IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
CHARMING CHARLIE HOLDINGS INC., *et al.*,[1]	)	Case No. 17-12906 (CSS)
Debtors.	)	(Jointly Administered)

DISCLOSURE STATEMENT FOR THE JOINT CHAPTER 11 PLAN OF REORGANIZATION OF CHARMING CHARLIE HOLDINGS INC. AND ITS DEBTOR AFFILIATES PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

Joshua A. Sussberg, P.C. (admitted *pro hac vice*)
Christopher T. Greco (admitted *pro hac vice*)
Aparna Yenamandra (admitted *pro hac vice*)
Rebecca Blake Chaikin (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, New York 10022
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

- and -

James H.M. Sprayregen, P.C.
KIRKLAND & ELLIS LLP
300 North LaSalle Street
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Domenic E. Pacitti (DE Bar No. 3989)
Michael W. Yurkewicz (DE Bar No. 4165)
KLEHR HARRISON HARVEY BRANZBURG LLP
919 N. Market Street, Suite 1000
Wilmington, Delaware 19801
Telephone: (302) 426-1189
Facsimile: (302) 426-9193

- and -

Morton Branzburg (admitted *pro hac vice*)
KLEHR HARRISON HARVEY BRANZBURG LLP
1835 Market Street, Suite 1400
Philadelphia, Pennsylvania 19103
Telephone: (215) 569-2700
Facsimile: (215) 568-6603

Proposed Counsel to the Debtors and Debtors in Possession

Dated: December 22, 2017

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[1] The debtors in these chapter 11 cases, along with the last four digits of each debtor's federal tax identification number, include: Charming Charlie Canada LLC (0693); Charming Charlie Holdings Inc. (6139); Charming Charlie International LLC (5887); Charming Charlie LLC (0263); Charming Charlie Manhattan LLC (7408); Charming Charlie USA, Inc. (3973); and Poseidon Partners CMS, Inc. (3302). The location of the Debtors' service address is: 5999 Savoy Drive, Houston, Texas 77036.

THE DEBTORS ARE PROVIDING THE INFORMATION IN THIS DISCLOSURE STATEMENT TO HOLDERS OF CLAIMS AND INTERESTS FOR PURPOSES OF SOLICITING VOTES TO ACCEPT OR REJECT THE JOINT PLAN OF REORGANIZATION OF CHARMING CHARLIE HOLDINGS, INC. AND ITS DEBTOR AFFILIATES PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE RELIED UPON OR USED BY ANY ENTITY FOR ANY OTHER PURPOSE. BEFORE DECIDING WHETHER TO VOTE FOR OR AGAINST THE PLAN, EACH HOLDER ENTITLED TO VOTE SHOULD CAREFULLY CONSIDER ALL OF THE INFORMATION IN THIS DISCLOSURE STATEMENT, INCLUDING THE RISK FACTORS DESCRIBED IN ARTICLE X HEREIN.

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THE DEBTORS HAVE NOT AUTHORIZED ANY ENTITY TO GIVE ANY INFORMATION ABOUT OR CONCERNING THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THIS DISCLOSURE STATEMENT. THE DEBTORS HAVE NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

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THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

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I. INTRODUCTION

Charming Charlie Holdings Inc. ("Charming Charlie") and its debtor affiliates, as debtors and debtors in possession (collectively, the "Debtors"), submit this disclosure statement (the "Disclosure Statement") pursuant to section 1125 of the Bankruptcy Code to holders of Claims against and Interests in the Debtors in connection with the solicitation of acceptances with respect to the *Joint Chapter 11 Plan of Reorganization of Charming Charlie Holdings Inc. and Its Debtor Affiliates* (the "Plan"), dated December 21, 2017.[2] A copy of the Plan is attached hereto as **Exhibit A** and incorporated herein by reference. The Plan constitutes a separate chapter 11 plan for Charming Charlie and each of its six affiliated Debtors.

THE DEBTORS, HOLDERS OF APPROXIMATELY 88% OF PREPETITION TERM LOAN CLAIMS, AND CERTAIN OTHER PARTIES SET FORTH IN THE PLAN SUPPORT AGREEMENT (COLLECTIVELY, THE "CONSENTING PARTIES") BELIEVE THAT THE COMPROMISE CONTEMPLATED UNDER THE PLAN IS FAIR AND EQUITABLE AND MAXIMIZES THE VALUE OF THE DEBTORS' ESTATES.

THE DEBTORS AND THE OTHER CONSENTING PARTIES BELIEVE THIS IS THE BEST AVAILABLE ALTERNATIVE FOR COMPLETING THE CHAPTER 11 CASES. THE DEBTORS STRONGLY RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN.

IMPORTANT DATES

- **Date by which the Plan Supplement will be filed setting forth, among other things, the material terms of the Exit ABL Facility and the Exit Term Loan Facility: [___], 2018**
- **Date by which Ballots must be received by the Notice, Claims, and Solicitation Agent: [March 23, 2018]**
- **Date by which objections to the Plan must be filed and served: [March 23, 2018]**

II. PRELIMINARY STATEMENT

The Debtors are a leading specialty retailer, focused on fashion jewelry, handbags, apparel, gifts, and beauty products for women aged 35-55. Headquartered in Houston, Texas, the Debtors currently operate approximately 274 stores nationwide and maintain a burgeoning eCommerce platform. Despite a loyal customer base and an iconic brand, Charming Charlie, like many of its peers, has fallen victim to adverse macroeconomic trends. The general shift away from brick-and-mortar retail (experienced by various retail chains in the last several years, including *Gymboree*, *rue21*, *BCBG*, *True Religion*, *American Apparel*, and *Perfumania*) has been exacerbated by operational missteps. Collectively, these macroeconomic and microeconomic factors have led to underperformance and reduced sales, with consolidated net revenue declining over 22% and EBITDA declining over 75% in the last several fiscal years.

The Debtors have aggressively attacked the challenges of their industry and their business model, including: (a) significant cost-cutting measures in 2016 (designed to reduce costs by approximately $30 million); (b) obtaining periodic covenant relief on their funded debt obligations, to lift onerous borrowing conditions; (c) launching a "Back-to-Basics" strategy (described below); (d) commencing store closings

[2] Capitalized terms used but not otherwise defined in this Disclosure Statement will have the meaning ascribed to such terms in the Plan. **The summary of the Plan provided herein is qualified in its entirety by reference to the Plan. In the case of any inconsistency between this Disclosure Statement and the Plan, the Plan will govern**.

on underperforming stores (as described below, the "Store Closings"); and (e) engaging in constructive discussions with their landlords regarding potential rent concessions, deferrals, and waivers (collectively, and as described below, the "Landlord Negotiations"). Notwithstanding these initiatives, it became clear that these steps were not sufficient to protect the Debtors' long-term sustainability.

Starting in the summer of 2017, the Debtors accelerated their efforts to delever their capital structure. Specifically, and as described in greater detail in the *Declaration of Robert Adamek, Chief Financial Officer of Charming Charlie Holdings Inc., in Support of Chapter 11 Petitions and First Day Motions* [D.I. 4] (the "First Day Declaration"), the Debtors pursued multiple (and parallel) paths to delever their capital structure including, among other efforts, pursuing a potential sale of Charming Charlie's assets, pursuing in court standalone restructuring alternatives with various creditor constituencies, and hybrid alternatives. The Debtors believe a comprehensive restructuring of their funded debt obligations, together with the Store Closings, the Back-to-Basics Strategy, and ongoing productive Landlord Negotiations, in each case consummated pursuant to an expeditious chapter 11 process, collectively put the Debtors on a sustainable path forward.

Ultimately, these efforts culminated in the Plan Support Agreement, dated December 11, 2017, supported by, among others, the Debtors, over Holders of 88% of Prepetition Term Loan Claims (the "Consenting Lenders"), and TSG Consumer Partners, Hancock Park Associates, and Charles J. Chanaratsopon, in each case on behalf of itself and each of its affiliated investment funds or investment vehicles managed or advised by it (collectively, the "Owners"), and the accompanying Term Sheet, reflecting the terms of a comprehensive restructuring supported by the Consenting Parties. The transactions set forth in the Term Sheet were subsequently reflected in the Plan filed contemporaneously herewith (the "Plan").

Collectively, the proposed restructuring reflected in the Plan eliminates approximately $69 million in funded debt obligations from the Debtors' balance sheet (including all prepetition funded debt obligations).

III. OVERVIEW OF THE PLAN AND PLAN SUPPORT AGREEMENT

On December 11, 2017 the Consenting Parties executed the Plan Support Agreement [D.I. 4], together with a Term Sheet, reflecting the material terms of the restructuring. The Plan Support Agreement contemplates that the Debtors will emerge from chapter 11 in approximately 90 business days, and establishes the commitments of each of the Consenting Lenders, the Owners, and the Debtors to support the restructuring and, ultimately, the Plan.

The Plan provides for the reorganization of the Debtors as a going concern. Significantly, the Plan contemplates a significant reduction in long-term debt and annual cash interest payment obligations, and infuses new capital in the form of (a) $20 million new-money, DIP financing (defined in the Plan as the DIP Term Loan New Money Loans); (b) approximately $50 million in exit term loan debt, across two tranches (collectively defined in the Plan as the Exit Term Loan Facility; and (c) exit financing, which shall take the form of either a new revolving credit facility in the aggregate commitment amount of $35 million or, with the consent of the Holders of DIP ABL Claims, a conversion of the DIP ABL Facility (collectively defined in the Plan as the Exit ABL Facility). Ultimately, the Debtors believe consummation of the Plan will result in a stronger, de-levered balance sheet for the Debtors. The key terms of the Plan are set forth below.

A. Overview of DIP Facilities

The Debtors commenced their Chapter 11 Cases with two DIP Facilities, each as described herein and in the Plan: (a) the DIP ABL Facility and (b) the DIP Term Loan Facility. Pursuant to the Interim DIP Order, each of the DIP ABL Facility and DIP Term Loan Facility were approved on an interim basis.

- **DIP ABL Facility**. The DIP ABL Facility consists of a $35 million asset-based loan facility. Pursuant to the Interim DIP Order, all Allowed Prepetition ABL Claims were converted to Allowed DIP ABL Facility Claims (on a dollar-for-dollar basis).

- **DIP Term Loan Facility**. The DIP Term Loan Facility is a $60 million term loan facility, comprised of: (a) $20 million in new-money financing (the "DIP Term Loan New Money Claims") and (b) $40 million on account of "rolled" Prepetition Term Loan Claims held by the DIP Term Loan Lenders (collectively, the "DIP Term Loan Roll-Up Claims"). Pursuant to the Interim DIP Order, the Debtors were authorized to draw $10 million of the DIP Term Loan New Money Claims on an interim basis. The Debtors did not seek to "roll" any amount of the Prepetition Term Loan Claims on an interim basis, but are seeking to do so pursuant to the Final DIP Order.

B. Overview of Treatment of Prepetition Term Loan Claims and Prepetition ABL Claims

As described herein, the Debtors' prepetition capital structure contains two tranches of first lien secured debt: (a) the Prepetition ABL Facility (issued under the Prepetition ABL Agreement) and (b) the Prepetition Term Loans (issued under the Prepetition Term Loan Facility).

The Plan contemplates the following recoveries to Holders of Prepetition ABL Claims and Holders of Prepetition Term Loan Claims:

- **Allowed Prepetition ABL Claims**. Upon entry of the Interim DIP Order, all outstanding Prepetition ABL Claims were converted into Allowed DIP ABL Facility Claims (on a dollar-for-dollar basis). Therefore, there are no outstanding Prepetition ABL Claims, other than contingent indemnification claims.

- **Allowed Prepetition Term Loan Claims**. On the Effective Date, each Holder of an Allowed Prepetition Term Loan Claim will receive, in full and final satisfaction of such claim, and consistent with the terms set forth in the Plan Support Agreement, its Pro Rata share of 25% of New Equity (subject to dilution only on account of New Equity issued in connection with the Management Incentive Plan).

C. Treatment of General Unsecured Claims

The treatment and recovery of Allowed General Unsecured Claims is to be determined. In advance of the hearing to consider approval of the Disclosure Statement, the Debtors will update the Disclosure Statement to provide additional detail regarding the proposed recovery, if any, for Holders of Allowed General Unsecured Claims (such recovery defined herein and in the Plan as the GUC Distribution). Pursuant to the Plan Support Agreement, the recovery for such Holders shall be determined as agreed upon by the Debtors and the Requisite First Lien Lenders. It is possible that Holders of Allowed General Unsecured Claims will not receive any recovery, in which case such Holders shall be deemed to reject the Plan.

D. New Equity

On the Effective Date, after cancelation of the Interests in Charming Charlie, Reorganized HoldCo will issue the New Equity to Holders of Claims as set forth in the Plan (in a tax-efficient manner determined by the Debtors and the Requisite First Lien Lenders). Other than as contemplated through the issuance of the New Equity pursuant to the Plan, there shall exist on the Effective Date no other equity securities, warrants, options, or other agreements to acquire any equity interest in Reorganized HoldCo.

E. Exit Term Loan Facility

On the Effective Date, Reorganized HoldCo will, in a tax-efficient manner, enter into a new, senior secured term loan facility, which will consist of (a) $20 million in "tranche A" term loans and (b) $30 million in "tranche B" term loans (the "Exit Tranche A Term Loans" and the "Exit Tranche B Term Loans," respectively). The material terms of the Exit Tranche A Term Loans and Exit Tranche B Term Loans are set forth below, and the additional terms of the Exit Tranche A Term Loans and Exit Tranche B Term Loans (including any other terms to be negotiated in good faith between the Debtors and the Holders of DIP Term Loan Facility) will be set forth in the Plan Supplement.

- **Exit Tranche A Term Loans**.
  - **Interest**: From the Effective Date until the first anniversary thereof, LIBOR + 5.0% payable in cash and 5% PIK and following the first anniversary after the Effective Date, LIBOR + 10% payable in cash. The LIBOR floor shall be 1.0%.
  - **Amortization**: 2.5% per annum (payable quarterly) beginning in the second year following the Effective Date.
  - **Excess Cash Flow Sweep**: 50%, with payments split *pro rata* between the Exit Tranche A Term Loans and the Exit Tranche B Term Loans.
  - **Security / Priority**: Secured by a first-priority lien on the collateral that currently secures the Prepetition Term Loan Claims and a second-priority lien on the collateral that currently secures the Prepetition ABL Claims. The Exit Tranche A Term Loans shall be *pari passu* with the Exit Tranche B Term Loans.
  - **Rating**: The Debtors will use reasonable efforts to obtain a private rating for the Exit Term Loan Facility.
- **Exit Tranche B Term Loans.**
  - **Interest**: LIBOR + 1.0% in cash and 9.0% PIK. The LIBOR floor shall be 1.0%.
  - **Amortization**: 2.5% per annum (payable quarterly) beginning in the second year following the Effective Date.
  - **Excess Cash Flow Sweep**: 50%, with payments split *pro rata* between the Exit Tranche A Term Loans and the Exit Tranche B Term Loans.
  - **Security / Priority**: Secured by a first-priority lien on the collateral that currently secures the Prepetition Term Loan Claims and a second-priority lien on the collateral that currently secures the Prepetition ABL Claims. The Exit Tranche A Term Loans shall be *pari passu* with the Exit Tranche B Term Loans.

- **Rating**: The Debtors will use reasonable efforts to obtain a private rating for the Exit Term Loan Facility.

F. Exit ABL Facility[3]

On the Effective Date, the Debtors intend to enter into the Exit ABL Facility, which shall be comprised of the Exit ABL Facility. The Exit ABL Facility shall (a) be secured by a first priority lien on, inter alia, the collateral that currently secures the Prepetition ABL Claims and a second priority lien on, inter alia, the collateral that currently secures the Prepetition Term Loan Claims, (b) have material terms and conditions that are substantially similar to those in the Prepetition ABL Credit Agreement, and (c) be acceptable to the Requisite First Lien Lenders. The actual terms of the Exit ABL Facility will be set forth in the Plan Supplement.

G. New Employment Agreements

On the Effective Date, Reorganized HoldCo shall enter into new employment agreements with each of (a) Charming Charlie's current Chief Financial Officer; (b) Charming Charlie's current Executive Vice President for Merchandising; (c) Charming Charlie's current Senior Vice President for Real Estate, Legal, and (d) Charming Charlie's current Senior Vice President for Human Resources (collectively, the "Covered Persons"), on terms satisfactory to Reorganized HoldCo and each of the Covered Person, in substantially the form included in the Plan Supplement.

H. Management Incentive Plan

The percentage of New Equity to be set aside for the Management Incentive Plan shall be up to ten percent of the New Equity contemplated by the Plan, on a fully diluted basis, to be issued to management of the Reorganized Debtors after the Effective Date on terms and conditions to be determined by the New Board. The Confirmation Order shall authorize the New Board to adopt the Management Incentive Plan. The issuance of New Equity under the Management Incentive Plan, if any, will dilute all of the New Equity, including the New Equity issued to Holders or Prepetition Term Loan Claims and DIP Term Loan Facility Claims.

I. Distributions

The Plan contemplates the following distributions to Holders of Allowed Claims:

- ***Allowed Other Priority Claims and Allowed Other Secured Claims***. Allowed Other Priority Claims and Allowed Other Secured Claims will be rendered Unimpaired.

- ***Allowed DIP ABL Facility Claims***. Each Holder of an Allowed DIP ABL Facility Claim will receive, on the Effective Date, in full and final satisfaction of its Claim, its Pro Rata share of either (a) indefeasible payment in full, in cash, from the proceeds of the New Revolving Credit Facility or (b) with the consent of each such Holder, its Pro Rata share of the ABL Exit Facility.

[3] Confirmation of the Plan shall be deemed approval of the Exit Facilities and the Exit Facility Documents, and all transactions contemplated thereby, and all actions to be taken, undertakings to be made, and obligations to be incurred by the Reorganized Debtors in connection therewith, including the payment of all fees, indemnities, and expenses provided for therein, and authorization of the Reorganized Debtors to enter into and execute the Exit Facility Documents and such other documents as may be required to effectuate the Exit Facilities. Prior to the Effective Date, the Debtors will use reasonable efforts to obtain a private rating for the Exit Term Loan Facility.

- ***Allowed DIP Term Loan Facility Claims***. Each Holder of an Allowed DIP Term Loan Facility Claim will receive, in full and final satisfaction of its Claim, its Pro Rata share of (a) Exit Tranche A Term Loans, on account of its aggregate principal amount of DIP Term Loan New Money Claims; (b)(i) Exit Tranche B Term Loans and (ii) 75% of New Equity (subject to dilution only on account of the New Equity issued in connection with the Management Incentive Plan), in each case on account of its DIP Term Loan Roll-Up Claim; and (c) Cash in an amount equal to any accrued and unpaid interest payable under the DIP Term Loan Facility.

- ***Allowed Prepetition ABL Claims***. All outstanding Prepetition ABL Claims were rolled into the DIP ABL Facility pursuant to, and upon entry of, the Interim DIP Order. Therefore, other than contingent indemnification claims, there are no outstanding Prepetition ABL Claims and the Prepetition ABL Claims shall not be a Class under the Plan.

- ***Allowed Prepetition Term Loan Claims***. The Debtors are requesting $40 million of Allowed Prepetition Term Loan Claims held by the DIP Term Loan Lenders to be converted into $40 million of DIP Term Loan Roll-Up Claims pursuant to the Final DIP Order. The remaining Allowed Prepetition Term Loan Claims will receive their Pro Rata share of 25% of New Equity (subject to dilution only on account of the New Equity issued in connection with the Management Incentive Plan).

- ***Allowed General Unsecured Claims***. The treatment of Allowed General Unsecured Claims is to be determined.

