amounts owing are due and payable, payment in full, in cash to the extent appropriate and provided under the governing agreement (or if there is no agreement, under applicable nonbankruptcy law), and the remainder of the debtor’s obligations, if any, will be performed as they come due in accordance with their terms. Thus, other than its right to accelerate the debtor’s obligations, the holder of an unimpaired claim will be placed in the position it would have been in had the debtor’s bankruptcy case not been commenced.

As discussed above, section 1123 of the Bankruptcy Code provides that a plan of reorganization shall classify the claims of a debtor’s creditors and equity interest holders. In

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compliance therewith, the Plan divides Claims and Interests into three Classes and sets forth the treatment for each Class. In accordance with section 1123(a), Administrative Expenses and Priority Tax Claims have not been classified. The Debtor is also required, as discussed above, under section 1122 of the Bankruptcy Code, to classify Claims against and Interests in the Debtor into Classes that contain Claims and Interests that are substantially similar to the other Claims or Interests in such Classes. The Debtor believes that the Plan has classified all Claims and Interests in compliance with the provisions of section 1122 of the Bankruptcy Code, but it is possible that a Holder of a Claim may challenge the classification of Claims and that the Bankruptcy Court may find that a different classification is required for the Plan to be confirmed. In such event, the Debtor intends, to the extent permitted by the Bankruptcy Court and the Plan, to make such reasonable modifications of the classifications under the Plan to permit confirmation and to use the Plan acceptances received in this Solicitation for the purpose of obtaining the approval of the reconstituted Class or Classes of which the accepting Holder is ultimately deemed to be a member. Any such reclassification could adversely affect the Class in which such Holder was initially a member, or any other Class under the Plan, by changing the composition of such Class and the vote required of that Class for approval of the Plan. Furthermore, a reclassification of a Claim or Interest after solicitation of acceptances of the Plan could necessitate a resolicitation of acceptances of the Plan.

The classification of Claims and Interests and the nature of distributions to Holders of Impaired Claims in each Class are summarized below.

1. Unclassified Claims

The Bankruptcy Code does not permit classification of certain priority claims against a debtor. In this Chapter 11 Case, these unclassified claims include Administrative Expenses and Priority Tax Claims.

(a) Administrative Expenses

Administrative Expenses are the actual and necessary costs and expenses of the Debtor's Chapter 11 Case that are allowed under sections 503(b) and 507 of the Bankruptcy Code. Those expenses will include (a) any cost and expense of administration of the Chapter 11 Case asserted or arising under section 503(b) or 507(b) of the Bankruptcy Code, (b) a claim given the status of an Administrative Expense by Final Order of the Bankruptcy Court and (c) all fees or charges assessed against the Debtor's estate under title 28, United States Code, section 1930.

The Debtor understands that the Administrative Expenses outstanding on the Effective Date of the Plan will, for the most part, consist of the allowed fees and expenses incurred by professionals retained in the case, and obligations incurred in the ordinary course of business.

All payments to professionals for compensation and reimbursement of expenses will be made in accordance with the procedures established by the Bankruptcy Court, the Bankruptcy Code and the Bankruptcy Rules relating to the payment of interim and final compensation and expenses. The Bankruptcy Court will review and determine all such requests. In addition to the foregoing, section 503(b) of the Bankruptcy Code provides for payment of compensation to creditors and attorneys for, and other professional advisors to creditors. Requests for such

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compensation must be approved by the Bankruptcy Court after notice and a hearing at which parties-in-interest may participate, and if appropriate, object to the allowance thereof.

Each Holder of an Allowed Administrative Expense will be paid in full on the Effective Date or in the ordinary course of business or as otherwise agreed. The Debtor estimates that as of the Effective Date, Allowed Administrative Expenses for the Debtor will total approximately \$110,000.

(b) Priority Tax Claims

Priority Tax Claims essentially consist of unsecured claims by federal and state governmental units for taxes specified in section 507(a)(8) of the Bankruptcy Code, such as certain income taxes, property taxes, excise taxes, and employment and withholding taxes. These unsecured claims are given a statutory priority in right of payment. The Debtor estimates that as of the Effective Date Allowed Priority Tax Claims will total \$0.00.

Each Holder of an Allowed Priority Tax Claim shall be paid in full in cash on the latest of (i) the Effective Date, (ii) the date on which the Bankruptcy Court enters an order allowing such Priority Tax Claim, and (iii) the date on which the Debtor and the Holder of such Allowed Priority Tax Claim otherwise agree; provided, however, that any or all Allowed Priority Tax Claims may be paid by deferred cash payments over a period not exceeding five years after the Petition Date, including an interest component as required by the provisions of section 1129(a)(9)(C) and (D) of the Bankruptcy Code, which interest will be determined by the Court in the event the Debtor chooses this option. The claim may be prepaid in whole or in part at any time, without penalty.

2. Classified Claims And Interests

(a) Priority Claims (Class 1). Each Holder of an Allowed Priority Claim shall be paid in full in cash on the latest of (i) the Effective Date, (ii) the date on which the Bankruptcy Court enters an order allowing such Priority Claim, and (iii) the date on which the Debtor and the Holder of such Allowed Priority Claim otherwise agree. The Debtor estimates that as of the Effective Date Allowed Priority Claims will total \$0.00.

Class 1 is Unimpaired, and will not be entitled to vote on the Plan.

(b) Class 2 consists of all General Unsecured Claims.

Promptly following the Effective Date, each Holder of an Allowed General Unsecured Claim against the Debtor shall receive, in full satisfaction of such Holder's Allowed General Unsecured Claim against the Debtor, a payment equal to 100 cents on the dollar with respect to such Holder's Allowed General Unsecured Claim against the Debtor.

The Debtor estimates that the number of creditors in this Class is approximately 12 and the amount of Allowed General Unsecured Claims as of the Effective Date

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will be approximately \$1.4 million (after giving effect to the settlement of the Giant Channel Claim.

Class 2 is Unimpaired, and will not be entitled to vote on the Plan.

(c) Class 3 consists of all Interests.

On the Effective Date all Holders of Interests will retain their Interests.

Class 3 is unimpaired and will not be entitled to vote on the Plan.

C. Sources of Cash to make Plan Distributions

Cash necessary for the making of payments to creditors of the Debtor pursuant to the Plan will be funded from the cash generated by the Debtor's operations.

D. Executory Contracts, and Unexpired Leases

Under section 365 of the Bankruptcy Code, the Debtor has the right, subject to Bankruptcy Court approval, to assume or reject any executory contracts or unexpired leases. If an executory contract or unexpired lease entered into before the Filing Date is rejected by the Debtor, it will be treated as if the Debtor breached such contract or lease on the date immediately preceding the Filing Date, and the other party to the agreement may assert a General Unsecured Claim for damages incurred as a result of the rejection. Damage claims for rejection of employment agreements and real property leases are subject to certain limitations imposed by sections 365 and 502 of the Bankruptcy Code. See Article VIII of the Plan.

Any executory contract of the Debtor that is not listed on Schedule 8.01 to the Plan or that is not otherwise expressly rejected by the Debtor on or prior to the Confirmation Date shall be deemed to have been assumed by the Debtor on the Effective Date unless, as of the Effective Date, there is then pending before the Bankruptcy Court a motion to reject such executory contract.

Unless otherwise provided by an order of the Bankruptcy Court, a proof of claim with respect to any Claim against the Debtor arising from the rejection of any executory contract or unexpired lease must be filed with the Bankruptcy Court within the earlier of (a) thirty days after the Effective Date, or (b) thirty days from the date of entry of such order of the Bankruptcy Court approving such rejection. Any Entity that fails to file a proof of claim with respect to its Claim arising from such a rejection within the period set forth above will be forever barred from asserting a Claim against the Debtor, or the property or interests in property of the Debtor. Each Allowed Claim arising from the rejection of executory contracts or unexpired leases will be classified as a General Unsecured Claim (Class 2) under the Plan.

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E. Implementation of the Plan

1. Liquidation of the Debtor's Estate

The Debtor will fund the payments under the Plan with the proceeds of its liquidation of inventory and collection of accounts receivable, which has been ongoing since the Petition Date.

2. The Debtor's Causes of Action

Pursuant to section 1123(b)(3) of the Bankruptcy Code, the Plan provides for the Reorganized Debtor to have the exclusive right to enforce in its sole discretion, any and all Causes of Action of the Debtor, including all Causes of Action of a trustee and debtor-in-possession under the Bankruptcy Code, other than Causes of Action that have been released under the Plan. The net proceeds of any Cause of Action will be held by the Reorganized Debtor.