- ***Equity Interests***. Equity Interests in Charming Charlie will be discharged and canceled with no distribution and Intercompany Interests will be reinstated.

J. The Plan Supplement

On or prior to the date that is two weeks before the date of the Confirmation Hearing, the Debtors will file the Plan Supplement, which is the compilation of documents and forms of documents, schedules, and exhibits to the Plan, as amended, supplemented, or modified from time to time in accordance with the terms hereof, the Bankruptcy Code, the Bankruptcy Rules, and the Plan Support Agreement. The Plan Supplement will include: (a) the Exit ABL Documentation (or a term sheet setting forth the material terms thereof); (b) the New Employment Agreements; (c) the Assumed Executory Contract / Unexpired Lease List and the Rejected Executory Contract / Unexpired Lease List; (d) the New Organizational Documents; (e) the Exit Term Loan Documentation (or a term sheet setting forth the material terms thereof); (f) the Plan Support Agreement; (g) to the extent known, the identity of the members of the New Board; (h) a list of retained Causes of Action; and (i) any and all other documentation necessary to effectuate the Restructuring Transactions or that is contemplated by the Plan.

The substantive terms of the Plan Supplement documents will be material to the treatment that the Holders of Claims are receiving under the Plan.

K. Releases

The Plan contains certain releases (as described more fully in IV.M hereof), including mutual releases between the Debtors, the Consenting Parties, the Holders of Prepetition ABL Claims, the Holders of Prepetition Term Loan Claims, the Existing Equity Holders, the DIP Agents, the DIP Lenders, all agents and lenders under the Exit ABL Facility, and each of the directors, officers, current and former shareholders (regardless of whether such interests are held directly or indirectly), partners, managers, officers, principals, members, employees, agents, affiliates, advisory board members, parents,

subsidiaries, predecessors, successors, heirs, executors and assignees, attorneys, financial advisors, investment bankers, accountants, consultants, and other professionals or representatives each solely in their capacities as such. However, any Holder of a Claim that "opts" out of the release set forth in its Ballot shall not be considered to be included in the Plan definition of "Released Parties."

The Plan also provides that (a) to the fullest extent permitted by law, all Holders of Claims entitled to vote for or against the Plan that do not vote to reject the Plan, (b) all Holders of Claims and Interests to the maximum extent permitted by law, and (c) each Holder of a claim that is Unimpaired and presumed to accept the Plan will be deemed to have expressly, unconditionally, generally, individually, and collectively released and discharged all Claims and Causes of Action against the Debtors and the Released Parties.

IV. QUESTIONS AND ANSWERS REGARDING THIS DISCLOSURE STATEMENT AND THE PLAN

A. What is Chapter 11?

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor rehabilitation, chapter 11 promotes equality of treatment for creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the date the chapter 11 case is commenced. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

Consummating a plan is the principal objective of a chapter 11 case. A bankruptcy court's confirmation of a plan binds the debtor, any person acquiring property under the plan, any creditor or equity interest holder of the debtor, and any other entity as may be ordered by the bankruptcy court. Subject to certain limited exceptions, the order issued by a bankruptcy court confirming a plan provides for the treatment of the debtor's liabilities in accordance with the terms of the confirmed plan.

B. Why are the Debtors Sending me this Disclosure Statement?

The Debtors are seeking to obtain Bankruptcy Court approval of the Plan. Before soliciting acceptances of the Plan, section 1125 of the Bankruptcy Code requires the Debtors to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the Plan. This Disclosure Statement is being submitted in accordance with these requirements.

C. Am I entitled to vote on the Plan?

Your ability to vote on, and your distribution under, the Plan, if any, depends on what type of Claim or Interest you hold. Each category of holders of Claims or Interests, as set forth in Article III of the Plan pursuant to section 1122(a) of the Bankruptcy Code, is referred to as a "Class." Each Class's respective voting status is set forth below.

Class	Claim	Status	Voting Rights
1	Other Priority Claims	Unimpaired	Presumed to Accept
2	Other Secured Claims	Unimpaired	Presumed to Accept
3	Prepetition Term Loan Claims	Impaired	Entitled to Vote
4	General Unsecured Claims	Impaired	[___]
5	Intercompany Claims	Unimpaired / Impaired	Presumed to Accept / Deemed to Reject
6	Equity Interests in HoldCo	Impaired	Deemed to Reject
7	Intercompany Interests	Unimpaired	Presumed to Accept
8	Section 510(b) Claims	Impaired	Deemed to Reject

D. What will I receive from the Debtors if the Plan is consummated?

The following chart provides a summary of the anticipated recovery to holders of Claims and Interests under the Plan. Any estimates of Claims and Interests in this Disclosure Statement may vary from the final amounts allowed by the Bankruptcy Court. Your ability to receive distributions under the Plan depends upon the ability of the Debtors to obtain Confirmation and meet the conditions necessary to consummate the Plan.

THE PROJECTED RECOVERIES SET FORTH IN THE TABLE BELOW ARE ESTIMATES ONLY AND THEREFORE ARE SUBJECT TO CHANGE BASED UPON FACTORS RELATED TO THE DEBTORS' BUSINESS OPERATIONS AND GENERAL ECONOMIC CONDITIONS. ACTUAL RECOVERIES FOR ALL CREDITORS ARE SUBJECT TO MATERIAL CHANGE FROM THOSE PRESENTED.

FOR A COMPLETE DESCRIPTION OF THE DEBTORS' CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS, REFERENCE SHOULD BE MADE TO THE ENTIRE PLAN.[4]

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
	Administrative Claims	Subject to the provisions of sections 328, 330(a), and 331 of the Bankruptcy Code, except to the extent that a Holder of an Allowed General Administrative Claim and the applicable Debtor(s) agree to less favorable treatment with respect to such Allowed General Administrative Claim, each Holder of an Allowed General Administrative Claim will be paid the full unpaid amount of such Allowed Administrative Claim in Cash: (a) on the	N/A	100.0%

4 The recoveries set forth below may change based upon changes in the amount of Claims that are "Allowed" as well as other factors related to the Debtors' business operations and general economic conditions. "Allowed" means with respect to any Claim or Interest, except as otherwise provided herein, a Claim or Interest allowed under the Plan, under the Bankruptcy Code, as applicable, or by a Final Order.

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
		Effective Date or as soon as reasonably practicable thereafter or, if not then due, when such Allowed General Administrative Claim is due or as soon as reasonably practicable thereafter; (b) if a General Administrative Claim is Allowed after the Effective Date, on the date such General Administrative Claim is Allowed or as soon as reasonably practicable thereafter or, if not then due, when such Allowed General Administrative Claim is due or as soon as reasonably practicable thereafter; (c) at such time and upon such terms as may be agreed upon by such Holder and the Debtors or the Reorganized Debtors, as the case may be; or (d) at such time and upon such terms as set forth in an order of the Bankruptcy Court; provided that Allowed General Administrative Claims that arise in the ordinary course of the Debtors' business shall be paid in full in Cash in the ordinary course of business in accordance with the terms and subject to the conditions of any controlling agreements, course of dealing, course of business, or industry practice.		
1	Other Priority Claims	Except to the extent that a Holder of an Allowed Other Priority Claim against the Debtors agrees to less favorable treatment, in exchange for full and final satisfaction, settlement, release, and discharge of each Other Priority Claim against the Debtors, each Holder of such Allowed Other Priority Claim shall be paid in full in Cash on or as as reasonably practicable after (i) the Effective Date, (ii) the date on which such Other Priority Claim becomes an Allowed Other Priority Claim, or (iii) such other date as may be ordered by the Bankruptcy Court	N/A	100.0%
2	Other Secured Claims	Except to the extent that a Holder of an Allowed Other Secured Claim agrees to less favorable treatment, in exchange for full and final satisfaction, settlement, release, and discharge of each Other Secured Claim, each	N/A	100.0%

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
		Holder of an Allowed Other Secured Claim, at the option of the applicable Debtor with the consent of the Requisite First Lien Lenders, shall (i) be paid in full in Cash including the payment of any interest required to be paid under section 506(b) of the Bankruptcy Code, (ii) receive the collateral securing its Allowed Other Secured Claim, (iii) receive Reinstatement of such Allowed Other Secured Claim, or (iv) receive other treatment rendering such claim Unimpaired.		
3	Prepetition Term Loan Claims	Except to the extent that a Holder of an Allowed Prepetition Term Loan Claim agrees to less favorable treatment, in exchange for full and final satisfaction, settlement, release, and discharge of each Prepetition Term Loan Claim, on or as reasonably practicable after the Effective Date, each Holder of an Allowed Prepetition Term Loan Claim shall receive, up to the Allowed amount of its Prepetition Term Loan Claim, its Pro Rata share of 25 percent of the New Equity (subject to dilution only by New Equity issued in connection with the Management Incentive Plan).	$90,068,705.10 in principal amount	[___]%
4	General Unsecured Claims	In full and final satisfaction, settlement, release, and discharge of, and in exchange for, each Allowed General Unsecured Claim, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share of the GUC Distribution	N/A	TBD
5	Intercompany Claims	Intercompany Claims shall be, at the option of the applicable Debtor with the consent of the Requisite First Lien Lenders, either: (i) Reinstated; or (ii) canceled and released without any distribution on account of such Claims.	N/A	0.0%/100.0%

SUMMARY OF EXPECTED RECOVERIES				
Class	**Claim/Equity Interest**	**Treatment of Claim/Equity Interest**	**Projected Amount of Claims**	**Projected Recovery Under the Plan**
6	Equity Interests in HoldCo	On the Effective Date, all Equity Interests in HoldCo shall be cancelled without any distribution on account of such Equity Interests. Notwithstanding the foregoing, the Owners are party to, and have rights and obligations under, the Plan Support Agreement, and any of the Owners may object to the Plan solely on the basis that any motions, adversary proceedings, contested matters, or litigation with respect to the ability of any Owner to utilize its worthless stock deduction should be resolved prior to the Effective Date without breaching such Plan Support Agreement.	N/A	0%
7	Intercompany Interests	Intercompany Interests shall be Reinstated and the legal, equitable and contractual rights to which Holders of Intercompany Interests are entitled shall remain unaltered to the extent necessary to implement the Plan.	N/A	100%
8	Section 510(b) Claims	Except to the extent that a Holder of an Allowed Section 510(b) Claim agrees to less favorable treatment, in exchange for full and final satisfaction, settlement, release, and discharge of its Section 510(b) Claims, each Holder of an Allowed Section 510(b) Claim shall be treated as if such Holder was a Holder of Allowed Equity Interests in HoldCo.	N/A	0.0%

E. What will I receive from the Debtors if I hold an Allowed Administrative Claim, or a Priority Tax Claim?

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims have not been classified and, thus, are excluded from the Classes of Claims and Interests set forth in Article III of the Plan. Administrative Claims will be satisfied as set forth in Article II.A of the Plan, and Priority Tax Claims will be satisfied as set forth in Article II.C of the Plan.

F. Are any regulatory approvals required to consummate the Plan?

No. There are no known regulatory approvals that are required to consummate the Plan.

G. What happens to my recovery if the Plan is not confirmed or does not go effective?

In the event that the Plan is not confirmed or does not go effective, there is no assurance that the Debtors will be able to reorganize their businesses. It is possible that any alternative to the Plan may

provide holders of Claims and Interests with less than they would have received pursuant to the Plan. For a more detailed description of the consequences of an extended chapter 11 case, or of a liquidation scenario, *see* "Confirmation of the Plan—Best Interests of Creditors/Liquidation Analysis," which begins on page 42 of this Disclosure Statement, and the Liquidation Analysis that the Debtors will file as **Exhibit F** to the Disclosure Statement in advance of the hearing to consider approval of the Disclosure Statement.

H. If the Plan provides that I get a distribution, do I get it upon Confirmation or when the Plan goes effective, and what is meant by "Confirmation," "Effective Date," and "Consummation?"

"Confirmation" of the Plan refers to approval of the Plan by the Bankruptcy Court. Confirmation of the Plan does not guarantee that you will receive the distribution indicated under the Plan. After Confirmation of the Plan by the Bankruptcy Court, there are conditions that need to be satisfied or waived so that the Plan can go effective. Initial distributions to holders of Allowed Claims will only be made on the date the Plan becomes effective—the "Effective Date"—or as soon as practicable thereafter, as specified in the Plan. *See* "Confirmation of the Plan," which begins on page 42 of this Disclosure Statement, for a discussion of the conditions precedent to consummation of the Plan.

I. What are the sources of consideration required to fund the Plan?

The Plan will be funded by the following sources of consideration: (a) Cash on hand, including cash from operations and the proceeds of the DIP Facilities, (b) the proceeds of the Exit Facilities, and (c) the New Equity.

From and after the Effective Date, the Reorganized Debtors, subject to any applicable limitations set forth in any post-Effective Date agreement, shall have the right and authority without further order of the Bankruptcy Court to raise additional capital and obtain additional financing as the boards of directors of the applicable Reorganized Debtors deem appropriate.

J. Are there risks to owning the New Equity upon emergence from chapter 11?

Yes. *See* "Risk Factors," which begins on page 34 of this Disclosure Statement.

K. Is there potential litigation related to the Plan?

Parties in interest may object to the approval of this Disclosure Statement and may object to Confirmation of the Plan as well, which objection potentially could give rise to litigation. *See* Article X.A.1, which begins on page 34 of this Disclosure Statement.

In the event that it becomes necessary to confirm the Plan over the objection of certain creditors or rejecting Classes of Claims, the Debtors may seek confirmation of the Plan notwithstanding such objections or rejection. With respect to rejecting Classes of Claims, the Bankruptcy Court may confirm the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an impaired Class if it determines that the Plan satisfies section 1129(b) of the Bankruptcy Code. *See* Article XII.E, which begins on page 43 of this Disclosure Statement.

L. What is the Management Incentive Plan and how will it affect the distribution I receive under the Plan?

As soon as reasonably practicable following the Effective Date, the New Board shall adopt the Management Incentive Plan. The New Equity issued in connection with the Management Incentive Plan dilutes the recovery to certain Holders as set forth in the Plan.

M. Will there be releases and exculpation granted to parties in interest as part of the Plan?

Yes, the Plan proposes that the Debtors and the Reorganized Debtors will release the Released Parties, that the Releasing Parties will release the Released Parties, and that the Exculpated Parties will be exculpated. The Debtors' releases, third-party releases, and exculpation provisions included in the Plan (as reflected below) are an integral part of the Debtors' overall restructuring efforts and were an essential element of the negotiations between the Debtors and the Consenting Parties in obtaining their support for the Plan pursuant to the terms of the Plan Support Agreement.

As defined in the Plan, "Released Parties" means, collectively: the Debtors and the Debtors' current officers and directors as well as any former independent directors, the Prepetition ABL Agent, the Prepetition Term Loan Agent, the Prepetition ABL Lenders, the Prepetition Term Loan Lenders, the Owners, the DIP Agents, the DIP Lenders, the agents and lenders under the Exit Facilities, the Consenting Lenders, any party to the Plan Support Agreement, the Existing Equity Holders, and with respect to each of the Entities listed above, such Entity's predecessors, successors, assigns, direct and indirect subsidiaries, affiliates, current and former officers and directors, principals, shareholders, employees, members, partners, managers, agents, advisory board members, attorneys, financial advisors, investment bankers, accountants, consultants, and other professionals or representatives each solely in their capacities as such; provided, however, that any Holder of a Claim that "opts" out of the release set forth in its Ballot shall not be considered to be included in the definition of "Released Parties.

As defined in the Plan, "Releasing Parties" means, collectively: the Debtors and the Debtors' current officers and directors as well as any former independent directors, the Prepetition ABL Agent, the Prepetition Term Loan Agent, the Prepetition ABL Lenders, the Prepetition Term Loan Lenders, the Owners, the DIP Agents, the DIP Lenders, the agents and lenders under the Exit Facilities, the Consenting Lenders, any party to the Plan Support Agreement, the Existing Equity Holders, each Holder of a Claim that votes to accept the Plan and does not affirmatively elect to "opt out" of being a Releasing Party and Released Party on its Ballot, each Holder of a Claim entitled to vote for or against the Plan that votes to reject the Plan but does not affirmatively elect to "opt out" of being a Releasing Party, and with respect to each of the Entities listed above, such Entity's predecessors, successors, assigns, direct and indirect subsidiaries, affiliates, current and former officers and directors, principals, shareholders, employees, members, partners, managers, agents, advisory board members, attorneys, financial advisors, investment bankers, accountants, consultants, and other professionals or representatives each solely in their capacities as such.

As defined in the Plan, "Exculpated Parties" means, collectively, (a) the Exculpated Fiduciaries and (b) the Section 1125(e) Parties. The Exculpated Fiduciaries means, collectively each of the following in their respective capacities as such: (a) the Debtors; (b) the Reorganized Debtors; and (c) with respect to each of (a) and (b) to the extent they were employed in such capacity on or after the Petition Date, such Entity's directors, officers, partners, managers, trustees, assigns, employees, agents, advisory board members, predecessors, successors, heirs, executors and assignees, attorneys, financial advisors, investment bankers, accountants, consultants and other professionals or representatives. The Section 1125(e) Parties means, collectively, each of the following in their respective capacities as such (a) the DIP

Agents, (b) the DIP Lenders, (c) the Prepetition ABL Agent, (d) the Prepetition ABL Lenders, (e) the Prepetition Term Loan Agent, (f) the Prepetition Term Loan Lenders, (g) the Exit ABL Agent, (h) the Exit ABL Lenders, (i) the Exit Term Loan Agent, (j) the Exit Term Loan Lenders, (k) the Existing Equity Holders, (l) the Consenting Lenders, (m) the Owners, (n) the Debtors' principals, members, affiliates, parents, and subsidiaries; and (o) with respect to each of the Entities named in (a) through (n) above, such Entity's directors, officers, current and former shareholders (regardless of whether such interests are held directly or indirectly), partners, managers, trustees, assigns, principals, members, employees, agents, affiliates, advisory board members, parents, subsidiaries, predecessors, successors, heirs, executors and assignees, attorneys, financial advisors, investment bankers, accountants, consultants and other professionals or representatives.

All of the Released Parties and the Exculpated Parties have made substantial and valuable contributions to the Debtors' restructuring through efforts to negotiate and implement the Plan, which will maximize and preserve the going-concern value of the Debtors for the benefit of all parties in interest. Accordingly, each of the Released Parties and the Exculpated Parties warrants the benefit of the release and exculpation provisions.

Each holder of a Claim that affirmatively votes to accept the Plan will be deemed to have expressly, unconditionally, generally, individually, and collectively released and discharged all Claims and Causes of Action against the Debtors and the Released Parties. The releases represent an integral element of the Plan.

Based on the foregoing, the Debtors believe that the releases and exculpations in the Plan are necessary and appropriate and meet the requisite legal standard promulgated by the United States Court of Appeals for the Third Circuit. Moreover, the Debtors will present evidence at the Confirmation Hearing to demonstrate the basis for and propriety of the release and exculpation provisions. As set forth in Section X herein, the Releases (as well as the definitions of Released Parties and Releasing Parties) are subject to approval by the Bankruptcy Court at the Confirmation Hearing.