3. Transfers Free and Clear of Claims; Stamp Taxes

Any transfer of any property under, or as contemplated by, the Plan shall be free and clear of all liens, Claims and interests unless otherwise provided in the Plan, and shall not be subject to any stamp tax or any similar tax.

4. Management of the Reorganized Debtor

The Debtor intends to continue with substantially the same management team following confirmation.

Steven Kattan, President of the Debtor, will continue to serve in that position. Mr. Kattan has been President of the Debtor since its inception in 1983. He is responsible for the day-to-day management of the company, including product development and sales.

5. Continuation of Debtor.

Under the Plan the Debtor will continue to operate as the Reorganized Debtor. The Debtor will continue to collect accounts receivable and will continue in business.

6. Approval of Settlements.

The settlements with Giant Channel and Belk are approved pursuant to the Plan.

F. Provisions Covering Distributions

1. Timing of Distributions Under the Plan

The payments and distributions in respect of Allowed Claims that are required by the Plan to be made on the Effective Date will be made by the Estate Representative on, or as soon as practicable following such date.

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2. Cash Payments

Cash payments made pursuant to the Plan will be in U.S. dollars by check drawn on a domestic bank selected by the Estate Representative, or by wire transfer from a domestic bank, at the option of the Estate Representative. The Estate Representative shall not be required to make any payment to a creditor of less than \$25.00.

3. Interim Distributions

The Estate Representative shall have the authority to make distributions in accordance with the Plan to the Holders of Allowed Claims in whole or in part, at any time and from time to time.

4. Compliance with Tax Requirements

The Estate Representative will withhold from any property distributed under the Plan any property that must be withheld for taxes payable by the Entity entitled to such property to the extent required by applicable law. As a condition to making any such distribution, the Estate Representative may request that the Holder of any Allowed Claim provide such Holder's taxpayer identification number and such other certification as may be necessary to comply with applicable tax reporting and withholding laws.

5. Payment of Statutory Fees

The Debtor will pay all fees payable to the Office of the United States Trustee pursuant to 28 U.S.C. § 1930.

6. Undeliverable Distributions

If the Estate Representative is unable to make a payment or distribution to the Holder of an Allowed Claim under the Plan for lack of a current address for the Holder or otherwise, the Estate Representative will file with the Bankruptcy Court the name, if known, and last known address of the Holder and the reason for inability to make payment, and if, after the passage of one year (or such other period of time as directed by the Bankruptcy Court) and after any additional effort to locate the Holder that the Bankruptcy Court may direct, the payment or distribution still cannot be made, the payment or distribution and any further payment or distribution to such Holder will be immediately transferred to the Estate Representative or its designee and the Claim will be deemed satisfied to the same extent as if payment or distribution had been made to the Holder of the Claim.

G. Procedures for Resolving Disputed Claims and Interests

1. Objections to Claims or Interests

Subject to an order of the Bankruptcy Court providing otherwise, the Estate Representative shall have the authority to file objections to Claims and Interests after the Confirmation Date and shall have the sole authority to prosecute pending claim objections. The Estate Representative may object to a Claim or Interest by filing an objection with the

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Bankruptcy Court and serving such objection upon the Holder of such Claim or Interest not later than 45 days after the later of the Effective Date and the date set by order of the Bankruptcy Court as the last date for filing proof of such Claim in the Chapter 11 Case, except that said date may be extended by the Bankruptcy Court.

2. Procedure

Unless otherwise ordered by the Bankruptcy Court or agreed to by written stipulation of the Estate Representative, or until an objection thereto by the Estate Representative is withdrawn, the Estate Representative will litigate the merits of each Disputed Claim or Disputed Interest until determined by a Final Order; provided, however that the Estate Representative, may compromise, settle, withdraw or resolve in its sole discretion, by any method approved by the Bankruptcy Court, any objection to any Claim or Interest.

3. Estimation of Claims

The Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to any such objection. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and are not necessarily exclusive of one another. Claims may be estimated and thereafter resolved by any permitted mechanism.

4. Payments and Distributions With Respect to Disputed Claims

No payments or distributions will be made in respect to the disputed portion of a Disputed Claim until such Disputed Claim becomes allowed.

5. Timing of Payments and Distributions With Respect to Disputed Claims

Subject to the further provisions of the Plan, payments and distributions with respect to each Disputed Claim or Disputed Interest that becomes an Ultimately Allowed Claim or Ultimately Allowed Interest that would have otherwise been made had the Ultimately Allowed Claim or Ultimately Allowed Interest been an Allowed Claim or an Allowed Interest on the Effective Date shall be made within ten days after the date that such Disputed Claim or Disputed Interest becomes an Ultimately Allowed Claim or an Ultimately Allowed Interest. Holders of Disputed Claims and Disputed Interests that become Ultimately Allowed Claims or Ultimately Allowed Interests shall be bound, obligated and governed in all respects by the provisions of the Plan.

6. Compromise and Settlement.

The Estate Representative will have the right to pursue, prosecute, compromise, settle, or release any claim objection, and the compromise or settlement by the Estate Representative of any claim objection may be effected without necessity of Bankruptcy Court proceedings under Bankruptcy Rule 9019 or otherwise.

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7. Proceeds of the Estate.

The Estate Representative will have a duty consistent with the Plan to distribute the net proceeds of the Creditor Funds for the benefit of holders of Allowed Claims in accordance with the terms of the Plan; to maintain and administer the Estate; and to pay all expenses incurred in connection with the administration of the Estate.

8. Employees of Estate Representative.

(a) The Estate Representative may employ individuals and professionals to assist it in administering and carrying out the purposes of the Plan, as well as carrying out business activities. Such professionals or employees may include persons previously employed by the Debtor.

(b) The amount of compensation to be paid to the professionals and employees retained by the Estate Representative will be determined by the Estate Representative in its sole discretion, without need of an order of the Bankruptcy Court.

9. Exculpation; Indemnification.

None of the Estate Representative's directors, officers, employees or agents, will be liable for any acts or omissions concerning the implementation of the Plan except for such of their own acts as will constitute bad faith, willful misconduct or gross negligence. Such persons shall be indemnified by the Reorganized Debtor against any and all losses, claims, costs, expenses (including the cost of defense), and liabilities arising out of or in connection with the Causes of Action or the affairs of the Estate Representative, except for such of their own acts as will constitute bad faith, willful misconduct or gross negligence. Neither the Estate Representative nor its employees or agents will have any duty, obligation or liability to any Entity to pursue any Cause of Action or to object to any Claim.

H. Discharge, Injunction, and Releases

1. Discharge

(a) **Except as otherwise specifically provided by the Plan or the Related Documents, the confirmation of the Plan (subject to the occurrence of the Effective Date) shall discharge the Debtor and the Reorganized Debtor from any debt that arose before the Confirmation Date, and any debt of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not a proof of Claim is filed or is deemed filed, whether or not such Claim is Allowed, and whether or not the Holder of such Claim has voted on the Plan or voted to accept or reject the Plan.**

(b) **Furthermore, but in no way limiting the generality of the foregoing, except as otherwise specifically provided by the Plan, the distributions and rights that are provided in the Plan shall be in complete satisfaction, discharge and release of all Claims and Causes of Action against, liabilities of, liens on, charges, encumbrances, security interests, obligations of and Interests in the Debtor or the Reorganized Debtor,**

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whether known or unknown, regardless of whether a proof of Claim or Interest was filed, whether or not Allowed and whether or not the Holder of the Claim or Interest has voted on the Plan, or voted to accept or reject the Plan, or based on any act or omission, transaction or other activity or security, instrument or other agreement of any kind or nature occurring, arising or existing prior to the Effective Date that was or could have been the subject of any Claim or Interest, in each case regardless of whether a proof of Claim or Interest was filed, whether or not Allowed and whether or not the Holder of the Claim or Interest has voted on the Plan or voted to accept or reject the Plan.

(c) Except as otherwise provided in the Plan, any consideration distributed under the Plan to creditors and holders of Interests shall be in full exchange for and in complete satisfaction, discharge and release of all Claims, Liens, encumbrances, causes of action, demands, and lawsuits of any Creditor or Interest Holder against the Debtor and/or relating in any way to the Debtor or any of its property and such Claims are deemed to be extinguished, released, compromised, settled, and discharged, and shall not be asserted or pursued in any manner against the Debtor (except for those liabilities expressly retained or assumed by the Debtor) or against the Debtor's property after the Effective Date of the Plan. Confirmation of the Plan shall in no way extinguish, modify, change, or alter in any way, any Claim, right, or remedy that any Creditor may have or come to have against an entity other than the Debtor that arises out of any guaranty of any of the Debtor's obligations. Subject to sections 524 and 1141 of the Bankruptcy Code, the releases described herein shall not preclude police, federal tax, or regulatory agencies from fulfilling their statutory duties.