1. *Discharge of Claims and Termination of Equity Interests*

Pursuant to and to the fullest extent permitted by section 1141(d) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan, the distributions, rights, and treatment that are provided in the Plan shall be in full and final satisfaction, settlement, release, and discharge, effective as of the Effective Date, of all Equity Interests and Claims of any nature whatsoever, including any interest accrued on Claims from and after the Petition Date, whether known or unknown, against, liabilities of, Liens on, obligations of, rights against the Debtors, the Reorganized Debtors or any of their assets or properties, regardless of whether any property shall have been distributed or retained pursuant to the Plan on account of such Claims, including demands, liabilities, and Causes of Action that arose before the Effective Date, any contingent or non-contingent liability on account of representations or warranties issued on or before the Effective Date, and all debts of the kind specified in sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, in each case whether or not: (1) a Proof of Claim or Equity Interest is filed or deemed filed pursuant to section 501 of the Bankruptcy Code; (2) a Claim or Equity Interest is Allowed; or (3) the Holder of such Claim or Equity Interest has accepted the Plan. Except as otherwise provided herein, any default by the Debtors or their Affiliates with respect to any Claim or Equity Interest that existed immediately prior to or on account of the filing of the Chapter 11 Cases shall be deemed cured on the Effective Date. The Confirmation Order shall be a judicial determination of the discharge of all Claims and Interests subject to the Effective Date occurring, except as otherwise expressly provided in the Plan. For the avoidance of doubt, nothing in Article IX.A. of the Plan shall affect the rights of Holders of Claims and Interests to seek to enforce the Plan, including the distributions to which Holders of Allowed Claims and Interests are entitled under the Plan.

Pursuant to Bankruptcy Rule 9019 and in consideration for the distributions and other benefits provided pursuant to the Plan, the provisions of the Plan shall constitute a good faith compromise of all Claims, Interests, and controversies relating to the contractual, legal, and subordination rights that a Holder of a Claim or Interest may have with respect to any Allowed Claim or Interest, or any distribution to be made on account of such Allowed Claim or Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Interests, and controversies, as well as a finding by the Bankruptcy Court that such compromise or settlement is in the best interests of the Debtors, their Estates, and Holders of Claims and Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, pursuant to Bankruptcy Rule 9019, without any further notice to or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Reorganized Debtors may compromise and settle Claims against the Debtors and their Estates and Causes of Action against other Entities.

2. *Releases by the Debtors*

PURSUANT TO SECTION 1123(B) OF THE BANKRUPTCY CODE, AND EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THE PLAN, FOR GOOD AND VALUABLE CONSIDERATION, INCLUDING THE SERVICE OF THE RELEASED PARTIES TO FACILITATE THE EXPEDITIOUS REORGANIZATION OF THE DEBTORS AND THE IMPLEMENTATION OF THE RESTRUCTURING CONTEMPLATED BY THE PLAN, PURSUANT TO THE CONFIRMATION ORDER AND ON AND AFTER THE EFFECTIVE DATE, THE RELEASED PARTIES AND THEIR RESPECTIVE PROPERTY ARE CONCLUSIVELY, ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY, AND FOREVER DEEMED RELEASED, ACQUITTED AND DISCHARGED BY THE DEBTORS, THE REORGANIZED DEBTORS AND THE DEBTORS' ESTATES FROM ANY AND ALL CLAIMS, DEBTS, OBLIGATIONS, RIGHTS, SUITS, DAMAGES, DEBTS, CAUSES OF ACTION, REMEDIES, AND LIABILITIES WHATSOEVER, INCLUDING ANY DERIVATIVE CLAIMS ASSERTED OR ASSERTABLE ON BEHALF OF THE DEBTORS, WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, MATURED OR UNMATURED, EXISTING OR HEREINAFTER ARISING, IN LAW, EQUITY, CONTRACT, TORT, OR OTHERWISE, BY STATUTE, VIOLATIONS OF FEDERAL OR STATE SECURITIES LAWS OR OTHERWISE THAT THE DEBTORS, THE REORGANIZED DEBTORS, THE ESTATES OR THEIR AFFILIATES WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT IN THEIR OWN RIGHT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR ON BEHALF OF THE HOLDER OF ANY CLAIM OR EQUITY INTEREST OR OTHER ENTITY, BASED ON OR RELATING TO, OR IN ANY MANNER ARISING FROM, IN WHOLE OR IN PART, THE DEBTORS (INCLUDING THE MANAGEMENT, OWNERSHIP, OR OPERATION THEREOF), THE REORGANIZED DEBTORS, THE CHAPTER 11 CASES, THE DIP AGREEMENTS AND DIP FACILITIES, THE DEBTORS' IN- OR OUT-OF-COURT RESTRUCTURING EFFORTS, THE PURCHASE, SALE OR RESCISSION OF THE PURCHASE OR SALE OF ANY SECURITY OF THE DEBTORS OR THE REORGANIZED DEBTORS, THE SUBJECT MATTER OF, OR THE TRANSACTIONS OR EVENTS GIVING RISE TO, ANY CLAIM OR EQUITY INTEREST THAT IS TREATED IN THE PLAN, THE BUSINESS OR CONTRACTUAL ARRANGEMENTS BETWEEN THE DEBTORS AND ANY RELEASED PARTY (INCLUDING THE PREPETITION ABL FACILITY AND PREPETITION ABL DOCUMENTS), THE RESTRUCTURING OF CLAIMS AND EQUITY INTERESTS PRIOR TO OR IN THE CHAPTER 11 CASES, THE NEGOTIATION, FORMULATION OR PREPARATION OF THE PLAN, THE PLAN SUPPORT AGREEMENT, THE PLAN SUPPLEMENT, THE DISCLOSURE STATEMENT, THE DOCUMENTATION AND NEGOTIATION OF THE EXIT TERM LOAN FACILITY, THE EXIT ABL FACILITY, ANY OTHER EXIT FINANCING FACILITIES, AND ANY RELATED AGREEMENTS, INSTRUMENTS, OR OTHER DOCUMENTS, ANY OTHER ACT OR OMISSION, TRANSACTION, AGREEMENT, EVENT, OR OTHER OCCURRENCE TAKING PLACE ON OR BEFORE THE CONFIRMATION DATE.

THE FOREGOING RELEASE (1) SHALL NOT APPLY TO ANY EXPRESS CONTRACTUAL OR FINANCIAL OBLIGATIONS OR ANY RIGHT OR OBLIGATIONS ARISING UNDER OR THAT IS PART OF THE PLAN OR ANY AGREEMENTS ENTERED INTO PURSUANT TO, IN CONNECTION WITH OR CONTEMPLATED BY THE PLAN, (2) SHALL HAVE NO EFFECT ON THE LIABILITY OF ANY ENTITY THAT RESULTS FROM ANY SUCH ACT OR OMISSION THAT IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED ACTUAL FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT, AND (3) SHALL NOT RELEASE ANY CLAIMS HELD BY ANY NON-DEBTOR. UPON THE EFFECTIVE DATE, INCLUDING THE EFFECTIVENESS OF THE RELEASES SET FORTH HEREIN AND AS WILL BE SET FORTH IN THE PLAN AND CONFIRMATION ORDER, ANY CLAIMS FILED BY AN OWNER WILL BE DEEMED EXPUNGED WITHOUT FURTHER ACTION. FOR THE AVOIDANCE OF DOUBT, THE DEBTORS AND REORGANIZED DEBTORS WILL CONTINUE TO HONOR ALL POSTPETITION AND POST-EFFECTIVE DATE OBLIGATIONS UNDER THE EXIT TERM LOAN FACILITY, THE EXIT ABL FACILITY, ANY OTHER EXIT FINANCING FACILITIES, AND ANY RELATED AGREEMENTS, INSTRUMENTS, OR OTHER DOCUMENTS.

3. *Releases by Holders of Claims and Equity Interests*

AS OF THE EFFECTIVE DATE, EACH OF THE RELEASING PARTIES (REGARDLESS OF WHETHER A RELEASING PARTY IS A RELEASED PARTY) SHALL BE DEEMED TO HAVE CONCLUSIVELY, ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND FOREVER RELEASED, ACQUITTED AND DISCHARGED THE DEBTORS, THE REORGANIZED DEBTORS AND THE RELEASED PARTIES AND THEIR RESPECTIVE PROPERTY FROM ANY AND ALL CLAIMS, OBLIGATIONS, RIGHTS, SUITS, DAMAGES, DEBTS, CAUSES OF ACTION, REMEDIES, AND LIABILITIES WHATSOEVER, INCLUDING ANY DERIVATIVE CLAIMS ASSERTED OR ASSERTABLE ON BEHALF OF A DEBTOR, WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, MATURED OR UNMATURED, EXISTING OR HEREAFTER ARISING, IN LAW, EQUITY, CONTRACT, TORT OR OTHERWISE, BY STATUTE, VIOLATIONS OF FEDERAL OR STATE SECURITIES LAWS OR OTHERWISE THAT SUCH ENTITY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR ON BEHALF OF THE HOLDER OF ANY CLAIM OR EQUITY INTEREST OR OTHER ENTITY, BASED ON OR RELATING TO, OR IN ANY MANNER ARISING FROM, IN WHOLE OR IN PART, THE DEBTORS (INCLUDING THE MANAGEMENT, OWNERSHIP, OR OPERATION THEREOF), THE REORGANIZED DEBTORS, THE DEBTORS' IN- OR OUT-OF-COURT RESTRUCTURING EFFORTS, THE CHAPTER 11 CASES, THE DIP AGREEMENTS AND DIP FACILITIES, THE PURCHASE, SALE OR RESCISSION OF THE PURCHASE OR SALE OF ANY SECURITY OF THE DEBTORS OR THE REORGANIZED DEBTORS, THE SUBJECT MATTER OF, OR THE TRANSACTIONS OR EVENTS GIVING RISE TO, ANY CLAIM OR EQUITY INTEREST THAT IS TREATED IN THE PLAN, THE BUSINESS OR CONTRACTUAL ARRANGEMENTS BETWEEN THE DEBTORS AND ANY RELEASED PARTY (INCLUDING THE PREPETITION ABL FACILITY AND THE PREPETITION ABL DOCUMENTS), THE RESTRUCTURING OF CLAIMS AND EQUITY INTERESTS PRIOR TO OR DURING THE CHAPTER 11 CASES, THE NEGOTIATION, FORMULATION, OR PREPARATION OF THE PLAN, THE PLAN SUPPORT AGREEMENT, THE PLAN SUPPLEMENT, THE DISCLOSURE STATEMENT, THE DOCUMENTATION AND NEGOTIATION OF THE EXIT TERM LOAN FACILITY, THE EXIT ABL FACILITY, ANY OTHER EXIT FINANCING FACILITIES, AND ANY RELATED AGREEMENTS, INSTRUMENTS OR OTHER DOCUMENTS, ANY OTHER ACT OR OMISSION, TRANSACTION, AGREEMENT, EVENT, OR OTHER OCCURRENCE TAKING PLACE ON OR BEFORE THE CONFIRMATION DATE.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE RELEASE SET FORTH ABOVE DOES NOT RELEASE (A) ANY OBLIGATION OF THE DEBTORS OR THE REORGANIZED DEBTORS ARISING UNDER OR IN CONNECTION WITH THE EXIT FACILITIES, (B) ANY POST-EFFECTIVE DATE OBLIGATIONS OF ANY PARTY OR ENTITY UNDER THE PLAN OR ANY DOCUMENT, INSTRUMENT OR AGREEMENT (INCLUDING THOSE SET FORTH IN THE PLAN SUPPLEMENT) EXECUTED TO IMPLEMENT THE PLAN (INCLUDING, FOR THE AVOIDANCE OF DOUBT, POST-EFFECTIVE DATE OBLIGATIONS ARISING UNDER OR IN CONNECTION WITH THE DIP TERM LOAN FACILITY, THE EXIT TERM LOAN FACILITY, THE EXIT ABL FACILITY, ANY OTHER EXIT FACILITIES, AND ANY RELATED AGREEMENTS, INSTRUMENTS, OR OTHER DOCUMENTS), OR (C) THE RIGHT TO RECEIVE DISTRIBUTIONS FROM THE DEBTORS OR THE REORGANIZED DEBTORS ON ACCOUNT OF AN ALLOWED CLAIM AGAINST THE DEBTORS PURSUANT TO THIS PLAN.

NOTWITHSTANDING THE FOREGOING, THE DEBTORS AND THE REORGANIZED DEBTORS WILL CONTINUE TO HONOR ALL POSTPETITION AND POST-EFFECTIVE DATE OBLIGATIONS UNDER ANY ASSUMED EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN ACCORDANCE WITH THEIR TERMS, REGARDLESS OF WHETHER SUCH OBLIGATIONS ARE LISTED AS A CURE AMOUNT, AND WHETHER SUCH OBLIGATIONS ACCRUED PRIOR TO OR AFTER THE EFFECTIVE DATE, AND NEITHER THE PAYMENT OF CURE NOR ENTRY OF THE CONFIRMATION ORDER SHALL BE DEEMED TO RELEASE THE DEBTORS OR THE REORGANIZED DEBTORS FROM SUCH OBLIGATIONS.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE RELEASE SET FORTH ABOVE (1) DOES NOT RELEASE THE PERSONAL LIABILITY OF ANY OF THE AFOREMENTIONED RELEASED PARTIES FOR ANY STATUTORY VIOLATION OF APPLICABLE TAX LAWS OR BAR ANY RIGHT OF ACTION ASSERTED BY A GOVERNMENTAL TAXING AUTHORITY AGAINST THE AFOREMENTIONED RELEASED PARTIES FOR ANY STATUTORY VIOLATION OF APPLICABLE TAX LAWS AND (2) SHALL HAVE NO EFFECT ON THE LIABILITY OF ANY ENTITY THAT RESULTS FROM ANY SUCH ACT OR OMISSION THAT IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED ACTUAL FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT.

4. *Exculpation*

UPON AND EFFECTIVE AS OF THE EFFECTIVE DATE, THE DEBTORS AND THEIR DIRECTORS, OFFICERS, EMPLOYEES, ATTORNEYS, INVESTMENT BANKERS, FINANCIAL ADVISORS, RESTRUCTURING CONSULTANTS AND OTHER PROFESSIONAL ADVISORS AND AGENTS WILL BE DEEMED TO HAVE SOLICITED ACCEPTANCES OF THIS PLAN IN GOOD FAITH AND IN COMPLIANCE WITH THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE, INCLUDING SECTION 1125(E) OF THE BANKRUPTCY CODE.

EXCEPT WITH RESPECT TO ANY ACTS OR OMISSIONS EXPRESSLY SET FORTH IN AND PRESERVED BY THE PLAN, THE PLAN SUPPLEMENT, OR RELATED DOCUMENTS, THE EXCULPATED FIDUCIARIES (AND, SOLELY TO THE EXTENT APPROPRIATE UNDER AND PROVIDED BY SECTION 1125(E) OF THE BANKRUPTCY CODE, THE SECTION 1125(E) PARTIES), SHALL NEITHER HAVE, NOR INCUR ANY LIABILITY TO ANY ENTITY FOR ANY PREPETITION OR POSTPETITION ACT TAKEN OR OMITTED TO BE TAKEN IN CONNECTION WITH, OR RELATED TO FORMULATING, NEGOTIATING, PREPARING, DISSEMINATING, IMPLEMENTING, ADMINISTERING, CONFIRMING, OR EFFECTING THE PLAN OR ANY CONTRACT, INSTRUMENT, RELEASE OR OTHER AGREEMENT OR DOCUMENT CREATED OR ENTERED INTO IN CONNECTION WITH THE PLAN OR ANY OTHER PREPETITION OR POSTPETITION ACT TAKEN OR OMITTED TO BE TAKEN IN CONNECTION WITH OR IN

CONTEMPLATION OF THE RESTRUCTURING OF THE DEBTORS; *PROVIDED* THAT THE FOREGOING "EXCULPATION" SHALL HAVE NO EFFECT ON THE LIABILITY OF ANY ENTITY THAT RESULTS FROM ANY SUCH ACT OR OMISSION THAT IS DETERMINED IN A FINAL ORDER TO HAVE CONSTITUTED FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT; *PROVIDED*, *FURTHER*, THAT TO THE EXTENT PERMITTED BY APPLICABLE LAW EACH EXCULPATED PARTY SHALL BE ENTITLED TO RELY UPON THE ADVICE OF COUNSEL CONCERNING HIS, HER OR ITS DUTIES PURSUANT TO, OR IN CONNECTION WITH, THE PLAN OR ANY OTHER RELATED DOCUMENT, INSTRUMENT, OR AGREEMENT.

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, INCLUDING WITH REGARD TO THE DISTRIBUTIONS OF NEW EQUITY PURSUANT TO THE PLAN AND, THEREFORE, ARE NOT AND SHALL NOT BE LIABLE AT ANY TIME FOR THE VIOLATIONS 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.

5. *Injunction*

EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THE CONFIRMATION ORDER, ALL ENTITIES WHO HAVE HELD, HOLD, OR MAY HOLD CLAIMS, INTERESTS, CAUSES OF ACTION, OR LIABILITIES THAT: (A) ARE SUBJECT TO COMPROMISE AND SETTLEMENT PURSUANT TO THE TERMS OF THE PLAN; (B) HAVE BEEN RELEASED PURSUANT TO ARTICLE IX.B. OF THIS PLAN; (C) HAVE BEEN RELEASED PURSUANT TO ARTICLE IX.C. OF THIS PLAN, (D) ARE SUBJECT TO EXCULPATION PURSUANT TO ARTICLE IX.D. OF THIS PLAN (BUT ONLY TO THE EXTENT OF THE EXCULPATION PROVIDED IN ARTICLE IX.D. OF THIS PLAN), OR (E) ARE OTHERWISE DISCHARGED, SATISFIED, STAYED OR TERMINATED PURSUANT TO THE TERMS OF THE PLAN, ARE PERMANENTLY ENJOINED AND PRECLUDED, FROM AND AFTER THE EFFECTIVE DATE, FROM COMMENCING OR CONTINUING IN ANY MANNER, ANY ACTION OR OTHER PROCEEDING, INCLUDING ON ACCOUNT OF ANY CLAIMS, INTERESTS, CAUSES OF ACTION, OR LIABILITIES THAT HAVE BEEN COMPROMISED OR SETTLED AGAINST THE DEBTORS, THE REORGANIZED DEBTORS, OR ANY ENTITY SO RELEASED OR EXCULPATED (OR THE PROPERTY OR ESTATE OF ANY ENTITY, DIRECTLY OR INDIRECTLY, SO RELEASED OR EXCULPATED) ON ACCOUNT OF, OR IN CONNECTION WITH OR WITH RESPECT TO, ANY DISCHARGED, RELEASED, SETTLED, COMPROMISED, OR EXCULPATED CLAIMS, INTERESTS, CAUSES OF ACTION, OR LIABILITIES; PROVIDED THAT, FOR THE AVOIDANCE OF DOUBT, NOTHING IN THIS INJUNCTION SHALL PREVENT ANY OWNER FROM UTILIZING ITS WORTHLESS STOCK DEDUCTION IN ACCORDANCE WITH THE PROCEDURES SET FORTH IN SECTION 4(E) OF THE PLAN SUPPORT AGREEMENT.

N. What impact does a potential Claims Bar Date have on my Claim?

On December 21, 2017, the Debtors filed the *Debtors' Motion Seeking Entry of an Order (I) Settling Bar Dates for Filing Proofs of Claim, Including Requests for Payment Under Section 503(b)(9), (II) Establishing Amended Schedules Bar Date and Rejection Damages Bar Date, (III) Approving the Form of and Manner for Filing Proofs of Claim, Including Section 503(b)(9) Requests, and (IV) Approving Form and Manner of Notice Thereof* [D.I. 167], seeking to establish a bar date by which the following entities holding Claims against the Debtors that arose (or that are deemed to have arisen) prior to the Petition Date (including, without limitation, Class 4: General Unsecured Claims), must file proofs

of claim (the "Bar Date"): (a) any entity whose claim against a Debtor is not listed in the applicable Debtor's Schedules or is listed as contingent, unliquidated, or disputed if such entity desires to participate in any of these chapter 11 cases or share in any distribution in any of these chapter 11 cases; (b) any entity that believes that its claim is improperly classified in the Schedules or is listed in an incorrect amount and that desires to have its claim allowed in a different classification or amount other than that identified in the Schedules; (c) any entity that believes that its prepetition claims as listed in the Schedules is not an obligation of the specific Debtor against which the claim is listed and that desires to have its claim allowed against a Debtor other than that identified in the Schedules; and (d) any entity that believes that its claim against a Debtor is or may be an administrative expense pursuant to section 503(b)(9) of the Bankruptcy Code.

In accordance with Bankruptcy Rule 3003(c)(2), if any person or entity that is required, but fails, to file a proof of claim on or before the Bar Date: (a) such person or entity may be forever barred, estopped, and enjoined from asserting such Claim against the Debtors (or filing a proof of claim with respect thereto); (b) the Debtors and their property may be forever discharged from any and all indebtedness or liability with respect to or arising from such Claim; (c) such person or entity may not receive any distribution in the Chapter 11 Cases on account of that Claim; and (d) such person or entity may not be permitted to vote on any plan or plans of reorganization for the Debtors on account of these barred Claims or receive further notices regarding such Claim.

O. What is the deadline to vote on the Plan?

The Voting Deadline is [March 23, 2018] at 4:00 p.m. (prevailing Eastern Time).

P. How do I vote for or against the Plan?

Detailed instructions regarding how to vote on the Plan are contained on the Ballots distributed to holders of Claims that are entitled to vote on the Plan. For your vote to be counted, your ballot must be completed and signed so that it is ***actually received*** by [March 23, 2018] at 5:00 p.m. (prevailing Eastern Time) at the following address:

Charming Charlie Holdings Inc. *et al.* Claims Processing
Rust Consulting/Omni Bankruptcy
5955 De Soto Avenue, Suite 100
Woodland Hills, California 91367

For more detail on voting and solicitation procedures, *see* Article XI of this Disclosure Statement, which begins on page 41 of this Disclosure Statement.

Q. Why is the Bankruptcy Court holding a Confirmation Hearing?

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan and recognizes that any party in interest may object to Confirmation of the Plan.

R. When is the Confirmation Hearing set to occur?

The Bankruptcy Court has scheduled the Confirmation Hearing for [___] at [___] (prevailing Eastern Time). The Confirmation Hearing may be adjourned from time to time without further notice.

Objections to Confirmation of the Plan must be filed and served on the Debtors, and certain other parties, by no later than [March 23, 2018] (prevailing Eastern Time) in accordance with the notice of the

Confirmation Hearing that accompanies this Disclosure Statement and the Disclosure Statement Order attached hereto as **Exhibit C** and incorporated herein by reference.

The Debtors will publish the notice of the Confirmation Hearing, which will contain the deadline for objections to the Plan and the date and time of the Confirmation Hearing, in the *Wall Street Journal*, National Edition, to provide notification to those persons who may not receive notice by mail. The Debtors may also publish the notice of the Confirmation Hearing in such trade or other publications as the Debtors may choose.

S. What is the purpose of the Confirmation Hearing?

The confirmation of a plan of reorganization by a bankruptcy court binds the debtor, any issuer of securities under a plan of reorganization, any person acquiring property under a plan of reorganization, any creditor or equity interest holder of a debtor, and any other person or entity as may be ordered by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order issued by the bankruptcy court confirming a plan of reorganization discharges a debtor from any debt that arose before the confirmation of such plan of reorganization and provides for the treatment of such debt in accordance with the terms of the confirmed plan of reorganization.

T. What is the effect of the Plan on the Debtors' ongoing business?

The Debtors are reorganizing under chapter 11 of the Bankruptcy Code. As a result, Confirmation means that the Debtors will not be liquidated or forced to go out of business. Following Confirmation, the Plan will be consummated on the Effective Date, which is a date selected by the Debtors in consultation with the Requisite First Lien Lenders, that is a Business Day no later than 90 Business Days after the Petition Date (which date may be modified in accordance with the provisions set forth in the Interim DIP Order, the Final DIP Order, and the Plan Support Agreement) on which: (a) no stay of the Confirmation Order is in effect and (b) all conditions specified in Article VIII.A of the Plan have been (i) satisfied or (ii) waived, pursuant to Article VIII.A. of the Plan. *See* Article VIII of the Plan. On or after the Effective Date, and unless otherwise provided in the Plan, the Reorganized Debtors may operate their businesses and, except as otherwise provided by the Plan, may use, acquire, or dispose of property and compromise or settle any Claims, Interests, or Causes of Action without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules. Additionally, upon the Effective Date, all actions contemplated by the Plan will be deemed authorized and approved.

U. Will any party have significant influence over the corporate governance and operations of the Reorganized Debtors?

The existing officers of the Debtors, as of the Petition Date, shall remain in their current capacities as officers of the Reorganized Debtors, subject to the ordinary rights and powers of the New Board to remove or replace them in accordance with the Debtors' organizational documents and any applicable employment agreements.

The New Board will initially consist of directors who will be designated in accordance with the Plan Support Agreement. To the extent known, the identity of the members of the New Board will be disclosed in the Plan Supplement or prior to the Confirmation Hearing. Except to the extent that a member of the board of directors of a Debtor continues to serve as a director of such Reorganized Debtor on the Effective Date, the members of the board of directors of each Debtor prior ot the Effective Date, in their capacities as such, shall have no continuing obligations to the Reorganized Debtors on or after the

Effective Date and each such director will be deemed to have resigned or shall otherwise cease to be a director of the applicable Debtor on the Effective Date. Commencing on the Effective Date, each of the directors and officers of each of the Reorganized Debtors shall serve pursuant to the terms of the applicable New Organizational Documents of such Reorganized Debtor and may be replaced or removed in accordance with such New Organizational Documents.

V. Who do I contact if I have additional questions with respect to this Disclosure Statement or the Plan?

If you have any questions regarding this Disclosure Statement or the Plan, please contact the Debtors' notice, claims, and solicitation agent, Rust Omni:

By regular, hand delivery, or overnight mail mail at:	By electronic mail at:	By telephone at:
Charming Charlie Holdings Inc., et al. Ballot Processing c/o Rust Consulting/Omni Bankruptcy 5955 DeSoto Ave., Suite 100 Woodland Hills, CA 91367.	charmingcharlie@omnimgt.com	818-906-8300

Copies of the Plan, this Disclosure Statement, and any other publicly filed documents in the Chapter 11 Cases are available upon written request to the Debtors' notice, claims, and solicitation agent at the address above or by downloading the exhibits and documents from the website of the Debtors' notice, claims, and solicitation agent at http://www.omnimgt.com/charmingcharlie (free of charge) or the Bankruptcy Court's website at www.deb.uscourts.gov (for a fee).

W. Do the Debtors recommend voting in favor of the Plan?

Yes. The Debtors believe the Plan provides for a larger distribution to the Debtors' creditors than would otherwise result from any other available alternative. The Debtors believe the Plan, which contemplates a significant deleveraging, is in the best interest of all holders of Claims, and that other alternatives fail to realize or recognize the value inherent under the Plan.

X. Who Supports the Plan?

The Plan is supported by, among others, the Debtors, Holders of approximately 88% Prepetition Term Loan Claims, and the Owners, all as set forth in the Plan Support Agreement.

V. IMPORTANT INFORMATION ABOUT THIS DISCLOSURE STATEMENT

A. Additional Important Information

The confirmation and effectiveness of the Plan are subject to certain material conditions precedent described herein and set forth in Article VIII of the Plan. There is no assurance that the Plan will be confirmed, or if confirmed, that the conditions required to be satisfied for the Plan to go effective will be satisfied (or waived).

You are encouraged to read this Disclosure Statement in its entirety, including the section entitled "Risk Factors" and the Plan before submitting your ballot to vote on the Plan.

The Bankruptcy Court's approval of this Disclosure Statement does not constitute a guarantee by the Bankruptcy Court of the accuracy or completeness of the information contained herein or an endorsement by the Bankruptcy Court of the merits of the Plan.

Summaries of the Plan and statements made in this Disclosure Statement are qualified in their entirety by reference to the Plan. The summaries of the financial information and the documents annexed to this Disclosure Statement or otherwise incorporated herein by reference are qualified in their entirety by reference to those documents. The statements contained in this Disclosure Statement are made only as of the date of this Disclosure Statement, and there is no assurance that the statements contained herein will be correct at any time after such date. 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 information contained in this Disclosure Statement is included for purposes of soliciting acceptances to, and Confirmation of, the Plan and may not be relied on for any other purpose. In the event of any inconsistency between the Disclosure Statement and the Plan, the relevant provisions of the Plan will govern.

This Disclosure Statement has not been approved or disapproved by the SEC or any similar federal, state, local or foreign regulatory agency, nor has the SEC or any other agency passed upon the accuracy or adequacy of the statements contained in this Disclosure Statement.

The Debtors have sought to ensure the accuracy of the financial information provided in this Disclosure Statement; however, the financial information contained in this Disclosure Statement or incorporated herein by reference has not been, and will not be, audited or reviewed by the Debtors' independent auditors unless explicitly provided otherwise.

Upon Confirmation of the Plan, certain of the securities described in this Disclosure Statement will be issued without registration under the Securities Act and Securities Exchange Act, or similar federal, state, local, or foreign laws, in reliance on the exemption set forth in section 1145 of the Bankruptcy Code. Other securities may be issued pursuant to other applicable exemptions under the federal securities laws. To the extent exemptions from registration under section 1145 of the Bankruptcy Court do not apply, the securities may not be offered or sold except pursuant to a valid exemption or upon registration under the Securities Act.

The Debtors make statements in this Disclosure Statement that are considered forward-looking statements under federal securities laws. The Debtors consider all statements regarding anticipated or future matters, to be forward-looking statements. Forward-looking statements may include statements about the Debtors':

- business strategy;
- estimated future net reserves and present value thereof;
- technology;
- financial condition, revenues, cash flows, and expenses;
- levels of indebtedness, liquidity, and compliance with debt covenants;
- financial strategy, budget, projections, and operating results;
- the amount, nature, and timing of capital expenditures, including future development costs;

- availability and terms of capital;
- the integration and benefits of asset and property acquisitions or the effects of asset and property acquisitions or dispositions on the Debtors' cash position and levels of indebtedness;
- costs of developing the Debtors' properties and conducting other operations;
- general economic conditions;
- counterparty credit risk;
- the outcome of pending and future litigation;
- uncertainty regarding the Debtors' future operating results; and
- plans, objectives, and expectations;
- variations in the market demand for, and prices of, the Debtors' key product lines;
- uncertainty regarding the liquidity and cost savings generated by the Store Closings;
- inability to predict the success of Landlord Negotiations;
- the adequacy of the Debtors' capital resources and liquidity including, but not limited to, access to additional borrowing capacity under the DIP Facilities and Exit ABL Facility;
- access to capital and general economic and business conditions;
- risks in connection with acquisitions;
- the potential adoption of new governmental regulations that affect the Debtors' businesses; and
- the Debtors' ability to satisfy future cash obligations.

Statements concerning these and other matters are not guarantees of the Reorganized Debtors' future performance. There are risks, uncertainties, and other important factors that could cause the Debtors' actual performance or achievements to be different from those they may project, and the Debtors undertake no obligation to update the projections made herein. These risks, uncertainties, and factors may include: the Debtors' ability to confirm and consummate the Plan; the Debtors' ability to reduce its overall financial leverage; the potential adverse impact of the Chapter 11 Cases on the Debtors' operations, management, and employees, and the risks associated with operating the Debtors' businesses during the Chapter 11 Cases; customer and vendor responses to the Chapter 11 Cases; the Debtors' inability to discharge or settle Claims during the Chapter 11 Cases; general economic, business and market conditions; currency fluctuations; interest rate fluctuations; price increases; exposure to litigation; a decline in the Debtors' market share due to competition or price pressure by customers; the Debtors' ability to implement cost reduction initiatives in a timely manner; the Debtors' ability to divest existing businesses; financial conditions of the Debtors' customers; adverse tax changes; limited access to capital resources; changes in domestic and foreign laws and regulations; trade balance; natural disasters; geopolitical instability; and the effects of governmental regulation on the Debtors' businesses.

VI. THE DEBTORS' CORPORATE HISTORY, STRUCTURE, AND BUSINESS OVERVIEW

A. The Debtors

Headquartered in Houston, Texas, Charming Charlie operates both nationwide and worldwide in brick-and-mortar retail stores, selling accessories, fashion jewelry, holiday-specific products, and handbags. Priced between the prices offered by stores like Claire's, on the phone hand, and Macy's and Kohl's, on the other hand, Charming Charlie's target demographic is women aged 35 to 55. Charming Charlie generates revenue through its brick-and-mortar retail stores (approximately 270 stores located 42 states nationwide) and its growing eCommerce platform. The Debtors have various foreign subsidiaries that are not part of the Chapter 11 Cases and have not filed parallel foreign insolvency proceedings.

B. Assets and Operations

- ***Overview of Supply Chain***. The Debtors maintain an integrated supply chain aimed at ensuring the uninterrupted flow of fresh merchandise to their brick-and-mortar locations. Generally, the Debtors contract with various domestic vendors to design and source the merchandise from foreign manufacturers, located predominantly in the People's Republic of China, India, and Vietnam. In limited circumstances, the Debtors contract with foreign manufacturers directly. Depending on the nature of the Debtors' arrangement with a given vendor or manufacturer, the Debtors ship the merchandise to a warehouse located in Houston, Texas, that serves as the Debtors' distribution center. As discussed in greater detail below, as part of the "Back-to-Basics" strategy, the Debtors are taking active steps to both streamline their vendor base as well as shift to domestic vendors to accelerate receipt of goods.

- "***Back to Basics" Strategy***. Before the Petition Date, the Debtors launched a "Back-to-Basics" strategy consisting of six fundamental components: (a) refocusing on product assortment (*e.g.,* focusing on the five key merchandise categories that have historically proven to be profitable); (b) realigning the vendor base (*e.g.*, a 45% reduction in the vendor base and selectively onboard new vendors); (c) enhancing the customer experience (*e.g.*, re-evaluating in-store product layout, reducing the administrative burden on sales associates); (d) optimizing marketing (*e.g.*, improving the in-store product layout, maximizing the effectiveness of existing market channels); (e) implementing organizational changes (*e.g.*, realigning the Debtors' merchant base to better react to trends); and (f) growing the company's eCommerce offering (*e.g.*, creating a more synchronized experience between the in-store and online presence). Additional information regarding the Debtors' "Back-to-Basics" Strategy is set forth in the First Day Declaration.

- ***Real Estate Footprint***. As detailed in the Debtors' Motion Seeking Entry of Interim and Final Orders (I) Authorizing the Debtors to Assume the Agency Agreement, (II) Approving Procedures for Store Closing Sales, and (III) Granting Related Relief [D.I. 11], which was approved on an interim basis on December 13, 2017 [D.I. 99], the Debtors commenced the process of closing 97 stores in late November 2017. Prior to commencing the Store Closings, the Debtors actively engaged with the respective landlords on the timing of the commencement of Store Closings, the expected vacancy date, and the appropriate signage. The Debtors expect the Store Closings of the aforementioned 97 stores to be complete by December 31, 2017, and expect that all 97 stores will be vacated by such date. As a result, on the Petition Date, the Debtors filed the Debtors' Motion Seeking Entry of an Order (I) Authorizing (A) the Rejection of Certain Unexpired Leases and (B) the Abandonment of Certain Personal Property, Each Effective Nunc Pro Tunc to December 31, 2017 [D.I. 19],

which is noticed to be heard on January 11, 2017, and which seeks relief solely with respect to such 97 stores. The Debtors currently intend to continue operating the remaining approximately 240 locations as go-forward locations, subject to the Landlord Negotiations.

- ***Landlord Negotiations***. Simultaneously with the commencement of Store Closings, the Debtors commenced discussions with their go-forward landlords, in the hopes of obtaining critical relief with respect to postpetition rent obligations to ease constraints on the Debtors' liquidity during their Chapter 11 Cases. Those discussions are ongoing.

C. Prepetition Capital Structure

As of the Petition Date, Charming Charlie's significant funded debt obligations include:

- approximately $22 million of principal amount under the Prepetition ABL Facility, all of which was converted into DIP ABL Claims; and

- approximately $132 million of principal amount of obligations under the Prepetition Term Loan.

(a) Prepetition ABL Facility

Debtors Charming Charlie LLC and Charming Charlie USA, Inc. ("CC USA") are parties to Prepetition ABL Agreement by and among Charming Charlie LLC, as lead borrower, CC USA, as borrower, the guarantors party thereto,[5] the Prepetition ABL Lenders and the ABL Agent. The Prepetition ABL Facility provides for a $55 million senior secured revolving credit facility (subject to a borrowing base composed primarily of inventory and credit card receivables) with a maturity date that is the earlier of (a) June 22, 2020 or (b) 45 days prior to the stated maturity date of the Term Loan Facility and any permitted refinancing thereof.

The Prepetition ABL Facility provides for LIBOR loans and Prime Rate loans. The LIBOR loans bear interest at LIBOR plus an applicable margin of (a) 2.25% if the Average Daily Excess Availability Percentage (as defined in the ABL Facility Credit Agreement) exceeds 25% or (b) 2.50% if the Average Daily Excess Availability Percentage is equal to 25% or less. Obligations under the Prepetition ABL Facility are secured by an all asset lien, including, without limitation, a first priority lien on the Debtors' accounts (including receivables), inventory, deposit accounts, security accounts, cash, and cash equivalents, and a second priority lien on certain other property of the grantors, including, without limitation the Debtors' intellectual property and all equity interests of the Debtors and their subsidiaries (collectively, the "ABL Collateral"). Each non-borrower Debtor has guaranteed all obligations under the ABL Facility.

Additionally, the Debtors have entered into deposit account control agreements in favor of the Prepetition ABL Agent with respect to their bank accounts. Thus, substantially all of the Debtors' cash is subject to a perfected security interest in favor of the ABL Agent. Under the Prepetition ABL Facility, if excess availability is less than either (a) 12.5% of the then-applicable borrowing base (or, if less, the total commitments) or (b) $5 million, the Debtors must remit all cash receipts on a daily basis to a non-Debtor account maintained by the ABL Agent (the "Agent Account"). Due to the Debtors' ongoing liquidity constraints, the excess availability under the ABL Facility was less than 12.5% as of the Petition Date and has been constrained for many months preceding the Petition Date. Accordingly, each day, any excess

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[5] The guarantors under the ABL Facility are Holdings, Poseidon Partners CMS, Inc. ("Poseidon"), Charming Charlie Manhattan LLC ("CC Manhattan"), Charming Charlie International LLC, ("CC International"), and Charming Charlie Canada LLC ("CC Canada").

cash is swept to the Agent Account and applied to prepay loans in accordance with the Prepetition ABL Facility. As of the Petition Date, there was approximately $1.8 million of availability under the Prepetition ABL Facility.

Pursuant to the Interim DIP Order, all outstanding Prepetition ABL Claims were converted into DIP ABL Claims. As a result, there are no outstanding Prepetition ABL Claims, other than contingent indemnification claims.

(b) Prepetition Term Loan

Debtor Charming Charlie LLC is party to that the Prepetition Term Loan Agreement, among Holdings, Charming Charlie LLC, as borrower, certain of the Debtors as guarantor parties thereto, the lenders from time to time parties thereto, and the Term Loan Agent. The Prepetition Term Loan Facility provides for a loan in an original principal amount of $150 million, with a maturity date of December 24, 2019. Debtor CC USA, in addition to certain Debtors, has guaranteed all obligations under the Prepetition Term Loan Facility. Obligations under the Prepetition Term Loan Facility are secured by an all assets lien, including, without limitation, a second priority lien on the Debtors' accounts (including receivables), inventory, deposit accounts, security accounts, cash, and cash equivalents and a first priority lien on certain other property of the Debtors, including, without limitation, the Debtors' intellectual property and all equity interests of the Debtors and their subsidiaries (collectively, the "Term Loan Collateral"). As of the Petition Date, approximately $131.3 million in aggregate principal amount remained outstanding under the Prepetition Term Loan Facility, and approximately $773,000 in PIK Interest accrued to balance, for a total outstanding balance of approximately $132 million.