2. Injunctions

All injunctions or stays entered in the Chapter 11 Case and existing immediately prior to the Confirmation Date will remain in full force and effect until the Effective Date.

Except as otherwise expressly provided in the Plan, from and after the Effective Date, all Entities who have held, hold or may hold Claims or Interests shall be permanently (except as otherwise provided below) enjoined from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Interest against the Debtor or the Reorganized Debtor or any property of the foregoing, or cause of action discharged pursuant to section 9.04 thereof, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtor or the Reorganized Debtor, (c) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due from the Debtor or the Reorganized Debtor.

I. Conditions Precedent

1. Conditions Precedent to Confirmation

The Confirmation Order must be in form and substance reasonably acceptable to the Debtor, and have been signed by the Bankruptcy Court and duly entered, and the Debtor shall

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have sufficient cash to pay all required U.S. Trustee Fees and all Allowed Administrative Expense Claims and Allowed Priority Claims.

2. *Conditions Precedent to Effective Date*

The Confirmation Order must become a Final Order for the Plan to become effective. All actions and documents necessary to implement the provisions of the Plan must have been effected and/or executed by all parties thereto.

3. *Waiver of Conditions*

The Debtor may waive one or more of the conditions precedent to the confirmation or effectiveness of the Plan.

4. *Effect of Failure of Conditions*

If the order confirming the Plan is vacated, the Plan will be null and void in all respects, and nothing contained in the Plan will (a) constitute a waiver or release of any claims against or equity interests in the Debtor or (b) prejudice in any manner the rights of the Holder of any claim or equity interest in the Debtor.

J. Miscellaneous Provisions

1. *Bankruptcy Court to Retain Jurisdiction*

The business and assets of the Debtor will remain subject to the jurisdiction of the Bankruptcy Court until the Effective Date. From and after the Effective Date, the Bankruptcy Court will retain and have exclusive jurisdiction of all matters arising out of, and related to the Chapter 11 Case or the Plan.

2. *Binding Effect of the Plan*

The provisions of the Plan will be binding upon and inure to the benefit of the Reorganized Debtor or any other entity bound by the provisions of the Plan pursuant to section 1141(a) of the Bankruptcy Code and their respective predecessors, successors, assigns, agents, partners, officers and directors.

3. *Withdrawal of the Plan*

The Debtor reserves the right, at any time prior to the entry of the Confirmation Order, to revoke or withdraw the Plan. If the Debtor revokes or withdraws the Plan or if the Confirmation Date does not occur, then (i) the Plan shall be deemed null and void, and (ii) the Plan shall be of no effect and is vacated *nunc pro tunc* and the Chapter 11 Case shall continue as if the Plan and the Disclosure Statement had never been filed and, in such event, the rights and obligations of the parties in interest in the Chapter 11 Case shall not be affected nor shall said parties in interest be bound by, for purposes of illustration only, and without limitation (a) the Plan, (b) any statement, admission, commitment, valuation or representation contained in the Plan or this

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Disclosure Statement, or (c) the classification and proposed treatment (including any allowance) of any Claim under the Plan.

4. Amendments and Modifications to the Plan

The Plan and the Exhibits and Schedules thereto may be altered, amended or modified by the Debtor before or after the Confirmation Date, as provided in section 1127 of the Bankruptcy Code.

5. Good Faith Solicitation

Upon confirmation, (i) the Debtor will be deemed to have solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code and (ii) the Debtor, and its employees, directors, officers, advisors, and attorneys) will be deemed to have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code and therefore, will have no liability for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan.

IV. REQUIREMENTS FOR CONFIRMATION OF PLAN

At the Confirmation Hearing the Bankruptcy Court will determine whether the requirements of section 1129(a) of the Bankruptcy Code have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. The Debtor intends to seek Confirmation of the Plan at the confirmation hearing. In the event that any impaired Class does not accept the Plan, the Debtor may seek a “cramdown” confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. **The Debtor believes that the Plan will satisfy all applicable requirements of section 1129(a) and section 1129(b) of the Bankruptcy Code.**

A. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. Notice of the Confirmation Hearing will be provided to all known creditors and equity holders or their representatives. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any subsequent adjourned confirmation hearing.

Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan. Pursuant to the Bankruptcy Rules, any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules, must set forth the name of the objector and, the nature and amount of claims or interests held or asserted by the objector and against the Debtor’s Estate or property, and the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, with a copy to Chambers, together with proof of service thereof, and served upon the parties listed above on page 5.

Objections to confirmation of the Plan are governed by Bankruptcy Rules 9014 and 3020. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

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At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the following requirements of section 1129(a) of the Bankruptcy Code are met:

1. The Plan complies with the applicable provisions of the Bankruptcy Code.
2. The Debtor has complied with the applicable provisions of the Bankruptcy Code.
3. The Plan has been proposed in good faith and not by any means forbidden by law.
4. Any payment made or to be made by the Debtor or by an entity issuing securities, or acquiring property under the Plan, for services or for costs and expenses in, or in connection with, the Chapter 11 Case or in connection with the Plan and incident to the Chapter 11 Case has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.
5. The Debtor has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director or officer of the Debtor, or a successor to the Debtor under the Plan, and the appointment to or continuance in such office by such individual must be consistent with the interests of creditors and interest holders and with public policy. The Debtor has disclosed the identify of any “insider” who will be engaged or retained by the Debtor and the nature of any compensation for such “insider.”
6. With respect to each Impaired Class of Claims or Interests, each Holder of a Claim or Interest in such Class has either accepted the Plan or will receive or retain under the Plan on account of such Claim or Interest property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain if the Debtor was liquidated on the Effective Date under chapter 7 of the Bankruptcy Code.
7. With respect to each Class of Claims or Interests, such Class has either accepted the Plan or is not Impaired by the Plan. If this requirement is not met, the Plan may still be confirmed pursuant to section 1129(b) of the Bankruptcy Code. See Section V. “NONCONSENSUAL CONFIRMATION.”
8. If a Class of Claims is Impaired under the Plan, at least one Class of Claims that is Impaired by the Plan has accepted the Plan, determined without including any acceptance of the Plan by any “insider.” A class of impaired claims is deemed to have accepted a plan if 2/3 in dollar amount and a majority in number of those actually voting vote to accept.
9. Administrative and Priority Claims are paid in full, unless the holders agree otherwise.
10. Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Reorganized Debtor or any successor of the Debtor under the Plan.

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11. All fees payable under section 1930 of title 28 as determined by the Bankruptcy Court at the Confirmation Hearing have been paid or the Plan provides for the payment of all such fees on the Effective Date.

The Debtor believes that the Plan will satisfy all of the statutory requirements of chapter 11 of the Bankruptcy Code. Certain of these requirements are discussed in more detail below.

B. Feasibility of the Plan

In connection with confirmation of the Plan, section 1129(a)(11) requires that the Bankruptcy Court find that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor. This is the so-called “feasibility” test.

The Debtor believes that the Plan is feasible because, as shown in Exhibit 1, it has funds on hand that will be sufficient to make all required payments and meet all operational needs.

C. Best Interests Test

As described above, the Bankruptcy Code requires that each holder of an impaired claim or equity interest either (a) accepts the Plan or (b) receives or retains under the Plan property of a value, as of the effective date of the Plan, that is not less than the value such holder would receive or retain if the applicable Debtor was liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

In a chapter 7 case a trustee would be appointed to liquidate the Debtor’s assets, challenge claims, pursue any appropriate litigations, pay any secured creditors with regard to their allowed claims from their collateral or the proceeds thereof, and then pay unsecured creditors pursuant to priorities established in chapter 7. A liquidation analysis is shown in Exhibit 2.

The Debtor has thoroughly investigated these potential causes of action, by examining their records regarding transactions with its affiliates and reviewing the applicable case law, and concluded that litigation brought to pursue them would be time consuming, expensive, and highly speculative.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in a chapter 11 case, including (i) the diminution in value of the Debtor’s assets in a liquidation, and (ii) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, the Debtor has determined that confirmation of the Plan will provide each creditor with a recovery that is not less than it would receive pursuant to a liquidation of the Debtor under chapter 7 of the Bankruptcy Code. Accordingly, the Debtor believes the Plan satisfies the requirements of the best interests test set forth in section 1129(a)(7) of the Bankruptcy Code.