(c) The 2013 Recapitalization

On December 24, 2013, the Debtors completed a series of recapitalization transactions (the "Recapitalization") whereby:

- **Redemption and Repurchase of Equity**. Twelve million shares of Junior Preferred Stock in Debtor Charming Charlie Holdings, Inc. were converted into 72 million shares of common equity interests of Debtor Charming Charlie Holdings, Inc. on a split-adjusted basis.
    - The proceeds of such transactions were used to (1) repurchase approximately 51.6 million common equity interests of Charming Charlie Holdings, Inc. or approximately 40% of the outstanding common equity, after giving effect to the equity split and (2) increase the Debtors' physical footprint.
- **New Money Investment**. TSG invested $79 million in cash (before expenses) in exchange for 17.7 million shares of Series T Preferred Stock issued by Debtor Charming Charlie Holdings, Inc.
- **Entry into Prepetition Term Loan Facility**. The Debtors entered into the Prepetition Term Loan Facility in the aggregate principal amount of $150 million.
- The Debtors recorded a $234.2 million decrease in retained earnings to reflect the equity repurchase and subsequent retirement of such interests.

VII. EVENTS LEADING TO THE CHAPTER 11 FILINGS

A confluence of factors contributed to the Debtors' need to commence these chapter 11 cases. These factors include the general downturn in the retail industry, which led to a decrease in sales and increased operating losses, and the marked shift away from brick-and-mortar retail to online channels.

These factors have made it increasingly difficult for Debtors to maintain their cost structure as sales have remained slightly depressed, and impaired the Debtors' liquidity.

A. Challenging Operating Environment and Operational Right Sizing

The Debtors, like many other apparel and retail companies, have faced a challenging commercial environment as of late brought on by a shift away from traditional shopping at brick-and-mortar stores. Given the Debtors' substantial brick-and-mortar presence and associated expenses, the Debtors' businesses have been heavily dependent on store traffic and resulting sales conversions to meet sales and profitability targets. However, the apparel retail industry has made a permanent shift towards a more online-centric platform, in which retailers are selling more of their products via company websites or through larger retailers such as Amazon. This has contributed to the Debtors' negative or declining same store sales trends since the second quarter of 2016, with accelerating declines throughout 2016 and into 2017.

In addition to the challenges facing brick-and-mortar stores, the Debtors have also suffered from recent merchandising miscalculations that have contributed to the decline in EBITDA. These missteps have occurred in both product selection and brand execution. ***First***, Charming Charlie's continued emphasis on jewelry exposed the Debtors to sensitivity in an overall declining jewelry market. ***Second***, the brand suffered from an unsuccessful redesign. Specifically, Charming Charlie implemented a strategy in the third quarter of 2014 that attempted to redefine the brand by, among other things, eliminating key styles and product categories. Unfortunately, this approach inadvertently disenfranchised Charming Charlie's core customers (who had come to expect the wide assortment of variety and style central to the Charming Charlie brand) and resulted in a dramatic decline in traffic and conversion rates. ***Third***, the Charming Charlie brand became reactive, missing opportunities to timely allocate resources to projects likely to produce a higher rate of investment. ***Fourth***, efforts to control expenses resulted in lagging markdowns that eroded profit margins.

B. Supply Chain and Borrowing Base Challenges

Crippling macroeconomic conditions coupled with operational challenges led to tightening liquidity beginning in July 2017. Vendors began to demand cash-on-delivery terms, which the Debtors' constrained liquidity could not satisfy. As a result, fresh inventory became increasingly difficult to acquire, and as inventory levels fell, the Debtors' borrowing base under the Prepetition ABL Facility shrank. This began a self-fulling spiral, in which a lower borrowing base handcuffed the Debtors' ability to borrow under the Prepetition ABL Facility, the inability to borrow in turn handcuffed the Debtors' ability to buy fresh inventory, and the inability to purchase inventory depressed the borrowing base availability.

C. Prepetition Deleveraging Efforts

(a) The May 2016 Term Loan Facility Amendments

In May 2016, the Debtors amended the Prepetition Term Loan Agreement to obtain critical relief from restrictive financial maintenance covenants. In exchange, the Debtors were required to provide a $10 million Prepetition Term Loan principal prepayment no later than May 2016, and an additional $5 million principal prepayment no later than the end of fiscal year 2016. The initial $10 million principal prepayment of the Prepetition Term Loan was funded by various investors, including Mr. Chanaratsopon and Hancock, in exchange for approximately 1.5 million shares of Series A Preferred Stock.

(b) The July 2017 Term Loan and ABL Facility Amendments

In July 2017, the Debtors executed amendments to both the Prepetition Term Loan Agreement

and Prepetition ABL Facility Agreement. Together, these amendments resulted in a modest rate increase and small fee, the implementation of transactional milestones, and greater covenant flexibility (including a ticking fee, borrower-friendly changes on the excess cash flow provisions, and agreement on certain amortization parameters).

(c) Efforts to Obtain a "First-In, Last-Out" Loan to Obtain Incremental Liquidity.

Despite the December 2016 cost-cutting initiatives described below, incremental amendments to the Prepetition ABL Facility and the Prepetition Term Loan Facility, and implementation of the Back-to-Basics Strategy, the Debtors faced a liquidity crisis in the summer of 2017 following sustained market conditions and operational losses. On October 9, 2017, the Debtors re-engaged Guggenheim Securities to act as the Company's financial advisor, investment banker and/or, with respect to any private placement of securities, placement agent in connection with any restructuring transaction, any financing transaction and/or any sale transaction. The Debtors, with the assistance of Guggenheim Securities, evaluated funding alternatives necessary to obtain liquidity critical to unlocking withheld inventory and implementing Charming Charlie's go-forward business plan reflecting the "Back-to-Basics" plan. In October 2017, the Debtors negotiated with various Prepetition Term Loan Lenders to obtain a $10 million first-in, last-out term loan (the "FILO Term Loan"), secured by a first lien on ABL Priority Collateral (as defined in the Intercreditor Agreement) and a second lien on the existing Term Loan Collateral. On October 25, 2017, the Debtors received FILO Term Loan term sheets from certain Term Loan Lenders; however, the Debtors determined that the proposed terms failed to provide a sufficient near-term solution. Specifically, the Debtors determined that, given their severe liquidity constraints and the need to unlock inventory in advance of the critical holiday season, new money in the form of a FILO Term Loan was not feasible.

(d) The Third Amendment to the Prepetition ABL Facility

As an alternative to the FILO Term Loan, the Debtors sought to amend the Prepetition ABL Facility to obtain additional liquidity, which the Prepetition ABL Lenders consented to provide. On October 27, 2017, the Debtors, the ABL Lenders, and the ABL Agent, executed that certain third amendment to the Prepetition ABL Facility (the "Third Amendment"). Among other changes, the Third Amendment adjusted the current advance rates applicable under the Prepetition ABL Facility, and temporarily reduced the Minimum Excess Availability threshold from $4 million to $2 million until December 2, 2017, allowing the Debtors to access approximately $4.5 million in incremental liquidity under the Prepetition ABL Facility.

In consideration for providing additional liquidity to the Debtors, the Third Amendment increased the interest rates under the ABL Facility by 0.50% per annum and included a 1.0% prepayment premium required to be paid upon termination in full of all or any portion of the commitments under the Prepetition ABL Facility, acceleration of the loans thereunder, and satisfaction of the loans thereunder or termination of the ABL Facility. As discussed in the motion seeking entry of the Interim DIP Order and Final DIP Order, the Prepetition ABL Agent and the Prepetition ABL Lenders have provided further support to the Debtors by agreeing to waive this prepayment premium in connection with the DIP ABL Facility.

D. Prepetition Operational Right-Sizing Efforts

In conjunction with the Debtors' prepetition deleveraging efforts, the Debtors launched an operational right-sizing and "back to basics" strategy described in Article VII.B. herein. In addition, in December 2016, the Debtors commenced a series of "cost-cutting" measures including with respect to store operations, advertising efforts, administrative processes, and the legal and human resources departments, among others. The functional areas most significantly affected by these cost-cutting efforts included store payroll, advertising, and merchandise sourcing and distribution, with anticipated annual savings of approximately $15.6 million, $6.6 million, and $2.8 million, respectively. These initiatives are

ongoing.

E. Management Changes

As of October 27, 2017, Mr. Chanaratsopon no longer serves as Chief Executive Officer, although he continues to serve on the Debtors' board of directors. Contemporaneously therewith, Lana Krauter was appointed to serve as the Debtors' interim Chief Executive Officer. At the same time Mr. Chanaratsopon vacated his role as Chief Executive Officer, Steve Lovell, President of Charming Charlie, Inc., also stepped down from his role.

F. Marketing Efforts

In conjunction with obtaining key covenant relief, improving liquidity, and operationally right-sizing their operations, the Debtors and their advisors commenced a two-prong marketing process: (a) first, a marketing process to sell substantially all of the Debtors' assets and (b) second, a marketing process to obtain DIP financing.

(a) Enterprise Marketing Effort

Starting in October 2017, Guggenheim Securities and the Debtors prepared a list of 28 potential investors (including various financial sponsors and strategic buyers) that were considered likely participants in a sale process. Following the initial outreach to the identified 28 parties, information was provided to these parties to gauge their interest prior to executing a non-disclosure agreement ("NDAs"). Thirteen parties executed NDAs. Parties who executed NDAs received access to a dataroom. No parties were ultimately interested in moving forward with the process.

(b) DIP Marketing

In connection with a chapter 11 filing, in November 2017, the Debtors, with the assistance of Guggenheim Securities, initiated two parallel processes for identifying sources of capital on the best available terms: (a) negotiations with the Debtors' existing funded debt stakeholders and (b) a marketing process with potential alternatives sources of capital from parties outside the Debtors' existing capital structure. Specifically, the Debtors, with the assistance of Guggenheim Securities, began soliciting indications of interest from 11 alternative third-party sources of asset based financing (including specialty lenders and those that routinely provide debtor-in-possession financing), to gauge their interest in providing a revolving credit facility to the Debtors.

From this group, seven parties requested NDAs, and six parties signed NDAs and obtained access to the dataroom. Ultimately, one party provided a financing proposal that, compared to the proposals from the Debtors' existing stakeholders, did not provide more favorable terms to the Debtors or their stakeholders. The remaining parties declined to provide financing proposals, citing priming concerns and the likely high costs of third-party senior financing.

As set forth in greater detail in the DIP Motion and accompanying declaration, the Debtors efforts ultimately culminated in the DIP ABL Facility and the DIP Term Loan Facility. Both the DIP ABL Facility and the Term Loan DIP Facility are being provided by the Debtors' existing lenders. Notably, substantially all of the Ad Hoc Group of Term Loan Lenders are participating in the Term Loan DIP Facility. Additionally, in addition to providing critical financing during the Debtors' chapter 11 cases, the Debtors' negotiated the DIP Facilities with the express purpose of preserving cash as far as possible. As a result, the DIP ABL Facility paid down the claims under the ABL Facility (which, as oversecured claims, would have otherwise accrued interest during the Debtors' chapter 11 cases) and the Term Loan DIP

Facility will be satisfied with new debt and New Equity (as opposed to a cash recovery). In short, despite the Debtors' robust marketing efforts, the best—and only actionable—proposal to preserve the Debtors' long-term sustainability were the DIP Facilities.

G. Convergence of Restructuring Discussions and Execution of Plan Support Agreement and Term Sheet Contemplating Plan

As 2017 came to a close, the Debtors redoubled their efforts to unite their existing stakeholders and exhaustively explore the potential of a comprehensive transaction with a strategic or financial purchaser. Ultimately, it became clear that (a) there was currently no actionable third-party proposal for either a holistic transaction or a financing transaction; (b) the Debtors' ultimate path to exit would require widespread consensus from their secured creditors to limit the amount of Cash that would otherwise have to be paid to satisfy such creditors pursuant to a plan of reorganization; and (c) an imminent chapter 11 filing—before the end of the December holiday season—was critical to unlocking fresh inventory and ensuring the Debtors' stores would be stocked for the spring 2018 holiday season.

As a result, 13 days before the Debtors historically busiest season, the Debtors determined to pursue a consensual transaction with the Consenting Parties for a number of reasons as reflected in the Plan Support Agreement and the Term Sheet. ***First***, the Term Sheet reflects the support of the Consenting Parties. ***Second***, the transactions contemplated by the Plan Support Agreement and the Term Sheet provide greater certainty of closing than any other potentially viable option. ***Third***, speed was key and the Debtors had not been able to secure acceptable and committed financing from any other party in advance of the Petition Date.

VIII. ANTICIPATED EVENTS OF THE CHAPTER 11 CASES

A. Corporate Structure Upon Emergence

Except as otherwise provided in the Plan or any agreement, instrument, or other document incorporated in the Plan or the Plan Supplement, on the Effective Date, each Debtor shall continue to exist after the Effective Date as a separate corporation, limited liability company, partnership, or other form of entity, as the case may be, with all the powers of a corporation, limited liability company, partnership, or other form of entity, as the case may be, pursuant to the applicable law in the jurisdiction in which each applicable Debtor is incorporated or formed and pursuant to the respective certificate of incorporation and by-laws (or other analogous formation documents) in effect before the Effective Date, except to the extent such certificate of incorporation and bylaws (or other analogous formation documents) are amended by the Plan or otherwise, and to the extent such documents are amended, such documents are deemed to be amended pursuant to the Plan and require no further action or approval (other than any requisite filings required under applicable state, provincial, or federal law).

B. Expected Timetable of the Chapter 11 Cases

The Debtors expect the Chapter 11 Cases to proceed quickly. Should the Debtors' projected timelines prove accurate, and consistent with the terms set forth in the Plan Support Agreement, the Debtors could emerge from chapter 11 within 125 days of the Petition Date (i.e., April 15, 2018) or earlier. ***No assurances can be made, however, that the Bankruptcy Court will enter various orders on the timetable anticipated by the Debtors.***

C. First Day Relief

On the Petition Date, the Debtors filed several motions (the "First Day Motions") designed to facilitate the administration of the Chapter 11 Cases and minimize disruption to the Debtors' operations,

by, among other things, easing the strain on the Debtors' relationships with employees, vendors, and customers following the commencement of the Chapter 11 Cases. The First Day Motions, and all orders for relief granted in the Chapter 11 Cases, can be viewed free of charge at www.omnimgmt.com/charmingcharlie.

D. Approval of the DIP Facilities

Based on the Debtors' need for debtor-in-possession financing and their conclusion that the DIP ABL Facility and the DIP Term Loan Facility represent the best terms available, on the Petition Date, the Debtors filed a motion seeking authorization to enter into the DIP Facilities on an interim and final basis (the "DIP Motion"). As discussed above, on December 13, 2017, the Bankruptcy Court entered the Interim DIP Order approving the DIP Facilities on an interim basis. The Bankruptcy Court is scheduled to consider approval of the DIP Facilities on a final basis on January 11, 2018.

E. Assumption and Rejection of Executory Contracts and Unexpired Leases

1. *Assumption and Rejection of Executory Contracts and Unexpired Leases*

On the Effective Date, except as otherwise provided herein, each of the Debtors' Executory Contracts and Unexpired Leases not previously assumed or rejected pursuant to an order of the Bankruptcy Court will be deemed assumed as of the Effective Date in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code *except* any Executory Contract or Unexpired Lease (a) identified on the Rejected Executory Contract/Unexpired Lease List (which shall be filed with the Bankruptcy Court on the Plan Supplement Filing Date) as an Executory Contract or Unexpired Lease designated for rejection, (b) that is the subject of a separate motion or notice to reject (including a motion or notice pursuant to which the requested effective date of such rejection is after the Effective Date) filed by the Debtors, with the consent of the Requisite First Lien Lenders pursuant to the Plan Support Agreement, and pending as of the Confirmation Hearing, or (c) that previously expired or terminated pursuant to its own terms.

Entry of the Confirmation Order by the Bankruptcy Court shall constitute an order approving the assumptions or rejections of such Executory Contracts and Unexpired Leases as set forth in the Plan, all pursuant to sections 365(a) and 1123 of the Bankruptcy Code and effective on the occurrence of the Effective Date. Each Executory Contract and Unexpired Lease assumed pursuant to the Plan or by Bankruptcy Court order, and not assigned to a third party on or prior to the Effective Date, shall re-vest in and be fully enforceable by the applicable contracting Reorganized Debtor in accordance with its terms, except as such terms may have been modified by order of the Bankruptcy Court. To the maximum extent permitted by law, to the extent any provision in any Executory Contract or Unexpired Lease assumed pursuant to the Plan restricts or prevents, or purports to restrict or prevent, or is breached or deemed breached by, the assumption of such Executory Contract or Unexpired Lease (including any "change of control" provision), then such provision shall be deemed modified such that the transactions contemplated by the Plan shall not entitle the non-Debtor party thereto to terminate such Executory Contract or Unexpired Lease or to exercise any other default-related rights with respect thereto. Notwithstanding anything to the contrary in the Plan, the Debtors (with the consent of the Requisite First Lien Lenders pursuant to the Plan Support Agreement) or Reorganized Debtors, as applicable, reserve the right to alter, amend, modify, or supplement the Executory Contracts and Unexpired Leases identified on the Assumed Executory Contract/Unexpired Lease List and the Rejected Executory Contract/Unexpired Lease List prior to the Effective Date on no less than three (3) days' notice to the non-Debtor Entity party thereto.

2. *Cure of Defaults for Assumed Executory Contracts and Unexpired Leases*

Any monetary defaults under each Executory Contract and Unexpired Lease to be assumed pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the default amount in Cash on the Effective Date, subject to the limitation described below, or on such other terms as the parties to such Executory Contract or Unexpired Lease may otherwise agree. No later than the Plan Supplement Filing Date, to the extent not previously filed with the Bankruptcy Court and served on affected counterparties, the Debtors shall provide for notices of proposed assumption and proposed cure amounts to be sent to applicable contract and lease counterparties, together with procedures for objecting thereto and resolution of disputes by the Bankruptcy Court. Any objection by a contract or lease counterparty to a proposed assumption or related Cure Cost must be filed, served, and actually received by the Debtors by the date on which objections to confirmation are due (or such other date as may be provided in the applicable assumption notice).

Any counterparty to an Executory Contract or Unexpired Lease that fails to object timely to the proposed assumption or Cure Cost will be deemed to have assented to such assumption or Cure Cost. Any objection to a proposed assumption or cure amount will be scheduled to be heard by the Bankruptcy Court at the Reorganized Debtors' first scheduled omnibus hearing after which such objection is timely filed. In the event of a dispute regarding (1) the amount of any Cure Cost, (2) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" within the meaning of section 365(b) of the Bankruptcy Code, if applicable, under the Executory Contract or the Unexpired Lease to be assumed or assumed and assigned, and/or (3) any other matter pertaining to assumption and/or assignment, then such Cure Costs shall be paid following the entry of a Final Order resolving the dispute and approving the assumption and assignment of such Executory Contracts or Unexpired Leases or as may be agreed upon by the Debtors or the Reorganized Debtors and the counterparty to such Executory Contract or Unexpired Lease; *provided* that the Debtors (with the consent of the Requisite First Lien Lenders) may settle any dispute regarding the amount of any Cure Cost without any further notice to any party or any action, order, or approval of the Bankruptcy Court; *provided*, *further*, that notwithstanding anything to the contrary herein, the Debtors (with the consent of the Requisite First Lien Lenders pursuant to the Plan Support Agreement) reserve the right to either reject or nullify the assumption of any Executory Contract or Unexpired Lease within 45 days after the entry of a Final Order resolving an objection to assumption, determining the Cure Cost under an Executory Contract or Unexpired Lease that was subject to a dispute, or resolving any request for adequate assurance of future performance required to assume 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 release and satisfaction of any 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 of assumption. Notwithstanding the foregoing, the Debtors and the Reorganized Debtors will continue to honor all postpetition and post-Effective Date obligations under any assumed Executory Contracts and Unexpired Leases in accordance with their terms, regardless of whether such obligations are listed as a cure amount, and whether such obligations accrued prior to or after the Effective Date, and neither the payment of cure nor entry of the Confirmation Order shall be deemed to release the Debtors or the Reorganized Debtors from such obligations.

3. *Claims Based on Rejection of Executory Contracts and Unexpired Leases*

Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection or repudiation of the Debtors' Executory Contracts and Unexpired Leases pursuant to the Plan or otherwise must be filed with the Notice and Claims Agent within thirty (30) days

after the date of entry of an order of the Bankruptcy Court (including the Confirmation Order) approving such rejection. **Any Proofs of Claim arising from the rejection or repudiation of the Debtors' Executory Contracts and Unexpired Leases that are not timely filed shall be deemed disallowed.** All Allowed Claims arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases shall constitute General Unsecured Claims and shall be treated in accordance with Article III.B of this Plan.

4. *Contracts and Leases Entered into After the Petition Date*

Contracts and leases entered into after the Petition Date by any Debtor, including any Executory Contracts and Unexpired Leases assumed by such Debtor, will be performed by the Debtor or Reorganized Debtor liable thereunder in the ordinary course of its business. Accordingly, such contracts and leases (including any Assumed Executory Contracts and Unexpired Leases) that have not been rejected as of the Confirmation Date will survive and remain unaffected by entry of the Confirmation Order.

F. Lease Renegotiation and Store Closing Process

On the Petition Date, the Debtors filed the *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Assume the Agency Agreement, (II) Approving Procedures for Store Closing Sales, and (III) Granting Related Relief* [Docket No. 11] (the "Store Closing Motion") seeking to implement a key component of their restructuring strategy and right-size their operations by closing underperforming or geographically undesirable stores (as described above, the "Store Closings"). The Bankruptcy Court approved the Store Closing Motion on an interim basis on December 13, 2017 [Docket No. 99] and is scheduled to consider approval of the Store Closing Motion on a final basis on January 11, 2018. Pursuant to the Bankruptcy Court orders related to the foregoing, the Debtors worked to consummate the closings of approximately 97 stores (which closings commenced before the Petition Date). These efforts, which are ongoing, are part of the Debtors' attempt to rationalize their store fleet. The Debtors expect to vacate the aforementioned 97 stores by December 31, 2017.

G. Efforts of Independent Director

In July 2017, the Debtors executed amendments to both the Prepetition Term Loan Facility and Prepetition ABL Facility (as described above). Pursuant to these amendments, the Debtors appointed two independent board members—Larry Meyer and Lana Krauter—to the board of directors of Charming Charlie, Inc., and certain of their non-Debtor subsidiaries and affiliates. Each of Mr. Meyer and Ms. Krauter have significant retail experience. Mr. Meyer previously served as the Chief Executive Officer of UNIQLO USA, a division of Japanese conglomerate Fast Retailing Co., Ltd., the Chief Financial Officer and Senior Vice President at Gymboree Group, Inc., and Chief Financial Officer at Toys "R" Us, Inc. Ms. Krauter previously served as Executive Vice President at J.C. Penney, Senior Vice President of Sears Holdings Corp., President and Chief Marketing Officer at Beall's, Inc., and President and Chief Marketing officer at Goody's Family Clothing Inc

On October 20, 2017, Ms. Krauter was appointed to serve as Interim Chief Executive Officer. In connection with the Debtors' restructuring initiatives, Mr. Meyer was formally authorized by the Debtors' boards to conduct an investigation into the appropriateness of the Plan Support Agreement provisions and any potential claims or causes of action against existing lenders or owners. The investigation commenced in the weeks preceding the Petition Date and is ongoing as of the date hereof.

H. Appointment of Official Committee

On December 19, 2017, the U.S. Trustee filed the *Appointment of Unsecured Creditors*

Committee [Docket No. 149] notifying parties in interest that the U.S. Trustee had appointed a statutory committee of unsecured creditors (the "Committee") in the Chapter 11 Cases. The Committee is currently composed of the following members: B.R.E. Industries Inc., A.N. Enterprises, Tri-Costal Design, Prime time NYC LLC, GGP Limited Partnership, Simon Property Group, Inc., and 445 Fifth avenue Associates LLC. The Committee has retained Cooley LLP as its legal counsel and Zolfo Cooper as its financial advisor.

IX. PROJECTED FINANCIAL INFORMATION

The Debtors will file a projected consolidated income statement as **Exhibit D** to this Disclosure Statement in advance of the hearing to consider approval of the Disclosure Statement.

Creditors and other interested parties should see the below "Risk Factors" for a discussion of certain factors that may affect the future financial performance of the Reorganized Debtors.

X. RISK FACTORS

Holders of Claims should read and consider carefully the risk factors set forth below before voting to accept or reject the Plan. Although there are many risk factors discussed below, these factors should not be regarded as constituting the only risks present in connection with the Debtors' businesses or the Plan and its implementation.

A. Bankruptcy Law Considerations

The occurrence or non-occurrence of any or all of the following contingencies, and any others, could affect distributions available to holders of Allowed Claims under the Plan but will not necessarily affect the validity of the vote of the Impaired Classes to accept or reject the Plan or necessarily require a re-solicitation of the votes of holders of Claims in such Impaired Classes.

1. *Parties in Interest May Object to the Plan's 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 the Claims and Interests under the Plan complies with the requirements set forth in the Bankruptcy Code because the Debtors created Classes of Claims and Interests each encompassing Claims or Interests, as applicable, that are substantially similar to the other Claims or Interests, as applicable, in each such Class. Nevertheless, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

2. *The Conditions Precedent to the Effective Date of the Plan May Not Occur*

As more fully set forth in Article VIII of the Plan, the Effective Date is subject to a number of conditions precedent. If such conditions precedent are not met or waived, the Effective Date will not take place.

3. *The Debtors May Fail to Satisfy Vote Requirements*

If votes are received in number and amount sufficient to enable the Bankruptcy Court to confirm the Plan, the Debtors intend to seek, as promptly as practicable thereafter, Confirmation of the Plan. In the event that sufficient votes are not received, the Debtors may seek to confirm an alternative chapter 11 plan. There can be no assurance that the terms of any such alternative chapter 11 plan would be similar or as favorable to the holders of Allowed Claims as those proposed in the Plan.

4. *The Debtors May Not Be Able to Secure Confirmation of the Plan*

Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation of a chapter 11 plan, and requires, among other things, a finding by the Bankruptcy Court that: (a) such plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting classes; (b) confirmation of such plan is not likely to be followed by a liquidation or a need for further financial reorganization unless such liquidation or reorganization is contemplated by the plan; and (c) the value of distributions to non-accepting holders of claims and equity interests within a particular class under such plan will not be less than the value of distributions such holders would receive if the debtors were liquidated under chapter 7 of the Bankruptcy Code.

There can be no assurance that the requisite acceptances to confirm the Plan will be received. Even if the requisite acceptances are received, there can be no assurance that the Bankruptcy Court will confirm the Plan. A non-accepting holder of an Allowed Claim might challenge either the adequacy of this Disclosure Statement or whether the balloting procedures and voting results satisfy the requirements of the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determines that this Disclosure Statement, the balloting procedures, and voting results are appropriate, the Bankruptcy Court could still decline to confirm the Plan if it finds that any of the statutory requirements for Confirmation are not met. If a chapter 11 plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether the Debtors will be able to reorganize their business and what, if anything, holders of Allowed Claims against them would ultimately receive on account of such Allowed Claims.

The effectiveness of the Plan is also subject to certain conditions as described in Article VIII of the Plan. If the Plan is not confirmed, it is unclear what distributions, if any, holders of Allowed Claims will receive won account of such Allowed Claims.

The Debtors, subject to the terms and conditions of the Plan and the Plan Support Agreement, reserve the right to modify the terms and conditions of the Plan as necessary for Confirmation. Any such modifications could result in less favorable treatment of any non-accepting Class, as well as any Class junior to such non-accepting Class, than the treatment currently provided in the Plan. Such a less favorable treatment could include a distribution of property with a lesser value than currently provided in the Plan or no distribution whatsoever under the Plan.

5. *Nonconsensual Confirmation*

In the event that any impaired class of claims or interests does not accept a chapter 11 plan, a bankruptcy court may nevertheless confirm a plan at the proponents' request if at least one impaired class (as defined under section 1124 of the Bankruptcy Code) has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and, as 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 the dissenting impaired class(es). The Debtors believe that the Plan satisfies these requirements, and the Debtors may request such nonconsensual Confirmation in accordance with subsection 1129(b) of the Bankruptcy Code. Nevertheless, there can be no assurance that the Bankruptcy Court will reach this conclusion. In addition, the pursuit of nonconsensual Confirmation or Consummation of the Plan may result in, among other things, increased expenses relating to professional compensation.

6. *Continued Risk Upon Confirmation*

Even if a chapter 11 plan of reorganization is consummated, the Debtors will continue to face a number of risks, including certain risks that are beyond their control, such as further deterioration or other changes in economic conditions, changes in the industry, potential revaluing of their assets due to chapter

11 proceedings, changes in consumer demand for, and acceptance of, their products, and increasing expenses. Some of these concerns and effects typically become more acute when a case under the Bankruptcy Code continues for a protracted period without indication of how or when the case may be completed. As a result of these risks and others, there is no guarantee that a chapter 11 plan of reorganization reflecting the Plan will achieve the Debtors' stated goals.

In addition, at the outset of the Chapter 11 Cases, the Bankruptcy Code will give the Debtors the exclusive right to propose the Plan and will prohibit creditors and others from proposing a plan. The Debtors will have retained the exclusive right to propose the Plan upon filing their petitions for chapter 11 relief. If the Bankruptcy Court terminates that right, however, or the exclusivity period expires, there could be a material adverse effect on the Debtors' ability to achieve confirmation of the Plan in order to achieve the Debtors' stated goals.

Furthermore, even if the Debtors' debts are reduced and/or discharged through the Plan, the Debtors may need to raise additional funds through public or private debt or equity financing or other various means to fund the Debtors' business after the completion of the proceedings related to the Chapter 11 Cases. Adequate funds may not be available when needed or may not be available on favorable terms.

7. *The Chapter 11 Cases May Be Converted to Cases Under Chapter 7 of the Bankruptcy Code*

If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the debtor in a chapter 11 case, the Bankruptcy Court may convert a chapter 11 bankruptcy case to a case under chapter 7 of the Bankruptcy Code. In such event, a chapter 7 trustee would be appointed or elected to liquidate the debtor's assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in significantly smaller distributions being made to creditors than those provided for in a chapter 11 plan because of (a) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing or selling in a controlled manner affecting the business as a going concern, (b) additional administrative expenses involved in the appointment of a chapter 7 trustee, and (c) additional expenses and Claims, some of which would be entitled to priority, that would be generated during the liquidation, and including Claims resulting from the rejection of Unexpired Leases and other Executory Contracts in connection with cessation of operations.

8. *The Debtors May Object to the Amount or Classification of a Claim*

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

9. *Risk of Non-Occurrence of the Effective Date*

Although the Debtors believe that the Effective Date may occur quickly after the Confirmation Date, there can be no assurance as to such timing or as to whether the Effective Date will, in fact, occur.

10. *Contingencies Could Affect Votes of Impaired Classes to Accept or Reject the Plan*

The distributions available to holders of Allowed Claims under the Plan can be affected by a variety of contingencies, including, without limitation, whether the Bankruptcy Court orders certain Allowed Claims to be subordinated to other Allowed Claims. The occurrence of any and all such

contingencies, which could affect distributions available to holders of Allowed Claims under the Plan, will not affect the validity of the vote taken by the Impaired Classes to accept or reject the Plan or require any sort of revote by the Impaired Classes.

The estimated Claims and creditor recoveries that will be forth in this Disclosure Statement are based on various assumptions, and the actual Allowed amounts of Claims may significantly differ from the estimates. Should one or more of the underlying assumptions ultimately prove to be incorrect, the actual Allowed amounts of Claims may vary from the estimated Claims contained in this Disclosure Statement. Moreover, the Debtors cannot determine with any certainty at this time, the number or amount of Claims that will ultimately be Allowed. Such differences may materially and adversely affect, among other things, the percentage recoveries to holders of Allowed Claims under the Plan.

11. *Releases, Injunctions, and Exculpations Provisions May Not Be Approved*

Article IX of the Plan provides for certain releases, injunctions, and exculpations, including a release of liens and third-party releases that may otherwise be asserted against the Debtors, Reorganized Debtors, or Released Parties, as applicable. The releases, injunctions, and exculpations (including, for the avoidance of doubt, the definitions of Released Parties, Releasing Parties, and Exculpated Parties) provided in the Plan are subject to objection by parties in interest and may not be approved. If the releases are not approved, certain parties may not be considered Released Parties, Releasing Parties, or Exculpated Parties, and certain Released Parties may withdraw their support for the Plan.

B. Risks Related to Recoveries under the Plan.

1. *The Debtors May Not Be Able to Achieve Their Projected Financial Results*

The Financial Projections that will be filed as **Exhibit D** to this Disclosure Statement in advance of the hearing to approve the Disclosure Statement will represent the Debtors' management team's best estimate of the Debtors' future financial performance, which is necessarily based on certain assumptions regarding the anticipated future performance of the Reorganized Debtors' operations, as well as the United States and world economies in general, and the particular industry segments in which the Debtors operate in particular. While the Debtors believe that the Financial Projections that will be filed as **Exhibit D** to this Disclosure Statement in advance of the hearing to consider approval of the Disclosure Statement will be reasonable, there can be no assurance that they will be realized. If the Debtors do not achieve their projected financial results, (a) the value of the New Equity may be negatively affected, (b) the Debtors may lack sufficient liquidity to continue operating as planned after the Effective Date and (c) the Debtors may be unable to service their debt obligations as they come due. Moreover, the financial condition and results of operations of the Reorganized Debtors from and after the Effective Date may not be comparable to the financial condition or results of operations reflected in the Debtors' historical financial statements.

2. *The Reorganized Debtors' New Equity Will Not Be Publicly Traded*

There can be no assurance that an active market for the New Equity will develop, nor can any assurance be given as to the prices at which such stock might be traded. The New Equity to be issued under the Plan will not be listed on or traded on any nationally recognized market or exchange. Further, the New Equity to be issued under the Plan has not been registered under the Securities Act or Securities Exchange Act, any state securities laws or the laws of any other jurisdiction. Absent such registration, the New Equity may be offered or sold only in transactions that are not subject to, or that are exempt from, the registration requirements of the Securities Act and other applicable securities laws. As explained in more detail in Article XIII herein, most recipients of New Equity will be able to resell such securities

without registration pursuant to the exemption provided by Rule 144 of the Securities Act, subject to any restrictions set forth in the certificate of incorporation and bylaws of the Reorganized Debtors.

3. *The Restructuring of the Debtors May Adversely Affect the Debtors' Tax Attributes*

As a multinational corporation, the Debtors are subject to income taxes in the U.S. and various foreign jurisdictions. Significant judgment is required in determining the Debtors' global provision for income taxes and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. The Debtors' income tax returns are routinely subject to audits by tax authorities. Although the Debtors regularly assess the likelihood of adverse outcomes resulting from these examinations to determine their tax estimates, a final determination of tax audits or tax disputes could have an adverse effect on their results of operations and financial condition. The Debtors are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes in the U.S. and various foreign jurisdictions. They are regularly under audit by tax authorities with respect to these non-income taxes and may have exposure to additional non-income tax liabilities which could have an adverse effect on the Debtors' results of operations and financial condition.

In addition, the Debtors' future effective tax rates could be favorably or unfavorably affected by changes in tax rates, changes in the valuation of their deferred tax assets or liabilities, or changes in tax laws or their interpretation. Such changes could have a material adverse impact on their financial results.

For a detailed description of the effect consummation of the Plan may have on the Debtors' tax attributes, see "Certain United States Federal Income Tax Consequences of the Plan," which begins on page 45 herein.

C. Risks Related to the Debtors' and the Reorganized Debtors' Businesses

1. *The Debtors May Not Be Able to Generate Sufficient Cash to Service All of Their Indebtedness.*

The Debtors' ability to make scheduled payments on, or refinance their debt obligations, including the Exit Prepetition Term Loan, depends on the Debtors' financial condition and operating performance, which are subject to prevailing economic, industry, and competitive conditions and to certain financial, business, legislative, regulatory, and other factors beyond the Debtors' control (including the factors discussed in Article X.C.4, which begins on page 39, herein). The Debtors may be unable to maintain a level of cash flow from operating activities sufficient to permit the Debtors to pay the principal, premium, if any, and interest on their indebtedness, including the notes.

2. *The Debtors Will Be Subject to the Risks and Uncertainties Associated with the Chapter 11 Cases*

For the duration of the Chapter 11 Cases, the Debtors' ability to operate, develop, and execute a business plan, and continue as a going concern, will be subject to the risks and uncertainties associated with bankruptcy. These risks include the following: (a) ability to develop, confirm, and consummate the restructuring transactions specified in the Plan or an alternative restructuring transaction; (b) ability to obtain court approval with respect to motions filed in the Chapter 11 Cases from time to time; (c) ability to maintain relationships with suppliers, service providers, customers, employees, and other third parties; (d) ability to maintain contracts that are critical to the Debtors' operations; (e) ability of third parties to seek and obtain court approval to terminate contracts and other agreements with the Debtors; (f) ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for the Debtors to propose and confirm a chapter 11 plan, to appoint a chapter 11 trustee, or to convert the

Chapter 11 Cases to chapter 7 proceedings; and (g) the actions and decisions of the Debtors' creditors and other third parties who have interests in the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

These risks and uncertainties could affect the Debtors' businesses and operations in various ways. For example, negative events associated with the Chapter 11 Cases could adversely affect the Debtors' relationships with suppliers, service providers, customers, employees, and other third parties, which in turn could adversely affect the Debtors' operations and financial condition. Also, the Debtors will need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, which may limit the Debtors' ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with the Chapter 11 Cases, the Debtors cannot accurately predict or quantify the ultimate impact of events that occur during the Chapter 11 Cases that may be inconsistent with the Debtors' plans.

3. *Recent Global Economic Trends Could Adversely Affect the Debtors' Business, Results of Operations and Financial Condition, Primarily Through Disruption to the Debtors' Customers' Businesses*

Recent global economic conditions, including disruption of financial markets, could adversely affect the Debtors' business, results of operations and financial condition, primarily through disrupting their customers' businesses. Higher rates of unemployment and lower levels of business activity generally adversely affect the level of demand for certain of the Debtors' products and services. In addition, continuation or worsening of general market conditions in the U.S. economy or other national economies important to our businesses may adversely affect the Debtors' customers' level of spending, ability to obtain financing for purchases and ability to make timely payments to the Debtors for their products and services, which could require the Debtors to increase the Debtors' allowance for doubtful accounts, negatively impact their days sales outstanding and adversely affect their results of operations.