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V. NONCONSENSUAL CONFIRMATION

In the event that an Impaired Class of Claims does not accept the Plan, the Bankruptcy Court may nevertheless confirm the Plan if all other requirements under section 1129(a) of the Bankruptcy Code are satisfied, and if, with respect to each Impaired Class that has not accepted the Plan, the Bankruptcy Court determines that the Plan does not “discriminate unfairly” and is “fair and equitable” with respect to such Class. Confirmation under section 1129(b) of the Bankruptcy Code requires that at least one Impaired Class of Claims accepts the Plan, excluding any acceptance of the Plan by an “insider” (as that term is defined in section 101 of the Bankruptcy Code). In the event an impaired class accepts the Plan, the Debtor may seek confirmation of the Plan notwithstanding the nonacceptance of the other Impaired Classes. In such a case the Debtor would have to demonstrate that the Plan does not “discriminate unfairly” with respect to a non-accepting Class and that it satisfies the “Fair and Equitable” test.

A. No Unfair Discrimination

A plan of reorganization does not “discriminate unfairly” with respect to a non-accepting Class if the value of the cash and/or securities to be distributed to the non-accepting Class is equal or otherwise fair when compared to the value of distributions to other Classes whose legal rights are the same as those of the non-accepting Class. The Debtor believes that the Plan would not discriminate unfairly against any non-accepting Class of Claims or Interests.

B. Fair and Equitable Test

The “fair and equitable” test of section 1129(b) of the Bankruptcy Code requires absolute priority in the payment of claims and interests with respect to any non-accepting Class or Classes.

Unsecured Claims. A plan is fair and equitable with respect to a non-accepting class of unsecured claims if (1) the holder of each claim in such class will receive or retain under the plan property of a value, as of the effective date of the plan, equal to the allowed amount of its claim or (2) holders of claims or interest that are junior to the claims of such creditors will not receive or retain any property under the plan on account of such junior claim or interest.

Equity Interests. A plan is fair and equitable with respect to a non-accepting class of interests if the plan provides that (1) each member of such class receives or retains on account of its interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled, or the value of such interest, or (2) holders of interests that are junior to the interests of such class will not receive or retain any property under the plan on account of such junior interests.

In the event that an impaired Class does not accept the Plan, the Debtor believes and will be prepared to demonstrate at the Confirmation Hearing that the Plan is “fair and equitable” with respect to all Impaired Classes of Claims and Interests, because, the holder of any claim or interest that is junior to the Claims of such class will not receive or retain under the plan on account of such junior claim or interest any property.

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VI. ALTERNATIVES TO THE PLAN

If the Plan is not confirmed by the Bankruptcy Court, the likely alternative, *i.e.*, conversion to chapter 7, should be carefully considered by Creditors. **As explained below, the Debtor strongly believes that the current alternatives are all inferior for Creditors.**

A. Conversion to Chapter 7

An alternative to the confirmation of the Plan would be conversion of the Chapter 11 Case to a liquidation case under chapter 7 of the Bankruptcy Code. Under chapter 7, a trustee would be appointed to administer the Estate, to resolve pending controversies against the Debtor and claims of the Estate against other parties, and to make distributions to Creditors. Any distributions to holders of Claims would be substantially delayed and, in all likelihood, reduced as compared to the anticipated results of confirmation of the Plan. A chapter 7 trustee would be entitled to compensation in accordance with the scale set forth in section 326 of the Bankruptcy Code. A chapter 7 trustee might also seek to retain new professionals, including attorneys and accountants, in order to resolve any disputed Claims and possibly to pursue claims of the Estate against other parties.

There is a strong probability that such chapter 7 trustee would not possess any particular knowledge of the Debtor's businesses. The trustee and any such new professionals retained by the trustee would need to expend time gaining familiarity with the Chapter 11 Case, which could result in duplication of effort, increased expense, and delay in payment to Creditors. It is likely that the Debtor's businesses would be shut down and that the value of the Debtor's assets would be severely reduced. In addition, a trustee could commence litigation, but it would be difficult to successfully and effectively prosecute such litigation without substantial funds to finance the litigation, and the causes of action themselves are highly speculative. Under the Bankruptcy Rules, a new bar date for the filing of proofs of claim would have to be set, and additional Claims against the Estate that might now be time-barred (because they were not filed before the applicable bar dates set in the Chapter 11 Case) could be asserted.