Consumer hesitancy or limited availability of credit may constrict the business operations of their end user customers and their channel, development, and implementation partners, and consequently impede their own operations. The consequences may include restrained or delayed investments, late payments, bad debts, and even insolvency among customers and business partners. These have had an effect on the Debtors' revenue growth and incoming payments, and the impact may continue. In addition, the Debtors' prices could come under more pressure due to more intense competition or deflation. If current economic conditions persist or worsen, the Debtors expect that their revenue growth and results of operations will continue to be negatively impacted. Finally, an extended period of further economic deterioration could exacerbate the other risks described herein. If these or other conditions limit the Debtors' ability to grow revenue or cause the Debtors' revenue to decline and the Debtors cannot reduce costs on a timely basis or at all, the Debtors' operating results may be materially and adversely affected.

4. *Operating in Bankruptcy for a Long Period of Time May Harm the Debtors' Businesses*

The Debtors' future results will be dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on the Debtors' businesses, financial condition, results of operations, and liquidity. So long as the proceedings related to the Chapter 11 Cases continue, senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing exclusively on business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and growth of the Debtors' businesses. In addition, the longer the proceedings related to the Chapter 11 Cases continue, the more likely it is that customers and suppliers

will lose confidence in the Debtors' ability to reorganize their businesses successfully and will seek to establish alternative commercial relationships.

So long as the proceedings related to the Chapter 11 Cases continue, the Debtors will be required to incur substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 Cases.

Furthermore, the Debtors cannot predict the ultimate amount of all settlement terms for the liabilities that will be subject to a plan of reorganization. Even after a plan of reorganization is approved and implemented, the Debtors' operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from bankruptcy protection.

5. *Financial Results May Be Volatile and May Not Reflect Historical Trends*

During the Chapter 11 Cases, the Debtors expect that their financial results will continue to be volatile as asset impairments, asset dispositions, restructuring activities and expenses, contract terminations and rejections, and claims assessments significantly impact the Debtors' consolidated financial statements. As a result, the Debtors' historical financial performance likely will not be indicative of their financial performance after the Petition Date.

In addition, if the Debtors emerge from chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to the Debtors' operating plans pursuant to a plan of reorganization. The Debtors also may be required to adopt fresh start accounting, in which case their assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on the Debtors' consolidated balance sheets. The Debtors' financial results after the application of fresh start accounting also may be different from historical trends.

6. *The Reorganized Debtors May Be Adversely Affected by Potential Litigation, Including Litigation Arising Out of the Chapter 11 Cases*

In the future, the Reorganized Debtors may become party to litigation. In general, litigation can be expensive and time consuming to bring or defend against. Such litigation could result in settlements or damages that could significantly affect the Reorganized Debtors' financial results. It is also possible that certain parties will commence litigation with respect to the treatment of their Claims under the Plan. It is not possible to predict the potential litigation that the Reorganized Debtors may become party to, nor the final resolution of such litigation. The impact of any such litigation on the Reorganized Debtors' businesses and financial stability, however, could be material.

7. *The Loss of Key Personnel Could Adversely Affect the Debtors' Operations*

The Debtors' operations are dependent on a relatively small group of key management personnel, including the Debtors' executive officers. The Debtors' recent liquidity issues and the Chapter 11 Cases have created distractions and uncertainty for key management personnel and employees. Because competition for experienced personnel in the retail industry can be significant, the Debtors may be unable to find acceptable replacements with comparable skills and experience and the loss of such key management personnel could adversely affect the Debtors' ability to operate their businesses. In addition, a loss of key personnel or material erosion of employee morale at the corporate and/or field levels could have a material adverse effect on the Debtors' ability to meet customer and counterparty expectations, thereby adversely affecting the Debtors' businesses and the results of operations.

XI. SOLICITATION AND VOTING PROCEDURES

This Disclosure Statement, which is accompanied by a Ballot or Ballots to be used for voting on the Plan, is being distributed to the holders of Claims in those Classes that are entitled to vote to accept or reject the Plan. The procedures and instructions for voting and related deadlines are set forth in the exhibits annexed to the Disclosure Statement Order, which is attached hereto as **Exhibit C**.

***The Disclosure Statement Order is incorporated herein by reference and should be read in conjunction with this Disclosure Statement and in formulating a decision to vote to accept or reject the Plan*.**

THE DISCUSSION OF THE SOLICITATION AND VOTING PROCESS SET FORTH IN THIS DISCLOSURE STATEMENT IS ONLY A SUMMARY. PLEASE REFER TO THE DISCLOSURE STATEMENT ORDER ATTACHED HERETO FOR A MORE COMPREHENSIVE DESCRIPTION OF THE SOLICITATION AND VOTING PROCESS.

A. Holders of Claims Entitled to Vote on the Plan

Under the provisions of the Bankruptcy Code, not all holders of claims against a debtor are entitled to vote on a chapter 11 plan. The table in section IV.C of this Disclosure Statement, which begins on page 7 hereof, provides a summary of the status and voting rights of each Class (and, therefore, of each holder within such Class absent an objection to the holder's Claim) under the Plan.

As shown in the table, the Debtors are soliciting votes to accept or reject the Plan only from holders of Claims in Classes 3 and 4 (collectively, the "Voting Classes"). The holders of Claims in the Voting Classes are Impaired under the Plan and may, in certain circumstances, receive a distribution under the Plan. Accordingly, holders of Claims in the Voting Classes have the right to vote to accept or reject the Plan.

The Debtors are ***not*** soliciting votes from holders of Claims and Interests in Classes 1, 2, 5, 6, 7, or 8. Additionally, the Disclosure Statement Order provides that certain holders of Claims in the Voting Classes, such as those holders whose Claims have been disallowed or are subject to a pending objection, are not entitled to vote to accept or reject the Plan.

B. Voting Record Date

The Voting Record Date is [February 13, 2018]. The Voting Record Date is the date on which it will be determined which holders of Claims in the Voting Classes are entitled to vote to accept or reject the Plan and whether Claims have been properly assigned or transferred under Bankruptcy Rule 3001(e) such that an assignee or transferee, as applicable, can vote to accept or reject the Plan as the holder of a Claim.

C. Voting on the Plan

The Voting Deadline is [March, 23, 2018] at 5:00 p.m. prevailing Eastern Time. In order to be counted as votes to accept or reject the Plan, all ballots must be properly executed, completed, and delivered (either by using the return envelope provided, by first class mail, overnight courier, or personal delivery) so that the ballots are **actually** **received** by the Debtors' voting and claims agent (the "Voting and Claims Agent") on or before the Voting Deadline at the following address:

DELIVERY OF BALLOTS

CHARMING CHARLIE HOLDINGS INC. *et al.* CLAIMS PROCESSING
C/O RUST CONSULTING / OMNI BANKRUPTCY
5955 DE SOTO AVENUE, SUITE 100
WOODLAND HILLS, CALIFORNIA 91367

If you received an envelope addressed to your nominee, please return your ballot to your nominees, allowing enough time for your nominee to cast your vote on a ballot before the Voting Deadline.

D. Ballots Not Counted

No ballot will be counted toward Confirmation if, among other things: (1) it is illegible or contains insufficient information to permit the identification of the holder of the Claim; (2) it was transmitted by facsimile, email, or other electronic means; (3) it was cast by an entity that is not entitled to vote on the Plan; (4) it was cast for a Claim listed in the Debtors' schedules as contingent, unliquidated, or disputed for which the applicable Bar Date has passed and no proof of claim was timely filed; (5) it was cast for a Claim that is subject to an objection pending as of the Voting Record Date (unless temporarily allowed in accordance with the Disclosure Statement Order); (6) it was sent to the Debtors, the Debtors' agents/representatives (other than the Voting and Claims Agent), an indenture trustee (except as otherwise permitted by the Disclosure Statement Order), or the Debtors' financial or legal advisors instead of the Voting and Claims Agent; (7) it is unsigned; or (8) it is not clearly marked to either accept or reject the Plan or it is marked both to accept and reject the Plan. ***Please refer to the Disclosure Statement Order for additional requirements with respect to voting to accept or reject the Plan.***

IF YOU HAVE ANY QUESTIONS ABOUT THE SOLICITATION OR VOTING PROCESS, PLEASE CONTACT THE VOTING AND CLAIMS AGENT TOLL-FREE 844-452-2141. ANY BALLOT RECEIVED AFTER THE VOTING DEADLINE OR OTHERWISE NOT IN COMPLIANCE WITH THE SOLICITATION ORDER WILL NOT BE COUNTED.

XII. CONFIRMATION OF THE PLAN

A. Requirements for Confirmation of the Plan

Among the requirements for Confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code are: (1) the Plan is accepted by all Impaired Classes of Claims or Interests, or if rejected by an Impaired Class, the Plan "does not discriminate unfairly" and is "fair and equitable" as to the rejecting Impaired Class; (2) the Plan is feasible; and (3) the Plan is in the "best interests" of holders of Claims and Interests.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the Plan satisfies all of the requirements of section 1129 of the Bankruptcy Code. The Debtors believe that: (1) the Plan satisfies, or will satisfy, all of the necessary statutory requirements of chapter 11; (2) the Debtors have complied, or will have complied, with all of the necessary requirements of chapter 11; and (3) the Plan has been proposed in good faith.

B. Best Interests of Creditors/Liquidation Analysis

Often called the "best interests" test, section 1129(a)(7) of the Bankruptcy Code requires that a bankruptcy court find, as a condition to confirmation, that a chapter 11 plan provides, with respect to each impaired class, that each holder of a claim or an equity interest in such impaired class either (1) has

accepted the plan or (2) will receive or retain under the plan property of a value that is not less than the amount that the non-accepting holder would receive or retain if the debtors liquidated under chapter 7.

The Debtors will file a liquidation analysis in advance of the hearing to consider approval of the Disclosure Statement, which will be attached as **Exhibit F** in a revised version of the Disclosure Statement to be filed in advance of the hearing to consider approval of the Disclosure Statement.

C. Feasibility

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of a plan of reorganization is not likely to be followed by the liquidation, or the need for further financial reorganization of the debtor, or any successor to the debtor (unless such liquidation or reorganization is proposed in such plan of reorganization).

To determine whether the Plan meets this feasibility requirement, the Debtors have analyzed their ability to meet their respective obligations under the Plan. As part of this analysis, the Debtors will file the Financial Projections in advance of the hearing to consider approval of the Disclosure Statement, which will be attached as **Exhibit D** in a revised version of the Disclosure Statement to be filed in advance of the hearing to consider approval of the Disclosure Statement.

D. Acceptance by Impaired Classes

The Bankruptcy Code requires, as a condition to confirmation, except as described in the following section, that each class of claims or equity interests impaired under a plan, accept the plan. A class that is not "impaired" under a plan is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such a class is not required.[6]

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired claims as acceptance by holders of at least two-thirds in a dollar amount and more than one-half in a number of allowed claims in that class, counting only those claims that have *actually* voted to accept or to reject the plan. Thus, a class of claims will have voted to accept the plan only if two-thirds in amount and a majority in number actually cast their ballots in favor of acceptance.

E. Confirmation Without Acceptance by All Impaired Classes

Section 1129(b) of the Bankruptcy Code allows a bankruptcy court to confirm a plan even if all impaired classes have not accepted it; *provided*, *however*, the plan has been accepted by at least one impaired class. Pursuant to section 1129(b) of the Bankruptcy Code, notwithstanding an impaired class's rejection or deemed rejection of the plan, the plan will be confirmed, at the plan proponent's request, in a procedure commonly known as a "cramdown" so long as the plan does not "discriminate unfairly" and is "fair and equitable" with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan.

If any Impaired Class rejects the Plan, the Debtors reserve the right to seek to confirm the Plan utilizing the "cramdown" provision of section 1129(b) of the Bankruptcy Code. To the extent that any

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[6] A class of claims is "impaired" within the meaning of section 1124 of the Bankruptcy Code unless the plan (a) leaves unaltered the legal, equitable and contractual rights to which the claim or equity interest entitles the holder of such claim or equity interest or (b) cures any default, reinstates the original terms of such obligation, compensates the holder for certain damages or losses, as applicable, and does not otherwise alter the legal, equitable, or contractual rights to which such claim or equity interest entitles the holder of such claim or equity interest.

Impaired Class rejects the Plan or is deemed to have rejected the Plan, the Debtors will request Confirmation of the Plan, as it may be modified from time to time, under section 1129(b) of the Bankruptcy Code. The Debtors reserve the right to alter, amend, modify, revoke, or withdraw the Plan or any Plan Supplement document, including the right to amend or modify the Plan or any Plan Supplement document to satisfy the requirements of section 1129(b) of the Bankruptcy Code.

(a) No Unfair Discrimination

The "unfair discrimination" test applies to classes of claims or interests that are of equal priority and are receiving different treatment under a plan. The test does not require that the treatment be the same or equivalent, but that treatment be "fair." In general, bankruptcy courts consider whether a plan discriminates unfairly in its treatment of classes of claims of equal rank (*e.g.*, classes of the same legal character). Bankruptcy courts will take into account a number of factors in determining whether a plan discriminates unfairly. A plan could treat two classes of unsecured creditors differently without unfairly discriminating against either class.

(b) Fair and Equitable Test

The "fair and equitable" test applies to classes of different priority and status (*e.g.*, secured versus unsecured) and includes the general requirement that no class of claims receive more than 100 percent of the amount of the allowed claims in the class. As to the dissenting class, the test sets different standards depending upon the type of claims or equity interests in the class.

The Debtors submit that if the Debtors "cramdown" the Plan pursuant to section 1129(b) of the Bankruptcy Code, the Plan is structured so that it does not "discriminate unfairly" and satisfies the "fair and equitable" requirement. With respect to the unfair discrimination requirement, all Classes under the Plan are provided treatment that is substantially equivalent to the treatment that is provided to other Classes that have equal rank. The Debtors believe that the Plan and the treatment of all Classes of Claims and Interests under the Plan satisfy the foregoing requirements for nonconsensual Confirmation of the Plan.

F. Valuation of the Debtors

The Debtors will file an analysis regarding the post-Confirmation going concern value of the Debtors in advance of the hearing to consider approval of the Disclosure Statement, which will be attached as **Exhibit E**.

XIII. CERTAIN SECURITIES LAW MATTERS

A. Plan Securities

As discussed herein, the Plan provides for Reorganized HoldCo to distribute New Equity, the Exit Tranche A Term Loans, and the Exit Tranche B Term Loans to certain Holders of Allowed Claims.

The Debtors believe that the class of New Equity will be "securities," as defined in section 2(a)(1) of the Securities Act, section 101 of the Bankruptcy Code and any applicable state securities law (a "Blue Sky Law").

B. Issuance and Resale of Securities Under the Plan

1. *Exemptions from Registration Requirements of the Securities Act and Blue Sky Laws.*

Section 1145(a)(1) of the Bankruptcy Code exempts the offer or sale of securities under a plan of reorganization from registration under Section 5 of the Securities Act and state laws if three principal requirements are satisfied: (a) the securities must be issued "under a plan" of reorganization by the debtor or its successor under a plan or by an affiliate participating in a joint plan of reorganization with the debtor; (b) the recipients of the securities must hold a claim against, an interest in, or a claim for administrative expenses in the case concerning the debtor or such affiliate; and (c) the securities must be issued in exchange for the recipient's claim against or interest in the debtor, or such affiliate, or "principally" in such exchange and "partly" for cash or property. In reliance upon these exemptions, the Debtors believe that the offer, issuance and distribution under the Plan of the New Equity to Holders of Allowed DIP Term Loan Roll-up Claims and Allowed Prepetition Term Loan Claims following the filing of the Chapter 11 Cases will be exempt from registration under the Securities Act or any applicable Blue Sky Laws.

The offer, issuance and distribution of the New Equity to Holders of Allowed DIP Term Loan Roll-up Claims and Allowed Prepetition Term Loan Claims following the filing of the Chapter 11 Cases is covered by section 1145 of the Bankruptcy Code. Accordingly, subject to compliance with the New Organizational Documents, such New Equity may be resold without registration under the Securities Act or other federal securities laws, unless the holder is an "underwriter" (as discussed below) with respect to such securities, as that term is defined in 1145 of the Bankruptcy Code. In addition, such New Equity governed by section 1145 of the Bankruptcy Code generally may be able to be resold without registration under applicable Blue Sky Laws pursuant to various exemptions provided by the respective Blue Sky Laws of those states; however, the availability of such exemptions cannot be known unless individual Blue Sky Laws are examined.

Recipients of the New Equity, the Exit Tranche A Term Loans, and the Exit Tranche B Term Loans are advised to consult with their own legal advisors as to the availability of any exemption from registration under the Bankruptcy Code, the Securities Act and any applicable state Blue Sky Law.

2. *Resale of Certain New Equity; Definition of Underwriter*

Section 1145(b)(1) of the Bankruptcy Code defines an "underwriter" as one who, except with respect to "ordinary trading transactions" of an entity that is not an "issuer": (a) purchases a claim against, interest in, or claim for an administrative expense in the case concerning, the debtor, if such purchase is with a view to distribution of any security received or to be received in exchange for such claim or interest; (b) offers to sell securities offered or sold under a plan for the holders of such securities; (c) offers to buy securities offered or sold under a plan from the holders of such securities, if such offer to buy is (i) with a view to distribution of such securities and (ii) under an agreement made in connection with the plan, with the consummation of the plan, or with the offer or sale of securities under the plan; or (d) is an issuer of the securities within the meaning of section 2(a)(11) of the Securities Act. In addition, a person who receives a fee in exchange for purchasing an issuer's securities could also be considered an underwriter within the meaning of section 2(a)(11) of the Securities Act.

The definition of an "issuer" for purposes of whether a person is an underwriter under section 1145(b)(1)(D) of the Bankruptcy Code, by reference to section 2(a)(11) of the Securities Act, includes as "statutory underwriters" all persons who, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, an issuer of securities. The

reference to "issuer," as used in the definition of "underwriter" contained in section 2(a)(11) of the Securities Act, is intended to cover "Controlling Persons" of the issuer of the securities. "Control," as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise. Accordingly, an officer or director of a reorganized debtor or its successor under a plan of reorganization may be deemed to be a "Controlling Person" of the debtor or successor, particularly if the management position or directorship is coupled with ownership of a significant percentage of the reorganized debtor's or its successor's voting securities. In addition, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns ten percent (10%) or more of a class of securities of a reorganized debtor may be presumed to be a "Controlling Person" and, therefore, an underwriter.

Resales of the New Equity issued to Holders of Allowed DIP Term Loan Roll-up Claims and Allowed Prepetition Term Loan Claims by Entities deemed to be "underwriters" (which definition includes "Controlling Persons") are not exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or other applicable law. Under certain circumstances, holders of such New Equity who are deemed to be "underwriters" may be entitled to resell their New Equity pursuant to the limited safe harbor resale provisions of Rule 144 of the Securities Act. Generally, Rule 144 of the Securities Act would permit the public sale of securities received by such person if the required holding period has been met and, under certain circumstances, current information regarding the issuer is publicly available and volume limitations, manner of sale requirements and certain other conditions are met. Whether any particular person would be deemed to be an "underwriter" (including whether the person is a "Controlling Person") with respect to such New Equity would depend upon various facts and circumstances applicable to that person. Accordingly, the Debtors express no view as to whether any person would be deemed an "underwriter" with respect to the New Equity issued to Holders of Allowed DIP Term Loan Roll-up Claims and Allowed Prepetition Term Loan Claims and, in turn, whether any person may freely resell such New Equity. **The Debtors recommend that potential recipients of New Equity issued to Holders of Allowed DIP Term Loan Roll-up Claims and Allowed Prepetition Term Loan Claims consult their own counsel concerning their ability to freely trade such securities under applicable federal securities law and state Blue Sky Laws.**

3. *New Equity / Management Incentive Plan*

The Plan contemplates the implementation of the Management Incentive Plan, which will be included with the Plan Supplement and will reserve up to 10% of the New Equity for issuance. The Management Incentive Plan will be established and implemented by the New Board as soon as reasonably practicable following the Effective Date. The Debtors plan to issue such New Equity pursuant to Rule 701 promulgated under the Securities Act or pursuant to the exemption provided by Section 4(a)(2) of the Securities Act.

XIV. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN[7]

A. Introduction

The following discussion summarizes certain United States ("U.S.") federal income tax consequences of the implementation of the Plan to the Debtors, the Reorganized Debtors, and certain holders of Claims. This summary is based on the Internal Revenue Code of 1986, as amended (the

[7] This Section XIV is subject to further review and revision prior to the hearing to consider approval of the Disclosure Statement.

"Tax Code"), the U.S. Treasury Regulations promulgated thereunder (the "Treasury Regulations"), judicial decisions and published administrative rules, and pronouncements of the Internal Revenue Service (the "IRS"), all as in effect on the date hereof (collectively, "Applicable Tax Law"). Changes in the rules or new interpretations of the rules may have retroactive effect and could significantly affect the U.S. federal income tax consequences described below. The Debtors have not requested, and will not request, any ruling or determination from the IRS or any other taxing authority with respect to the tax consequences discussed herein, and 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 "United States persons" (as such phrase is defined in the Tax Code). This summary does not address foreign, state, or local tax consequences of the Plan, nor does it purport to address all aspects of U.S. federal income taxation that may be relevant to a holder in light of its individual circumstances or to a holder that may be subject to special tax rules (such as persons who are related to the Debtors within the meaning of the Tax Code, foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax exempt organizations, pass-through entities, beneficial owners of pass-through entities, subchapter S corporations, persons who hold Claims or who will hold the New Equity as part of a straddle, hedge, conversion transaction, or other integrated investment, persons using a mark-to-market method of accounting, and holders of Claims who are themselves in bankruptcy). Furthermore, this summary assumes that a holder of a Claim holds only Claims in a single Class and holds a Claim only as a "capital asset" (within the meaning of section 1221 of the Tax Code). This summary also assumes that the various debt and other arrangements to which any of the Debtors are a party will be respected for U.S. federal income tax purposes in accordance with their form, and that the Claims constitute interests in the Debtors "solely as a creditor" for purposes of section 897 of the Tax Code. This summary does not discuss differences in tax consequences to holders of Claims that act as Backstop Parties or otherwise act or receive consideration in a capacity other than any other holder of a Claim of the same Class or Classes, and the tax consequences for such holders may differ materially from that described below.

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 OR INTEREST. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL, AND NON-U.S. INCOME, ESTATE, AND OTHER TAX CONSEQUENCES OF THE PLAN.

B. Certain U.S. Federal Income Tax Consequences to the Debtors and the Reorganized Debtors

1. *Cancellation of Debt and Reduction of Tax Attributes*

In general, absent an exception, a debtor will realize and recognize cancellation of debt income ("COD Income") upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of COD Income, in general, is the excess of (a) the adjusted issue price of the indebtedness satisfied, over (b) the sum of (i) the amount of Cash paid, (ii) the issue price of any new indebtedness of the taxpayer issued, and (iii) the fair market value of any other new consideration (including stock of the debtor) given in satisfaction of such indebtedness at the time of the exchange.

Under section 108 of the Tax Code, a debtor is not required to include 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 the rule discussed in the preceding sentence. In general, tax attributes will be reduced in the following order: (a) net operating loss ("NOLs") and NOL carryforwards; (b) general business credit carryovers; (c) minimum tax credit carryovers; (d) capital loss carryovers; (e) tax basis in assets; (f) passive activity loss and credit carryovers; and (g) foreign tax credit carryovers. Alternatively, a debtor with COD Income may elect first to reduce the basis of its depreciable assets pursuant to section 108(b)(5) of the Tax Code. The reduction in tax attributes occurs only after the tax for the year of the debt discharge has been determined. Any excess COD Income over the amount of available tax attributes is not subject to U.S. federal income tax and has no other U.S. federal income tax impact.

The Treasury Regulations address the method and order for applying tax attribute reduction to an affiliated group of corporations. Under these Treasury Regulations, the tax attributes of each member of an affiliated group of corporations that is excluding COD Income is first subject to reduction. To the extent the debtor member's tax basis in stock of a lower-tier member of the affiliated group is reduced, a "look through rule" requires that a corresponding reduction be made to the tax attributes of the lower-tier member. If a debtor member's excluded COD Income exceeds its tax attributes, the excess COD Income is applied to reduce certain remaining consolidated tax attributes of the affiliated group. Because the Plan provides: (i) the Exit Tranche A Term Loans, to Holders of Allowed DIP Term Loan New Money Claims, (ii) the Exit Tranche B Term Loans to Holders of Allowed DIP Term Loan Roll-Up Claims; and (iii) the New Equity to Holders of Allowed DIP Term Loan Roll-up Claims, Holders of Allowed Prepetition Term Loan Claims, and in connection with the Management Incentive Plan, the amount of COD Income, and accordingly the amount of tax attributes required to be reduced, will depend on the issue price of the Exit Tranche A Term Loans, Exit Tranche B Term Loans, and the fair market value of the New Equity. This value cannot be known with certainty at this time.

2. *Limitation of NOL Carryforwards and Other Tax Attributes*

As noted above, the Debtors expect that any federal NOL carryover will be eliminated as a result of the bankruptcy exception to inclusion of COD Income. Following Confirmation, the Debtors anticipate that any remaining capital loss carryover, tax credit carryovers, and certain other tax attributes (such as losses and deductions that have accrued economically but are unrecognized as of the date of the ownership change) of the Reorganized Debtors allocable to periods before the Effective Date (collectively, the "Pre-Change Losses") may be subject to limitation or elimination under sections 382 and 383 of the Tax Code as a result of an "ownership change" of the Reorganized Debtors by reason of the transactions pursuant to the Plan.

Under sections 382 and 383 of the Tax Code, if a corporation undergoes an "ownership change," the amount of its Pre-Change Losses that may be utilized to offset future taxable income generally is subject to an annual limitation. The rules of section 382 of the Tax Code are complicated, but as a general matter, the Debtors anticipate that the distribution of the New Equity pursuant to the Plan will result in an "ownership change" of the Reorganized Debtors for these purposes, and that the Reorganized Debtors' use of their Pre-Change Losses will be subject to limitation unless an exception to the general rules of section 382 of the Tax Code applies.

For this purpose, if a corporation (or consolidated group) has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of "built-in" income and deductions), then generally built-in losses (including amortization or depreciation deductions attributable to such built-in losses) recognized during the following five years (up to the amount of the original net unrealized built-in loss) will be treated as Pre-Change Losses and similarly will be subject to the annual

limitation. In general, a corporation's (or consolidated group's) net unrealized built-in loss will be deemed to be zero unless it is greater than the lesser of (a) $10,000,000 or (b) 15 percent of the fair market value of its assets (with certain adjustments) before the ownership change.

(a) General Section 382 Annual Limitation

In general, the amount of the annual limitation to which a corporation that undergoes an "ownership change" would be subject is equal to the product of (a) the fair market value of the stock of the corporation immediately before the "ownership change" (with certain adjustments) multiplied by (b) the "long-term tax-exempt rate" (which is the highest of the adjusted federal long-term rates in effect for any month in the 3-calendar-month period ending with the calendar month in which the "ownership change" occurs: 2.53 percent for April 2016). The section 382 Limitation may be increased to the extent that the Debtors recognize certain built-in gains in their assets during the five-year period following the ownership change, or are treated as recognizing built-in gains pursuant to the safe harbors provided in IRS Notice 2003-65. Section 383 of the Tax Code applies a similar limitation to capital loss carryforwards and tax credits. Any unused limitation may be carried forward, thereby increasing the annual limitation in the subsequent taxable year. As discussed below, however, special rules may apply in the case of a corporation that experiences an ownership change as the result of a bankruptcy proceeding.

(b) Special Bankruptcy Exceptions

An exception to the foregoing annual limitation rules generally applies when so-called "qualified creditors" of a debtor corporation in chapter 11 receive, in respect of their Claims, at least 50 percent of the vote and value of the stock of the reorganized debtor (or a controlling corporation if also in chapter 11) pursuant to a confirmed chapter 11 plan (the "382(l)(5) Exception"). Under the 382(l)(5) Exception, a debtor's Pre-Change Losses are not limited on an annual basis, but, instead, NOL carryforwards will be reduced by the amount of any interest deductions claimed during the three taxable years preceding the effective date of the plan of reorganization, and during the part of the taxable year prior to and including the effective date of the plan of reorganization, in respect of all debt converted into stock in the reorganization. If the 382(l)(5) Exception applies and the Reorganized Debtors undergo another "ownership change" within two years after the Effective Date, then the Reorganized Debtors' Pre-Change Losses effectively would be eliminated in their entirety.

Where the 382(l)(5) Exception is not applicable to a corporation in bankruptcy (either because the debtor does not qualify for it or the debtor otherwise elects not to utilize the 382(l)(5) Exception), a second special rule will generally apply (the "382(l)(6) Exception"). Under the 382(l)(6) Exception, the annual limitation will be calculated by reference to the lesser of the value of the debtor corporation's new stock (with certain adjustments) immediately after the ownership change or the value of such debtor corporation's assets (determined without regard to liabilities) immediately before the ownership change. This differs from the ordinary rule that requires the fair market value of a debtor corporation that undergoes an "ownership change" to be determined before the events giving rise to the change. The 382(l)(6) Exception also differs from the 382(l)(5) Exception in that under it the debtor corporation is not required to reduce their NOL carryforwards by the amount of interest deductions claimed within the prior three-year period, and the debtor may undergo a change of ownership within two years without triggering the elimination of its Pre-Change Losses.

The Debtors have not yet determined whether or not the 382(l)(5) Exception will apply. It is possible that the Debtors will not qualify for the 382(l)(5) Exception. Alternatively, the Reorganized Debtors may decide to elect out of the 382(l)(5) Exception, particularly if it appears likely that another ownership change will occur within two years after emergence. In either case, the Debtors expect that their use of the Pre-Change Losses (if any) after the Effective Date will be subject to limitation based on

the rules discussed above, but taking into account the 382(l)(6) Exception. Regardless of whether the Reorganized Debtors take advantage of the 382(l)(6) Exception or the 382(l)(5) Exception, the Reorganized Debtors' use of their Pre-Change Losses after the Effective Date may be adversely affected if an "ownership change" within the meaning of section 382 of the Tax Code were to occur after the Effective Date.

3. *Alternative Minimum Tax*

In general, an alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income ("AMTI") at a 20 percent rate to the extent such tax exceeds the corporation's regular federal income tax for the year. AMTI is generally equal to regular taxable income with certain adjustments. For purposes of computing AMTI, certain tax deductions and other beneficial allowances are modified or eliminated. For example, under section 56(g)(4)(G) of the Tax Code, an ownership change (as discussed above) that occurs with respect to a corporation having a net unrealized built-in loss in its assets will cause, for AMT purposes, the adjusted basis of each asset of the corporation immediately after the ownership change to be equal to its proportionate share (determined on the basis of respective fair market values) of the fair market value of the assets of the corporation, as determined under section 382(h) of the Tax Code, immediately before the ownership change, the effect of which may increase the amount of AMT owed by the Reorganized Debtors.

C. Certain U.S. Federal Income Tax Consequences to Certain Holders of Claims

The following discussion assumes that the Debtors will undertake the restructuring transactions currently contemplated by the Plan. Holders of Claims and Interests are urged to consult their tax advisors regarding the tax consequences of the restructuring transactions.

1. *Consequences to Holders of Class 3 Claims*

Pursuant to the Plan, in exchange for full and final satisfaction, settlement, release and discharge of the Prepetition Term Loan Claims, each Holder of a Prepetition Term Loan Claim shall receive its Pro Rata share of 25% of the New Equity (subject to dilution only by New Equity issued in connection with the Management Incentive Plan).

As a result, such Holder should recognize taxable gain or loss equal to the difference between (x) the fair market value of the New Equity received and (y) the holder's adjusted tax basis in its Allowed Prepetition Term Loan Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim was purchased at a discount, and whether and to what extent the holder previously has claimed a bad debt deduction with respect to its Claim. If recognized gain is capital gain, it generally would be long-term capital gain if the holder held its Allowed Prepetition Term Loan Claim for more than one year at the time of the exchange. The deductibility of capital losses is subject to certain limitations as discussed below. To the extent that New Equity received in exchange for its Allowed Prepetition Term Loan Claim is allocable to accrued but untaxed interest, the holder may recognize ordinary income. *See* "Accrued Interest" and "Market Discount" in Articles XIV.C.4 and XIV.C.5, respectfully. A Holder's tax basis in the New Equity should equal its fair market value. A Holder's holding period for the New Equity received on the Effective Date should begin on the day following the Effective Date.

2. *Consequences to Holders of Class 4 Claims*

Pursuant to the Plan, in exchange for full and final satisfaction, settlement, release and discharge of the Prepetition Term Loan Claims, each Holder of an Allowed General Unsecured Claim shall receive

its Pro Rata share of the GUC Distribution. To the extent the GUC Distribution consists of Cash, each Holder of an Allowed General Unsecured Claim will be treated as exchanging such Claim for Cash in a taxable exchange under section 1001 of the Tax Code. Such Holder would recognize gain or loss equal to the difference between (a) the amount of Cash received and (b) the Holder's adjusted tax basis in its Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the Holder, the nature of the Claim in such Holder's hands, whether the Claim was purchased at a discount, and whether and to what extent the Holder previously has claimed a bad debt deduction with respect to its Claim. If recognized gain is capital gain, it generally would be long-term capital gain if the Holder held its Claim for more than one year at the time of the exchange. The deductibility of capital losses is subject to certain limitations as discussed below. To the extent that a portion of the consideration received in exchange for its Claim is allocable to accrued but untaxed interest, the U.S. Holder may recognize ordinary income.

3. *Certain U.S. Federal Income Tax Consequences of New Equity*

(a) Dividends on New Equity

Any distributions made on account of the New Equity will constitute dividends for U.S. federal income tax purposes to the extent of the current or accumulated earnings and profits of the Reorganized Debtors as determined under U.S. federal income tax principles. To the extent that a Holder receives distributions that would otherwise constitute dividends for U.S. federal income tax purposes but that exceed such current and accumulated earnings and profits, such distributions will be treated first as a non-taxable return of capital reducing the holder's basis in its shares. Any such distributions in excess of the holder's basis in its shares (determined on a share-by-share basis) generally will be treated as capital gain.

Dividends paid to a non-corporate holder may be taxed at preferential rates provided that the applicable holding period and other requirements are met. Dividends paid to Holders that are corporations generally will be eligible for the dividends-received deduction so long as there are sufficient earnings and profits. However, the dividends-received deduction is only available if certain holding period requirements are satisfied. The length of time that a shareholder has held its stock is reduced for any period during which the shareholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales, or similar transactions. In addition, to the extent that a corporation incurs indebtedness that is directly attributable to an investment in the stock on which the dividend is paid, all or a portion of the dividends received deduction may be disallowed.

(b) Sale, Redemption, or Repurchase of New Equity

Unless a non-recognition provision applies, holders generally will recognize capital gain or loss upon the sale, redemption, or other taxable disposition of New Equity. Such capital gain will be long-term capital gain if at the time of the sale, exchange, retirement, or other taxable disposition, the holder's holding period for the New Equity is more than one year. Long-term capital gains of a non-corporate taxpayer generally are taxed at preferential rates. The deductibility of capital losses is subject to certain limitations as described below.

4. *Accrued Interest*

To the extent that any amount received by a holder of a Claim is attributable to accrued but unpaid interest on the debt instruments constituting the surrendered Claim, the receipt of such amount should be taxable to the holder as ordinary interest income (to the extent not already taken into income by the holder). Conversely, a holder of a Claim may be able to recognize a deductible loss (or, possibly, a write off against a reserve for worthless debts) to the extent that any accrued interest previously was

included in the holder's gross income but was not paid in full by the Debtors. Such loss may be ordinary, but the tax law is unclear on this point.

If the fair value of the consideration is not sufficient to fully satisfy all principal and interest on Allowed Claims, the extent to which such consideration will be attributable to accrued interest is unclear. Under the Plan, the aggregate consideration to be distributed to holders of Allowed Claims in each Class will be allocated first to the principal amount of Allowed Claims, with any excess allocated to unpaid interest that accrued on these Claims, if any. 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 unpaid interest. The IRS could take the position that the consideration received by the holder should be allocated in some way other than as provided in the Plan. Holders of Claims should consult their own tax advisors regarding the proper allocation of the consideration received by them under the Plan.

HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE ALLOCATION OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR CLAIMS AND THE FEDERAL INCOME TAX TREATMENT OF ACCRUED BUT UNPAID INTEREST.

5. *Market Discount*

Under the "market discount" provisions of the Tax Code, some or all of any gain recognized by a holder of a Claim who exchanges the Claim for an amount on the Effective Date may be treated as ordinary income (instead of capital gain), to the extent of the amount of "market discount" on the debt instruments constituting the exchanged 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 its holder's adjusted tax basis in the debt instrument is less than (a) the sum of all remaining payments to be made on the debt instrument, excluding "qualified stated interest" or (b) 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 percent 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 recognized by a holder on the taxable disposition of a Claim that had been acquired with market discount should be treated as ordinary income to the extent of the market discount that accrued thereon while the Claim was considered to be held by the holder (unless the holder elected to include market discount in income as it accrued). To the extent that the Allowed Claims that were acquired with market discount are exchanged in a tax-free transaction for other property, any market discount that accrued on the Allowed Claims (i.e., up to the time of the exchange) but was not recognized by the holder is carried over to the property received therefor and any gain recognized on the subsequent sale, exchange, redemption, or other disposition of the property is treated as ordinary income to the extent of the accrued, but not recognized, market discount.

HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF THE MARKET DISCOUNT RULES TO THEIR CLAIMS.

6. *Limitation on Use of Capital Losses*

A holder of a Claim who recognizes capital losses as a result of the distributions under the Plan will be subject to limits on the use of such capital losses. For a non-corporate holder, capital losses may be used to offset any capital gains (without regard to holding periods), and also ordinary income to the extent of the lesser of (a) $3,000 ($1,500 for married individuals filing separate returns) or (b) the excess of the capital losses over the capital gains. A non-corporate holder may carry over unused capital losses

and apply them against future capital gains and a portion of their ordinary income for an unlimited number of years. For corporate holders, capital losses may only be used to offset capital gains. A corporate holder that has more capital losses than may be used in a tax year may carry back unused capital losses to the three years preceding the capital loss year or may carry over unused capital losses for the five years following the capital loss year.

7. *Information Reporting and Back-Up Withholding*

Payments in respect of Allowed Claims under the Plan may be subject to applicable information reporting and backup withholding. Backup withholding of taxes will generally apply to payments in respect of an Allowed Claim under the Plan if the holder of such Allowed Claim fails to provide an accurate taxpayer identification number or otherwise fails to comply with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a holder's U.S. federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS (generally, a federal income tax return).

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 AND INTERESTS 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 FOREIGN TAX LAWS, AND OF ANY CHANGE IN APPLICABLE TAX LAWS.

XV. RECOMMENDATION

In the opinion of the Debtors, the Plan is preferable to all other available alternatives and provides for a larger distribution to the Debtors' creditors than would otherwise result in any other scenario. Accordingly, the Debtors recommend that Holders of Claims entitled to vote on the Plan vote to accept the Plan and support Confirmation of the Plan.

Dated: December 22, 2017

Respectfully submitted,

Charming Charlie Holdings, Inc.,
on behalf of itself and each of the other Debtors

By: *\/s/ Robert Adamek*
Name: Robert Adamek
Title: Senior Vice President and Chief Financial Officer