In short, while it is not possible to predict with certainty the outcome of any chapter 7 liquidation of the Debtor or the time of any distributions to Creditors due to the many uncertainties and time delays associated with liquidation under chapter 7 of the Bankruptcy Code, the amounts distributable to creditors and interest holders could be substantially reduced, and could be substantially delayed as compared to the Plan. **Accordingly, Creditors should receive more under the Plan, and sooner, than they would following a conversion to chapter 7.**

B. Appointment of a Chapter 11 Trustee

Alternatively, the Court could appoint a chapter 11 trustee. For many of the same reasons discussed above, the Debtor believes that a chapter 11 trustee would be unable to keep the Debtor's business going, and that, as a result, the appointment of a chapter 11 Trustee would lead to the same consequences as conversion to chapter 7, discussed above. **Accordingly, Creditors should receive more under the Plan, and sooner, than they would following the appointment of a chapter 11 trustee.**

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VII. RISK FACTORS

CREDITORS SHOULD CAREFULLY CONSIDER THE FOLLOWING BEFORE DECIDING WHETHER TO VOTE TO ACCEPT OR TO REJECT THE PLAN:

The Bankruptcy Court may not approve the settlements with Giant Channel and Belk, which could affect the Debtor's ability to fund the Plan.

VIII. TAX CONSEQUENCES

The Debtor has not requested a ruling from the Internal Revenue Service or from any other state or local taxing agency with respect to the tax consequences of the confirmation and consummation of the Plan. ACCORDINGLY, ALL HOLDERS OF CLAIMS AND INTERESTS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE CONFIRMATION AND CONSUMMATION OF THE PLAN AS TO THEM. THE DEBTOR AND ITS COUNSEL ARE NOT MAKING ANY REPRESENTATIONS REGARDING THE GENERAL OR PARTICULAR TAX CONSEQUENCES OF THE CONFIRMATION AND CONSUMMATION OF THE PLAN AS TO ANY HOLDER OR ANY CLAIM OR INTEREST, NOR IS THE DEBTOR RENDERING ANY FORM OF LEGAL OPINION AS TO SUCH TAX CONSEQUENCES.

IX. ADDITIONAL INFORMATION

Requests for information and additional copies of this Disclosure Statement, the Ballots and the other materials delivered together herewith should be directed to the Debtor's counsel, Kleinberg, Kaplan, Wolff & Cohen, P.C., 551 Fifth Avenue, New York, New York 10176, Attn.: Robin Greenstein (212) 986-6000. Copies of all pleadings, orders, lists, schedules, proofs of claims or other documents submitted in this case are on file in the Office of the Clerk of the United States Bankruptcy Court at the Alexander Hamilton Custom House, One Bowling Green, New York, NY 10004-1408, and are available for public inspection Monday through Friday, between the hours of 9:00 a.m. and 5:00 p.m., and are available at any time on the Bankruptcy Court's World Wide Web site at <http://www.nysb.uscourts.gov>.

X. RECOMMENDATION

In the Debtor's opinion, the treatment of Creditors under the Plan provides a greater recovery than is likely to be achieved under any other alternatives, including liquidation under chapter 7. **The Debtor believes that it is unlikely that unsecured creditors and Interest Holders would receive any more on account of their claims or interests than (and would likely receive less than) is provided under the Plan.**

THE DEBTOR BELIEVES THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF CREDITORS AND INTEREST HOLDERS, AND URGE EACH CREDITOR AND INTEREST HOLDER ENTITLED TO VOTE TO ACCEPT THE PLAN.

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XI. CONCLUSION

The Debtor believes the Plan is in the best interests of all Creditors and Interest Holders and strongly encourages each holder of Claims against the Debtor to accept the Plan.

Dated: February 24, 2017

/s/ Steven Kattan

Steven Kattan
Madison Maidens, Inc.

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LIQUIDATION ANALYSIS

	For Chapter 11 Case	For Chapter 7 Case
<i>Assets</i>		
Inventory	\$ 200,000.00	\$ 50,000.00
Accounts Receivable	\$ 700,000.00	\$ 350,000.00
Cash	\$ 4,827,046.70	\$ 4,827,046.70
TOTAL ASSETS	\$ 5,727,046.70	\$ 5,227,046.70
<i>Claims</i>		
Administrative Claims	\$ 110,000.00	\$ 200,000.00
Priority Claims	\$ -	\$ -
General Unsecured Claims	\$ 1,400,000.00	\$ 1,400,000.00